



Australian Government

Australian Government response to the
House of Representatives Standing Committee on Tax and
Revenue report:

Taxpayer Engagement with the Tax System

September 2019

House of Representatives Standing Committee on Tax and Revenue

Taxpayer Engagement with the Tax System

Government Response

Recommendation 1

The Committee recommends that a review of Australia's tax system should be undertaken before 2022, with the purpose of making recommendations on how to simplify the present tax system, in order to reduce both the quantum of tax law and improve comprehension and compliance by people without expertise in taxation law.

The Government **notes** this recommendation.

There have been a number of recent reviews of Australia's tax system. Following Australia's Future Tax System Review in 2009, the Inspector-General of Taxation has conducted numerous reviews, including reviews into Goods and Services Tax (GST) Refunds and Aspects of the Pay As You Go Instalment System and recently its review into the Future of the Tax Profession.

The Board of Taxation and the Productivity Commission have also conducted reviews on various elements of the tax system.

These reviews provided opportunities for people to make submissions on matters that affect engagement with the tax system through public hearings and submission processes, including representatives from business and community groups, and members of the general public.

The Government is committed to supporting people to help them comply with their taxation obligations and will consider the outcomes of these reviews to ensure that the legislative tax framework promotes taxpayer engagement with the current tax system. The Government therefore considers that a review of the entirety of Australia's tax system is not necessary at this time.

Recommendation 2

The Committee recommends that the ATO should continue to deploy behavioural insights approaches to increase taxpayer engagement. The ATO should, however, examine and report on the results of these programs or activities, recognising their limitations within an overly complex tax system.

The ATO **agrees** with this recommendation.

This recommendation supports the ATO's current approach of increasing the use of behavioural insights to gain a greater understanding of taxpayer behaviour and applying these insights to better tailor services and contact with taxpayers.

The ATO has published details of its behavioural insights activities in its annual report and website. In 2018 the ATO published two comprehensive reports on behavioural insights trials conducted with the Behavioural Economics Team of the Australian Government - *Improving*

tax compliance: deductions for work related expenses in income tax returns filed through tax agents and Making it less taxing – better compliance with deferred GST.

Recommendation 3

A - The Committee recommends that the ATO should make greater use of behavioural insights techniques, such as randomised controlled trials, before full implementation of new initiatives to determine if such changes are indeed better than current practices, and if so, which changes are the most effective.

B - The ATO could also run continuous trials (using methodology such as, but not limited to, the Lean Six Sigma system¹) on communication platforms and channels to ensure that its systems are constantly being tested and improved.

The ATO **agrees** with this recommendation.

The ATO recognises the benefits of using randomised control trials before implementing initiatives and uses them where possible to better tailor its services and contact with taxpayers. It is not always possible due, for example, to limitations with some of the ATO's business systems not allowing for the trialling of different interventions concurrently. Where a randomised control trial is not used, the ATO pilots initiatives with a small sample group prior to implementation.

The ATO continuously review the performance of its communication platforms and channels in a variety of ways, particularly after implementation of new services or features. This enables the ATO to identify any unintended impacts and pain-points, and informs the need for future improvements.

The principles of Lean Six Sigma and other such methods are incorporated into the ATO's analytical and continuous improvement activities as appropriate.

Recommendation 4

The ATO consider adopting a Regulatory Philosophy to codify the principles on which it will administer tax laws and engage with taxpayers.

The ATO **agrees** with this recommendation and has implemented it.

The ATO undertook a comprehensive consultation process with the community and stakeholders in 2017, as recommended by the Inspector-General of Taxation (IGT), to assess the currency and relevancy of the Taxpayers' Charter.

As part of this review, research was carried out into the appropriateness of a regulatory philosophy versus a Charter with the following outcome:

- regulatory philosophy states how an *organisation* will regulate,
- a taxpayers' charter *states the rights and responsibilities* of those being regulated.

The Charter is one of the ATO's corporate documents delivering relevant information to clients in digestible pieces. Given the complexities of the tax system, it is not practical to include all corporate content in a single document.

Since its introduction the Charter has undergone several reviews. Extensive consultation has confirmed that the Charter is fundamentally sound. The approach is the most appropriate for the tax environment.

Recommendation 5

The Committee recommends that the ATO should continue to expand availability of technical initiatives such as pre-filing, simplified electronic lodgement systems for business and individuals, and online assessment tools to facilitate Australia's transition to a 'push return' tax system.

While supporting these developments, the Committee upholds the individual's choice to manage their own tax affairs, using ATO or commercial products, and to seek professional advice from tax professionals enabled by efficient online lodgement services.

The ATO **agrees** with this recommendation.

The ATO continues to streamline and simplify the tax return process to make it easier for taxpayers to comply and hard not to comply. This includes improving the quality of existing data and acquiring further data. These activities support pre-filing of individual tax returns as well as opportunities to further tailor approaches to help taxpayers to 'get it right'. The ATO is consulting with the community to help shape the design of the future return lodgment experience and this includes the concept of 'push returns'.

