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**Committee Secretariat**

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

PO Box 6021

Parliament House

CANBERRA, ACT, 2600

To whom it may concern:

We are writing in response to the 'Inquiry into Taxpayer Engagement with the Tax System', specifically in relation to the following terms of reference:

**"behavioural insights from other service delivery agencies including possible ways to better inform taxpayers to help them make decisions in their best interests" and more generally "how taxpayers currently interact with the tax and superannuation system".**

*Context*

Our team has completed extensive research on the level of tax literacy in Australia as part of Dr Toni Chardon's PhD, which was completed in 2014. This research measured the level of tax literacy in adult Australians through a survey that posed a number of basic tax and superannuation questions as well as attitudinal questions around tax confidence. This research was completed in the context of contributing to the understanding of adult financial literacy in Australia, which has been of concern, by Governments for some time. It is the first time such research has been conducted in Australia. It was argued that individuals and small business owners often make poor financial decisions, which are tax driven, and therefore that basic tax literacy should form part of any overall measurement of financial literacy. The findings of this research have been published in several papers (see Reference List below). However, to summarise, although Australians are broadly tax literate, they find basic tax concepts more difficult than basic financial concepts and there are specific basic tax areas which are poorly understood (i.e., the rate of super guarantee, the difference between deductions and offsets, the broad concepts of capital gains). These were all concepts that participants identified as being important to understand if one were to be financially literate. It was also found that higher tax literacy was found in those groups with greater engagement with the tax system (i.e. Small business owners, greater connection with the workforce). We have previously argued therefore that poor tax literacy may not only lead to a lack of engagement with the tax system, it may also lead to less productive relationships with advisors, less likelihood to seek advice and the potential to make poor financial decisions driven by tax outcomes that are misunderstood.

*Submission*

We submit that changes to the way taxpayers engage with the tax system should take into account ways to improve taxpayers' basic understanding of the tax system. We argue that opportunities to educate and inform taxpayers at various stages in their education and work life should be encouraged and should focus on those areas identified as being poorly understood by taxpayers in our research and those areas that can best help taxpayers 'make decisions in their best interests'. A specific example might be to provide

greater incentives (through either tax deductibility or free services) for taxpayers to access quality tax and financial advice. Similarly, we submit that tax and financial advisors could be provided incentives for programs provided to clients that are aimed at increasing financial and tax literacy. Increased financial literacy, confidence and the relationship with an advisor are all related and incentives which have the result of improving all three should be encouraged.

Although automation and 'nudges' have a place in some circumstances, they should also take into account that the tax system in Australia requires engagement and basic understanding at various stages depending on the taxpayer's circumstance. Our research demonstrates that lack of engagement with the tax system can lead to poor tax literacy and therefore potential to make poor tax driven decisions. The 'nudge' concept comes with the risk that taxpayers may have no cause to engage with the tax system over many years and then suddenly be forced to engage with a system with which they have had little interaction with over their adult life. We therefore submit that any automated or 'nudge' systems be balanced with greater taxpayer education about the basic concepts of tax and superannuation that need to be understood in order to prevent poor financial decisions and to 'make decisions in their best interests'.

We appreciate your time in reading our submission.

Sincerely,

*Toni Chardon, Mark Brimble & Brett Freudenberg*

#### REFERENCE LIST

Chardon, Toni and Brimble, Mark and Freudenberg, Brett, *Tax and Superannuation Literacy: Australian and New Zealand Perspectives* (December 29, 2016). (2016) 22(4) New Zealand Journal of Taxation Law and Policy 327-345. Available at SSRN: <https://ssrn.com/abstract=2907828>

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