



# SYSTEMIC DRIVERS OF CHANGE

## A foresight report into the next decade for taxation

In late 2013 and early 2014, the ATO undertook a research study with thought-leaders and practitioners in both the tax/superannuation industry and the tax administration.

The research sought to understand strategic drivers that will lead to important and sometimes fundamental shifts in the taxation environment.

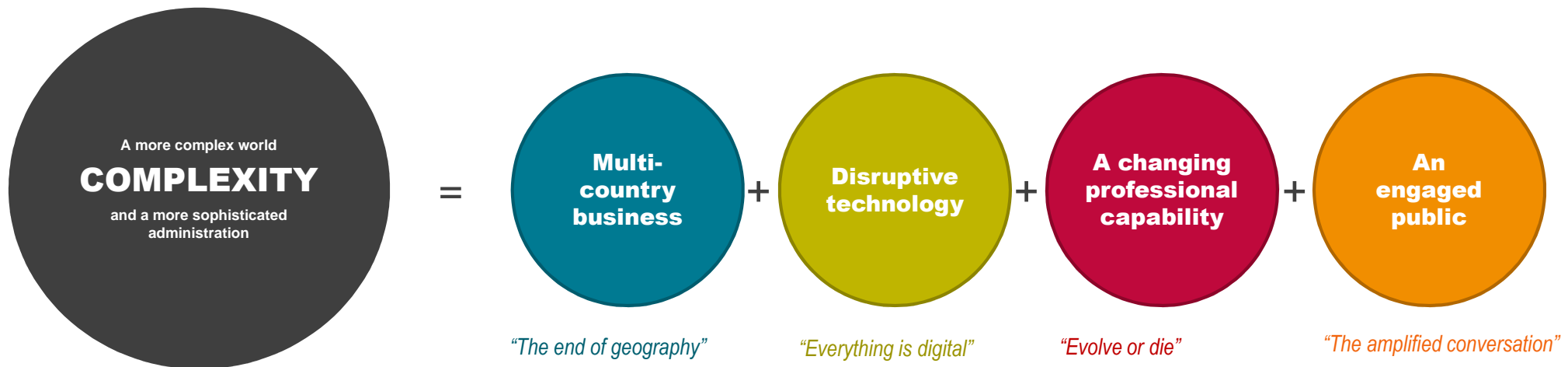
A number of themes emerged that, if they are realised as expected, will affect all parts of the taxation ecosystem.

The Australian Tax Office (ATO), business, and the tax profession will need to respond to new these challenges and opportunities, and these responses will need a mix of evolved approaches and sometimes entirely new thinking to optimise compliance and ensure a healthy, effective taxation regime that delivers a fair revenue outcome.



Section 1

# Key drivers affecting taxation in the next decade



**Complexity** /kəm'plɛksəti/ *noun* The number of variables that have to be dealt with in a given time in a situation, the clarity and precision with which they can be identified, and their rate of change (Jaques, 1996)

Tax is a complex system. It is part of a network of global social and economic systems that are interconnected, non-linear, interdependent, and evolving.

Over the next decade, this complexity is set to intensify, affected by four major drivers of change that will create new tensions, opportunities and balance points.

Some of these drivers are already emerging, others are strongly indicated by current trends and forecasts. By understanding how they converge and the shifts they will set in motion, we can gain a more sophisticated understanding of the future landscape of taxation.

*“The end of geography”*

The trend towards business that is unrestricted by borders will continue to intensify, presenting new challenges that typically go beyond the boundaries of country and region.

*“Everything is digital”*

The next decade will be characterised by continuing innovation on conventional approaches as result of disruptive technology and the exponential growth of data, integration and technology-enabled business models

*“Evolve or die”*

The tax profession will undergo fundamental shifts in both its business model and its workforce, resulting in a changing professional capability in Australia.

*“The amplified conversation”*

Public expectations on both the tax system and corporate contribution will continue to evolve, with an engaged public voice becoming increasingly enabled and amplified by new channels, information sources and modes for formal and informal community-driven campaigns.



The next decade promises a tax environment of increasing complexity for all players.

This complexity will be driven by shifts right across the taxation ecosystem. Some of these shifts are already emerging, others are strongly indicated by current trends and forecasts.



Key



Driver



Possible response

The size of each circle reflects the impact of the driver/response, and the certainty/frequency with which it was identified



