# Tax administration: Evolution or Revolution

**Last updated** 4 April 2023

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*Commissioner's address delivered to 15th International Conference Tax Administration on 4 April 2023*
*(Check against delivery)*

## Introduction

Good morning, thank you for having me here today. It is a pleasure to be here on behalf of the Commissioner, who was unfortunately unable to join you.

You have quite an ambitious agenda for the next two days and it is wonderful again to see a variety of speakers from Australia and across the world who represent regulatory, academic, and private sector perspectives on taxation administration.

I would like to acknowledge your next speaker, Peter Mersi from Inland Revenue NZ who I had the great pleasure of meeting at the Forum of Tax Administration Plenary last year, and also David Bradbury from the OECD, with whom the ATO has built a strong relationship over many years. It would also be remiss of me not to acknowledge my colleagues from the ATO, Kirsten Fish who is speaking to you later today about dispute resolution and Faith Harako who is talking to you tomorrow about the interweaving of tax and ESG, and the insights tax brings to looming ESG challenges.

I am sure like many of you, the theme of the conference this year 'Tax administration: Evolution or Revolution' encouraged me to pause and reflect on my own experience of working in tax.

On the one hand, taxation dates back over 5,000 years, indeed the ATO itself is now in its 114th year of operation, and for much of this time, tax administration has been viewed as a relatively stable and straightforward function of government.

On the other hand, I have witnessed more change and a faster rate of change in the past 8 or so years working in the ATO than I had in the 20 plus years working in the private sector before that.

I would put the proposition that we are mid-way through a slow revolution!

Today I would like to focus on:

- Reflecting on the last 8 years: A fresh approach to tax administration
- Looking forward: Frontiers for the next 8 years.

I know we have representatives from all over the world in the room today, so at the outset I should acknowledge that each country has its own cultural attitude towards the role of Government and this is reflected in their approach to tax administration, and government and community expectations of their revenue authorities.

Australians have a deep sense of fairness when it comes to their tax system given the relationship between tax collections and government expenditure on social programs.

Australians therefore also expect everyone in the community to 'pay their fair share' and are frustrated with those who don't. But in turn they also expect a tax administrator who makes it easy for them to comply, supports those who try to do the right thing and is firm with those who don't.

## Reflecting on the last 8 years: A fresh approach to tax administration

When I first joined the ATO eight years ago we were embarking on what Commissioner Jordan called our 'reinvention journey' which focussed on improving client and staff experience by providing contemporary service conducive to willing participation in the tax and super systems.

In launching reinvention, we called out three distinct periods in the evolution of tax and super administration in Australia, which I thought were useful in sharing today:

- Pre–1986: ATO assessment era based on full and complete disclosure by taxpayers
- 1986–2014: Self-assessment era based on true and correct statements
- Towards 2020 and beyond: Streamlined self-assessment based on integrated digital solutions and stronger relationships (which we then extended out to 2024 given the pace of change enabled by digitalisation and data).

## Designing for the majority who willingly comply

Reinvention set the tone for the necessary whole-of-system changes and incremental grass roots change that followed over the next few years, that we still build on today.

One of the foundation pieces in designing for the majority has been harnessing advancements in digitalisation and data to design simple digital interactions which have a lasting impact. The most obvious of these is myTax in the individuals market, which has expanded to ATO online services. Over 11 million Australians are now using ATO online services where they can manage their personal tax details, view their tax information, lodge and pay their tax, or view, manage and access their super.

Another foundation piece, which has probably been even more important than we anticipated, was to make it easier for taxpayers to get back on track, for example through payment plans, if they had fallen behind in their obligations, or indeed even if they had made decisions that they now regretted.

Of course, we have also learnt that designing for the majority meant we couldn't just think about administration costs from an ATO perspective any more: the burden on citizens (whether cost or time) to comply with their obligations had to be better understood and at the forefront of our mind. This also gave rise to better segmenting our client markets, and working with them and their representatives in the system.

