



Now and when: Commissioner's address to the Tax Institute Tax Summit 2020

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Introduction – 'Now and when'

Good morning everyone, and thank you Bob for your opening remarks. It's a pleasure to be able to join you all.

Today, I'd like to reflect on the Summit's theme of 'now and when'. I'll spend some time discussing the changes I've seen during my tenure as Commissioner, and share the vision we have for the future of the ATO and our partnership with tax professionals.

First though, I'd like to start with the 'now', and the somewhat harrowing year to date. January saw bushfires continue to devastate communities across Australia, the impacts of which are still being felt. February saw the coronavirus evolve into an immediate and serious public health issue here at home.

While the impacts felt in the community are much broader and more complex than I can speak to, the ATO does have a part to play in our collective recovery. So before I begin the main part of my speech I'd like to take a moment to discuss our response.

Of course the issue top of mind for many at the moment is the coronavirus outbreak. While public health is undoubtedly the primary concern, there will also be economic consequences and we will do everything we can to support affected clients. The government has signalled that they will be introducing a range of support measures. We will follow the government's lead to ensure that we can help the community get through this difficult time.

Our message to businesses feeling the impact of the coronavirus is simply this: let us know. Reach out to us. We can help.

It's the same message we convey to taxpayers affected by natural disasters, including the recent bushfire crisis.

For those impacted, we have a number of support measures in place. For taxpayers and tax practitioners in bushfire-affected postcodes we've automatically deferred lodgments until 28 May. Our response for these taxpayers does not end there, for example, we are aware that the passing of that deferral date represents a potential pain point for many clients. To that end, I would call upon the tax profession to work together with us, both leading up to and after that date, to ensure clients have the support they need.

This collaborative, side-by-side approach underscores one of the key themes of my speech today, which brings me to my reflection on the now and when of the ATO.

Then and now – how far we've come

So to begin, let's look at how far we've come since I took up my role in 2013.

I recently dug up one of my earliest speeches to the Tax Institute, and a number of phrases in it reflect the challenges we were facing at that time: "red tape", "love of process", "culture of risk aversion" – these were obstacles we needed to overcome to shift the public perception of the ATO. There was a call for us to partner with business, agents and taxpayers to create a more responsive, adaptable ATO with a customer-service mindset. That call prompted me to put forward in that speech a 2020 vision for the ATO: to contribute to the economic and social wellbeing of Australians by fostering willing participation in the tax and superannuation systems.

Laying down that challenge to the organisation has helped motivate the ambitious program of reinvention we set out on in 2013, and it set the direction for the significant transformation we have seen since.

Now, seven years later, I'm pleased with the progress we've made. The ATO is seen as a leading regulator: our tax administration is the envy of jurisdictions around the world for our responsiveness, our adaptability, and our focus on putting our clients' needs first. Our systems and administration may not be perfect, but we continue to strive to improve within tight funding constraints.

So what's changed? And now that 2020 has arrived, does the way we operate today stand up to the vision that I described?

As Commissioner of Taxation, I can tell you it does, for the most part, and today I'd like to talk about two key principles that have made that happen. They are:

- putting our clients' needs at the heart of everything we do,
- and taking a holistic approach to system health.

Putting our clients' needs at the heart of everything we do

The first of these, building our work around our clients' needs, was on top of my agenda when I arrived in 2013. I'm proud of how hard my staff have worked to make the ATO a responsive agency built around the needs of taxpayers and tax practitioners.

This is of course particularly relevant to you, the tax profession, both as our clients and as the representatives of clients in our other

markets. We know that nearly 90% of small businesses use a tax agent to lodge their income tax returns, as do 70% of individuals. You are custodians of the system, so by partnering with you we can ensure both you and the clients you represent are at the heart of our work.

The relationship between the ATO and the tax profession has certainly changed over my tenure. Although we've had our ups and downs, we now have a robust working partnership that enables us to deliver services that better meet your needs.

For example, we have improved our technology and systems so they better integrate with your natural business processes. Not so long ago, just entering a new client through the agent portal could be stalled by up to 15 minutes due to ATO systems that only synchronised once every quarter hour. Now we've partnered with Digital Software Providers to let you manage more of your clients' tax affairs directly in your practice management software.

These are just some of the client-centred digital services we've delivered across all our markets, as we work to keep pace with the community's expectations of large organisations. As a result, 97% of tax returns are now lodged digitally.

Perhaps the biggest digital change for all of you was Online services for agents. Replacing our outdated portals gave us the chance to work closely with all of you to build a new service from the ground up that incorporated your needs.

I know the transition was disruptive for some of you, and some are still coming to grips with it, but I want you to know that we appreciate your patience and your feedback.