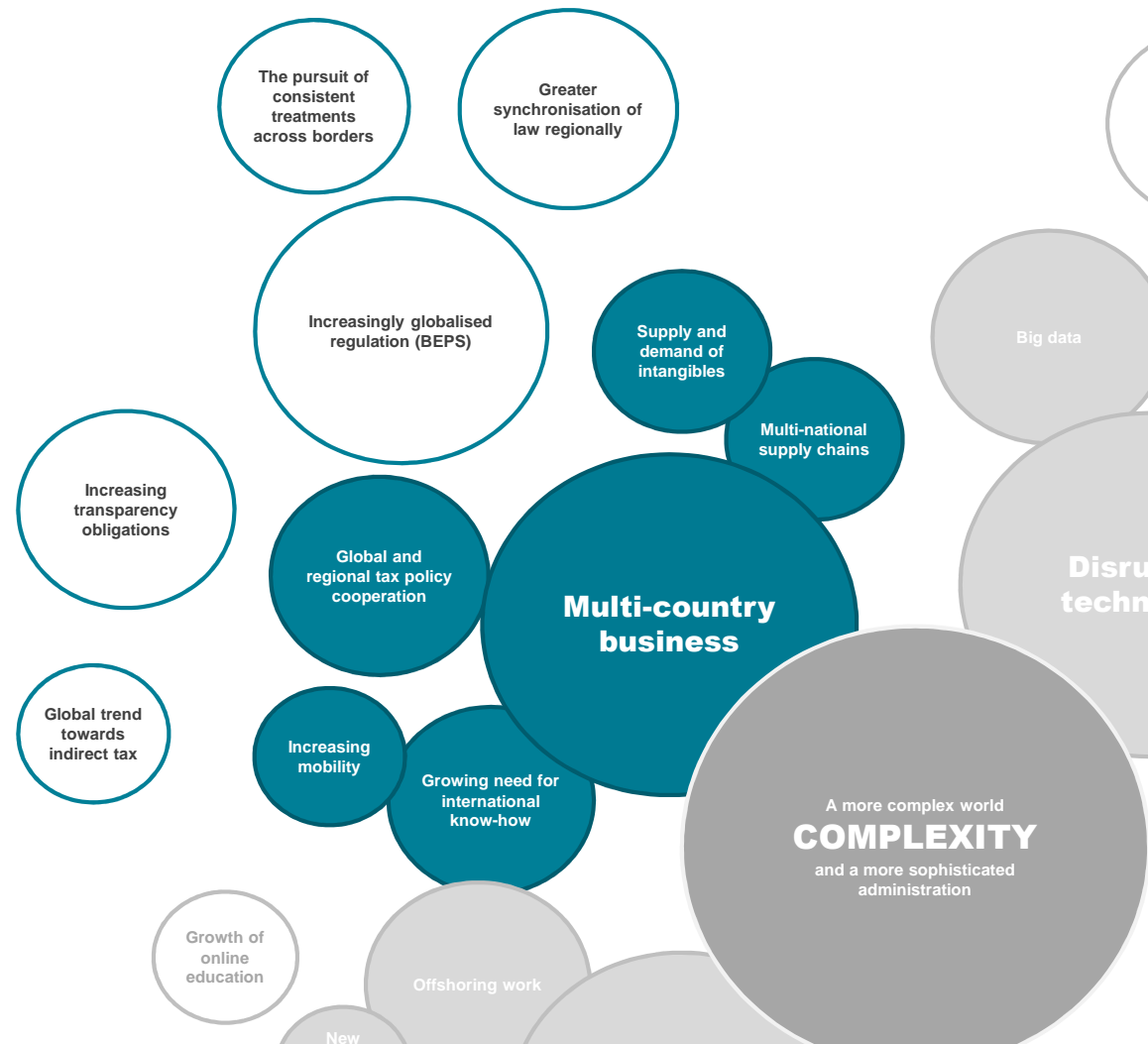
## The end of geography: multi-country business

The trend towards multi-country business will continue to intensify, presenting new challenges that typically go beyond the boundaries of country and region.

This trend will drive a range of challenges for tax administrations needing to tax increasingly globalised value chains and market offerings. At the same time, new expertise will be needed to navigate the complexity of sophisticated international arrangements and the ongoing rise of intangible, Intellectual Property based goods and services.

### Key questions

- How will we respond to an interconnected world to ensure that we collect our fair share of revenue and assure compliant behaviour in complex circumstances?
- How do we fairly tax new and emerging forms of value – from hosted services to IP-based goods and from globally distributed manufacturing to global chains of supply?
- Where will we get or grow the expertise and relationships we need to manage our response?





## Multi-country business

Readily available technology and a globalised economy means that countries will be more interconnected than ever over the next decade.

Having to deal with global, in addition to local, competition stimulates businesses to globalise, both mobilising resources and providing goods and services across borders. Additionally, companies have sought to exploit opportunities to minimise their tax obligations by structuring themselves across often fragmented regulatory regimes. These trends have and will continue to grow as a significant force in shaping the tax system and policy/administrative priorities over the next decade.

### Growing need for international know-how

Businesses with global subsidiaries, suppliers or customers will increasingly need a mixture local and foreign tax and business advisory services to navigate the complexity of multiple revenue systems. They will seek to minimise their cost of compliance and optimise their tax bill. In order to stay competitive, tax practitioners will increase their capability with both local and foreign tax systems, and with general (e.g. labour) or specialist (e.g. agriculture) business arrangements.

### Supply and demand of intangibles

Technological innovation and the increasing ease of accessing new digitally-delivered services from cloud data hosting to 3D printing will fuel the demand for intangibles and present novel challenges for tax reporting, administration and policy.

