



Speech delivered to the International Tax Conference 2022

Deputy Commissioner Hector Thompson delivers a speech to the International Tax Conference 2022.

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Good Afternoon (Selamat Sore Bapak bapak dan Ibu Ibu).

I am delighted to be here in Jakarta to join the Directorate General of Taxes (DGT) 2022 International Tax Conference. Even more so during Indonesia's G20 host year, which has been a remarkable success at a time the global economy faces some of the most significant headwinds I can recall.

I'd like to say a special thank you to the Director General Bapak Suryo Utomo for his insightful opening remarks and to my fellow panellists:

- Pak Yon Arsel – Assistant to the Minister of Finance for Tax Compliance
- Dr Machfud Sidik – former Director General of Taxes at the DGT.

Also, I'd like to say a special thanks to the DGT for the invitation to participate today.

I was particularly pleased to receive the invitation because of the close relationship between the DGT and the ATO. Our partnership commenced in the aftermath of the tragic Tsunami that impacted South-East Asia in 2004. I remember those events well – I was working in the Australian Treasury's development branch at the time and made a small contribution to the establishment of the Australia-Indonesia

Partnership for Reconstruction and Development. I also have many colleagues at the ATO who have fond memories of working with the DGT over the years. This includes developing a program of work in the early days of our partnership and working on developing advice and guidance for taxpayers. My colleagues often remark on how welcome they are made to feel when working with their DGT counterparts.

So, it is an honour to be here all these years later, having seen this partnership grow and flourish. Since 2016 we have had a permanent ATO employee located in Indonesia. The ATO currently has just 2 employees located outside Australia, one in Paris supporting our work with the Organisation for Economic Co-operation and Development (OECD) and the other in Jakarta, which gives a good indication of how important the relationship is to us. I'd like to acknowledge the good work of Mr Grant Leader, who is currently in the role. I'm sure many of you know him well.

Our relationship with the DGT has evolved from one with a focus on providing training and knowledge-sharing to one of genuine partnership. Grant's role acts as the gateway into the ATO for the DGT and conversely for the DGT into the ATO. This creates a strong bridge between our 2 administrations and has strengthened the relationship over time. Increasingly we are seeing more peer-to-peer relationships at a working level where we can collaborate organically, a positive and welcome development.

I would like to highlight 2 areas where we have been working closely in recent times.

The first is in relation to the provision of digital services. As many of you will know, the OECD has a framework it calls Tax Administration 3.0. It sets out a framework for thinking about the delivery of seamless, integrated, and automated systems which allow data to flow from the systems taxpayers already use.

Both Indonesia and Australia face geographic challenges in providing essential services to citizens. Australia in terms of the great distances between regional areas and major cities, and Indonesia as an archipelago made up of over 17,000 Islands. So, technology offers us enormous potential to service taxpayers remotely via digital channels.

Through our partnership we have been working with the DGT in relation to the development of their Virtual Assistants, Arjuna and SriKandi, including hosting a delegation to Melbourne in July and a reciprocal visit from ATO officers to Jakarta in August. We have worked

collaboratively on this project, and I am very pleased to be here in Jakarta as the service is rolled out to taxpayers for the first time.

In Australia, we launched our virtual assistant (Alex) in 2016 to take pressure off other service channels by handling non-complex enquiries and she has most certainly done this. Alex is available 24 hours a day and can answer questions on around 437 different topics, that can be asked in more than 100,000 different ways. In the last year 12 months she has answered more than 1.3 million enquires with a 94% success rate – we are certainly carrying some key person risk there!

The DGT's virtual assistant has some additional capabilities that Alex does not, for example it is integrated with a web chat. If Arjuna and Srikandi can't answer your question, then they will connect through to a human on web chat to answer. We look forward to learning from the DGT's experience with these new features.

Another example I would like to highlight is international tax, subject matter I must confess that I am a little more familiar with than building virtual assistants.

