



9 February 2017

The Secretary  
House Standing Committee on Tax and Revenue  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600

Submission emailed to: [TaxRev.reps@aph.gov.au](mailto:TaxRev.reps@aph.gov.au)

Dear Madam\Sir

## **Inquiry into Taxpayer Engagement with the Tax System**

Chartered Accountants Australia and New Zealand (Chartered Accountants) appreciates the opportunity to contribute to the Committee's Inquiry into Taxpayer Engagement with the Tax System.

The Terms of Reference raise many interesting, topical issues about the current and future state of the Australian taxation system and we expect the Committee will receive a range of views. To do justice to the topics raised in the Terms of Reference would require a very long submission indeed, but we have endeavoured to convey our key points.

We have also provided throughout our submission a number of research resources which the Committee Secretariat may find useful.

## **Chartered Accountants Australia and New Zealand**

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand (CA ANZ) are known for professional integrity, principled judgment and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance, and Chartered Accountants Worldwide, which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

### **Chartered Accountants Australia and New Zealand**

33 Erskine Street, Sydney NSW 2000  
GPO Box 9985, Sydney NSW 2001, Australia  
T +61 2 9290 1344 F +61 2 9262 4841

**[charteredaccountantsanz.com](http://charteredaccountantsanz.com)**



## Addressing your terms of reference

Our comments have been ordered under the main headings in the Terms of Reference as follows:

1. The prevalence and impact of the 'cash economy' on the tax system, mechanisms to ensure tax compliance and strategies used by comparable countries' revenue authorities.
2. How taxpayers currently interact with the tax and superannuation system, including through tax agents and other intermediaries, and the different compliance burdens of doing so.
3. The contemporary use of information and communication technology by the Australian Taxation Office (ATO) and comparative tax administrators to deliver services.
4. Behavioural insights from other service delivery agencies including possible ways to better inform taxpayers to help them make decisions in their best interests.

## Overlap with Black Economy Taskforce


We note at the outset however that the first of the Terms of Reference relate to the cash economy, and observe that there is an overlap here between the Committee's deliberations and the [Black Economy Taskforce](#), for which the Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer MP, has also [called for submissions](#).

To avoid duplication of effort on this particular topic, the material contained in this letter will be similar to representations we have previously made to the government and the Board of Taxation on the illegal cash (or black) economy, and to our yet to be lodged submission to the Black Economy Taskforce.

## ATO research

The Terms of Reference refer on a number of occasions to experiences in other countries and the strategies of other tax regulators. From our dealings with the ATO over many years we can confidently assert that the ATO undertakes research and comparative studies which rarely see the light of day. The ATO also funds external research on topics relevant to its operations. We can vouch for the fact that the ATO material is generally of very high quality.

We have indicated on a number of occasions to senior ATO officials that we think it is a shame that the ATO does not generally publish this research, in contrast to say HM Revenue and Customs (HMRC) in the United Kingdom<sup>1</sup>. In our view, such research would help stakeholders better understand ATO strategies and support changes made to policy and/or administrative practices.

	<p>Chartered Accountants is aware that ATO research has been conducted on a number of topics referred to in the Terms of Reference and, where relevant, mention this in our submission.</p> <p>The Committee may find it useful to seek access to this and other relevant research during the course of its Inquiry.</p>
---	--

<sup>1</sup> Refer to HMRC's research page at: <https://www.gov.uk/government/organisations/hm-revenue-customs/about/research>

## 1. The prevalence and impact of the 'cash economy' on the tax system, mechanisms to ensure tax compliance and strategies used by comparable countries' revenue authorities.

A variety of terms are currently being used to describe people who fall outside of the tax system. Some common terms include black economy, hidden economy, shadow economy, parallel economy, underground economy and informal economy. All of these terms encompass behaviour such as non-disclosure of income, the use of sale suppression systems, bartering, illegal activities and phoenixing arrangements.

The Committee's terms of reference refer to the cash economy which is a sub-set of the hidden or black economy. Participants in the cash economy are not necessarily non-compliant with the tax system, but they do have greater opportunity to reduce their tax obligations.

### 1.1 Prevalence of the cash economy

The Minister for Revenue and Financial Services has stated that "according to the ABS, it is estimated that the black economy in Australia could be as large as 1.5 per cent of our gross domestic product or around \$24 billion dollars"<sup>2</sup>. As noted above, the black economy is larger than the cash economy.

