



Australian Government  
Australian Taxation Office

# Australian Taxation Office Submission

## Standing Committee on Tax and Revenue

18 November 2016

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# Commissioner's foreword

As you know the ATO is in the throes of an extensive transformation program to improve the client experience, staff experience and change the culture.

This transformation is all about increasing levels of willing participation (voluntary compliance) and building confidence in the ATO and the tax and superannuation systems.

Over the past couple of years we have introduced a range of new products and services to make it easier for people and businesses to understand and meet their obligations. We have undertaken extensive engagement with different taxpayer segments in the community to better tailor and target products and services to best suit their needs.

Many of the new products and services have been digital offerings, such as myTax; our app – for both tax and super; myDeductions tool; Business Performance Check tool; online payment arrangements; voice authentication; SMS reminders for late lodgers/late payers; online and on-the-spot ABN registrations and our virtual assistant 'Alex' on ato.gov, just to name a few. These products have been well received, with overwhelmingly positive feedback from those using them. We've also seen complaints drop to their lowest level in five years.

However, the changes to the client (and staff) experience are not just about online tools. The changes can also be noticed in the interactions we have with taxpayers, for example responding to inquiries with 'natural conversations' not just scripted answers, and picking up the phone in the early stages of a dispute to see if a simple mistake or misunderstanding exists. Our early engagement and focus on helping people get things right is having a positive impact on the time taken and costs incurred to resolve matters.

Consistent with the theme of early engagement, we have recently introduced a 'keeping in touch, keeping on track' strategy for new businesses, regularly communicating with them and checking they know what they need to know, when they need to know it. While we are starting to service those new to business quite well, I think we have unexplored opportunities for other new taxpayers in the community – such as youth and newly arrived migrants. We will be considering this systemic early engagement piece in the coming year, just as we will be exploring how we communicate with the community more broadly to reinforce a willing participation culture. In particular we will consider a strategy to debunk the seven common myths found in the Australian community around paying tax. Our research shows the following myths exist:

- The big end of town doesn't pay its fair share.
- Being wealthy equals more perks and loopholes.
- Everyone cheats their tax a little bit, so I can too.
- Others won't care if I cheat my tax.

- I'm not hurting anyone if I cheat my tax.
- All of my deductions are legitimate.
- When I lodge, I should get a refund.

Recognising the critical role they play in the system, this year we have worked closely with the tax profession to improve their experience. Earlier this year I committed to fixing irritants with the tax agent portal and the client correspondence list – which we delivered at the end of April. I also committed to replacing the old electronic lodgement service (ELS) with a new one – through their practice management software. This is certainly still a work in progress and we have been working with the software industry and specific providers to ensure effective and timely implementation. Given the new territory and the importance of working with the tax profession and software providers, I expect to continue to devote attention and resources to servicing and supporting both the profession and software providers well into the future. This reflects the fact that both have very important roles to play in how we offer our online services and influence taxpayer behaviour in the coming years.

The ATO has a well-balanced approach across the different market segments to increasing levels of participation in the tax and super systems. We are firmly committed to a system designed for the majority who are doing the right thing, and to taking action with those who do not do the right thing.

Our Tax Avoidance Task Force, the Serious Financial Crimes Task Force, the work with the Organisation for Economic Cooperation and Development (OECD) on the Base Erosion and Profit Shifting (BEPS) action plan, the Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC) network's project on the Panama papers, and our current work implementing the Multinational Anti-Avoidance Law (MAAL) are all good signals to the community that we are doing what we can to level the playing field and ensure people and companies pay the right amount of tax.

To underline our resolve and our willingness to take on the cases that matter, I want to highlight to you the recent High Court decision in *Hua Wang Bank Berhad and Bywater Investments Limited*. This decision was a significant win for the ATO and involved the combined efforts of many ATO and Australian Government Solicitor employees over a number of years.

This case involved parties gaming the rules around residency by setting up complex, contrived offshore structures, with the very clear and blatant intent to avoid paying tax in Australia. The case had a long litigation history and involved hundreds of millions of dollars in tax assessments. But we were determined to take a stand, and not shy away from the case despite its complexity – especially when the integrity of the tax system was at stake.

Other companies engaging in this type of behaviour or who are contemplating entering into blatant arrangements to avoid tax should take note of the High Court's unanimous dismissal of

the taxpayer's appeal. The message is clear - we will use all the powers at our disposal to ensure all Australian residents pay the right amount of tax.

Besides protecting the integrity of the tax system, we will continue to deliver on our reinvention program, our business-as-usual commitments, and look to positively influence the Australian culture as it relates to meeting tax obligations.

I hope you find our submission informative on the matters that are of interest and we are happy to provide further detail should you require.

Sincerely

**Chris Jordan AO**  
**Commissioner of Taxation**

# Individuals and Small Business

## The impact of new technology

### Our approach

1. The ATO focus is to make government processes less complicated and less stressful for the community; to deliver the best quality service in the quickest possible time. For most this means using a digital channel. But it is not for everyone.
2. The ATO recognises that transitioning to digital is not just about providing services for the community to interact with the ATO digitally. That is why we are supporting people who need assistance in transitioning to digital services and we will continue to support those who are unable to utilise digital services.
3. Most people can already use our digital services. To date, we have received the following lodgements electronically:
  - 97% of individual income tax returns
  - 92% of non-individual income tax returns, and
  - 83% of activity statements.
4. Individuals with simple tax affairs can already interact with us 100% digitally (without needing to submit or receive any paper). They can:
  - capture tax deductible expenses in myDeductions in the ATO app (51,000 uploads this tax time)
  - lodge their return digitally with myTax (3 million lodgements were made by 31 October), and
  - track the progress of their return using ATO Online (there is no need to phone us).
5. We are continuing to support those who are unable to use our digital services. Paper lodgement and phone transactions are still available. However we note the demand for non-digital services, particularly paper, is decreasing.