Designing for the majority also means a philosophical shift around how you share information (both personal and risk stances) with clients: if you take the position that the majority of people want to do the right thing, then this leads to sharing what you know about them in advance (or at least in real time), and also to share what will attract the administrator’s attention. This then extends into designing the system around verifiable data and leveraging natural systems and digital events, which I will talk to a little later.

The next step after making it easier for the majority, was to identify those areas in the 'tail' where the experience for the minority was unintentionally very poor (including through mistakes). We therefore sought to better understand and improve our clients’ experience with the tax system at a more granular level. Under one of our approaches, called 'Highest Client Impact Actions', we tried to identify all the things we do where a mistake could cause a disproportionate impact on a client, and made sure we have procedural and cultural safeguards to minimise these mistakes. In practice, it might mean having one more conversation to make sure the client understands what is coming next if they do not engage. There is also a 'we could but should we' overlay.

We have continued to develop a more sophisticated approach to debt underlined by our commitment to engagement and transparency; ensuring advisors and clients are aware of their obligations, the assistance available to them and actions we may take if they choose not to engage. Brought about by our COVID-19 response, our emphasis is now on keeping taxpayers engaged, getting them to lodge so they know their position, and supporting them to set up a plan to manage their payments and get back on track.

Despite this client-centric approach we recognise tax is a complex area and there will still be times when we disagree, and we work with taxpayers (or their representatives) to resolve issues as early and cooperatively as possible.

Where disputes do arise, we take a client-centric approach to resolving them early and, unless there is a point of law to be tested or specific behaviour to be called out, seek avoid litigation where possible.

Later this afternoon Kirsten will explore our various dispute resolution pathways, focussing on the importance of: early and open engagement, tailored pathways, and an informed, objective and impartial approach.

The Australian community as a whole are of course our critical collective stakeholder and, as I noted earlier, they quite rightly hold us to a high standard. I might just add here that we were delighted late last year when it was announced the ATO had the highest levels of trust and satisfaction across the Australian Public Service, both at over

80%. This is undoubtedly good for the ATO but also Australia's tax system. Trust is critical to support voluntary compliance and willing participation in the system, so this is more than nice feedback, it is actually a self-reinforcing signal that the tax system is improving. We have certainly set a high bar for ourselves for when the survey next comes around!

## Ensuring large corporates pay the right amount of tax

Given the inbuilt sense of fairness in Australia's tax system, it follows that community attitudes towards paying tax in Australia are also heavily influenced by the actions of the 'big end of town', and smaller players in the economy look at best practice approaches.

At the peak of community and political mistrust in the tax affairs of large companies operating in Australia, the Government of the day established the Tax Avoidance Taskforce in 2016. The Taskforce has since been extended and expanded under successive Governments, including at the most recent Federal Budget in October 2022. We are on track to have a 3,000 strong Taskforce which, when combined with existing resources, means the ATO now has a proportionately bigger large business division relative to size of the economy than almost any other tax administration.

The Taskforce has been hugely successful. Since its inception, the ATO has raised more than $30 billion in liabilities against these large corporates and multinationals, as well as private groups, with the Taskforce funding generating $18.7 billion of this amount.

Importantly it has also enabled us to shift from traditional audit-based interactions to a prevention first approach to the large market, by embedding a 'Justified Trust' approach to the Top 100 and Top 100 large corporates operating in Australia. Over half of the Top 100 have attained an overall high assurance rating, meaning they have provided the ATO with objective evidence that they are paying the right amount of tax. These programs were primarily designed to encourage increased compliance by large businesses through increased coverage and detection of incorrect tax positions, and long-term behavioural change due to the knowledge they will be reviewed. These programs also provide the Australian community confidence that all large businesses are comprehensively reviewed on a regular basis (giving the community 'justified trust'), and also allow the ATO to provide better information to the Australian community as to the health of their tax system (through a more refined 'tax gap' measurement).