The ATO has conducted research regarding likely participants in the cash economy. It "has identified that the population at risk of operating in the cash economy is approximately 1.6 million businesses (mostly micro and small businesses with an annual turnover up to \$15 million) operating across 233 industries that are more likely to have regular access to cash. 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)."<sup>3</sup>

The ATO has also been working on tax gap analysis specifically for the cash economy and will no doubt provide an update to the Committee. This analysis is in addition to the tax gap report which appears in the latest ATO Annual Report<sup>4</sup> and should provide a more reliable estimate of the cash economy.

### 1.2 Compliance mechanisms and strategies

Experience from both Australia and overseas shows that successful black economy strategies must avoid a one size fits all approach, include a mix of both traditional tax enforcement, positive incentives as well as sanctions.

#### 1.2.1 Tax and the social contract

We all live in a community and tax compliance is a basic obligation. Tax compliance needs to become more embedded in how the community thinks and operates, rather than something that the ATO 'enforces'.

In our view, those who continue to operate outside the tax system in the black economy, or who facilitate such non-compliance, should not enjoy all of the entitlements and protections afforded to law-abiding members of the community.

Rather than expecting the ATO to do all the compliance work on the hidden economy, we think it

<sup>2</sup> Refer: <http://kmo.ministers.treasury.gov.au/media-release/113-2016/>

<sup>3</sup> Refer Para 1.3: <https://www.anao.gov.au/work/performance-audit/strategies-and-activities-address-cash-and-hidden-economy>

<sup>4</sup> Refer to the 2015-16 Commissioner's Annual Report at: <https://annualreport.ato.gov.au/02-performance-reporting/operational-performance/tax-gap-estimates>



is time for a whole of government and community response which involves non-tax agencies and entitlements we often take for granted. For example:

- A landlord could be denied standing at law (e.g. in tenancy disputes) unless in possession of a tax compliance certificate from the ATO, indicating that rents have been disclosed and tax payments are up to date;
- Consumer protection mechanisms could be denied unless the complainant is in possession of a valid tax invoice issued by the business against whom the complaint is made;
- Business licencing and renewal could be made conditional on possession of a tax compliance certificate from the ATO (South Africa provides a possible model with its tax compliance status report<sup>5</sup>); and
- Contractor compensation and public liability claims would require presentation of a valid tax invoice issued by the injured service provider.

Some will no regard such policies as unnecessarily intrusive red tape imposed by a government with a nanny-State mentality. But we see little alternative. “Dob-in” hotlines at the ATO and ad hoc ATO education programs appear to have had limited impact. We believe that real changes will only occur when, as a society, agencies act in unison to address the issue rather than simply leaving the problem in the lap of the tax regulator. Once taxpayers see evidence that their commercial interests are aligned with tax compliance, we would expect to see greater management focus on the latter.

#### 1.2.2 Encouraging compliance

It may also be worth exploring a taxpayer ‘good behaviour’ bond which could be used (perhaps as an alternative to penalties in suitable first offence or repeat offender cases) to help bring taxpayers back into a compliance mindset.

We have not heard further from the ATO about another tax penalty proposal, the so-called one chance penalty regime for individuals and small business<sup>6</sup>.

Another option that is available to the ATO is to precede any crackdown on the hidden economy by a domestic tax amnesty arrangement for taxpayers to regularise their affairs (somewhat similar to the ATO’s [Project Do IT](#)). It has always seemed odd to us that Project DO IT provided a voluntary disclosure opportunity (with drastically reduced penalties) to generally wealthy Australians, when no such opportunity has ever been granted to the self-employed, contractors etc.

#### 1.2.3 Enforcing compliance

The [ATO submission](#) to the 2015 Senate review into insolvency in the Australian construction industry noted at paragraph 60 that: “The building and construction industry is an industry where there is a significant prevalence of cash transactions and ranks in the ATO’s top 10 industries from an omitted income risk perspective. This is borne out by ATO audit results with some of the largest tax adjustments and penalties in the cash economy activities arising from construction industry audits”.


Since 2012, the building and construction industry has been subject to the [taxable payments reporting system](#), which requires businesses in the building and construction industry to report the total payments they make to each contractor for building and construction services each year. Whilst we understand that this measure has been helpful, the lack of compliance by the building and construction industry continues to be concerning.