### Understanding the challenge

6. Digital technologies are transforming the way people are interacting - with each other, with businesses and with government.
7. A very important aspect of our digital transformation is to understand the readiness of the community to transition to digital services so that the ATO can best help people with the

changes. From Digital Transformation Agency research and our own 'Digital by Default'<sup>1</sup> consultation we know:

- the majority of people (66% of individuals and 75% of small businesses) support a model where most interactions with federal government are digital
  - the older you are, the more opposed you are likely to be to transacting digitally
  - people in remote or rural areas are also less likely to support a digital transformation of government services, and
  - low income and lower education levels also make it harder for people to use digital services.
8. When considering transition to digital services, both business and non-business community members fall under one of the following categories:
- the majority of the population who are ready and can self-transition
  - those that need extra help, and
  - people who will not be able to change at all, for whom we'll still provide them with the best service we can via other channels.
9. Businesses are more interested in adopting digital technologies when they perceive real benefits for them and their operation. Integrating ATO business performance information and alerts, reporting tools and calculators into the business management software they're using is an opportunity for us to meet their expectations.

## Helping people transition

10. The ATO offers a range of services, from low (self-service) to high (face-to-face interaction) touch, depending on the individual needs.
11. For people who want to go digital but need assistance there are a range of digital tools:
- Alex, the virtual assistant, is a low touch, self-assist option available on [ato.gov.au](http://ato.gov.au). Alex helps people with low complexity enquiries find relevant information
  - web chat has been recently expanded to support clients with questions that need an ATO officer to answer, but where the client prefers to interact digitally, and
  - clients can screen share during a web chat or phone conversation when using myTax. Early results from the pilot which began on Monday 10 October 2016 indicate a higher than anticipated usage of the service, with approximately 2,000 inbound web chats and over 300 screen shares.

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<sup>1</sup> This initiative proposes to progressively make the default channel for interactions with the ATO digital - with support for those unable to transition.

12. Our phone contact centres are still popular. This Tax Time the ATO has answered 2.8 million calls. This channel allows clients to talk to an ATO officer about general, account specific and more complex enquiries, and also transitioning to and using our digital services.
13. For people who cannot use digital channels:
  - we are continuing to receive and respond to paper correspondence or enquiries by mail. Although we are seeing less of this interaction as we offer more digital solutions, and
  - face-to- face ('high touch') interactions can help people who need more support and guidance to manage their tax and super obligations or to utilise the digital services available. These channels include our shopfronts, pop-up shops and field service visits (part of the 'Show me' initiative explained later in this document).

## SuperStream

14. SuperStream has transformed the way all businesses pay employee superannuation guarantee contributions to super funds. SuperStream allows an employer to bundle all of their payment and employee information into one transaction, which is then dispersed to all of the nominated super funds. Money and data are sent electronically in a standard format.
15. SuperStream is mandatory for all businesses that make super contributions for employees. This means that all employing businesses need to connect to an online SuperStream solution, or arrange someone to do it on their behalf.
16. The ATO recognises some small businesses, particularly those in regional and remote areas of Australia that do not have access to internet services, electronic banking or have a low IT capability may struggle to meet the electronic requirements of SuperStream.
17. To enable these businesses to comply with SuperStream, the ATO is working closely with the super industry to develop a new solution that will allow these businesses to make super contributions in a similar way to how they currently pay their super. The new solution will convert their current transaction into an electronic transaction which will meet SuperStream requirements, minimising the impact of the SuperStream changes on these businesses.
18. In the meantime, employers are encouraged to continue paying their super contributions as they currently do to ensure they meet their Superannuation Guarantee obligations.



19. The methods and partnerships developed during this program will inform future transition strategies – particularly the ways in which businesses that are not digitally enabled have been considered and helped.

## Show me

20. The community has asked for tailored assistance to learn about what digital products suit them and how to use them. The 'Show me' approach is about telling and showing our clients what they need to do and how to do it, rather than doing it for them.
21. 'Show me' is about supporting our clients to be aware and confident in utilising existing and new products and services. Our research tells us that our clients want it to be easy; if it is complex or takes a long time to learn, they will not use it.
22. By educating our clients about what is available and demonstrating how they can best utilise our digital services, we are improving their client experience and making it easier for them to meet their tax and super obligations.
23. By providing the appropriate help – even helping them one-on-one – we can overcome any negative perceptions and influence community confidence in the ATO. Our 'Show me' approach focuses on the following:
  - Well trained staff are critical to the success of our digital services. Our staff need to know what our services are in order to recommend them at the right time, show clients how to use them and help clients that are having issues. Our frontline staff are often the first point of contact for clients when interacting with the ATO. Clients that are unsure of our services, or need support or advice, will generally phone in to find out the answer. We will continue to communicate with, and train our frontline to be confident with our digital services.
  - Our Field Service allows our clients to speak face-to-face with an experienced tax officer who can show them how to use ATO digital and online services. Field Services utilises data to identify which clients (individuals, small business operators and tax agents) are most in need and then visit them.
  - The ATO has run several digital showcase events around the country, inviting local small businesses into ATO offices to demonstrate our services. These events have provided small businesses with the opportunity to discuss with us how they can take advantage of the new and future digital services we are offering.
  - Small Business Community Engagement provides assistance and education to small business through workshops, as part of a tailored and differentiated assistance strategy. The ATO's Community Engagement team has provided 475 workshops to small business clients since our Community Conversations commenced in September 2015. These workshops comprise of Record Keeping, Tax Essentials, Business

Conversations, and Annual Employer Obligation sessions, with a total attendance of 9,057 small businesses. Community engagement has continued with attendance at a further 60 external partner activities, including industry association events, multi booth expositions, state government and whole of government events: nearly 20 thousand small business owners are recorded as attending these events.