Thanks to this prevention first approach, voluntary compliance in the large market segment is also the highest it has even been, with our most recent estimate being 93% for 2019–20, which is up from around 90% in 2014–15. Overall performance is about 96% after compliance activity.

Policy reforms and ATO actions over this period have also significantly increased the transparency in the tax affairs of the large market which has the dual benefit of both addressing community interest and reinforcing our prevention-first approach.

We have worked to boost transparency to:

- taxpayers about their own affairs, and in many cases obtain confidence around their tax affairs (and in a form it can be communicated to other stakeholders should they so wish)
- taxpayers about their peer group (so they know where they stand and can self-moderate)
- to the community around the market.

Our work in Australia could also not have been possible without the significant reforms introduced by the OECD to address digitisation of the economy over the past 10 years and successive Australian Government's commitment to their implementation.

## Establishing a tax performance (tax gap) program

In my last presentation to you I spoke to you about the importance of our tax performance program, it is an area of tax administration I am very passionate about but I won't go into too much detail again today.

Our most recent annual report included our full suite of 21 transactions, income based or administered program 'tax gaps'. This shows we are operating at 93% tax performance, which shows a steady improvement in performance over 5 years. (Despite this world-leading performance, even a 7% gap is $33 billion so there is always more work to do!)

Our tax performance program continues to be integral to informing our decision-making, measuring our effectiveness and informing future approaches.

We remain committed to publishing these estimates each year and firmly believe they support:

- our people to think about evidence-based stewardship and long-term system health, focusing on prevention rather than just compliance yield
- the community to understand the health of their tax system, itself reinforcing tax system health, a virtuous cycle.

Tax gap estimates are an important input to our overall strategy development in maximising long term sustainable tax performance, and building community trust and confidence in the tax system. We have also proven that this methodology can be effectively applied to government administered programs, such as the JobKeeper and Cash Flow Boost economic stimulus measures, and we continue to advocate that similar performance measures be applied to other Government initiatives.

The next stage, which I called 'beyond gap thinking', looks at how measuring the tax gap can inform and change strategy, and provide evidence-based insights to inform resource allocation and policy improvement. I will touch on that more later.

## Changing expectations of tax administrators

In Australia, our transition towards whole-of-government approaches to the provision of services to the community has meant the ATO (like many other revenue agencies around the world) has been asked to take on roles which would not normally be considered ‘core businesses’ for a tax authority. This is unsurprising given an organization of our size and resourcing; but we also have natural touchpoints with businesses operating and people working in Australia at fixed points throughout the year, which is underpinned by significant IT capability and vast amounts of data.

To name just a few examples from the past 8 years, we have been entrusted to:

- Establish the Australian Business Registry Service which will bring together more than 30 business-related registers in one place, in one agency. This will make it easier for new businesses to register and operate digitally from the outset, and meet their ongoing obligations as well as make business information more easily available, trusted and valuable.

- Partner with the superannuation industry to design, build and deliver the systems that enable closer to real-time reporting of contribution transactions and events through SuperStream, SuperMatch, Member Account Attribute Service (MAAS) and Member Account Transaction Service (MATS); where we proactively bring together the relationships between three third parties: employers, employees and super funds.
- Deliver some of the government's key economic stimulus measures throughout the COVID-19 pandemic, including over $89 billion in JobKeeper payments and almost $36 billion in cash flow boost; the policy programs were designed to leverage our existing data holdings and digital systems to ensure the much-needed support could flow quickly, with minimal risk of errors or fraud.

These illustrate the variety, but also give a sense of the complexity, of this expanding role. While we remain Australia's principal tax, super and business registry agency, we are also at the cutting edge of government service delivery and continue to undertake significant programs of work.

### Improving the way tax administrations work together

An increasingly global economy and advancements in technology have also driven tax administrators to work better together, primarily through the OECD's Forum on Tax Administration (FTA), of which ATO Commissioner Chris Jordan is Deputy Chair.

