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**Community and Public Sector Union**

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

The Community and Public Sector Union (CPSU) welcomes the opportunity to make a submission to this inquiry into taxpayer engagement with the tax system.

As the primary union representing Australian Public Service (APS) and Australian Taxation Office (ATO) employees, the Community and Public Sector Union (CPSU) is committed to providing a strong voice for members in key public policy and political debates. Decisions around the tax system are central to our members' interests since it raises the revenue required to fund public services.

The CPSU's submission focuses on

- the ATO's use of information and communication technology to deliver services;
- mechanisms to ensure tax compliance; and
- ways to better inform taxpayers to help them make decisions in their best interests.

#### Use of information and communication technology to deliver services

Issues with the ATO's use of information and communication technology have been highlighted by ongoing problems over the past two years. These problems have directly affected the delivery of services to the community.

There have been problems with the ATO's new online tax lodgement system with the public facing delays and technical issues.<sup>1</sup> A surge in traffic in July 2015 resulted in the tax lodgement system being down for days.<sup>2</sup> This highlights the difficulty presented when agencies roll out new systems while experiencing significant job losses.<sup>3</sup>

In December 2016, the ATO's data storage systems crashed, taking down the agency's website, tax agent portal and case management system. Services took a number of days to be restored with the Australian Business Register taking nine days to come back online with "limited functionality".<sup>4</sup> This was despite the ATO's affected hardware storage system being upgraded in November 2015.<sup>5</sup>

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<sup>1</sup> ABC Online (2015, 8 July). ATO online tax lodgement delays blamed on public service cuts by Federal Opposition. Retrieved from <http://www.abc.net.au/news/2015-07-08/tax-lodgement-system-failure-down-public-service-cuts-opposition/6603850>

<sup>2</sup> Will Ockenden, Australian Tax Office apologises after surge in traffic downs online tax return filing service. PM, 2 July 2015, <http://www.abc.net.au/news/2015-07-02/ato-apologises-after-surge-in-traffic-downs-online-tax-service/6591270>

<sup>3</sup> ABC Online (2015, 8 July). ATO online tax lodgement delays blamed on public service cuts by Federal Opposition. Retrieved from <http://www.abc.net.au/news/2015-07-08/tax-lodgement-system-failure-down-public-service-cuts-opposition/6603850>

<sup>4</sup> Emma Koehn (2016, 21 December). ATO outages still not fixed: "This is an absolute joke". SmartStartup. Retrieved from <http://www.startupsmart.com.au/finance-2/tax/ato-outages-still-not-fixed-this-is-an-absolute-joke/>

<sup>5</sup> Will Ockenden (2016, 14 December). ATO apologises after critical website and services outage for more than two days. The World Today, Australian Broadcasting Corporation. Retrieved from <http://www.abc.net.au/news/2016-12-14/ato-apologises-for-critical-website-and-services-outage/8119682>

On 2 February 2017 there were further issues related to these faults from December 2016. This is affecting services including the Tax Agent, Business and BAS Portals and ATO online, the Australian Business Register, Standard Business Reporting and superannuation online services.<sup>6</sup> At the time of this submission, the issues are continuing and the ATO has identified the services contracted to Hewlett Packard Enterprise as the problem with ATO system stability<sup>7</sup>.

The widespread problems with information and communication technology across the public sector highlight the need for upskilling within the public service, including within the ATO. It has been suggested that public service agencies should invest in their development groups as they would know their own requirements best.<sup>8</sup> Former Chief Digital Officer Paul Shetler has pointed out that *"over the last 40 years, as we've outsourced technology, there's been a progressive de-skilling of the public service"*.<sup>9</sup>

The ATO should start by reducing its reliance on contractors. While ATO specific data is not available, there has been a clear trend of ICT outsourcing across the Commonwealth. Since 2011-12 total outsourced services across the Commonwealth grew from 20% to 28% of total ICT spend.<sup>10</sup> Number of ICT full time equivalent (FTE) declined from 17,758 to 15,808 while the proportion of external ICT FTE grew from 23% to 30%, while proportion of internal FTE decreased from 77% to 70%.<sup>11</sup>

The Government's excessive reliance on contractors to manage IT systems and programs has often been at great expense. The Department of Finance's 2015-16 ICT Trends Report found that on average, labour cost of an external FTE was \$213,906 compared to \$131,530 for an internally hired FTE.<sup>12</sup> Shetler has stated that *"the reliance on consultants is remarkable and the amount spent on them is eye-watering"*.<sup>13</sup> A better investment in staff will also reduce the need to rely on contractors. There should also be greater transparency around the use and cost of contractors across the public sector, but especially in this area. Shelter, in particular, highlighted the lack of technical and contract management expertise in government which affects information and communication technology that agencies like the ATO purchase.

The problems with ICT at the ATO also highlight the importance of channels for the public to contact the ATO in case problems arise. The CPSU notes that after the crash of data storage systems, businesses who tried to contact the ATO reported that ATO phone lines either keep them on hold for an extended period or dropped out completely. A media outlet attempted to contact the general business information line one morning following the crash and it initially reported that the service was unavailable due to a technical difficulty.<sup>14</sup>

The ATO should focus on upskilling and building internal public sector ICT capacity and should ensure there are a range of service delivery channels available to Australians to contact the ATO.