- The ATO understands tax and Business Activity Statement (BAS) agents are on this journey with us which is why we are working with the tax profession to help them to help their clients.
- We are also working with software developers to integrate ATO services and transactional reporting into business and practice management software. We want interacting with the ATO to be intuitive and embedded in the natural systems that support business rather than separate to running a business.
- [beta.ato.gov.au](http://beta.ato.gov.au) is a website that is 'our testing ground' for new ideas and features we are considering. The ATO encourages both staff and external clients to 'test drive' upcoming services and provide feedback using this site

## Streamlined tax returns

24. The ATO endeavours to provide an improved client experience through contemporary online services like myTax.
25. myTax provides a streamlined, fully online income tax return service that allows individuals to prepare/submit, view or amend their return online. The return is substantially pre-prepared for those taxpayers lodging from late July when reported data is available and personalised using information from third parties and the ATO.
26. In Tax Time 2016, for the first time, myTax was available for *any* individual preparing their own tax return. To support those with more complex tax affairs, a suite of online tools were developed to assist with topics such as personal services income, capital gains tax and decline in value.
27. As at 31 October 2016, myTax had been used by over 3 million taxpayers which is an 84% increase in myTax usage on Tax Time 2015. Overall lodgments by myTax were 9% higher than the myTax/e-tax figure for the year before.
28. The ATO undertook detailed capacity planning in preparation for the increased demand on our systems for Tax Time. Despite the increase in demand associated with over 3 million tax returns, including a record 107,839 on the last day to lodge (31 October), ATO systems coped well with the load across the whole Tax Time period.
29. On 31 October there was a short outage as a result of an issue with myGov which is managed by Department of Human Services. The outage had minimal impact on

taxpayers attempting to lodge their return. The ATO responded proactively by reassuring the community that those who were unable to lodge as a result of the myGov issue could lodge the following day without penalty.

30. The ATO has a number of measures in place to assist taxpayers to get their returns right and to detect unusual or potentially incorrect returns. These measures include:
- Provision of timely and accurate information reported by third parties such as financial institutions and employers through prefilling the taxpayer's return, minimising omitted or incorrectly reported income.
  - The myDeductions functionality in the ATO smartphone app which assists taxpayers to record their work related and other deductions 'on the go' through the year and then upload them seamlessly to their myTax return or their tax agent. In Tax Time 2016 approximately 55,000 taxpayers uploaded from myDeductions.
  - Tailored compliance messaging provided by myTax as the return is prepared where our analysis indicates higher than usual claims in comparison to taxpayers with similar occupation and income levels.
  - Our pre-issue compliance program consists of a suite of business rules and analytical models that seek to strike the right balance between delaying large numbers of refunds for potentially incomplete or inaccurate returns whilst ensuring appropriate safeguards are in place. Approximately 9,000 myTax returns were held for pre-issue review.
  - Our compliance activity follows up discrepancies between third party information and amounts reported on the tax return.
31. myTax in 2017 will focus on continuing improvement and building on taxpayer feedback to further streamline and improve the experience.

## Improving quality and timeliness of pre-filled data

32. For Tax Time 2016, more pre-filled data was made available sooner to help individuals and their tax practitioners complete returns earlier compared to previous years.
33. By 15 July 2016, the ATO had received 57.6 million pre-fill records in comparison to 47 million records at the same time in 2015 – an increase of almost 20%. We also reached a milestone of 80% of total pre-fill returns received five days earlier than in 2015.
34. By 26 July 2016, the ATO had received all available welfare data, most private health insurance data and over 80% of interest, dividend and term deposit data, representing the majority of our pre-fill data types.
35. This Tax Time, 80.04 million records have been pre-filled with less than 30 complaints received.

36. Our match rate has remained consistently high and on par with 2015 figures.
37. In early July, Medibank Private advised us they were having reporting problems due to a data migration project not going to plan. The ATO worked closely with them to resolve this issue. By 24 August, 80% of their customers received their health fund statements by the statutory due date.

## Our data matching program

38. The ATO now uses more than 600 million annual transactions to assist taxpayers with managing their tax affairs. Identifying issues of undeclared income / gains in tax returns generally commence six months after a return is lodged through our data matching program. This is because the ATO continues to receive more data.
39. Legislative data for pre-fill is authorised under specific legislative requirements which details the format and timing of when data is provided to the ATO. Australian financial institutions progressively provide their information with most received by the end of July even though they are only required by law to provide it by 31 October. Similarly, employers are required to provide information by 14 August but, increasingly, many large employers provide their information in early July.

## Our follow-up criteria for debit and credit discrepancies

40. The ATO uses information matching to identify incorrect reporting in individual tax returns. We issue letters where the debit discrepancy is greater than \$200 with the option for automatic amendment. If the taxpayer disagrees with our proposed assessment, they can contact the ATO prior to the due date shown in the letter to provide supporting information.
41. If the ATO is notified by third party sources that an original bulk dataset may contain errors, when the subsequent replacement dataset is received, we also analyse it to identify those clients who may be entitled to a refund and automatically issue credits of \$10 or more.

## Penalties are only imposed for a small number of cases

42. The ATO expects to contact over 300,000 taxpayers this year where 'once only' discrepancies are identified in tax returns. The majority of taxpayers genuinely try to do the right thing but sometimes errors are made because they lodge prior to all pre-fill data being made available. Generally no penalties are applied to cases where taxpayers have lodged their return but are later found to have a discrepant amount.

43. The ATO apply penalties to taxpayers who have been identified as having undeclared income in consecutive years (repeat offenders) or where taxpayers fail to lodge a tax return yet the third party data we hold indicates they should have lodged. Where cases are identified we contact the taxpayer and if the issue is not resolved, we take action as needed.
44. In 2015-16, the ATO imposed over 8,400 penalties (around 2.6% of cases) predominantly where taxpayers should have lodged a return and did not. The ATO does not expect this number to increase in 2017.

# Cash and hidden economy

## Drivers of the Cash and Hidden Economy

45. Australian and overseas research show the three strongest factors driving participation in the cash and hidden economy include:
- the perception of the likelihood of being caught is low or, the perception is the consequences of being caught are far less than the benefits of non-compliance
  - motivation – generally driven by self-interest and customer demand, and
  - rationalisation of behaviour and a community norm that being part of the cash economy is acceptable – participants rationalise their behaviour as being victimless and may feel that they need to be non-compliant just to survive (this becomes a self-fulfilling prophecy when cash discounting becomes widespread).
46. Customer demand and community acceptance are also directly linked to cash economy behaviour, particularly where there is an opportunity to benefit from a cash transaction. The perceptions of the immediate community (friends, neighbours, family, sporting group, competitors. etc.) are most influential. The level of guilt felt by participants is greatly reduced where the perceived fairness of the system is low.
47. Tax professionals also have an important role in helping to address the issue by influencing business behaviour and perceptions around the cash and hidden economy.