Every change we make is with the aim of improving your experience with our services and systems, so hearing your feedback helps us make sure we can do that.

As representatives of taxpayers across all our client segments, you would have seen that this client-first approach extends to all our markets. This is perhaps most obvious in the way we have transformed our relationship with small business.

The narrative around small business and tax is often that it is too hard, and too complex. Certainly at the ATO we are very conscious of the pressures small businesses face, of which tax is just one. There is no silver bullet to make running a small business easy. But we've focused

on how we can be more responsive to small businesses at every stage of their life cycle.

For businesses just starting out, our enhancements to the online ABN application process will enable us to identify clients making multiple attempts, as well as clients who may not be entitled to an ABN. This will give us a better opportunity to identify and support applicants in need of extra assistance. For those whose applications are successful, within the first month of operation we send them a support pack with education modules ranging from tax and super information to general business advice. Follow-up emails three, six, nine and even twelve months later ensure businesses have the tools they need from us during that all-important start-up phase. We also ensure all businesses can start on a level playing field thanks to the Tax Integrity Centre and our other measures to clamp down on the black economy.

For established businesses, we've reduced administrative burden by increasing the responsiveness of our contact centres; making GST reporting easier with simpler BAS; and of course integrating reporting into existing business processes with Single Touch Payroll. 590,000 employers are now reporting through STP on behalf of over 11.9 million employees, so thank you to all of you who played a role in managing that transition.

Our client-first approach is particularly evident in the way we've improved our response to those businesses who are struggling. Programs like Dispute Assist and the Small Business Independent Review pilot make sure all businesses get the support they need, when they need it most.

Looking at the big picture view

The second principle that supports our 2020 vision is our holistic focus on system health.

One of my priorities for the ATO's reinvention was to achieve better outcomes by focusing less on lengthy audits, and more on improving the overall health of each of our client segments.

Our tax performance program has given us a better understanding of the behaviours and levers that can improve the holistic operation of the tax system, and allows us to be more transparent with the community about what we are seeing.

The results tell us we are in a good place and getting better. I am particularly proud that we are improving tax performance through better voluntary compliance, and I know you play a key role in that by helping your clients get their affairs right from the start.

One measure you would be familiar with is our tax gap estimates, which already cover 92% of the total tax base. Today we are adding one more piece to our comprehensive tax performance picture.

Today we are releasing a new tax gap for our high wealth market – the first jurisdiction internationally to do so. The gap, based on 2016–17 data, shows that the high wealth market meets more than 90% of their obligations voluntarily. Our intervention further increases the collection rate to over 92%, resulting in a revenue collection of nearly \$9.3 billion. This means the gap is \$772 million, or 7.7%.

This gap sits about midway between our estimates for the large and small business markets, and lags slightly behind individuals. Our most recent tax performance measures show that:

- the 2016–17 large market tax gap was 4%, or just under \$2 billion,
- the 2015–16 small business tax gap was 12.5%, or \$11.1 billion,
- and the 2015–16 individuals gap for was 6.4%, or \$8.4 billion.

In Australia the high wealth market represents 5,000 high wealth groups, comprising 9,000 individuals and 18,000 private companies. So it's pleasing to see this market performing reasonably well compared to our other client segments.

However with a net tax gap of 7.7%, there is clearly still work for us to do. And that's the benefit of the tax gaps – they show us where to focus our attention to achieve the best outcomes.

When – what's next for the ATO?

With that in mind, let's focus now on the future of the ATO. If we're performing well against our 2020 goals, what's next on the agenda?

Inside the ATO we have something that we call our 'Towards 2024' vision. It lays out two aspirations for the ATO of the future, which together reflect our focus on putting the client at the centre of all that we do. They are:

- building a more streamlined, integrated and data-driven organisation,
- and building greater trust and confidence in the system.

Streamlined, integrated and data-driven

Looking at the first aspiration – to be streamlined, integrated and data-driven – there are some exciting opportunities on the horizon for us to use data to improve how we operate.

The ATO has always operated in data; as my colleague Second Commissioner Jeremy Hirschhorn likes to say, an income tax return is, after all, a data set, and we've been processing those since our inception.

Of course what has changed is the volume of information, with the ATO now processing up to 7 million data transactions per day.

This trend will only continue, and the benefits of data and technology to our operations will be twofold: it makes it easier for people to do the right thing, and harder for them to do the wrong thing.

For Australians today digital and data-driven services are no longer a nice-to-have, but a necessity. We are responding to this, and are already implementing a number of initiatives to provide clients with services that seamlessly integrate into their lives.

Take for example the new myGovID and Relationship Authorisation Manager, or RAM, which the ATO has been responsible for designing and building. These services will replace AUSkey, which after ten years of operation will be decommissioned on 27 March.