<sup>5</sup> Refer: <http://www.sars.gov.za/ClientSegments/Individuals/TCS/Pages/default.aspx>

<sup>6</sup> Refer: Proposed changes to penalties for small business and individuals ATO Consultation Paper, September 2016. <http://lets-talk.ato.gov.au/penaltyconsultation>

It might be time to consider:

- Introducing more frequent reporting (possibly real time or coinciding with BAS deadlines), and
- A domestic, business to business PAYG withholding system to help further improve compliance in this particular industry<sup>7</sup>.

	<p>Consideration should be given to introducing real time reporting and PAYG withholding in relation the Australian building and construction industry.</p>
---	---

Depending on research undertaken by the Black Economy taskforce and the ATO it may also be worthwhile extending such a system to other industries which are found to be highly non-compliant.

## 2. How taxpayers currently interact with the tax and superannuation system, including through tax agents and other intermediaries, and the different compliance burdens of doing so.

### 2.1 Taxpayer interaction with the tax system – Technology aspects

In recent years the ATO's Reinvention Project has sought to dramatically increase the ability of individual and small business taxpayers to liaise directly with the ATO online. This includes online facilities to lodge income tax returns and forms, record income tax deductions (receipts, invoices etc), access to tax calculators to help with various tasks, assistance with technical and administrative matters, and entry into tax debt repayment plans.

Most of these everyday functions for dealing with the ATO can also be accessed via the ATO App.

Data on income and gains compulsorily drawn by the ATO from numerous sources is pre-filled into the relevant parts of the income tax return.

The ATO messaging has been to make tax easy to comply with.

The ATO website also now has an electronic assistant ("Alex") to help users with comparatively straightforward tax questions. Alex does not yet reflect artificial intelligence characteristics but is nonetheless based on software that learns from previous interactions with users. It will be interesting to see how the functionality of this virtual assistant will improve over coming years.

In terms of accessing tax information and online assistance products such as tax calculators, a number of attempts have been made to improve the ATO website although the generally held view amongst our members is that the website remains very difficult for experienced tax professionals (let alone ordinary taxpayers) to find the information they need. Searches on the ATO website will often result in a confusing number of "hits", many of which can be irrelevant.

In our view, the investment in online services for what some in the ATO call the "retail" taxpayer segments (individuals and small business) has reached an interesting stage where ATO

<sup>7</sup> Note here the differences between the New Zealand and Australian tax withholding regimes:  
<https://www.ato.gov.au/business/international-tax-for-business/in-detail/trans-tasman-rules/comparing-the-new-zealand-and-australian-tax-system/?page=8>

management need to consider whether there has been an acceptable yield in the sense that taxpayers have the core information they need.


Some practitioners feel that the yield on investment for the ATO is really based on whether taxpayers are more confident to manage their own tax affairs without recourse to an accountant. However, our understanding from recent discussions with senior officials is that there is growing awareness within the ATO that the professional relationship between an accountant and client extends to many issues (few of which are tax-related) – for example, personal financial planning, business start-up advice, help with financing personal and business projects, and entity structuring.

In our view, this adviser-client bond is unlikely to be shaken by online services although perhaps some in the younger generation of Australians may be enticed to use ATO online products rather than engage an accountant. This tech-savvy generation pose an interesting opportunity for similarly skilled young accountants who, like their professional forebears, must find ways to build and maintain trusted client opportunities.

## 2.2 Taxpayer interaction with the tax system – Lodgment statistics

The ATO will be able to provide the Committee with the latest statistics from “Tax Time 2016” (i.e. income tax returns lodged for the year ended 30 June 2016), but we understand that the level of self-prepared v’s tax agent prepared tax returns has remained fairly consistent in recent years.

We note that this trend in Australia has not been impacted by any substantial advertising campaign from tax professional associations promoting the services of tax agents, although bulk lodgers (H&R Block for example) do advertise around 30 June. It is important to note this because, in the United States for example, tax agents and tax software companies conduct quite extensive campaigns to counter the free, online products offered by the Internal Revenue Service.

	<p>Whilst ever the Australian income tax system remains complex – with individual taxpayers entitled to claim general deductions, specific deductions and tax offsets – Chartered Accountants is of the view that many taxpayers will feel that only an accountant working in their interests can help them manage the risk of getting tax calculations right under a self-assessment regime, and obtain the best tax outcome in terms of legally maximizing tax refunds or minimizing tax payable.</p> <p>Even if tax reform occurs, there will still be many be good reasons for individuals and small business operators to seek advice from an accountant.</p>
---	--

## 2.3 Taxpayer interaction with the tax system – Intermediaries and our changing profession

The technology aspects of the relationship with the ATO (see above) also have an important impact on tax intermediaries.

