



# Commissioner's address to the IPA Centenary National Congress 2023

Fairness and integrity: Fundamentals of a healthy tax system.

30 November 2023

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(Check against delivery)*

## Introduction

Good afternoon. It's a pleasure to be here today. Thank you Andrew and the IPA for another excellent event. It's always a highlight in my calendar.

Firstly, congratulations to the IPA on your centenary year. Tony and Irwin, thank you for your valuable contribution and readiness to partner with us.

I also want to thank IPA members for supporting your clients particularly over the past few years.

Years before I became Commissioner, I worked in the tax profession. I know how difficult the ATO can make your jobs when process gets in the way!

That's why, when I joined the ATO, I was determined to transform the organisation, and I had a mandate from the government to do so. This was the beginning of the ATO's reinvention.

At the end of February next year my tenure will end. Reflecting on the last decade, I have witnessed an astonishing pace of change and

innovation within the organisation. I've seen the ATO successfully adapt and evolve to meet the many challenges and opportunities.

Ten years ago, the profession told me how difficult the ATO was. I now hear stories about the relative ease of interacting with us, and their trust and confidence in our professionalism and fairness.

I was pleased to see the ATO score 79% trust and 81% satisfaction in the Trust in Australian Public Services Annual Report 2023 released by the Australian Public Service Commission. The results position the ATO within the top 3 APS agencies for the second year running. Last year we had the highest score for both trust and satisfaction.

This feedback reinforces what I know about the ATO's transformation. Tax professionals have been crucial in this journey. It would not have been possible without your resolve and willingness to embrace change.

I am confident we are well positioned to build on our success and, similar to the IPA, I look forward to seeing how we can partner to deliver the best outcomes over the years ahead.

## **The current state of play**

The ATO and IPA have an important partnership to support taxpayers, especially small businesses. Our partnership is particularly valuable in challenging times, like now. We know many people, including small businesses are struggling.

But the ATO has a job to do, and the community and government rightly expects us to do our job well! Our role is to administer the tax and super systems, and to collect revenue which funds the essential services we all rely on.

Last month, we released our 2022–23 annual report. It shows net tax collections were \$576 billion – which is over \$60 billion more than the previous year. Small businesses contribute around \$60 billion to our bottom line – that's a significant contribution to the economy.

## **Improving income tax performance**

Earlier this month, we released our ninth corporate tax transparency report. It showed Australia's biggest corporate taxpayers paid over \$83 billion to the ATO last year – a record high level.

Ensuring large corporates pay the right amount of tax is not just about fairness. We know it has a positive influence on the attitudes and behaviour to paying tax across all segments and this is good for Australia's balance sheet.

The small business tax gap for 2020–21 was just over \$15 billion. Over one third of this relates to mistakes, misunderstanding obligations, poor record keeping or opportunistic behaviour – for example, exaggerating expenses.

We know small businesses that seek timely advice from their registered tax professional, keep good records and use fit for purpose digital business systems are more likely to get their tax right from the start.

The other two thirds of the gap relates to shadow economy behaviour – those small businesses deliberately not meeting their tax obligations. While only approximately 5% of small businesses operate in the shadow economy, the combined impact of this behaviour is significant, totalling \$10 billion annually.

Businesses who pay cash in hand or fail to lodge get an unfair advantage. We are committed to creating a level playing field through our Shadow Economy Program, which raised \$1.4 billion in cash collections in 2022–23.

The community is also unafraid to tip us off about shadow economy behaviour, with over 35,000 referrals received by our tax integrity centre so far this financial year. We actively review each and every one of these tip offs.

## **Resetting debt and lodgment**

We know the majority of small businesses try and do the right thing in meeting their tax and super obligations. I want to thank these businesses and their advisors.

However, collectable debt has also grown, and significantly. In fact, it exceeds the government's annual aged care budget. It sits at over \$50 billion (at 30 September 2023). Small businesses owe 67% of the total collectable tax debt, and of that more than \$24 billion is self-assessed, largely GST collected and PAYG withholdings not remitted.

Similarly, Superannuation Guarantee Charge debt has increased from just below a billion dollars before the pandemic to over \$2 billion. Small

businesses owe \$1.8 billion of this. This is money that belongs to the employees.

Addressing collectable debt is a priority. The softer approach required during the pandemic could not continue indefinitely. However, post-pandemic, there's been a noticeable shift away from paying tax and super on time and in full.

We are resetting our debt focus to collect what is owed. This includes non or late payment across all business segments, including small businesses. I am unapologetic about this. The ATO is not a bank offering cheap loans and a cashflow buffer. Paying tax isn't optional.