### Multi-national supply chains

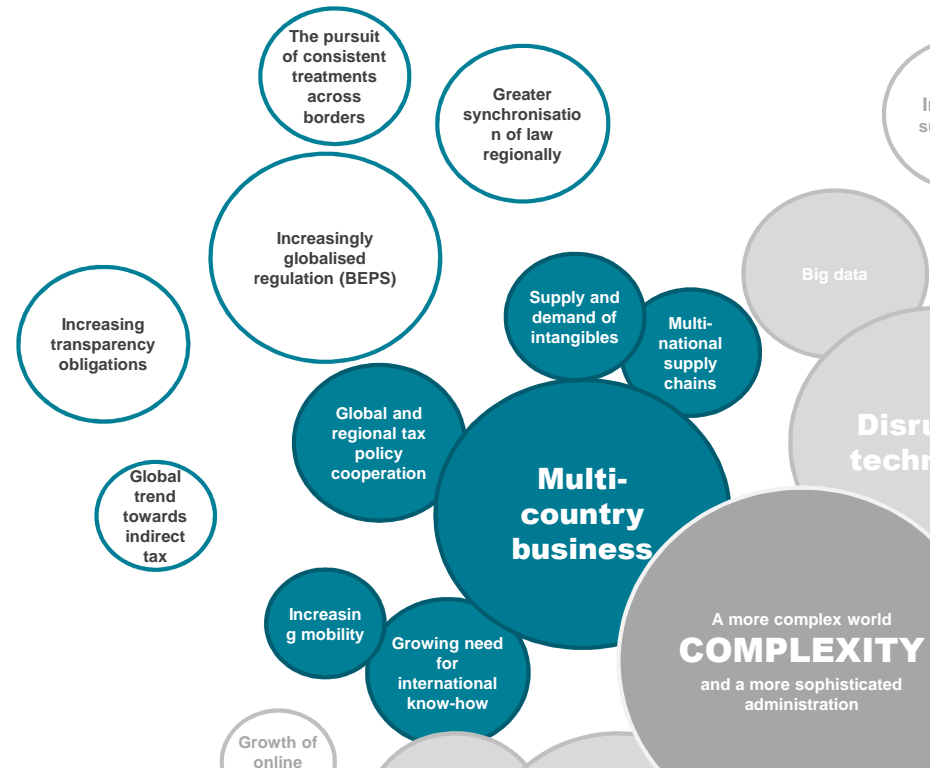
Foreign outsourcing and multi-national subsidiary arrangements have already and will increasingly emerge as a staple business process. Value chains and transactions that span countries challenges the ability for countries to capture a fair amount of tax over the course of the value adding process that results in a good or service.

### Global and regional tax policy cooperation

Governments will increasingly rely on global and regional solutions to taxation to reduce the opportunity for companies to use multi-country supply chains and digital delivery to avoid paying tax. This may include new treaties, harmonised policies, increased data sharing and other approaches driven by initiatives such as Base Erosion and Profit Shifting (BEPS). This will require new knowledge and skillsets within the tax industry and the ATO, and will trigger market responses as businesses reshape their compliance and their tax strategies.

### Increased mobility

As it becomes easier for individuals to move across borders, taxation will become increasingly complex to manage. Australians travelling overseas who earn a salary or business revenue will need to navigate multiple tax systems. Foreigners in Australia who own foreign businesses but use Australian tax-funded public services may not make a contribution. To deal with these complexities and disparities, governments will need to develop strategies to respond appropriately (for example, by increasingly applying indirect taxation).