We're really encouraged by the over 700,000 people – including many of you here I'm sure – who have already downloaded the myGovID app. As all users will be transitioned to the new systems before the end of this month, we've appreciated the feedback from early adopters that has allowed us to identify and resolve some preliminary issues. MyGovID and RAM pave the way for a smoother sign-on experience for all ATO online business services, including Online services for agents. Already 21 government agencies have transitioned 33 services to myGovID and RAM.

To help address some of the issues you have raised, we have a major update scheduled for 16 March to help make the registration process easier. We already have a range of support materials, videos and

trained staff available to help you make the transition. Finally, we're updating our advice on the deductibility of mobile phone expenses, and will continue to consult with you on better ways to substantiate claims.

Another way data and technology will improve your experience with our systems is through Activity Statements Financial Processing, finalised at the end of last year. One of the biggest data migrations ever undertaken in the public or private sector, ASFP will provide a single client accounting system for you; an improved staff experience for us so we can better respond to your queries; and lay the groundwork for more streamlined online services in the future.

Also on the technology front is e-invoicing, which we expect to become increasingly commonplace. E-invoicing will improve businesses' efficiency by helping them exchange invoices in a fast, secure manner with fewer errors. E-invoicing has also been shown to help to improve cash flow by allowing businesses to get paid faster. While not exclusively a tax matter, the ATO has worked with the software industry to finalise local requirements and we now govern a secure robust data network similar to what we rely upon in our telecommunication and banking systems. This will allow Australian businesses to have seamless invoice exchanges with their suppliers and buyers in over 34 countries globally.

On the other side of the coin, streamlining and integrating data-driven processes will also play a role in how we hold to account those trying to do the wrong thing – particularly on the international front.

When I first became Commissioner in 2013 it could take up to two years to share information and data between tax authorities.

Since then we have seen incredible progress, with hundreds of data exchanges taking place in the past year alone between members of the Joint Chiefs of Global Tax Enforcement, or J5, which includes Australia, the US, the UK, Canada and the Netherlands. All of these countries are also members of the Joint International Taskforce on Shared Intelligence and Collaboration, or JITSIC.

Our leading role in international organisations such as the J5 and JITSIC has seen us achieve real results for the community.

Some of our most impressive outcomes include the global response to the Panama and Paradise papers; and of course the J5's most recent international 'day of action' that identified there are hundreds of

Australian clients of a Central American financial institution of potential interest to us as well as many more in the other J5 countries.

For those who think they can avoid their obligations through offshore arrangements, our message is: think again. The net is closing, and as we continue to embrace new technology and increase our data capability, there will be more and more opportunities to collaborate across borders.

Building trust and confidence

Turning to our second aspiration, building trust and confidence, one of our ongoing focus areas will continue to be the large market.

We know the large market has a big influence on trust and confidence in the system, as taxpayers are less willing to comply if they feel the large players aren't paying their share. It's a sentiment I'm sure you've heard from some of your clients, and maybe felt yourself.

The ATO will continue to focus on holding large businesses to account, and increasing transparency with the community about how we do so. Because when we look at the tax gaps, we see that our efforts in the large market space are paying off with some fantastic results. As I touched on earlier, the most recent estimate shows that large market compliance is at 96% overall – the best performance of all our markets – representing a total revenue contribution of \$47 billion, and a gap of just under \$2 billion.

Of course there is still room for improvement, especially when you look at voluntary compliance and see that figure drop to 92%. In percentage terms, this still lags behind the voluntary compliance level for individuals of around 93%. But looking just at the dollar figures, the large market gap is smaller – as is their population. What that means is that the decisive action of just a few players can turn the tide.

So if large businesses want to shake off the persistent criticism that they don't pay their share, they have a perfect opportunity.

The challenge for them now should be to ensure their voluntary compliance exceeds that of other markets, so they can reshape the narrative and set the standard for other taxpayers.

For our part, the ATO is taking a more holistic approach to system health, where instead of focusing our efforts on the more time-consuming and costly audits, we work with large market taxpayers to get better outcomes. For example through products like our practical

compliance guidelines and taxpayer alerts, we're clear about what we consider to be risky behaviour so that taxpayers can make informed decisions. Justified trust and similar programs allow us to provide high quality assurance; and we also aim to lock in future outcomes as part of settlements.

This will be our focus going forward, and we're already seeing this more nuanced approach returning revenue to the Australian public. To name a few examples:

- we resolved BHP's long-standing hub dispute with a payment of \$529 million and an agreement to pay full Australian tax in future;
- Facebook and Google publicly announced they have changed their operating models to report income in Australia;
- our work across the IT sector has resulted in more than \$7 billion of income being recognised in Australia;
- we settled our long-standing dispute with Google, resulting in their payment of nearly \$500 million in tax;
- and Apple advised the Senate that they had more than doubled their tax in Australia.