As noted earlier, there are some tax and BAS agents who see ATO online self-service tools as undermining their client relationship and business models. These agents tend to have clients predominantly drawn from the individual and small business segments.

There are also some tax and BAS agents mistrustful of the ATO’s ability to effectively deliver online services to their businesses, and the Committee will no doubt hear from some agents



whose fears along these lines have been fanned by the major ATO systems outage which occurred in December 2016. Even before the outage, some agents regularly voiced concerns about various ATO modernisation initiatives, such as the project to move away from the ageing tax agent portal to the new Tax Lodgment Service (TLS), the move to online mail (known as the Client Correspondence List), and the alignment of ATO systems to prevent conflicting correspondence being issued to the same taxpayer.

We know that the ATO's Tax Practitioner, Lodgment Strategy and Engagement Support group is well aware of the concerns expressed by this segment of the tax agent population and have sought to proactively improve the relationship with agents over recent years. Following up on statements made to the Committee in various hearings, the Commissioner has allocated additional ATO resources to ATO functions which service tax and BAS agents. And there has certainly been a recent change in tone in the Commissioner's internal messaging which acknowledges the key role agents currently play, and will continue to play, in Australia's future tax system.

We should also point out that a growing number of accounting firms are diversifying their service offerings to address the possibility of declining fees from tax and other compliance work (long seen as low-profit margin business). This has been achieved in a number of ways, such as:

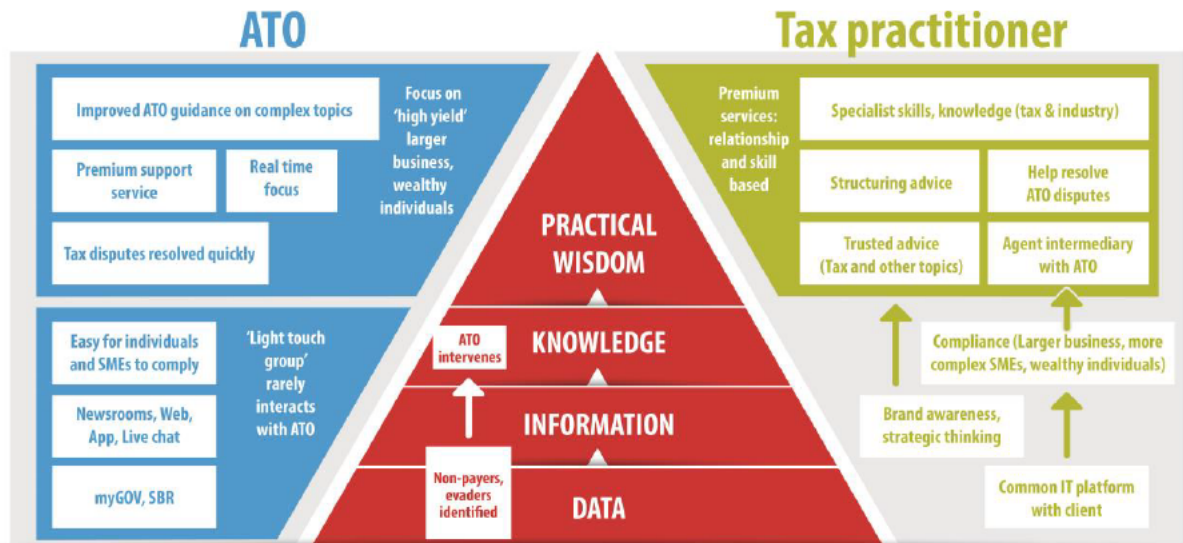
- organic growth;
- hiring new skills;
- gaining licences to undertake new services (such as superannuation auditor credentials, or an Australian Financial Services Licence);
- networking with other service providers both in Australia and abroad; and
- merging with other service providers.

Accounting firms which possess deeper tax and superannuation technical skills are finding that there is still plenty of engagement with the ATO at the more complex end of the taxpayer spectrum, such as large companies (public and private) and high wealth individuals. Advisers with transaction-based skills – such as cross-border investment, transfer pricing, financial services and property investment – are also experiencing high levels of engagement with the ATO.