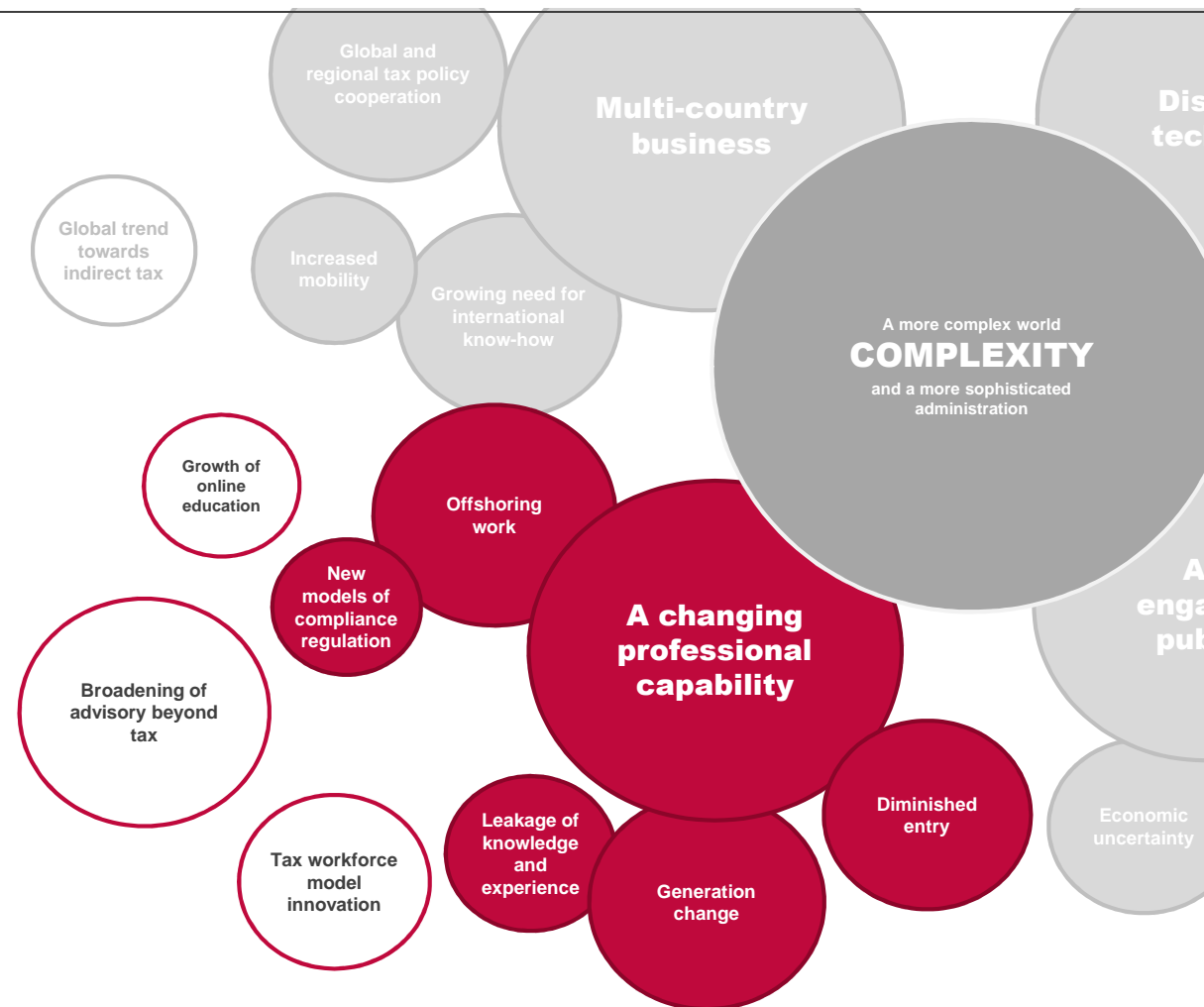




## Evolve or die: a changing professional capability

The tax profession will undergo fundamental shifts in both its business model and its workforce, resulting in a changing professional capability in Australia.

These will be driven by a range of trends that include cross-border outsourcing for both routine and, ultimately, more complex tax work, and generational shifts that will greatly change the industry's profile. This creates an uncertain future position for the profession that will affect not just the industry but the tax administration that relies on it as a trusted intermediary.



### Key questions

- How can we effect a meaningful compliance regime in an increasingly globalised tax preparation and advisory supply chain?
- What is the appropriate administrative response to a potentially diminishing professional tax capability in Australia?



## A changing professional capability

The tax profession is undergoing considerable change at all levels. The median demographic of a tax practitioner is set to lower at the same time that globalised business, offshore advisory sourcing and digital innovation challenge existing approaches. The shifts in the tax profession in turn will have an effect on the ATO, which relies on Australia's intermediary population as a compliance strategy.

### Offshoring work

There is currently a trend for tax practitioners to offshore low level routine tax processing work. Though this is an effective cost reduction method, it creates uncertainties in the long term as new tax practitioners will lack the experience of basic tax work. It also drives the declining entry into the profession as employer demand for graduates slows. Increasingly, driven by costs and the multi-country nature of business, it is expected that Australia will also see offshoring of higher-order advisory services as well, particularly if other drivers such as generational change and diminished entry make it difficult to source appropriate skills locally.

### New models of compliance regulation

There will likely be continuing and escalating expectations for Government agencies to reduce budgets, deliver efficiency dividends and further reduce regulatory burden. This will encourage regulators like ATO to explore and ultimately implement new models to reduce barriers to compliance and reduce regulatory cost. For the tax profession, this could see an increased use of trusted intermediary services to effectively outsource certain regulatory functions into the private sector, where this is a low risk proposition, stimulating the industry that services larger business segments. It could also place new impetus on the use of data and technology make tax regulation more efficient, requiring the industry to become competent at supporting changing reporting obligations and mitigate risk for their clients.