## Strategy

48. The ATO's strategy to address the cash and hidden economy has focussed on protecting honest businesses from unfair competition in industries where cash economy behaviours have been identified.
49. This approach has expanded from focussing primarily on audit to a broad and overarching community participation and assurance approach that seeks to engage with business and the community on the drivers of cash economy behaviours.
50. This enhanced approach includes increased education and assistance activities for businesses, and increasing the visibility of our cash and hidden economy program of work with a view to positively influencing the drivers and behaviours for business and community participation.
51. We are also investigating the use of more sophisticated data and analytics techniques to better tailor and target our assistance and assurance activities, and to improve identification of taxpayers operating in the cash and hidden economy.

- 52. We are undertaking research to test a range of interventions to change both business and consumer behaviours, as well as perceptions of the cash and hidden economy.
- 53. We work with industry associations, federal, state and local governments, the community and international counterparts to address the cash and hidden economy.

## Effectiveness

- 54. In its review of the ATO's strategies to address the cash and hidden economy tabled in April 2016, the Australian National Audit Office (ANAO) concluded that the ATO's approach is consistent with international best practice, sound and increasingly cost effective.
- 55. As noted in the report, the ATO regularly evaluates the effectiveness of its cash economy activities. These evaluations are done at the program level and at the tactical level for specific industry focus areas.
- 56. A draft measurement framework has been developed. The framework intends to measure participation, in terms of the size of the underground economy (the gap), revenue in terms of the amount of tax assured, and integrity in terms of the total revenue effects and the community, practitioner and business perceptions of the cash and hidden economy and the ATO's work to reduce its impact. The next steps are to determine indicators and targets for the measures, expected to be agreed and finalised in the new year in preparation for the start of the next financial year.

## Some of the specific activities we undertake

- 57. In 2015-16 we contacted over 127,000 businesses in industries most at risk of participating in the cash and hidden economy. The ATO has raised over \$208 million in tax and penalties from businesses engaged in this unfair competition, from about 15,000 audit and enforcement activities.
- 58. In support of our focus on high risk industries we have conducted four location based strategies to engage with businesses in their communities in the Haymarket (Sydney), in Adelaide, Box Hill, Victoria and the Gold Coast. We have visited over 700 individual businesses, worked with local stakeholders and held open forums to talk with businesses about our work and what we are doing to protect honest businesses in their community. Our engagement and assistance work is followed up with more audit focussed work on businesses that we identify in need of that additional attention.
- 59. The top three industries for cash and hidden economy behaviours are restaurants and cafes, hair and beauty, and building and construction. In addition to this, we are currently

monitoring developments in new and emerging sharing economy industries, like transport services, accommodation, and personal services. However, it is too early to assess the impact the sharing economy is having on the overall level of the cash and hidden economy risk.



# Tax Practitioners

## Impact of new technology

60. The ATO is acutely aware of the importance of the role that tax practitioners play in the administration of the tax and superannuation systems, as well as the importance of supporting them as the environment that they work in continues to change to one of increased digital interactions.
61. Tax practitioners are becoming more reliant on software and hardware that supports them to interact with their clients, safely and securely store information and to transact with Government digitally. To this end the ATO continues to work on enhancing their ability to interact with us and obtain information about their clients through their practice software as well as through services we provide directly.
62. Although the increasing use of technology across the community provides much by way of efficiencies and enhancements for tax practitioners, being able to effectively benefit is likely to come at a cost from areas such as further skilling and software and hardware enhancements. However, the ATO's design methodology focusses on providing the right services while mitigating cost to tax practitioners.

## Our approach – services supplied directly

63. In planning to develop enhanced services and processes the ATO consistently focuses on ensuring a high level of consultation with tax practitioners. We want to ensure that the services and processes support them do not unduly add costs but rather enhance their ability to service the needs of their clients.
64. For example, in planning for the transition of the tax and BAS agent portals to the new ATO Online framework, we have adopted a more contemporary approach to the development of applications that is designed to deliver solutions for practitioners that are incrementally informed by the agents themselves.
65. This is achieved by taking all of what has been learnt from the ATO's agent visit program and other consultation on the irritants, concerns and ideas for enhancement of the portals, and using contemporary web application design principles to deliver a base prototype product.
66. The ATO then brings agents from a range of practice types (sole, small, medium and large) to end-user testing centres. Agents are shown the proposed solution and they have the opportunity to let us know what they like, what they do not like and what is missing.

67. The base product is then updated and through various iterations that can be delivered fast, and end-users can continue the process of seeing, touching and changing. By adopting this approach, end users directly inform the product so that it achieves the needs of the tax practitioner.
68. The ATO also works with tax practitioners to determine the best way to provide skilling and support to use the services. Currently information is provided on the ATO website. It includes videos explaining how to use particular services as well as providing support through telephony and practice visits where necessary.

## Our approach – services delivered through software developers

69. Another element to the ATO's approach is to work with software developers to deliver services to tax practitioners through their practice software. This has the advantage of ultimate saving in time and cost of delivering services directly in the software that tax practitioners are using for their normal practice operations.
70. The new Practitioner Lodgment Service being delivered through practice software is a good example of this approach, as is the provision of the current portal services to software developers to incorporate into practice software progressively from December 2016 onwards.
71. These enable software developers to enhance and tailor their products to fit the needs of their tax practitioner clients in a timely and cost effective manner. It also allows the ATO to focus on delivering more services being requested by tax practitioners.
72. The ATO works with tax practitioners and software developers to ensure that the services meet the needs of both, and are suitable for software developers to incorporate into their software.

## Improvement to the Client Correspondence lists

73. Since the February 2016 submission, the ATO has further enhanced the client correspondence list functionality in the tax agent portal, and has made a similar service available to BAS agents from 29 April 2016. Reflecting the intention to have the list in the future cover all client communication, the list was renamed the client communication list.
74. Although the client communication list covers all correspondence viewed by clients of agents through their myGov inbox and thus provides visibility to agents, it still does not cover all correspondence that is being delivered through other channels. The remainder will progressively appear as changes are made to ATO systems in the future.