Chartered Accountants sees this trend from both the ATO and professional adviser perspective. Both are moving their business models towards the same target group of taxpayers\clients. Diagram 1 below attempts to explain this trend in simple terms:

**Diagram 1**

How both the ATO and tax professionals are focusing on the more complex, higher risk of the taxpayer spectrum



© Chartered Accountants Australia and New Zealand (2017)

To those who predict the demise of the accounting profession, we know our members in public practice are highly adaptive to change and already advise on a broad range of topics which few outsiders give them credit for. As always, their ability to forge strong client relationships will be the key to their success.

In terms of future roles for accountants, we see enormous potential in business technology and systems implementation, cyber-security, superannuation and long-term wealth-planning, and helping to protect elderly clients against asset fraud. All this is in addition to an accountant's traditional role as a trusted business adviser.

### 3. The contemporary use of information and communication technology by the ATO and comparative tax administrators to deliver services.

#### 3.1 Contemporary use of information and communication technology by the ATO

In our eyes, the ATO is one of a small group of government agencies with the in-house expertise and resources to embrace leading edge information and communication technology. It certainly seems to be a trusted agency within government circles for leading technological change projects.

Broad details of the ATO's Contemporary Digital Services program can be gleaned from the most recent Annual Report<sup>8</sup>.


Apart from self-initiated projects, the ATO has also been trusted by government with a number of key projects which have the potential to change the way Australia does business. These projects include Single Touch Payroll and (almost) whole of government data collection from an enormous range of providers. eInvoicing is another important initiative where the ATO plays a less obvious role in supporting the work of the Digital Business Council<sup>9</sup>.

<sup>8</sup> Refer: <https://annualreport.ato.gov.au/02-performance-reporting/encouraging-participation-contemporary-and-tailored-service/digital-services-%E2%80%93-contemporary-and-tailored>

<sup>9</sup> Refer: <http://digitalbusinesscouncil.com.au/>



Many other agencies leverage ATO data for their own operations and we think it highly likely that this trend will continue as data sharing and integration becomes more prevalent. However, the recent furore surrounding Centrelink notices sent to clients who have allegedly been overpaid their entitlements bears testimony to the fact that data collection and sharing is only part of the government's challenge: correct analysis of data and effective communication with citizens is equally as important<sup>10</sup>. When it comes to the "pointy end" of extracting tax or obtaining a refund of overpaid government transfer payments, high level interpersonal skills are essential.

	<p>We think the ATO's information and communication technology could be improved in a number of respects:</p> <ul style="list-style-type: none"> <li>• The ATO website remains a work in progress, despite a number of attempts to improve its usability;</li> <li>• The reliability of online portals and other tools used by tax agents is a concern to some of our members, with the December 2016 major systems outage yet to be explained by way of a report (which may or may not be made public) from PwC, the ATO-appointed independent expert;</li> <li>• The ATO ability to gain "cut-through" to the public on key messages (a recent example is ATO concern over worryingly high levels of work-related deductions, despite annual Tax Time warnings that individual taxpayers should only claim the deductions they are entitled to<sup>11</sup> and "nudge" features in myTax software alerting taxpayers that their deduction claim seems excessive compared to others in the same occupation group);</li> <li>• Granting taxpayers access to their own tax data and other information obtained about them by the ATO (i.e. the ATO's own level of transparency with taxpayers could be improved); and</li> <li>• Making ATO de-identified data available for use by the broader community (i.e. big data within government circles should be a two-way affair, not one way).</li> <li>• The ATO's media and communications strategy could become more pro-active, service orientated and friendlier. A cursory review of recent ATO media releases<sup>12</sup> suggests to us that the focus is more often on "crackdowns" and "warnings" than on tax entitlements and opportunities. For example, we think the ATO could learn from IRS communications which tend to describe tax practitioners as "partners" or "trusted professionals" who help make the tax system work<sup>13</sup>.</li> </ul>
---	---

<sup>10</sup> This in turn raises an important questions whether the ATO should move into a more central role with responsibility for a range of tasks in addition to collecting tax revenue (e.g. managing tax and transfer payment entitlements, whole of government debt collection services).