### Leakage of knowledge and experience

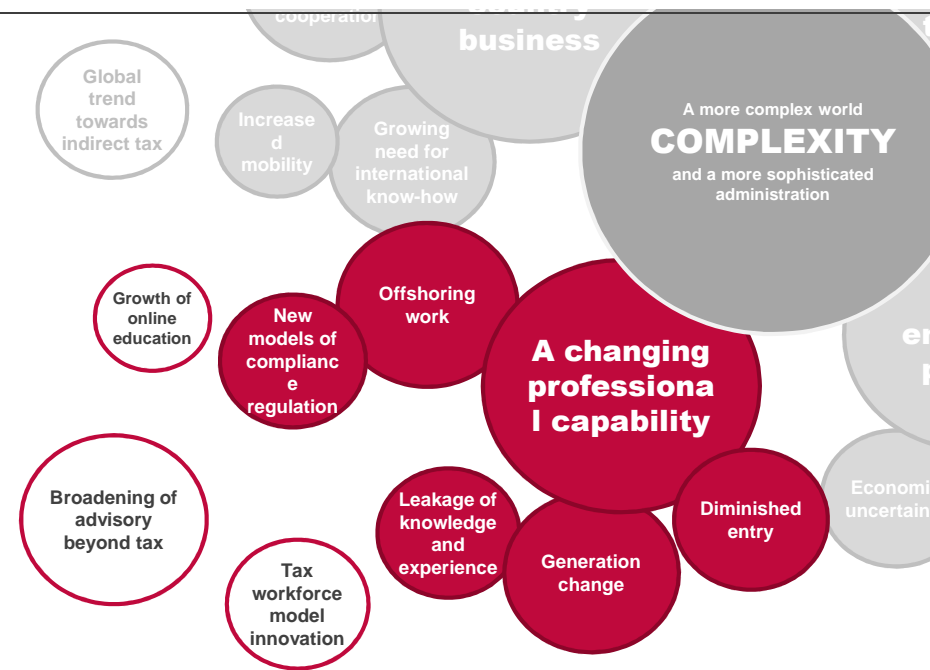
A large cohort of older generation tax practitioners and government administrators will leave the workforce over the next decade, taking with them knowledge that may not have been transferred adequately to the younger generation. This includes in depth understanding of tax policies and historical rationales for certain practices. This has potential impacts to the effectiveness and quality of some intermediary services and some administrative decision-making, if it is not dealt with systemically.

### Generational change

The tax industry is seeing and will continue to see a generational shift, with a significant amount of experienced practitioners retiring or otherwise leaving the industry, and a new generation, with new sets of values, native digital competency and new career expectations, entering. This will drive cultural and practice shifts in the industry, and also significant more movement of people across organisations and also into and out of the tax profession as employees become more "portable".

### Diminished entry

A reduced demand for tax advisory services in Australia will force tax practitioners to diversify their services beyond tax verticals. Tax practices will hire less graduates for tax, feeding the issue of declining entry into the profession. Additionally, tax is perceived as difficult work and a difficult career to advance in, and so may be less attractive to prospective students than other areas of financial specialisation. This may cause a scarcity of available resources in Australia and potentially see other financial disciplines widening to include (rather than specialise in) taxation to make up the gap.