More than ever before we have worked in closer partnership with our colleagues from around the world – such as Peter and his team from IRD – to address shared tax challenges, focus on capacity building for developing tax authorities, and share knowledge and best practice approaches in tax administration.

## Looking forward "mid revolution": Frontiers for the next 8 years

I might pause here because it seems we have already been able to achieve so much in such a (relatively) short period of time.

But from my perspective I expect the next 8 years to continue the revolution as we harness ongoing advancements in digitalisation and data to achieve a future state where 'tax just happens'. We have already started laying the groundwork for this next phase and I am excited at the prospect of seeing it come to fruition, and also at the new opportunities the future may bring.

Today I will briefly touch on just a few of the possible frontiers in tax administration:

- Using tax performance to drive system strategy
- Digitalisation of small business taxation
- Data aligned policy design
- Dealing with the downsides of digitalisation and data
- Expanding our functions beyond tax administration – the opportunities and risks of scope creep
- Interaction with ESG
- Increased 'meshing' with transfer systems
- Tax data to support non-tax Government decision making

## Using tax performance to drive system strategy

It is clear that if our end goal is to have a sustainable system with high tax performance, we must continue to focus on improving voluntary compliance at lodgment (or whatever 'lodgment' evolves to be).

Embedding our tax performance program into our business-as-usual operating framework has laid a strong foundation to inform and change strategy, and provide evidence-based insights to inform resource allocation and policy improvement: or what we call 'beyond gap thinking'.

We have made significant inroads over the past 18 months.

Across all of our taxpayer segments, at least at a foundational level, we are:

- using tax gap estimates as a key input into our strategy development (whether the strategy is to sustainably reduce the gap, or prevent backsliding risk) and resourcing planning decisions
- changing our internal (and external) metrics to support the shift toward more preventative approaches that influence voluntary compliance, reduce the gross gap which then reduces the net gap.

When we link this to what we know about compliance risk, and an understanding of our operational tolerance for certain taxpayer behaviours, they start to give us meaningful insights into how we can best allocate resources to achieve an optimal level of tax performance.

We can also start to better understand tax performance across the current four pillars of compliance, and also what might be described as the fifth pillar, which is how the taxpayer's behaviour directly affects tax obligations of others or affects the ability of others to comply.

Having mapped all of our key pipeline (end-to-end) client interactions we also have a better view of performance from end to end. This starts with examining how tax policy is designed and whether it is achieving its expected outcomes, following through to lodgment, assessment and appeals, and then determining impacts on future compliance. The intent of these pipeline metrics is to avoid the perverse effects that could result from the siloed metrics of yesterday, for example, where an auditor could be rewarded for raising additional audit yield without linking that outcome to the rate of assessments vacated on appeal.

## Digitalisation of small business taxation

There is a huge opportunity for us to build a digital-first ecosystem to help Australia's small businesses comply with their tax and super obligations, by integrating ATO systems with the natural systems of their businesses. We have been working with digital services providers, the tax agent community and other key players to bring this to life.

From our perspective digitalisation means:

- integrating ATO systems with natural systems as much as possible
- moving tax reporting (or payment) closer to the tax event (which may require policy changes)
- designing the tax system around verifiable data rather than using external data to bolster the system
- to provide transparency (often in real-time) around our risk settings to minimise errors (which could involve embedding our risk settings in the business' natural systems).

So we're starting to imagine a future which includes small businesses no longer having to prepare a separate tax return or activity statement: rather, there is a periodic direct data feed from their accounting software or banking system to the ATO. Of course, this will require clients and their advisers to review and vouch the data feed for completeness and correctness, but will minimise the need for completing forms or periodic 'paper shuffling'.

As part of this, the ATO may provide certain risk models to the digital service providers (and hence the advisers) so that clients and their advisers might identify mistakes (or simply understand whether they may attract our attention) prior to the data feed being submitted. It should also be possible to align instalments and payments to the amounts generated from the natural system.