<sup>11</sup> Refer: <https://www.ato.gov.au/Media-centre/Media-releases/ATO-exposes-dodgy-deductions/>

<sup>12</sup> Refer: <https://www.ato.gov.au/Media-centre/#?type=All+media+types&year=All+years&pageOption=10&pageIndex=0>

<sup>13</sup> Refer IRS media release "IRS and Partners Look to Start of 2017 Tax Season (5 January 2017): <https://www.irs.gov/uac/newsroom/irs-and-partners-look-to-start-of-2017-tax-season-encourage-use-of-irsgov-and-efile-warn-of-refund-delays>

### 3.2 Comparing the Australian and New Zealand approaches to tax system modernisation

Chartered Accountants is a trans-Tasman organisation, and we can say with a high level of confidence that the Reinvention Project at the ATO<sup>14</sup> has much in common with the transformation also underway at New Zealand's Inland Revenue<sup>15</sup>.

The governments in both countries have asked their tax regulators to become as efficient as possible in collecting tax fairly from the population, and both have provided substantial funding for this to occur.

In our view however, there are three important differences that we can see between the two tax regulators in their approach to modernisation:

- Inland Revenue appears to us to enjoy much more political support for its change program than the ATO. It is quite common for the New Zealand Revenue Minister to stand side by side with the Inland Revenue Commissioner and update the community on tax system modernisation plans and seek community input<sup>16</sup>. There is consequently greater political ownership of the benefits of tax system modernisation<sup>17</sup>. In Australia, the ATO is generally left to plan and implement change, and manage stakeholder communications, alone<sup>18</sup>.
- Inland Revenue has sought to reduce the implementation risk associated with its information technology change program by greater use of out-sourcing tax administration software and systems changes to third parties with global experience in working with tax collection agencies<sup>19</sup>.
- The New Zealand government has accompanied the administrative aspects of the tax modernisation program with legislative changes which simplify the laws relating to tax assessment and collection<sup>20</sup>. The scale and nature of such changes has been greater than the so-called red tape reduction initiatives achieved in the Australian taxation system. In New Zealand, the simplification changes have been more taxpayer-focused, whereas in Australia such changes have concentrated more on improving ATO systems<sup>21</sup>.

<sup>14</sup> Refer ATO Reinvention Project Blueprint at: <https://www.ato.gov.au/About-ATO/About-us/Reinventing-the-ATO/Program-blueprint-summary/>

<sup>15</sup> Refer Changing Inland Revenue, Transformation Market Brief, 21 August, 2013 at: <https://www.ird.govt.nz/resources/4/0/40214aca-5c87-4148-a98f-29c77a9cbf3a/changing-ir-market-briefing.pdf>

<sup>16</sup> Refer for example to this 31 March 2015 launch of the tax modernisation program by the then New Zealand Minister of Revenue, Todd McClay MP at: <https://www.beehive.govt.nz/release/tax-modernisation-programme-launched>

<sup>17</sup> See for example this joint announcement by the New Zealand Revenue Minister and Small Business Minister: <https://www.beehive.govt.nz/release/survey-shows-businesses-spending-less-time-tax>


<sup>18</sup> The Australian approach may reflect the fact that our law gives the Commissioner of Taxation sole responsibility for administering the tax law. The lack of ministerial support can however imply that it is the ATO driving change (or worse, *inflicting* change on taxpayers for its own ends), rather than portraying modernisation as a whole of government initiative. There was also confusion over the role of the Digital Transformation Office (now the Digital Transformation Agency) in helping guide change across government agencies.

<sup>19</sup> For example, in June 2015, Inland Revenue selected Fast Enterprises Inc to supply the software to run New Zealand's future tax and social policy administration system. Refer: [https://www.fastenterprises.com/wp-content/uploads/2015/12/NZ\\_NBR-BusinessTransformation.pdf](https://www.fastenterprises.com/wp-content/uploads/2015/12/NZ_NBR-BusinessTransformation.pdf). It is common for both the Inland Revenue Commissioner and Revenue Minister to comment that the modernisation project is being implemented on time and below budget – Refer: <https://www.fastenterprises.com/wp-content/uploads/2016/01/IRDs-business-transformation-project-to-come-in-under-budget.pdf>

<sup>20</sup> This is generally known in New Zealand as the Making Tax Simpler initiative (refer: <https://www.makingtaxsimpler.ird.govt.nz/>). This was followed by tax system simplification Bills being introduced by the New Zealand Parliament, such as: *Taxation (Transformation: First Phase Simplification and other Measures) Bill* (enacted 2 June 2016) and *Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill* (before Parliament).