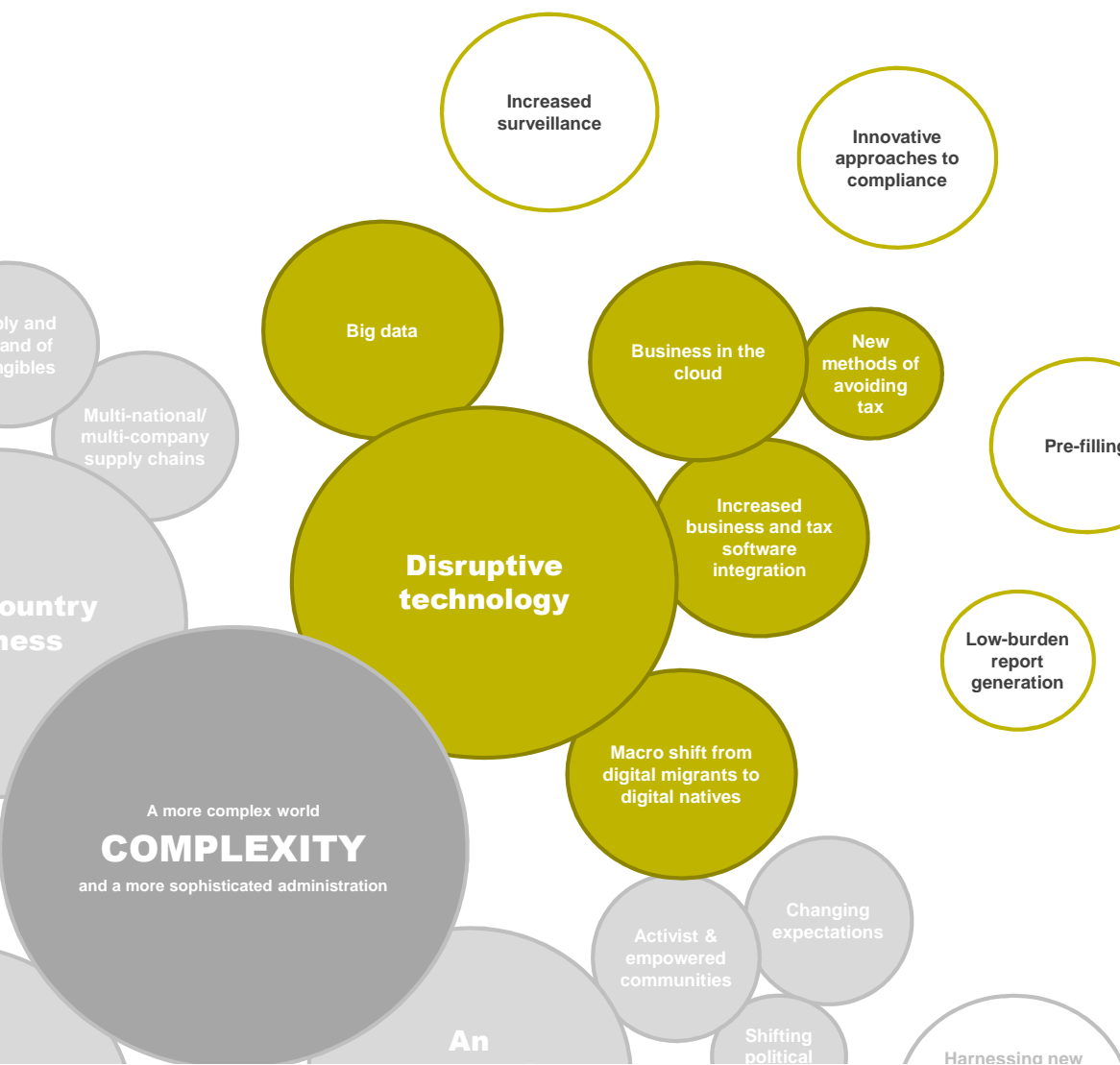




## Everything is digital: Disruptive technology

The next decade will be characterised by continuing innovation on conventional approaches as result of disruptive technology and the exponential growth of data, integration and technology-enabled business models

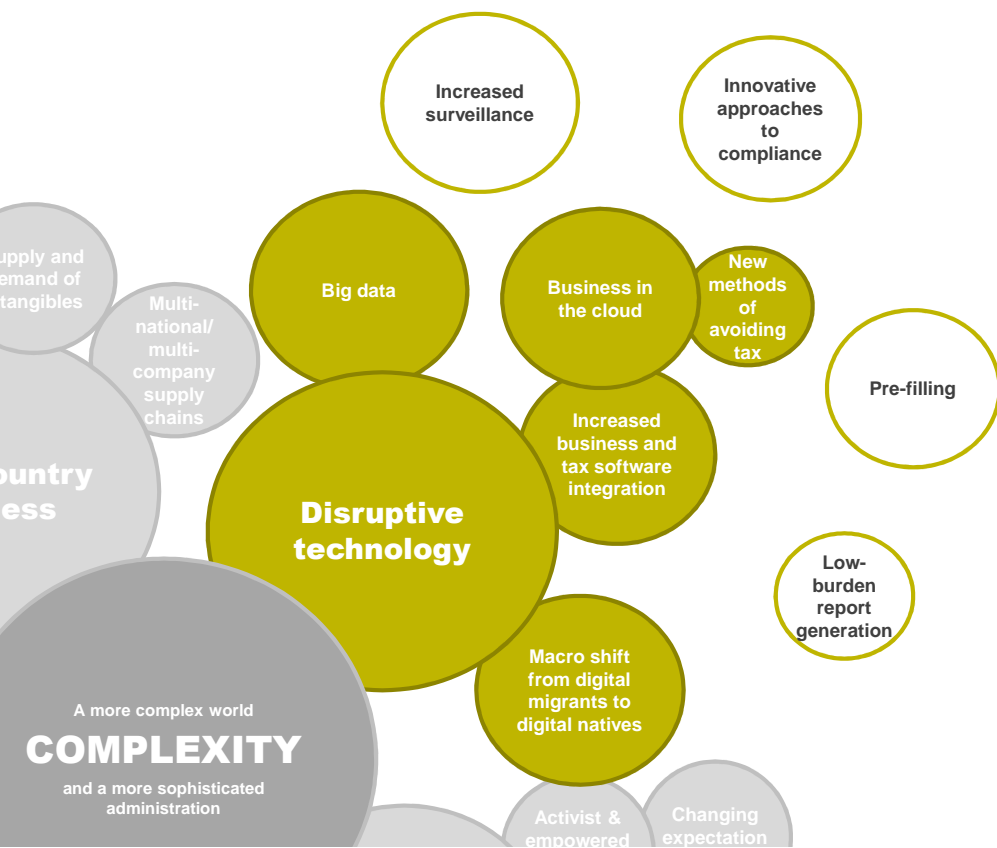
New technologies are a catalyst and enabler for all other trends – including the viability of multi-country business, offshoring of tax work and the empowering of Australian communities. They also carry a potential positive effect from a cost-of-compliance perspective on both sides of the regulatory boundary. The availability of Big Data and growing sophistication of analytics makes possible new levels of transparency and risk mining that Australia may choose to harness to achieve its administrative outcomes more effectively and better inform policy-making process.



### Key questions

- How can we harness technology to reduce our footprint on business, and what risks will we need to manage?
- What capability will we need to run compliance in a rapidly evolving technology environment?
- How do we influence or integrate with the technology market to support our strategic directions?