The ATO's message to individuals and businesses is clear and promotes choice – either self-prepare or use a registered agent. The majority of individuals use tax agents and the ATO provides a range of products and services to support both taxpayers and tax professionals.

Recommendation 6

Based on the New Zealand system, the Committee recommends that Treasury considers an ABN withholding tax system at source for all industries with the potential for the rates to be industry specific.

The Government **notes** this recommendation.

The Australian Government already imposes mandatory third party reporting requirements in certain industries where there is a higher risk of non-compliance by contractors with their tax obligations.

The taxable payments reporting system (TPRS) is a transparency measure that requires businesses in certain industries to report annually to the ATO payments they make to contractors for providing these services on their behalf. The information reportable to the ATO includes identifying information and the total payments made to the contractor during the year.

It was first applied to the building and construction industry from 1 July 2012 and resulted in improved compliance in that industry. From 1 July 2018, the TPRS was extended to the cleaning and courier industries in response to a recommendation by the Black Economy Taskforce Interim Report and from 1 July 2019, the TPRS was further expanded to three new industries including security, investigation services or surveillance services; road freight transport and information technology services.

The information reported to the ATO will be used for pre-filing purposes to make it easier for contractors to lodge their income tax returns; and data-matching purposes to ensure contractors comply with their tax obligations such as correctly lodging their income tax returns and meeting BAS obligations.

Third party reporting by entities that pay those contractors will improve voluntary compliance by contractors and promote fairer competition in these industries.

The Australian Government does not consider introducing ABN withholding is necessary at this time considering recent developments in TPRS. Consideration of reform to Australia's withholding regime might be appropriate in the future but only after there has been time to assess the effectiveness of the TPRS regime.

Recommendation 7

The Committee recommends the ATO should review the functionality of the contractor assessment tool for accuracy and utility to taxpayers by reference to the functionality of the tool deployed in the United Kingdom, and report to the Committee on its progress.

The ATO **agrees** with this recommendation.

The ATO notes that there are opportunities to continually improve the simplicity and useability of the tool as part of the tool's ongoing refinement.

The ATO has liaised with Her Majesty's Revenue and Customs (HMRC) on their contractor assessment tool and they have obtained the software code they use. The ATO is reviewing the code and its associated functionality to identify and incorporate further improvements to the tool. In October 2018 the ATO released updates to their website information which emphasises and clarifies for users the level of protection the use of the tool affords them.

The ATO is working with the Australian Small Business & Family Enterprise Ombudsman, Fair Work Ombudsman, the Attorney-General's Department, and the Department of Industry, Innovation and Science to ensure there is a consistent approach to improving the tool across government.

The ATO will report back to the Committee on its progress with these improvements over the next year, including opportunities identified via its review of the HMRC tool.

Recommendation 8

The Committee recommends that the work-related deductions scheme be reformed by introducing the standard deduction concept as proposed by the Australia's Future Tax System Review.

Fairness would be maintained by enabling individuals to claim above the set amount by providing full substantiation through a tax return process.

The Government **notes** this recommendation.

A long-standing principle of the Australian tax system is to tax a person on their income after accounting for legitimate costs incurred in earning that income. Deductions for costs incurred in producing income recognise that people incur different costs in producing income and permitting deductions is intended to equalise the treatment between those who incur costs in producing their income and those who do not.

Recommendation 9

The Committee recommends that the ATO should adopt a roadmap for the abolition of paper-based returns, including testing and trialling with user groups.

The ATO **agrees** with this recommendation.

A current priority for the ATO is to identify the best channel and service offering combination for all interactions. A goal in this work is to reduce or eliminate paper-based returns by offering and promoting digital, including voice interactions where possible over paper-based or manual interactions.

This work is informing a roadmap to ensure ATO channels are first optimised for the interactions, as well as provide support to taxpayers to use the channels right for them.

Listening to taxpayer feedback through user testing and pilots is a hallmark of the ATO's user experience design processes which are being applied in this work.

Paper reduction has been a priority for the ATO for some time, with the ATO seeing downward trends in paper use for many key services, such as:

- Individual tax returns – 96.5% digital
- Non individual tax returns – 93% digital
- Activity Statements – 86% digital

In some instances interactions are being eliminated altogether.

Recommendation 10

For the foreseeable future, the Committee recommends that the ATO maintain paper-based returns and the distribution of paper publications on request to those people who choose to engage this way.

Additionally, taxpayers seeking non-digital tax resources for tax returns at a myGov Shopfront should be assisted on site.

The ATO **agrees** with this recommendation.