Our preferred approach is to work with taxpayers through engagement rather than enforcement. Thank you for encouraging your clients to pay their tax and super bills in full by the due date. This is the right thing to do and helps them avoid penalties and interest charges.

We know owning a small business and cashflow challenges can go hand in hand. We have options available for those experiencing financial difficulties, but taxpayers or their professionals must engage with us prior to the due date.

I urge you to speak with your eligible small business clients to take advantage of our **small business lodgment penalty amnesty** which ends on 31 December.

I want to reiterate: the majority do the right thing. That's why it is unfair and unacceptable for the minority to delay or avoid their obligations without consequence. If a business takes GST from a customer, withholds tax from an employee's pay or does not pay super, they must remit it to the ATO – it is not their money.

For those unwilling to work with us, we will take strong and deliberate action. This year, we have put business owners on notice that we are pursuing unpaid debts to level the playing field and protect workers.

We've recently issued over 31,000 Director Penalty Notices and reported 10,500 businesses to credit bureaus for debts over \$100,000. This is as much about collecting the debt as it is protecting other creditors.

The RBA's bi-annual Financial Stability Review released last month found that small business insolvencies had risen to pre-pandemic levels, and were partly attributable to our resumption of enforcement activities on unpaid taxes.

The ATO has historically instigated 1 in 6 of corporate insolvencies. The remainder are instigated by other creditors and the majority by the business themselves. I want to stress that insolvencies are only used as a last resort when businesses have significant debt and we're unable to obtain payment.

There are alternatives to insolvency for your clients. They can engage a specialist to restructure or change their business model. Payment plans may be an option for some businesses, but interest will accrue daily.

Ultimately, for some unviable businesses – and you know the ones – they may need your help to exit.

You will have also seen we have increased firmer action for unpaid super. In 2022–23 we issued more than 134,000 reminders and prompts to clients with super debts, returning almost \$700 million to Australians' retirement savings.

The government recently announced Payday Super which is due to start on 1 July 2026. Payday super will allow us to work with businesses much faster to get back on track and help them stay on track by paying smaller amounts more regularly.

Small businesses must meet their tax and super obligations to succeed, and we are committed to supporting them to get it right and thrive from the start. We've invested significantly in our digital self-help support and offer a range of online services, webinars and resources to improve business and digital acumen.

In 2024, we will launch a new online learning platform for small business owners. The 'Essentials to strengthen your small business' website will provide short, free and flexible online courses to sharpen knowledge of tax, super and the core aspects of effective small business management.

## **Looking to the future**

We're committed to making it easy to engage with us. Recently I presented at the Tax Institute on our view for the future. I want to expand on my challenge to the profession to be future fit and the benefits of this.

The OECD's Tax Administration 3.0 is our vision for 2030, where seamless, integrated, and automated systems allow data to flow from

taxpayers natural systems, to ours, without any extra effort or intervention from them.

We're committed to a future 'where tax just happens'. Our vision is to be fully digitalised by 2030. Among its many benefits, a 'digital first' approach helps small businesses to minimise errors, increase confidence and promote right-time reporting and payment. This improves small business tax performance.

I'd like to emphasise 3 points:

Firstly, change isn't happening just because we want it to. The world is changing, along with our tax and digital ecosystems and client expectations. It is important our organisational goals continue to evolve and keep pace. We want to adapt to our changing world, and embrace the opportunities that come with it.

Secondly, we don't know exactly what the future state for Tax 3.0 will look like. We've shared the possibility of a 'BAS-free' future. This is us embracing one of the 4 principles in our digital strategy – 'to imagine the possible'. In other words, to reimagine our systems and harness data to achieve a periodic data feed direct from small businesses natural systems to the ATO.

Thirdly, what we do know is that to achieve the best outcome, we need to collaborate and co-design with our partners in the system, and that's what we are doing. We're working with digital service providers, the tax and BAS agent community and other key players to bring Tax 3.0 to life. The insights of the tax profession are essential in helping get the right outcome.

Our aim is not to design you out of the tax system, we want to design a better future for you to support and add value to your clients. Our future may look different, but it will be by working together that we'll continue to support Australians into the future. It's ours to discover together.

## **Tackling digital fraud**

We know the future of tax is digital and data driven. And, while this creates many opportunities, we're conscious of the challenges that accompany our digital landscape.

I have been asked several times over the last year – 'what keeps me up at night?' My response has always been – cyber security.