## Disruptive technology

Technology is disrupting current models of business and taxation. As our world becomes more connected, tasks more automated, data handling more sophisticated, business-to-business/government/consumer channels more diverse and software more integrated, flow on effects to every aspect of the business ecosystem will not simply continue but intensify. Both businesses and Government will be continually responding to new developments – both opportunities and challenges – that emerge from the accelerating pace of technological disruption.

### Big Data

With increasing amounts and availability of information and the lowered cost of storage, the use of big data will become more prevalent both for and between businesses and the ATO. However, managing the vast amount of data, and creating actionable insight and meaning from it, is a complex process requiring investment and the development of new skill sets across the tax sphere.

### Business in the cloud

Businesses are increasingly breaking the link between their physical location and services they offer and consume by exploiting the internet and other digital channels. Businesses outside Australia are transacting with Australia at every level of the economy without maintaining a presence here. This has implications for taxation, and is a trend that is increasing and will continue to increase over time.

### New methods of avoiding tax

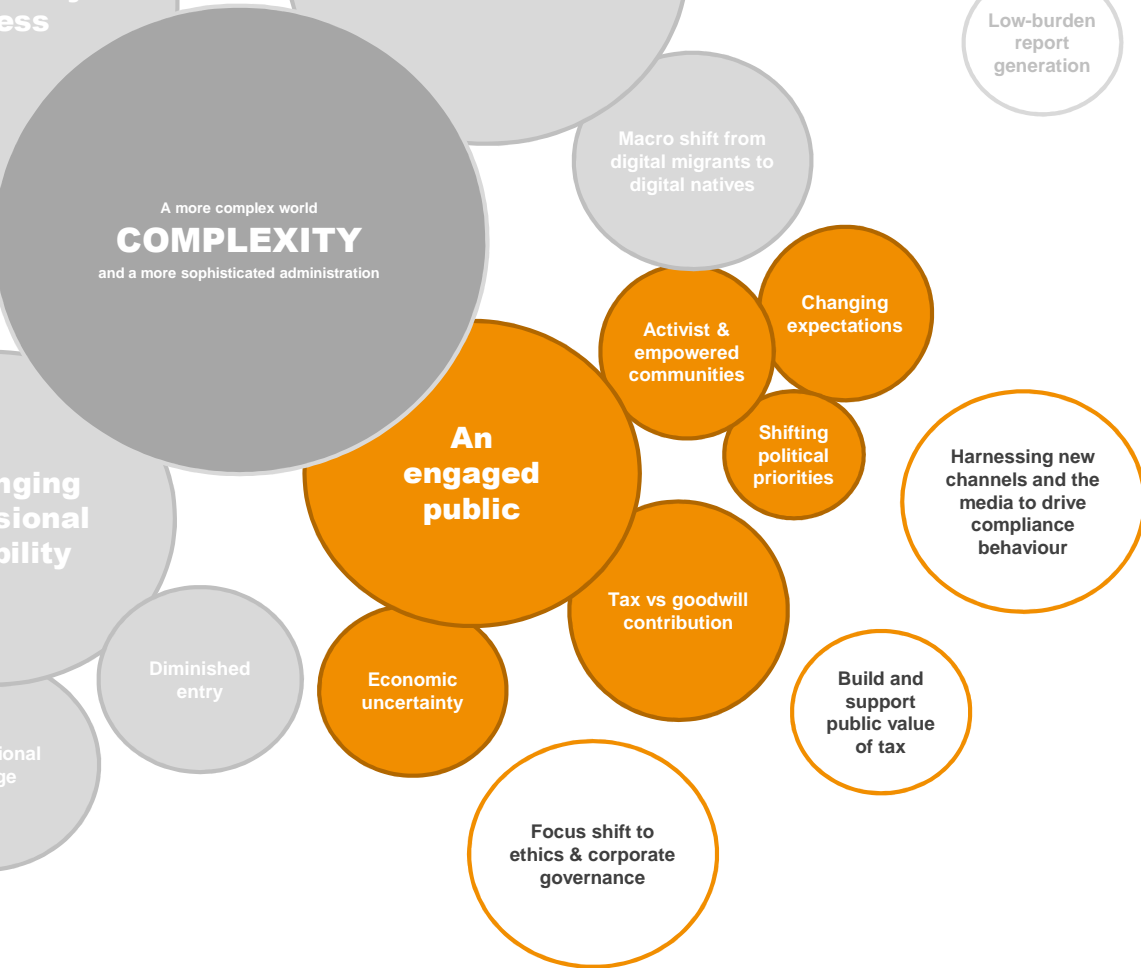
Rapid innovation and the availability of new technologies mean that some segments of the individual or corporate sector may develop new and unforeseen ways of lower their tax bill at the fringes of or outside of the ATO's compliance boundaries. Responses to these may need to be imaginative and novel, particularly given lead times for policy and treaty change.

### Increased business and tax software integration

The development of Government digital services and taxonomies, and the recognition of the value of data supply chains within and across business, will stimulate business and tax software to better integrate with other software, provide sophisticated analysis, and supply lower-overhead reporting as standard. This will in turn have effects on the tax profession, and also increase the amount of data that the ATO could feasibly and usefully expect to receive.