## Client communication list for BAS agents and enhancements

75. From 29 April 2016, BAS agents could access the client communication list via the BAS agent portal for communications they are authorised to view on behalf of their clients.
76. The system upgrade in April 2016 provided the client communication list to BAS agents and coincided with major enhancements to the list co-designed with tax and BAS agents. These were:
- an 'all-client' search, providing a historical view of the communications sent over the last 30 days for all clients on the agent client list
  - a defaulted last 30 day time period for the all client search, with the ability to reduce the time period using single click buttons, or selecting a date range
  - the ability to select one to four delivery methods, being myGov (this means easy visibility for agents of client myGov correspondence), paper, email and SMS
  - the ability to view the results in order of either sent date or client name, and
  - the ability to download the list in either .csv or HTML format.
77. In August 2016 the descriptions of the communications in the client communication list were updated to provide a meaningful naming standard that will continue to be applied to new content as it is added. Through consultation with tax and BAS agents this will be further refined.
78. As part of the major release of changes outlined above, the ATO has altered the way the dates were listed in the client communication list to align to the date listed in the letter. There have been some isolated issues that are being manually corrected and a permanent fix is due for release this calendar year. This change has vastly improved the experience for agents.
79. The ATO is also working closely with the software developer industry to make the client communication list service available to software developers to integrate into their products.

## Client communication list performance improvement

80. As a result of all improvement works to the client communication list, the ATO has seen substantial improved performance, functionality and reliability. In addition, in making the client communication list available to BAS agents, there has been considerable growth in the use of the list as well, further demonstrating the quality of the work undertaken to improve performance and reliability.

81. Since 29 April 2016 the average response times have improved by approximately 43% and the average page hits for the client communication list have increased by approximately 14%.

## Transition to a new portal

82. The ATO has continued to consult with the tax profession, including tax and BAS agents, professional associations and software developers about transitioning to a new platform on ATO online.
83. The delivery of the new portal functions are being delivered in two ways:
- Increasing software services – making portal services and other high value services available to software developers to include in practice management software from December 2016 and then progressively as it becomes available. These services have been prioritised through early consultation with agents and software developers.
  - Improving online services – transitioning current portal services to our ATO Online system by Tax Time 2017 and developing some priority ATO Online services identified as high value services by agents.
84. The ATO is continuing to release prioritised services into the external vendor test environment for software developers to test. Prioritisation of features will continue to be refined based on our initial research to address the main irritants, what were seen as the most used and value adding services, and our ongoing co-design and consultation with software developers.
85. The ATO will be improving online services (new portals) by trialling a pilot/beta in production alongside the existing agent portals. The new online services for agents will be released in three phases:
- Pilot phase 1 / private beta is scheduled for release on 25 November 2016 - Six agents have been invited to trial the new site. This private phase enables participating agents to use a number of foundational features. For example navigation, activity statements and income tax history, as well as improved services such as add client and an extended list of accounts and transactions. The number of agents participating will be increased to 20 agents in February/March 2017.
  - Pilot phase 2 / public beta is planned for April/May 2017 - Online services for agents will be open for all agents to trial and provide feedback.
  - Tax Time 2017 - Online services for agents will become the default offering from 1 July. Legacy Tax and BAS agent portals will continue to be accessible. Decommissioning of the existing portals will commence at a later date which is still to be determined.

## Communication preferencing

86. The ATO is currently working with agents to design and develop a service that will allow the agent, in conjunction with their client, to identify the categories of communications the agent wants to be notified about, what categories the client wants to be notified about and what categories both the agent and the client should be notified about.
87. This will, amongst other matters, deal with the current issue being raised by agents that where a client has a myGov account linked to the ATO, the agent is not specifically notified of communications able to be accessed through the client's myGov inbox. This solution will be included in the July 2017 release with agent co-design and testing being carried out from November 2016.

## Electronic Lodgment

88. The ATO is committed to working with software developers to deliver the new Practitioner Lodgment Service as the primary and default lodgment channel for tax practitioners. The new lodgment channel uses Standard Business Reporting (SBR) language and format.
89. The ATO has provided technical specifications relating to Tax Time 2015, Tax Time 2016 and SuperStream to software developers. From 1 July 2016 to 31 October 2016 we have seen over 280,000 tax returns successfully lodged through the Practitioner Lodgment Service by around 3,000 tax practitioners.
90. The ATO acknowledges that the shift to an SBR-only lodgment platform represents a major challenge for the tax profession and software developers.

## Consultation with software developers and the tax profession

91. The ATO has been working with software developers and the tax profession to understand the challenges of shifting to a SBR-only lodgment platform.
92. Software developers have provided feedback in relation to closing off the current system, the Electronic Lodgment Service, from April 2017. Software developers have raised concerns about the risk associated with having no alternative lodgment method if required. Some developers have also advised they will not be in a position to make a full conversion to the Practitioner Lodgment Service by 31 March 2017.
93. The ATO has considered this feedback and, recognising the risk to the tax profession and taxpayers, a decision has been made to continue to support the Electronic Lodgment Service as a back-up channel for individual income tax returns until March 2018.

94. The ATO will work with software developers if contingency arrangements are required for other tax return types for Tax Time 2017. The 2017 fringe benefits tax return will not be made available through the Electronic Lodgment Service.
95. In responding to software developer concerns regarding capacity and robustness of the Practitioner Lodgment Service to handle peak tax time lodgment volumes the ATO is introducing a second lodgment gateway into the ATO IT system.
96. The ATO continues to engage with the tax profession and software developers through:
  - hosting regular forums
  - senior ATO executives meeting with key software developers
  - an ongoing focus on informing tax professionals of the transition to the Practitioner, and
  - Lodgment Service through webcasts, open forums and industry events.

## Wider benefits of Standard Business Reporting

97. SBR is an Australian Government initiative designed to simplify business-to-government reporting. SBR enabled business software provides business with an efficient and accurate reporting capability by automating the preparation and lodgment of government reporting.
98. The ATO notes that tax professionals generally embrace new technology and the opportunities for creating efficiencies in the way they work, saving time and money.
99. Benefits for key stakeholders include:
  - for tax practitioners:
    - increased productivity as lodgment becomes a by-product of accounting processes for tax practitioners, business and individuals, and
    - tax agents will be able to focus on the 'value add' for clients – getting returns right and helping businesses operate and grow more effectively.
  - for software developers:
    - a more integrated and streamlined service offered to tax agents.
  - for the ATO:
    - reduced ATO operational costs by improved accuracy through pre-fill and pre-lodgment checks, and
    - more streamlined client experience – reducing the need to duplicate shared information with government.