It is almost 10 years since the OECD released the Base Erosion and Profit Shifting (BEPS) action plan that accelerated a broader trend of tax administrations working cooperatively to address the challenges arising from globalisation. I am very pleased to say that this is an area where the engagement between our 2 administrations is strong.

This year alone we have had specific discussions on addressing the tax challenges from the digitisation of the economy and preventing hybrid mismatch arrangements. We have also worked cooperatively on other OECD initiatives, such as the convention on mutual administrative assistance in taxation matters and common reporting standard for the exchange of financial information.

Our work focuses on implementation and compliance – areas where we have had opportunities to engage strongly at an operational level. We have also demonstrated the analytical tools we use in undertaking our automatic exchange of information as an input into the DGT's own work to enhance and develop their own tools in this space.

Which brings me to what's next in the international pipeline – working together to implement the 2-pillar solution to address the tax challenges arising from the digitalisation of the economy.

In late September the ATO hosted the OECD Forum of Tax Administration Plenary event in Sydney. At this event many tax

administrations spoke about the need to build the skills and capabilities for the implementation of the 2-pillar solution. Of course, this will be a challenge for both tax administrations and business. So, preparing for the new rules is going to be a high priority for both. The new rules are conceptually and technically challenging and represent a new way of thinking about the global tax system.

At a practical level they build on the original BEPs work, that has seen a greater degree of cooperation and coordination between tax administrations. Put simply, the better our exchange of information mechanisms are, the more likely it is that these new rules can be administered in a pragmatic and efficient manner.

From an implementation perspective the key focus currently is the development and implementation of Pillar 2 – the Global Anti-Base Erosion (GloBE) rules.

South Korea, Switzerland, the Netherlands and the United Kingdom have all announced their intent to implement the GloBE rules from as early as 1 January 2024. It is generally acknowledged and understood that they will not require global consensus or simultaneous global implementation to operate and succeed.

The Australian Government is yet to make a formal announcement regarding implementation of Pillar 2, including which elements may be adopted or when domestic implementation could occur. However, the Government has made a pre-election announcement supporting the GloBE rules and a consultation paper was released in October calling for submissions to help inform domestic implementation.

The ATO has started preparing for the implementation of the GloBE rules with a focus on how the new rules will impact on the following:

- our lodgment and systems upgrades
- the ATO's internal capability
- what guidance materials will be necessary
- the relevant client engagement, verification and assurance processes.

I do need to make the point that at the current time these considerations are preliminary only.

The GloBE rules envisage a separate information package and returns which will require new systems to support lodgment, assurance, and

compliance. We are looking to identify the most appropriate technology infrastructure for efficient and secure information exchanges of GLoBE information packages and returns. We need to ensure data security and to have data and analytics capabilities to process and analyse the information.

While the Common Transmission System has allowed for an expansion of data sets that can be exchanged, such as for Common Reporting Standards and Country-by-Country Reporting, modifications or adaptations may be required to make it fit for purpose for information exchanged under the GloBE rules. Further testing will be required to evaluate the suitability of this, and other, systems.

We also expect new tax software to be introduced into the market for multinational enterprises to comply with the GloBE rules, although this software is unlikely to be global or standardised.

Due to the role that financial statements and accounting concepts play in the GloBE rules, those administering the rules will need to understand tax effect accounting. We are anticipating the need to recruit and/or redeploy staff with relevant capability and experience with preparing statutory accounts in accordance with accounting standards.

We are also developing tailored capability programs that can support existing staff to develop the necessary expertise to undertake this work. We are expecting that Australian based taxpayers and advisers will be simultaneously seeking to build their capability in this area, and thus there will be significant demand for these skills – a good time to be an expert in tax effect accounting!

Whilst building capability internally will be an important focus, we are also considering how we can best support the Australian market in adapting to the new rules. This includes technical and practical administrative guidance to support taxpayers and advisers to understand and comply with the rules. This public guidance will be complemented by one-to-one guidance and support provided through direct engagement with taxpayers and advisers.

Our existing processes to provide formal binding private advice to taxpayers will be available and this will be supplemented by informal engagements and requests for generic advice provided by dedicated specialists teams in the ATO.