### Macro shift from digital migrants to digital natives

As generational change drives a shift in demographics, we will see a higher proportion of "digital natives" moving into decision making roles in both the tax administration and the tax profession.



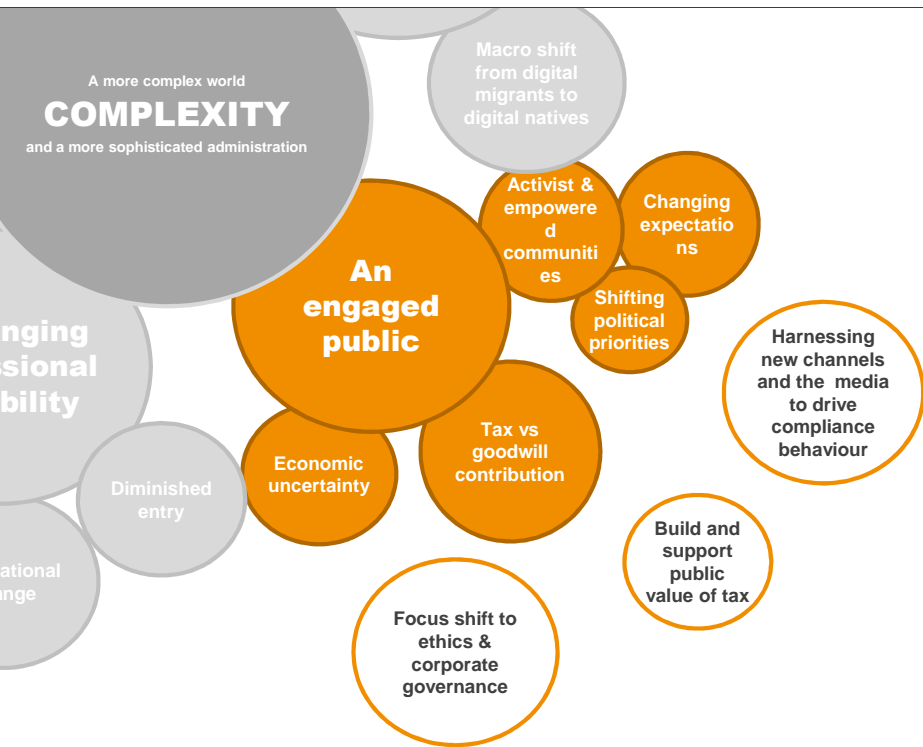
## The amplified conversation: An engaged public

Public expectations on both the tax system and corporate contribution will continue to evolve, with an engaged public voice becoming increasingly enabled and amplified by new channels, information sources and modes for formal and informal community-driven campaigns.

A public that is informed, values driven and willing to act now has the tools to be an effective force in shaping corporate and tax industry culture. In the future, public awareness and its effect on market demand has the potential to slow revenue erosion. This is particularly the case when seen in the context of other strategic drivers (e.g. transparency emerging from disruptive technology, and the notion of revenue fairness in multi-country business taxation).

### Key questions

- What values drive the public with respect to corporate tax compliance and fairness?
- What strategies could the ATO consider to harness public perceptions and values to support a fair taxation outcome for Australia?



## An engaged public

The level of public participation promises to increase such that tax as an issue moves beyond one's tax bill to influence consumer market behaviours, shape perception, and contribute social pressure to the compliance landscape.

### Activist and empowered public

There is currently a surge of engagement and activism from the public about the perception of large business and high-wealth individuals not contributing fairly to Australia's revenue, enabled by social media and a growth of new news and opinion sources. This creates an less predictable policy and economic environment, and a stronger opportunity for the public to participate influentially in the national conversation and as consumers, in the market.

### Shifting political priorities

Both global and national trends, and the electoral cycle, will continue to drive frequent and unpredictable change in the business environment and the tax system. Policy outcomes delivered through significant tax instruments such as the carbon price, mining tax, business tax incentives etc. will be created, redesigned or halted, causing periodic and potentially costly adjustments for tax regulators and intermediaries.

### Economic uncertainty

Although Australia performed strongly in the credit crisis, the changing face of Australian industry and the impacts of growth or decline in some influential industries, and the strong linkage of the health of the Australian economy to regional and global trends will create ongoing uncertainty for businesses and consumers, in turn having an effect on revenue and tax compliance behaviours.

### Changing expectations

There is currently a revival of the importance of ethics and corporate citizenship in discussions relating to tax. In part driven by public digital participation, and in part driven by global effort to manage imbalances and weaknesses in global taxation (e.g. the Base Erosion and Profit Shifting initiative), corporate citizenship including revenue contributions promises to be an increasingly common discussion point at the board table.

### Tax vs goodwill contribution

Tax will continue to compete with other forms of contribution in the mind of the public. For example, business (particularly large business) will argue that the benefits they provide in terms of economic injection and goodwill contribution should be recognised by Government in the form of lower business taxation. Public opinion will be a key factor in the level of influence this point of view has on tax policy.