Seamless tax and reporting from business source systems offers a key opportunity to improve the tax performance of small business market by:

- placing greater assurance in the system
- increasing digitalisation to reduce errors and mistakes, and
- decreasing new debt as payments move closer to events.

We see this as a win-win for small business owners who will have more time to work in or grow their business and tax agents to focus more on value creation, which is also a win for the Australian economy.

Our work in this space is underpinned by our new digital strategy that sets out deliverables for the next 2 to 3 years and a vision for 2030. Our digital strategy is aligned with the OECD’s Tax Administration 3.0, where seamless, integrated, and automated systems allow data to flow from the systems taxpayers already use, to ours, without any extra effort or intervention from them.

## Data aligned policy design

The ATO and other leading revenue authorities are currently in the phase of better using data to support the current system, with a key emphasis on accessing verifiable data 'pre lodgment' and sharing that data with citizens to help them get things right, rather than a focus on waiting until things go wrong. This saves time and minimises the risk of inadvertent errors that have to be addressed later.

This data-driven focus will also continue to transform our compliance approaches as tax administrators. With greater access to real-time data on payroll, transactions, company accounts and third-party information, conventional, backward-looking audits will fall by the wayside and contemporary tax authorities will be more likely to spend time analysing data to proactively help taxpayers avoid mistakes and get compliance right. Already in Australia, for most individual taxpayers, the income side is now practically based on verifiable third-party data (through pre-fill), with compliance activities mostly being focused on understanding data discrepancies.

The next phase is where changes to the system are primarily designed around verifiable data, rather than relying on bringing data to the system. Over time, areas of the tax system which are currently inherently “data poor” will be identified and replaced with policy solutions which are shaped around verifiable data sets.

## Dealing with the downsides of digital and data

My enthusiasm for the future is somewhat tempered by the potential for digital enabled fraud and unethical use of data (particularly through artificial intelligence).

The ATO currently holds about 50 petabytes of actively used data and processes about 20 billion transactions each year. On any given day our systems block an average of approximately 89,000 malicious connections – this is even higher during our peak individuals lodgment period ‘tax time’.

We are actively hardening our current systems against the rise of cyber enabled fraud at scale (such as identity and information theft) but also embedding fraud prevention measures into systems as part of the initial design process for whatever the future may bring.

Beyond traditional ‘cyber security’ of ATO IT systems we are looking at how we can maintain secure, digital-first interactions with taxpayers and third parties (such as tax agent systems or superannuation funds).

We also recognise that we don’t just need to protect the data we hold from external fraud attempts, but we also need to ingest, use and share it legally and ethically.

Importantly, leveraging data and analytics does not replace the human element: rather it frees up our people to focus on tasks requiring human judgment and empathy. This is why I think it is useful to refer to ‘bionic arms’, not ‘robots’.

We are also working closely with the Office of the National Data Commissioner and actively support whole of government initiatives to strengthen arrangements in place to safeguard our data sharing activities.

A long-term area of focus has been ensuring people seeking to do the right thing can consistently access reliable information. As there is increased reliance on Artificial Intelligence, this becomes an increasing challenge. For those who have experimented with ChatGPT and other AI engines, you will have come across the problem that they can generate absolutely compelling, plausible but completely incorrect responses. This is exacerbated in the area of tax, where fine differences can matter within jurisdictions, but also differences between jurisdictions' approaches mean that an AI response which is completely correct in relation to one country will be completely incorrect in another.

This example just reinforces the need for human judgment, empathy and expertise: despite the technology it still matters who is 'driving' the bionic arms.

## Expanding our functions beyond tax administration – the opportunities and risks of scope creep

As I said earlier the ATO maintains one of the largest IT systems (and budgets) in the Australian Government which begs the question: is that IT capacity a tax administration resource or increasingly becoming a whole of government resource?