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<sup>6</sup> Finbar O'Mallon (2017, 2 February). Australian Taxation Office website crash related to previous hardware faults. *Canberra Times*. Retrieved from <http://www.canberratimes.com.au/act-news/australian-taxation-office-website-crash-related-to-previous-hardware-faults-20170202-gu3uj9.html>

<sup>7</sup> Tax Commissioner Chris Jordan (2017, 8 February). Commissioner's statement - ATO systems. Retrieved from <https://www.ato.gov.au/Media-centre/Commissioners-online-updates/Commissioner-s-statement---ATO-systems/>

<sup>8</sup> Tony Healy (2017, 8 January). Three simple ways to avoid more IT failures like Centrelink and the census. *Guardian Australia*. Retrieved from <https://www.theguardian.com/commentisfree/2017/jan/09/three-simple-ways-to-avoid-more-it-failures-like-centrelink-and-the-census>

<sup>9</sup> Noel Towell (2016, 5 December). Department public service digital chief Paul Shetler says level of contracting in APS is eye watering. *Canberra Times*. Retrieved from <http://www.canberratimes.com.au/national/public-service/departing-public-service-digital-chief-paul-shetler-says-level-of-contracting-in-aps-is-eye-watering-20161205-qt46y7.html>

<sup>10</sup> Department of Finance (2016). Australian Government ICT Trends Report 2015-16. Retrieved from <http://www.finance.gov.au/sites/default/files/ict-trends-report-2015-16.pdf>

<sup>11</sup> Department of Finance (2016). Australian Government ICT Trends Report 2015-16. Retrieved from <http://www.finance.gov.au/sites/default/files/ict-trends-report-2015-16.pdf>

<sup>12</sup> Department of Finance (2016). Australian Government ICT Trends Report 2015-16. Retrieved from <http://www.finance.gov.au/sites/default/files/ict-trends-report-2015-16.pdf>

<sup>13</sup> Noel Towell (2016, 5 December). Department public service digital chief Paul Shetler says level of contracting in APS is eye watering. *Canberra Times*. Retrieved from <http://www.canberratimes.com.au/national/public-service/departing-public-service-digital-chief-paul-shetler-says-level-of-contracting-in-aps-is-eye-watering-20161205-qt46y7.html>

<sup>14</sup> Emma Koehn (2016, 21 December). ATO outages still not fixed: "This is an absolute joke". SmartStartup. Retrieved from <http://www.startupsmart.com.au/finance-2/tax/ato-outages-still-not-fixed-this-is-an-absolute-joke/>

### Mechanisms to ensure tax compliance

In many previous submissions, the CPSU has outlined how cuts have significantly impacted the ability of the ATO to detect and deal with tax avoidance and ensure tax compliance.<sup>15</sup> At a time of increased scrutiny of taxation arrangements and continuing pressure to ensure revenue is collected effectively, ATO management has now established groups of labour hire workers to undertake core work such as compliance and debt work and undertaking audits.

The ATO appears to have embarked on a program of labour hire with teams of labour hire workers within each of the various compliances arms of the business. The CPSU believe the ATO is using discrete labour hire firms for each of the different business areas. The current labour hire arrangements in the ATO affect the quality of compliance work, the quality of service provided to the public as outsourced providers have different and competing priorities than the ATO. The impacts include that:

- risks are increased when labour hire staff investigate and sometimes penalise the tax affairs of companies and tax behaviour of individuals without being actual employees of the Australian Government.
- there is less oversight of labour hire workers by the Australian Tax Office with less appreciation of why certain processes are critical in compliance and auditing.
- opaque recruitment processes and reference checking processes are used, raising questions about accountability mechanisms given employees are not subject to the Public Service Act as Commonwealth employees.
- labour hire staff do not necessarily have the same commitment due to a lack of training and support from the labour hire company.

The continued use of labour hire in the ATO also affects the quality of service delivery call centre work that is undertaken. The impacts include that:

- Efficiency of the ATO is affected – labour hire and other external workers receive less training and have less experience. Labour hire staff deliver according to a script and do not have the knowledge or authorisation to complete tasks. There is reportedly higher turnover within this cohort of external workers though the nature of contracts with the service providers makes this difficult to definitively quantify.
- These factors create extra work for ATO staff as labour hire staff reportedly transfer work, when they are unable to address the issue or there is a risk that contract performance targets are in jeopardy, creating double handling.
- The service approach of labour hire staff often differs to the approach normally taken by the ATO with clients, with reports of hostile approaches on individual and small business taxation situations more akin to aggressive debt collection practices for relatively small tax debts. It raises questions as to whether reporting requirements for labour hire staff encourage churning or immediate resolution and drives poor customer service behaviour. This approach is inconsistent with the ATO vision<sup>16</sup> which includes “fostering willing participation in our tax and superannuation systems”.