While the ATO continues to support a paper lodgement channel for the immediate future, it intends to transition as many paper users as quickly as possible, with the ultimate aim of only accepting paper lodgements from clients who meet certain exclusion criteria. The overarching principle is that unless a client has a genuine barrier, then digital will be their lodgement channel.

The ATO recognises that a small proportion of the population are not “digitally included” for a variety of reasons. However, having a genuine barrier to a digital channel does not necessarily mean the ATO will offer a paper-based solution. The ATO offers a range of non-paper channels including telephony as well as various face to face support services including Tax Help, pop-up kiosks and community visits.

ATO frontline staff are trained to assist taxpayers to transition from paper to online channels. myGov digital offices have been designed to provide guidance to customers in the use of government online services. This includes having computers available on site to demonstrate how online services are used as a self-assist option.

While paper publications are not currently available in myGov or ATO shopfronts, taxpayers can print forms using the terminals provided, and can seek assistance if required.

Recommendation 11

In the interests of promoting fairness and taxpayer confidence in Australia's tax system, the Committee recommends that the ATO should work to develop a framework which clearly outlines the rights and obligations of both parties in the tax engagement process for adoption in the near future.

The process, involving the review of high level ATO mission statements, would be consistent with the ATO's principle-based approach to service delivery and support design of a Regulatory Philosophy document.

The ATO **agrees** with this recommendation and has implemented it.

The Taxpayers' Charter provides a framework for all interactions with the ATO's clients, outlining their rights and obligations and clarifying mutual expectations. The Charter has recently been revised to address stakeholder comments and the Charter language has been aligned with the ATO's broader corporate principles and values.

A one page overview clearly outlining the rights and obligations of both parties in the tax engagement process was developed as part of the review of the Charter.

The Charter is available on the ATO's website, can be ordered through the ATO's publication ordering service and has been translated into 24 languages.

The ATO has one mission statement built into the ATO Corporate Plan: "*We contribute to the economic and social wellbeing of Australians by fostering willing participation in our tax and superannuation systems*".

Recommendation 12

The Committee also recommends that, in implementation and change management programs, the ATO should include a service level agreement with end users, especially tax agents, that includes amongst other things, consideration of payments to end users for poor delivery outcomes.

This is proposed in recognition that the ATO is a monopoly provider that is not subject to contestability in its service delivery.

The ATO **notes** this recommendation.

The ATO is committed to providing highly available digital services to the community. The ATO has developed Service Availability Standards which will provide greater transparency of availability across all digital channels for the community. The Improving ATO Systems Program, its multi-year program of work, will deliver incremental improvements toward achieving the full Service Standards.

The ATO has a range of options that apply to assist the community to comply with their tax and superannuation obligations. These can include time deferrals of time for lodgment and payment, payment arrangements and other administrative assistance.

Recommendation 13

The Committee recommends that the ATO should engage with all service providers according to the principle of competitive neutrality, allowing taxpayers the ultimate choice of which channel of access or service to use, and which channel is in their best interests.

The ATO **notes** this recommendation.

The ATO will always offer a safety net to Australians by providing some ATO services free of charge. It could be argued that this is not competitively neutral because some of the services provided are currently being sold in the marketplace at a cost to the client.

One example of this is that the ATO offers individuals a free online portal and the ability to complete an online return with pre-filled information (MyTax). There are providers that currently leverage some or all of these services from the ATO and charge a fee for those services.

Another example is for businesses, the ATO offers the Business Portal where mainly small businesses are able to lodge a Business Activity Statement (BAS) for free. The ATO also offers Agent Portals that Tax Agents use for free. Business clients can also lodge their BAS via commercial software for a fee, or pay a tax agent or BAS agent who then either use the free ATO Agent Portals or commercial software to lodge on their behalf.

The ATO also works with community volunteers to provide a Tax Help service where the ATO provides free assistance for individuals and the ATO contact centres. Tax agents generally charge a fee for these same services.

The ATO also offers many services to the marketplace and makes these available through application programming interfaces (APIs) to the developer community so that the market can offer additional services, whether free or at market price.

The ATO would not expect to enter the market for products and services that clearly have a broader purpose, for example, payroll, accounting, inventory management and point of sale software for businesses. The ATO offers APIs that allow such products to connect to ATO systems.

The ATO is continuously adjusting its approach and trialling new concepts. This approach will sometimes lead to delivering new functionality through an ATO online service (e.g. myTax) before making it available more broadly through APIs.

It is important that the ATO can continue to offer these services.

New legislation may stipulate that a compatible solution be found for everybody to comply in a short space of time. In these cases the ATO prioritise the build of one service over another. In these cases the ATO may validly go against competitive neutrality principles.

It is also important to balance the concept of competitive neutrality with the concept of choice of channel. The ATO's digital and service strategies state that clients will not always get a choice to use their preferred channels. For example Single Touch Payroll and SuperStream where the ATO only accept transmission of messages via Standard Business Reporting and not via the ATO portals.