Likewise our response to the COVID-19 pandemic in delivering stimulus measures demonstrated our value to Australian society beyond tax administration in demonstrating we have:

- established, integrated systems for dealing with all businesses, individuals and superannuation funds operating in Australia
- expertise in paying out and receiving money
- expertise in receiving and dealing with large amounts of data.

Into the future this may mean the Government asks (or requires…) tax administrators to take on even more functions which aren't our 'core business'. This comes with great opportunities but we also take on significant risk when managing significant programs of work (particularly IT heavy projects) beyond our role as tax administrator.

Perhaps in future the most important decisions for a tax administrator will be which adjacent functions it takes on, and which it graciously declines!

## Interaction with ESG

As Faith will explore with you further tomorrow, tax is increasingly playing a critical role in the integration of environmental, social and governance (ESG) in businesses. Our experience shows that tax transparency (to the regulator, the board, the market and/or clients) is key to instilling confidence in a business and their ESG commitments.

We also believe tax administrators have wisdom to share when it comes to developing global solutions to global problems. For us it arose in the mid–2000s with the digitisation of the economy (which ultimately led to the BEPS project), but we see relevant linkages to current environmental challenges (namely carbon pricing). The lessons here are how to design and administer a system to avoid double (or zero) pricing scenarios when working across multiple jurisdictions and the importance of high-quality reporting to promote transparency.

In many ways, the biggest impact of BEPS 2.0 may not be in tax thinking, but in addressing parallel potential challenges in global carbon pricing, in developing a coherent meshing of different local solutions to a global problem.

## Increased 'meshing' with transfer systems

Historically, most tax systems worked largely in retrospect, using quarterly or annual data to look back and determine liability for tax. By contrast, transfer systems were required to operate in (close to) real time, often based on weekly or fortnightly data.

Now that tax authorities have ready access to real-time data on payroll transactions (the key driver of transfer data requirements), the two functions are no longer so distinct. We have also seen that transfer agencies have been looking at the same trend of designing their systems around verifiable data (rather than vice versa) – for example in Australia, entitlements are based on actual (received) income for a fortnight (supported by high-reliability STP data) rather than a bespoke 'accrued income' concept.

By way of example, a problem in many jurisdictions has been that citizens on social support had limited incentive to re-enter the workforce due to very high effective rates of taxation. It has been difficult to design policy and systems that cope well when citizens’ incomes rise or fall, and as they move on and off welfare assistance.

Over this next phase of the 'revolution', we can expect an increased alignment of 'data cadence' and 'verifiable data-driven' policy. This means that there can be significant integration of policy development as well as service delivery: although I do not expect this to result in merging of tax and transfer agencies, I do see much more 'meshing' of the two.

### Tax data to support non-tax Government decision-making

Increasingly, the data obtained by tax administrators is (relatively) high quality, comprehensive and real time, with employment data being a key example.

During COVID, in Australia and elsewhere, Governments sought access to this information to understand what was happening in the economy in real time. At the same time, traditional ways of finding out information (e.g., statistical surveys) were disrupted, and in any event were not necessarily more accurate or timely than the revenue authority data feeds.

Over time, we can see that increasingly Government will look to rely on revenue authority data rather than traditional surveys and statistical models for much economic insight. This could also mean that revenue authorities are asked to expand their data collection beyond 'tax relevant' data sets to include other data that might be relevant for Government decision making.

By way of example, through 'single touch payroll', the ATO does not collect information as to where an employee physically works (as distinct from the registration address of the employer) or how many hours they work, as this is not relevant to the tax collection task. However, during natural disasters or a pandemic, this might be very useful information for a Government.

## Conclusion

Tax administration is no longer a static function of government. Digitalisation is transforming the way we collect and manage tax revenue but, at least in Australia, it is also transforming community expectations of government and our role as a provider of government services.

Notwithstanding the significant and very significant changes in tax administration over the last 8 years, from my perspective tax administration is better seen as midway through a revolution rather than an evolution, and that this revolution will continue to gather pace in the years to come.

Thank you.

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