<sup>21</sup> Refer (for example): <https://www.ato.gov.au/General/New-legislation/In-detail/Other-topics/Reducing-red-tape--reforms-to-the-Australian-Taxation-Office/>



	<p>Chartered Accountants has two in-house tax teams, based in Sydney and Auckland.</p> <p>If Committee members wish to learn more about the features of New Zealand's tax administration system then we would be happy to arrange for further input from our New Zealand colleagues.</p>
---	--

#### 4. Behavioural insights from other service delivery agencies including possible ways to better inform taxpayers to help them make decisions in their best interests.

The application to taxation administration of principles drawn from behavioural science (sometimes referred to as behavioural economics) is a fascinating topic and deserving of detailed inquiry from Committee members.

As a community, many of us fail to see the connection between paying tax and a well-functioning society. Even those prompted to make the connection will sometimes point to examples of wasteful government expenditure to justify their tax minimisation.

There is also a difference between private and public personal behavior when it comes to taxation: many citizens tend to absolve themselves for what they regard as minor, inconsequential tax minimisation (such as over-claiming work deductions) whilst at the same time criticising "someone else" whom they perceive as not paying their "fair share"<sup>22</sup>.

Here again, Chartered Accountants is aware of the substantial investment which the ATO has made in behavioural research. For example, the ATO's debt management team has undertaken work to better understand what prompts taxpayers to pay their outstanding tax debt<sup>23</sup> and their efforts have yielded some positive results (although the level of overall unpaid tax debt, particularly that owed by small business, remains disturbingly high<sup>24</sup>).

In terms of other government delivery agencies, the NSW government is one of the leading, early adopters of behavioural science thinking in an Australian government context<sup>25</sup> and the Committee may find it useful to draw upon their expertise.

In terms of the experiences of Chartered Accountants with behavioural tools in the area of taxation compliance:

- There has been some concern expressed in the past about the accuracy of ATO benchmarking data used in ATO investigations<sup>26</sup> but to be fair, the ATO methodology seems sound and we are assured the methodology is constantly being improved and refined as a result of actual investigative experiences.
- The behavioural "nudge" which exists in the myTax software and ATO data analysis software to warn taxpayers that the work-related deductions claimed are at odds with their peers<sup>27</sup> may not be driving down the level of excessive work-related deduction

<sup>23</sup> Refer: <http://bi.dpc.nsw.gov.au/blog/australian-taxation-office-applies-behavioural-insights-to-tax-and-debts/>

<sup>24</sup> The latest ATO [Annual Report](#) notes that whilst 89% of tax liabilities are paid on time, the small business sector only pays 72% of tax liabilities on time. Or to put it another way, overall 11% of tax liabilities are not paid on time, but in relation to the small business sector this amount almost triples (the small business rate of not paying on time is 28%). The lack of timely payment is contributing to Australia's stubbornly high tax debt of \$19.2 billion, of which small business accounts for 65.2% of the total collectable tax debt.


<sup>25</sup> Refer: <http://bi.dpc.nsw.gov.au/>

<sup>26</sup> Refer: <https://www.ato.gov.au/business/small-business-benchmarks/in-detail/small-business-benchmarks-methodology-and-ratio-calculations/?page=2>

<sup>27</sup> Refer: <https://www.ato.gov.au/Media-centre/Articles/ATO-warns-over-claiming-is-easier-to-detect-than-ever/>



claims. In fact, some taxpayers may be gaming the myTax software by progressively lowering the deduction claimed online until it reaches a level where the ATO warning no longer appears.

	<p>ATO experts in the field of behavioural science are best placed to help the Committee on this aspect of their inquiry.</p> <p>There have been a number of excellent papers produced on the topic of behavioural science and taxation which the Committee's secretariat may find useful in preparing Committee members for discussions with the ATO's experts<sup>28</sup>.</p>
---	---

### Further input

Chartered Accountants Australia and New Zealand would be happy to provide additional input to the Inquiry by appearing before the Committee should it choose to conduct public hearings.

We also consent to our submission being published on the Committee's website.

Please do not hesitate to contact me should you have any questions or comments on the topics we have raised.

Yours sincerely,

**Michael Croker**  
**Tax Leader – Australia**  
**Chartered Accountants Australia and New Zealand**

<sup>28</sup> Chartered Accountants' tax research team particularly recommends *Behavioural Economics and Taxation*, Working Paper No 41, 2014, T.O. Weber, J. Fookien, B. Herrmann, European Commission. Refer: [http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_papers/taxation\\_paper\\_41.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_41.pdf)