# ATO Public Advice and Guidance

## Increased transparency in ATO consultation

100. The ATO has continued to make improvements to how we produce public advice and guidance and to increase the transparency of our consultation processes. We have recently released a new *Advice under development program* on our website and we are improving our consultation processes, including creating a more flexible Public Advice and Guidance Panel.
101. The ATO's *Advice under development program* allows tax professionals and others to see the issues we are considering preparing public advice and guidance for in one place. It increases transparency in our consultation processes and community engagement by alerting the public to issues which we are considering for public advice and guidance.
102. The ATO is continuing to strengthen our relationships with tax professionals and taxpayer representatives. We are consulting earlier to understand the issues that matter most to tax professionals and taxpayers, including, where appropriate, consulting before we start writing a particular advice or guidance product.
103. We have also expanded our Rulings Panel to a Public Advice and Guidance Panel. The new Panel arrangements provide a mechanism for the ATO to test its views on more interpretative issues with a wider range of industry experts before publishing an advice or guidance product. The Panel operates flexibly, and allows the ATO to consult the right expert at the right time – even as we are formulating our views.

## Finalisation of draft rulings

104. We undertook an assessment of draft rulings issued in recent years and we found that, in many cases, draft rulings which took extended times to finalise were awaiting the outcome of relevant court cases or the development of new legislation.
105. However, the ATO acknowledges there is still work to be done to finalise our aged draft rulings (draft rulings over 12 months old) and accepts that having rulings in draft form for extended periods may contribute to taxpayer uncertainty.
106. We have committed resources to reducing our draft aged rulings as part of our efforts to improve our management of our public advice and guidance. We have also put in place new processes which emphasise timeliness as a major part of the development process for public advice and guidance.

107. In relation to the Committee's recommendation that we consider a practice that our draft rulings are withdrawn after a certain period or when made redundant by legislative changes, we accept that it may be appropriate to withdraw some aged draft rulings. However, we think that having an administrative practice of withdrawing all aged draft rulings could result in greater uncertainty for taxpayers.
108. Whilst not providing the full legal protection afforded by a finalised ruling, a draft ruling does provide protection from the imposition of penalties and interest. Our administrative framework requires our staff to follow draft rulings so draft rulings indicate the way we will apply the law in practice.



## Perceptions of fairness insights

109. In the 2014-15 financial year, the ATO created a 60% Corporate Key Performance Indicators to measure taxpayers' perceptions of fairness in tax disputes. Surveying taxpayers whose disputes were finalised over a two year period has given us greater insights into the drivers of fairness perceptions. This has enabled us to improve our client service offerings with taxpayers.
110. The fairness results have shown that our cultural and process changes over the last two years have made a difference to the client experience by focusing on fair and respectful interactions, and tailoring engagement for the client circumstances.
111. We extended our fairness surveys beyond dispute interactions, to better understand fairness perceptions during audit, advice and debt work. This broader research has enabled us to consider more holistic approaches in our client interactions as we know that fairness perceptions in disputes are shaped by every interaction that a client has with the ATO.

## Fairness perception insights and improvements

112. Our first 12 months of survey results indicated that 47% of taxpayers who had a dispute felt they were treated fairly. The 2015/16 annual results show fairness perceptions had improved at 55%.
113. We implemented a range of strategies to achieve this, including:
  - improved communication channels – tailoring our communication to suit a client's needs including using phone, email and SMS to keep the client informed
  - more conversations, rather than written requests for information, which also ensures better understanding of the issues and circumstances
  - improving staff soft skills, communication skills, self-awareness and unconscious bias in decision making, to improve our client services
  - sharing our insights with our audit business areas to improve client services earlier in our interactions and avoid a dispute arising, and
  - triaging disputes early, identifying opportunities for in-house facilitation or other dispute resolution avenues, and connecting taxpayers to the right areas to address outstanding debts.
114. Our focus on dispute resolution means more matters are able to be resolved before they become costly disputes. In the 2013-14 year there were 922 appeals to the Administrative Appeals Tribunal. This figure dropped to 533 in the 2014-15 year and 396 appeals in the 2015-16 year.

115. Over the past 2 years there has been an increased awareness of the use of our in-house facilitation service. In the 2015-16 year, there were 128 referrals for facilitation, which was a 30% increase compared to 2014-15. 81% of these cases were resolved or partly resolved through the facilitation process.
116. Each case resolved through facilitation saves taxpayers approximately \$50,000 that would otherwise be incurred in taking a case to the Administrative Appeals Tribunal.
117. In general, the fairness surveys have shown that favourable outcomes for the taxpayer will often lead to a favourable fairness perception. However, a well-managed process with an unfavourable outcome can still result in favourable fairness perceptions, and conversely a poorly managed process can result in frustration even with a favourable outcome for the taxpayer.
118. Fairness perceptions are multi-dimensional, comprising distributive (the outcome), procedural (the process), informational (information aspects), and interpersonal fairness. We have improved our ratings over each of the four categories during the 2015-16 year. Our interpersonal fairness continues to be rated highly across all surveys (74% in 2015-16), with our staff consistently viewed as being respectful, professional and honest.
119. By understanding the common drivers for fairness perceptions, we can tailor our engagement opportunities to suit the taxpayer's circumstances. Across all interactions, we understand taxpayers want:
- a sense of control in the process, irrespective of whether that process is a dispute, an audit, debt matters or advising work
  - to be kept informed on the progress of their matter
  - their costs (time, money and resources) to be reasonable, and
  - appropriate interest and penalties; we recognise mistakes can happen.
120. In dispute processes, taxpayers also want access to the right people and transparency in our internal discussions.
121. We also understand that in all interactions, taxpayers would like us to improve the frequency and type of contact we have, improved decision making, and ensuring their perspectives and circumstances are being taken into account.
122. The comments that taxpayers provide as part of the survey process have also provided us with a rich insight into the lived experience of clients during their interactions with the ATO – in terms of what our clients expect from us, what we are getting right and where we need to improve. The survey comments reflect similar commentary identified through taxpayer compliments and complaints. All of these are used in developing our training and

support material for ATO disputes staff, and helps raise awareness and appreciation of the impact of our decisions and processes on the clients we serve.