What's significant from these cases isn't just the revenue collected, but the shift towards greater transparency in the system. Our community perception surveys show that people think only about 40% of big businesses are paying the right amount of tax. More broadly we're seeing trust in large organisations and institutions declining. In order to earn the trust of the public and protect the health of the system, we need to promote greater transparency across the board. That's why the tax transparency code is important, and why you would have noticed large businesses publicly announcing the resolution of their disputes.

We will continue to push for large market players to publicly announce settlements. And we will continue the practice of retired judges independently reviewing our largest settlements, to ensure they are in the public interest.

Another area where we're seeing greater transparency improve trust and confidence is in superannuation. Now, for the first time, with the onset of pay event reporting through Single Touch Payroll and more frequent reporting through superannuation funds, we can see if super guarantee payments are being made – or not – in almost real time.

Already we are exploring how we can use this information as a red flag to identify businesses that may need greater support or attention.

If you have any clients who may have fallen behind with their employees' super guarantee payments, urge them to come forward now. Until 7 September 2020 there is a 'super guarantee amnesty' available for eligible employers who may have gotten off track and need some help to set things right.

We're also building trust and confidence by taking responsibility for where we can improve, thanks to our Better as usual program of work.

Led by Jeremy Hirschhorn, Better as usual acknowledges that while we are operating well, there is always room for improvement and it's not good enough for anyone to fall through the cracks.

Among four streams of work, there are two I want to mention briefly today as examples of how we are earning our clients' trust and confidence. With the first stream, the Complex Issue and Case Program, we're focusing on those complex, difficult-to-resolve cases that don't fit well within our existing processes, and looking at how we can come to quicker, better resolutions for both the ATO and the client.

Our second stream, Highest Client Impact Actions, sees us ensuring we have stronger safeguards in place for those instances when, if we get it wrong, our actions can have a significant impact on a client. We know we don't always get it right, but we will always look to improve.

You play a vital role here, and I encourage you to bring to our attention areas that you think require closer scrutiny.

And of course, last but certainly not least, we will continue to focus on building trust and confidence with you, the tax profession – perhaps our most important partner.

As I mentioned earlier, as representatives of taxpayers across all markets, you play a critical role in protecting the health of the tax and super systems. You are the gateway between the ATO and the majority of taxpayers, and you have the ability to both negatively and positively influence the attitudes and actions of your clients.

This means you are our most trusted ally when it comes to tackling issues such as incorrect work-related expenses claims – on which we have made good progress – and addressing the errors we see in 9 out of 10 returns with rental income deductions. But there's still a lot of room for improvement, and you are a vital part of the process.

It's been pleasing to see many tax agents have heard our message, and are rising to the challenge of becoming guardians of the system. We do not underestimate the role you play in upholding the strength of the tax and superannuation systems in this country, and nor should you. Going forward, the ATO is committed to supporting you and your clients and earning your trust and confidence.

Reflecting on my time as Commissioner

So those are our two 2024 aspirations, and just some of the ways we are setting out to achieve them.

Already 2024 seems like it's just around the corner, and the date is even more significant for me – it marks the end of my term as Commissioner. While I'm not winding up just yet – there's a lot of work to be done between now and then – it has prompted some moments of personal reflection.

We operate in an ever-changing environment, and that makes my job tough, but also exciting and rewarding. I have faced challenges ranging from systems incidents to increasing client expectations to negative media commentary – and everything in between. Many of you have shared some of these challenges.

But I have also seen the ATO transform our internal culture, and become a more client-focused, contemporary organisation. I have seen my people work with many of you here today to create the streamlined and purpose-built Online services for agents. I have seen international tax crime thwarted by faster, smarter global partnerships and I have seen our settlements with multinationals return hundreds of millions of dollars to the Australian people.

So when I look at the road ahead, I have no doubt that there will be challenges along the way. But I also have no doubt that there will be innumerable opportunities for growth and improvement and that we will make the most of them.

I am confident of this because I know that I have not only the support of 18,500 future-ready staff who are focused on putting our clients first, but also the support of the tax profession as one of our most trusted partners.

When we consider what the future holds for the ATO and the tax profession, there are more changes on the horizon. But whether it's myGovID, transforming business registration services, or any of the

initiatives we have on our agenda, the challenge of change is outweighed by the opportunities we have to improve your experience with us. This is as true for tax agents as it is for individuals, small and large businesses, and all the taxpayers we serve.

Because no matter what the future holds, our clients will continue to be the ATO's first priority. I look forward to working with you all as we continue to build an integrated, streamlined tax system that works for all Australians.

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