The ATO holds about 50 petabytes of data. This is equivalent to 1 billion tall filing cabinets.

In the past 6 months we've defended almost 18 million attempted cyber-attacks.

Managing cybersecurity, and protecting our data and digital systems are key focus areas, and responsibilities we take very seriously. We are entrusted with protecting the community's personal information and this trust underpins our tax systems. We must correctly balance opportunities from the digital revolution with system integrity.

In addition to cyber threats, we've seen a significant increase in the pace, scale and size of attempted fraud against the tax, super and registry system in recent years.

Much like our approach to defending cyber intrusions, we have acted decisively to help Australians protect themselves by strengthening our systems and putting additional checks in place to prevent and contain attempted fraud.

However, those attempting fraud against honest Australians are opportunistic. They continually test systems across the community to refine their expertise and find new ways to breach defences. These criminals don't care who they target – the ATO, tax agents or small business – anyone and everyone is fair game.

Our risk of sophisticated fraud attempts will continue to grow with global threats, organised crime, the use of artificial intelligence and data breaches in the community.

That's why earlier this month, we released a suite of new protections to help combat the unprecedented rise in attempted fraud and identity theft.

The enhanced protections are available to the community to strengthen online security, including online access strength for individuals, and client-to-agent linking for businesses with an ABN.

Online access strength for individuals bolsters the digital identity requirements for access to ATO online services through myGov.

Our **client-to-agent linking process** has been extended to all entities with an ABN, excluding sole traders. It requires entities to nominate their agent before the agent can access their ATO data or act on their behalf with the ATO.

These necessary changes will mean clients and agents may have to take additional security steps when interacting with us. I understand this may lead to some delays and frustration.

But as I'm sure you'll agree, we cannot risk losing clients personal information or Australia's revenue to criminals. I strongly encourage all our clients, including tax professionals to take additional security measures to protect personal information.

I cannot stress enough that we all have a role to play. Thank you for your willingness to partner with us and add extra protections into your business practices to combat the fraud challenge. We're working with tax agents, small business advisors and associations, including the IPA, to help find the right balance between useability and security.

We don't just need to protect the data we hold from external fraud attempts. We must also ingest, use, and share it legally and ethically to maintain public trust.

This includes harnessing new technologies and artificial intelligence (AI) tools. We are also actively involved in efforts across the APS to develop appropriate guardrails to ensure AI is used safely and responsibly.

## **Consultation matters – we're listening and responding**

Consultation is important and we rely on your input. When there is a problem or opportunity – keep telling us. Be specific with your feedback, get involved with consultation and co-design.

Speaking of co-design, our new website is coming soon. It has been reimaged to enhance search functionality and streamline navigation. We've just finished beta testing with tax agents, and I'm happy to share we scored 88% on user satisfaction.

Earlier this year, we made improvements to our lodgment deferral system because you told us it wasn't working. The new system is more intuitive and provides real-time visibility of requests and quicker processing times.

Another significant outcome was finalising guidance on section 100A reimbursement agreements. The updated guidance was long awaited by tax professionals and incorporates feedback from extended consultation.

It provides confidence to those legitimately using trusts in their financial affairs, and ensures those structuring their affairs to avoid tax obligations are held to account. We know the vast majority of small businesses operating through a trust are trying to comply with their obligations.

We are also acutely aware that you are feeling the frustration from the processing backlog we have experienced following COVID. We took immediate steps earlier this year to address this. I am pleased to say we significantly reduced the backlog and aged items and will be better positioned in 2024.

## **Integrity matters**

The other message we are hearing loud and clear is the importance of integrity.

This morning there was a topic 'PwC – where do we go from here?'. This storm has dominated the media for close to a year and to me it's proof integrity matters.

I welcome and support any actions that strengthen the integrity of the tax system and tax profession. Particularly further review and consideration of current limitations within tax secrecy laws and our investigative powers.

This focus needs to be grounded in strong legal and ethical frameworks. We look forward to working with the Government as reforms are progressed.

## **Conclusion**

Trust and confidence are our bedrocks for voluntary compliance. The ATO remains committed to upholding the integrity and fairness of Australia's tax system for the benefit of all Australians.

Being Commissioner of Taxation has been the highlight of my career and I am enormously proud of what we have achieved together over the past 11 years. I am confident that with the existing strong foundations, the ATO will continue to deliver as a world-class tax and super administrator into the future.

Together, as stewards of Australia's tax system, let's rise to the challenge to ensure it is fair, future focussed and sustainably strong to

support Australians for the future – long after we've all retired.

Thank you.

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