## Future improvement opportunities

123. We continue to look at how we can improve future engagement opportunities; including assisting unrepresented individual taxpayers in dispute and in our digital service offerings, to enable quicker access to the right people and earlier resolution of disputes.
124. As noted above, we have recently extended our fairness surveys to better understand fairness perceptions during audit, advice and debt work. We have worked actively with our audit, advice and debt staff to make the most of every community interaction; with a focus on working with clients to take their personal circumstances into account, keeping them regularly informed about the progress of their case or issues that arise, and being transparent about the decisions we make. We expect to see the outcomes of this work shortly so that we can assure that the changes we are making are having a positive effect in the community.
125. By sharing our insights more broadly across ATO business areas, we aim to improve the staff and client experiences, by understanding what change is possible to improve the client's all-round experience.

# Tax gap and total revenue impacts

126. In the *Commissioner of Taxation Annual Report 2015-16* the ATO has refreshed previously published tax gaps data with the exception of the beer excise and duty estimate.
127. The beer excise and duty estimate was withdrawn due to identified data quality issues. The ATO is exploring alternative approaches and data sources to support a more reliable estimate, as well as looking to expand it to incorporate spirits and ready to drink beverages.
128. Similarly the ATO has delayed releasing other gap estimates previously foreshadowed due to the need to undertake further work to ensure that the estimates are as reliable and credible as possible.
129. The tables below provide details of the refreshed gaps as published in *Commissioner of Taxation Annual Report 2015-16*.

**TABLE 2.8 Net tax gap estimates – Indirect taxes, 2011–12 to 2015–16<sup>(a)(b)(c)(d)</sup>**

Reliability assessment			2011–12	2012–13	2013–14	2014–15	2015–16
Taxes on goods and services							
GST	Medium	%	7.0	7.0	5.8	6.1	6.5
		\$m	3,450	3,550	3,000	3,360	3,780
Luxury car tax <sup>(e)</sup>	Medium	%	5.8	4.6	5.1	4.7	5.2
		\$m	30	25	25	25	30
Wine equalisation tax <sup>(f)</sup>	Low	%	4.1	4.9	0.5	5.9	na
		\$m	40	50	5	70	na
Excise and customs duties							
Petrol and diesel	Medium	%	0.5	0.5	2.4	2.2	0.8
		\$m	75	75	405	370	135

a. GST rounded to the nearest \$10 million, all other smaller revenue streams rounded to the nearest \$5 million.

b. Beer excise and duty gap estimate has been withdrawn due to identified issues with data.

c. Changes from previously published estimates are due to revisions to ABS data, updated ATO data and a modified approach to determining liabilities reported but not paid. Revisions to the estimates occur over time for a variety of reasons, including improvements in methodology, revisions to external data and additional or updated data becoming available.

d. Due to data lag, the data for the reporting period 2015–16 relates to gap estimates in the tax year 2014–15. This same rationale applies for prior years.

e. Estimate for luxury car tax payable only, not taking into account luxury car tax refunds.

f. Estimate for wine equalisation tax payable only, not taking into account wine producer rebates.

**TABLE 2.9 Net gap estimates – Programs we administer, 2011–12 to 2015–16<sup>(a)(b)(c)</sup>**

	Reliability assessment		2011–12	2012–13	2013–14	2014–15	2015–16
<b>Administered programs</b>							
Pay as you go (PAYG) withholding	Low	%	2.9	3.0	2.1	1.4	na
		\$m	3,780	4,350	3,240	2,140	na
Fuel tax credits	Medium	%	0.6	0.8	0.6	0.6	–0.4
		\$m	30	45	30	35	–25

a. PAYG withholding rounded to the nearest \$10 million; fuel tax credits rounded to the nearest \$5 million.

b. Changes from previously published estimates are due to revisions to ABS data, updated ATO data and a modified approach to determining liabilities reported but not paid. Revisions to the estimates occur over time for a variety of reasons, including improvements in methodology, revisions to external data and additional or updated data becoming available.

c. Due to data lag, the data for the reporting period 2015–16 relates to gap estimates in the tax year 2014–15. This same rationale applies for prior years.

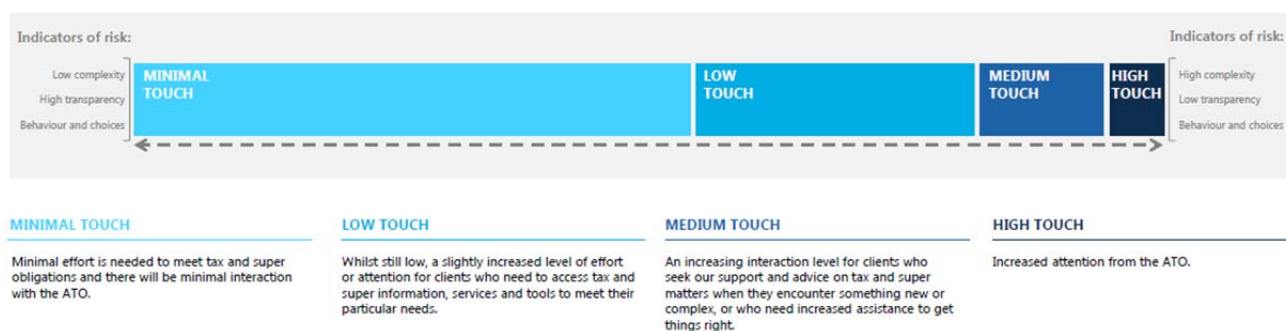
130. While continuing to refine income tax gap estimates for large companies and high wealth individuals, the ATO has concluded that re-segmentation of the remaining income tax population is required to allow for clearer understanding and communication of the issues facing each segment. The individuals and small and medium companies segment has been restructured as follows:
  - Individuals (not in business),
  - Small Business, and
  - Medium Business.
131. The ATO is developing approaches and methodologies that will estimate and explain the level of willing participation in the system by these taxpayer segments. As part of this the ATO recognises the importance of adequately factoring in impacts of the shadow economy to produce more informed estimates.
132. The ATO will continue to draw upon the experiences of other international tax administrations, engage tax gap expert consultants and consult with other government agencies (including Treasury) to develop methodologies suitable for the Australian tax environment. The assessment of the reliability and credibility of the estimates is informed by advice and guidance from an independent expert panel.
133. Random enquiry programs are recognised internationally as best practice for obtaining quality data to produce reliable and credible estimates for large and homogenous taxpayer populations. For this reason and as recommended from the expert panel, the ATO is continuing to implement these programs to inform the Individuals, Small Business and Medium Business estimates.