This increased use of labour hire in the ATO has been at the expense of more experienced staff employed by the ATO. In the last 18 months changes in the use of casual ATO workers has resulted in increased turnover of these workers. Previously the ATO had a large cohort of casuals with many years experience working every week, which meant they had the experience and were up to date with changes in ATO requirements. The ATO’s shift to contract out this type of work has reduced the skills base among casual workers, as reduced hours for long terms casuals meaning they have had to seek work elsewhere. There is no overlap between locations of labour hire and casual workforces in the ATO, so that corporate knowledge has been lost. The CPSU has received reports of increased errors in processing and data entry leading to incorrect outcomes for clients.

Members report that the use of labour hire workers who do not have background knowledge has also affected the responses provided to the community. In the past the call centres in Service Delivery were an entry point into Client Engagement where people did their time developing a strong working

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<sup>15</sup> Submissions to Corporate Tax Avoidance Senate Inquiry (2015), Tax White Paper (2015), Commonwealth Pre-Budget Consultation (2015-16, 2016-2017, 2017-2018).

<sup>16</sup> Australian Taxation Office. (2015, 21 May). About Us. Retrieved from <https://www.ato.gov.au/About-ATO/About-us/>

knowledge of the tax system. With labour hire staff filling roles, that knowledge of the tax system is no longer brought over and clients lose out when that happens.

The use of labour hire has made it much more difficult for the ATO to meet its stated vision of “helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law.”<sup>17</sup>

Rather than continuing to use labour hire staff, the ATO must be properly funded to hire permanent and, where appropriate, casual staff who are trained to have the required knowledge to ensure tax compliance work is properly undertaken. Well trained ATO staff can look at more whole of client approaches and changing behaviour through education.

Members have also stated that improving compliance will require working on IT issues and call wait times in the ATO as well as resolving data matching anomalies. One member cited seeing cases where wrong data such as duplicate group certificates were issued and still used in ATO assessments despite the incorrect data being removed. This is a particular problem once debt is outsourced as the experience of double handling, particularly when trying to resolve incorrect debts, hardens attitudes about tax compliance activities by the ATO.

#### Ways to better inform taxpayers to help them make decisions in their best interests.

The CPSU supports greater investment in information and communication technology that is effective, efficient and fair, however, it is essential that other delivery channels for the community are maintained. Face-to-face contact, particularly in regional areas, is important to ensure the ATO has an understanding of the local economy and businesses and can best tailor their assistance for them.

In 2014, the ATO made a decision to close their regional tax offices in Cairns, Mackay, Rockhampton, Bundaberg, Toowoomba, Grafton, Port Macquarie, Orange, Bendigo, Sale, and Launceston. In 2016, the ATO closed its Darwin regional office. The ATO established these regional sites in 2000 to support Australian businesses in adapting to “a new tax system”, primarily the introduction of the GST.

As part of the Regional Tax Assistance Program (RTAP), these offices were well placed in the local community to educate taxpayers, particularly small business and local tax agents on their obligations. CPSU members also reported that local presence and awareness of relevant local economic issues meant they were able to ensure compliance and identify practical strategies to ensure local businesses honoured tax debts in a way that meant businesses, and therefore regional jobs, could be sustainable.

ATO staff in regional offices educated businesses on meeting their tax obligations, provided debt management support for businesses, fulfilled audit functions for the ATO and worked with local tax agents to support business compliance. For example, they provided information to businesses and community organisations, including indigenous organisations, on meeting superannuation and tax obligations such as FBT, GST, PAYG and fuel tax. They worked with local business advisory services to educate and inform new business owners so that they were set up to succeed. They negotiated with businesses to meet their tax obligations through payment plans and guide them in avoiding future debt. They were able to undertake work specific to the region, which was particularly relevant if there is an industry downturn or climatic event that affects business revenues. They had the local knowledge and local presence to negotiate outcomes that secured tax payer revenue and maintained the viability of local businesses.

RTAP officers reported numerous examples where their involvement has secured tax revenue and ensured that viable businesses can continue. Closure of these sites has meant that the ATO does not have the local practical knowledge to negotiate arrangements that keep businesses functioning and also educate them on better future tax management practices.

CPSU members have said that there is a growing problem where the ATO does not have the resources to identify through early intervention where there are businesses who are not meeting their

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<sup>17</sup> Australian Taxation Office. (2015, 21 May). About Us. Retrieved from <https://www.ato.gov.au/About-ATO/About-us/>

obligations. Some small and medium sized businesses may have difficulty managing their cash flow, as they can wait three to six months for their big business clients to pay invoices. It can then be hard to manage their tax obligations.

Rather than solely relying on investments in ICT, regional taxpayers would be helped by re-establishing with the presence of ATO staff in the regions. Local ATO staff understand their communities and have relationships. This would enhance tax compliance and also provide assistance to better inform small businesses about their options.

The CPSU is happy to provide information on the matters raised in this submission and supplementary information on other relevant issues.

For further information, please contact

Yours sincerely,

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9 February 2017