Whilst our overall administrative approach will be guided by the OECD's implementation framework and domestic legislation, we are consulting broadly to better understand the likely resourcing needs and develop a compliance program tailored to the Australian market. We will of course be looking to reduce the compliance burden wherever possible for in scope taxpayers by leveraging off our existing compliance programs, integrating GloBE reviews into existing processes, and coordinating information requests.

We all have a lot of work to do to prepare for GloBE implementation, including working together to share experiences on implementing and administering the changes. This is important because the OECD's work on BEPs reflects a broader trend – an expectation that tax administrations will increasingly look 'beyond the border' when it comes to delivering on the expectations of governments and citizens.

Whether it is administering international integrity rules like the hybrid mismatch rules and now the GloBE rules, expanding international tax treaty networks (as Australia is currently doing), or sharing knowledge and data between tax administrations, international linkages have never been more important in tax.

As mentioned earlier, we have had useful discussions with the DGT this year on the convention on mutual administrative assistance in taxation matters – a good example of the sort of tool that can support such global cooperation. This convention provides for all possible forms of administrative co-operation between the parties in the assessment and collection of taxes.

For Australia the convention compliments our network of tax treaties and information exchange agreements by providing an additional tool for detecting and preventing tax evasion as well as recovering outstanding tax debts. We have done a lot of work to assess the benefits and understand the process of being a signatory. I understand that Indonesia is currently considering removing your reservation in relation to the mutual assistance in tax collection element of the convention.

Mutual assistance in collections can play a role in helping to maximise the benefits of such an instrument. Whilst many countries have signed up to the convention, not many have included provisions for the recovery of tax claims, which puts significant limitations on how effective this instrument can be.

For example, as more countries explore options for bringing offshore businesses into the scope of their indirect tax systems on low-value imported goods and digital services, mutual assistance in collection could become increasingly more relevant. As you are aware, Australia was one of the first countries to adopt a GST on low-value imported goods and it is pleasing to see an increasing number of other countries adopting similar measures.

I'm going to make a couple of remarks about these changes – they are a good example of governments responding quickly to economic trends (in this case a rapid rise in online purchases of goods or services from offshore businesses). In 2017 and 2018, laws were passed in Australia applying a GST vendor collection model to sales of digital services and low-value goods respectively.

Offshore sellers of digital services or low-value goods were made responsible for collecting GST at the point of sale to Australian consumers. The model provided a number of advantages over other taxation methods, most notably by minimising administration costs and maintaining the free flow of low-value goods across our border. The main question in introducing such a system was, would offshore businesses comply?

When laws are introduced into the Australian Parliament, revenue estimates are prepared. The estimate for digital products and services were expected to raise AUD 350 million in the first 2 years. The actual GST revenue paid by businesses was more than double that, at AUD 755 million. For low value imported goods, revenue was estimated at AUD 300 million in the first 3 years – actual GST paid in this period was AUD 1.2 billion.

One reason why the revenue from these measures exceeded our estimates was that compliance has been higher than predicted. Australia now has approximately 2,000 registered offshore businesses who are collecting, reporting, and paying GST under this measure. An interesting feature of this regime is that GST revenue is highly concentrated in a small number of businesses. For example, 40% of the GST we collect is paid by only 10 large digital platforms (on-line marketplaces). More broadly, our 100 largest registrants pay 85% of the total revenue.

These measures are another good example of how tax administrations are increasingly expected to look 'beyond the border' to deliver on expectations of government and citizens.

In closing, I'd like to thank you again for the opportunity to participate in the 2022 International Tax Conference.

Throughout the COVID-19 pandemic I am pleased to be able to say that the ATO and DGT have worked hard to maintain a close working relationship and to co-operate virtually, but this can't replace face-to-face connections. Just as a contemporary tax administration cannot exist in isolation from other jurisdictions, international tax cooperation requires deep and ongoing personal linkages to be effective. So, it is a pleasure to be here today and I look forward to our discussion this afternoon.

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