134. The ATO is conscious of public sensitivities surrounding these programs and as such we are implementing them in a manner that minimises impost to the community. However, this requires adequate time to amass the required quality and quantity of data to extrapolate credible estimates.
135. The ATO appreciates the committee's prior recognition of the complexities associated with estimating tax gap and the balance between the work required in developing robust methodologies and providing estimates sooner.
136. It has always been the ATO's position that releasing gap estimates should not be driven by a defined date but rather based on when the estimates are sufficiently credible for public release. For this reason the ATO is not tying the release of estimates to the annual report but will release them when the ATO has confidence in the reliability and credibility of the estimate and the associated explanations.
137. While yet to reach the level of confidence to publish a number of gaps, the ATO is utilising the insights gained from this work both in terms of informing the strategies of taskforces and also improving help and assist services.

## Total revenue effect

138. The ATO reinvention program is designed to transform how the community, Government and our staff experience the tax and super systems. Core to the reinvention is providing the right approach for the right time through tailored engagement that incorporates minimal through to high touch strategies (figure 1).

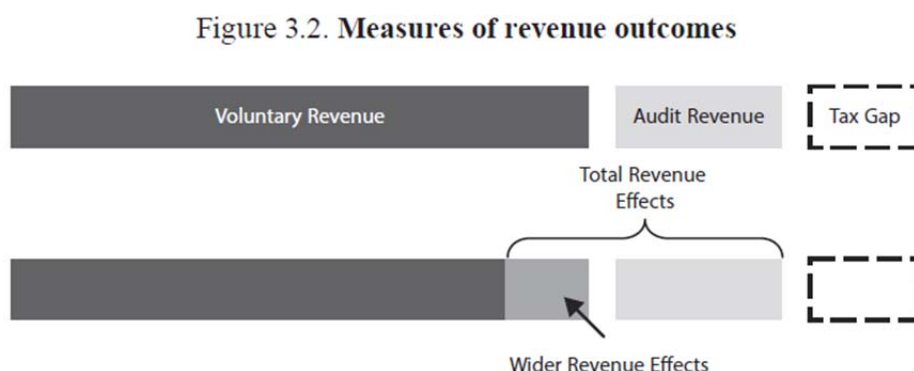
Figure 1: Tailored engagement *approach* based on risk



139. In line with this tailored engagement approach, for some taxpayers, focus will be on pre-lodgment engagement in order to prevent non-compliance, rather than on correcting non-compliance after lodgment of their tax return. This increased focus on prevention rather than correction is expected to maintain overall revenue, but improve the experience of the taxpayer and result in the right amount of tax being paid and at the right time.

140. The shift towards pre-lodgment engagement is not unique to Australia. The new measures we are developing to measure broader tax compliance outcomes are drawn from a recently developed OECD framework (figure 2), that consolidates approaches from various tax authorities including the ATO.
141. The OECD framework introduces the term wider revenue effect that includes tax revenues that result from broader compliance activities, such as pre-lodgment interventions, revenue protection activities, process changes and the sustained revenue change following a compliance activity.

Figure 2: OECD framework of measuring revenue outcomes



142. The OECD paper, Measures of tax compliance outcomes: a practical guide, recognises that it is not possible to measure and attribute wider revenue effects as definitively as audit revenue, as wider revenue effects will generally need to be estimated rather than counted.
143. While the ATO has developed wider revenue effect estimates for a number of initiatives, the ATO is yet to establish sufficient confidence in the methods and results to publish figures.
144. The ATO is consulting with other international tax administrators and has recently engaged an international expert to review the wider revenue effect estimation approaches. This expert consults to revenue agencies internationally. The expert highlighted the challenges associated with this work but also acknowledged that the ATO has made good progress.
145. As the ATO develops more comprehensive and robust measures of wider revenue effects, and gains confidence that the estimation methods are defensible, it is the ATO's intention to report the results alongside measures of audit revenue.

## ATO IT performance benchmarking

146. The ATO participates in a range of benchmarking and research initiatives in relation to IT performance.
147. The ATO participates in the annual Whole of Government Cross Agency ICT Benchmark Study. The ATO uses the Cross Agency ICT Benchmark report to analyse and report its performance against other large agencies similar in size, structure, cost and staffing. The analysis also compares the ATO results from previous year's results to understand and track performance.
148. The ATO participates in leading ICT research body memberships, in order to access research and information on IT best practices, technology evaluations, and benchmarking research. The major bodies the ATO utilises are Gartner Research, Forrester Research, Ovum Research, and Massachusetts Institute of Technology (MIT) Research.
149. IT infrastructure is regularly reviewed to ensure that the infrastructure is fit for purpose. The ATO has recently reviewed all outsourced infrastructure to understand modernisation requirements.
150. The ATO participates in an international forum of tax agencies, which compares IT practices across several international Tax Agencies, including the UK, Canada, USA, and Singapore.
151. The ATO also has frequent informal discussions with other similar scale IT organisations in Australia, including the major banks.
152. Due to the differing nature of business operations, it is difficult to directly compare IT performance between organisations. When compared to other similar size Commonwealth government agencies, the ATO performs well, with no significant performance variations.
153. Specific quantitative IT benchmark studies have not been recently conducted against Australian banks or overseas tax agencies. The range of research available to the ATO through its ICT research body memberships is able to meet ATO requirements for industry comparison.
154. In informal comparison between international tax agencies, the ATO is generally regarded as one of the best performing agencies, and is frequently used as a case study in international forums, including OECD publications.



