



**Australian Government**  

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**Inspector-General of Taxation**

# **The Future of the Tax Profession**

**Terms of reference**

**June 2017**

## BACKGROUND

Technological advances are transforming all aspects of modern society and the tax profession is not immune from these sweeping changes. Whilst these changes present challenges, they also provide opportunities to significantly improve the administration of the tax system and deliver far-reaching benefits to the entire community. The aim of this review is to seize these opportunities by anticipating the changes and planning ahead to achieve optimal outcomes for all parties. The review is being conducted at the request of the Commissioner of Taxation (the Commissioner) as well as in response to concerns raised by a range of stakeholders in the tax profession, particularly tax practitioners.

Traditionally, the main players in the tax system have been the Australian Taxation Office (ATO), who collects and provides tax revenue to the Government, taxpayers and tax practitioners including lawyers, tax agents and business activity statement (BAS) agents. The role of tax practitioners has been particularly significant since the shift from full assessment to self-assessment in 1986. They perform a crucial role as an intermediary between the ATO and taxpayers in 'achieving tax compliance and contributing to the smooth functioning of the tax system'.<sup>1</sup> Currently, the proportion of Australian taxpayers who engage tax practitioners is amongst the highest of any member country in the Organisation for Economic Cooperation and Development (OECD).<sup>2</sup> In the 2015-16 financial year, 74.2 per cent of all individuals and over 95 per cent of business taxpayers used the services of a tax practitioner.<sup>3</sup>

Prior Inspector-General of Taxation (IGT) reviews, particularly his 2015 review into the ATO's services and support to tax practitioners,<sup>4</sup> were aimed at issues relating to existing ATO systems and practices as well as associated interactions with taxpayers, tax practitioners and other third parties. By contrast and as mentioned earlier, this review will focus on the future taking into account technological, social, policy and regulatory changes.

In recent decades, technology has begun to change the way in which the ATO provides services and interacts with taxpayers and tax practitioners. Some earlier examples of such services include the ATO Portals<sup>5</sup> and Electronic Lodgment Service<sup>6</sup> whilst more recent examples are myTax<sup>7</sup> and 'Alex'.<sup>8</sup> The ATO's initiatives in this regard align with the Government's digital transformation agenda.<sup>9</sup>

Similarly, the business models of tax practitioners are also evolving. In coming years, it is likely that the pace of change will escalate with other professionals, such as software and hardware developers, data analysts and providers of banking and payment services,

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<sup>1</sup> Organisation for Economic Cooperation and Development (OECD), *Increasing Taxpayers' Use of Self-Service Channels* (2014) p 35.

<sup>2</sup> OECD, *Tax Administration 2015 Comparative Information on OECD and other Advanced and Emerging Economies* (2015) p 267.

<sup>3</sup> Australian Taxation Office (ATO), *Annual Report 2015-16* (2016), p 46.

<sup>4</sup> Inspector-General of Taxation, *The Australian Taxation Office's Services and Support for Tax Practitioners* (2015).

<sup>5</sup> Gateways through which tax practitioners and certain taxpayers can use a range of ATO services.

<sup>6</sup> Electronic Lodgment Service (ELS) facilitates the electronic lodging of ATO forms via a software interface platform.

<sup>7</sup> ATO, 'Lodge Online' (1 March 2017) <[www.ato.gov.au](http://www.ato.gov.au)>. A web-based service that allows individuals and sole traders to complete their own returns.

<sup>8</sup> ATO, 'A better online experience' (March 2016) <[www.ato.gov.au](http://www.ato.gov.au)>. The ATO's virtual assistant that can help answer general taxation enquiries.

<sup>9</sup> ATO, 'Digital by Default Consultation Paper' (2015) <<http://lets-talk.ato.gov.au/>>.

playing a greater role in the tax system. These changes may be brought about by the application of new developments in artificial intelligence and robotics to perform tasks previously conducted by humans, resulting in a reduction in costs and the need for outsourcing to offshore entities. Existing and further use of data management applications, including cloud accounting<sup>10</sup> and blockchain technologies,<sup>11</sup> may also have similar effects. Products that transfer risk to third parties, such as taxpayer audit insurance and professional indemnity insurance, may be other areas for future development.

Social changes, such as taxpayer expectations for 'real-time' response, are another result of technological advancements. Work patterns are also changing as seen in the 'gig' economy where workers are engaged on a contractual or project-by-project basis rather than full-time employment, particularly impacting in-house corporate specialists.

Whilst technology, when appropriately utilised, can deliver significant benefits, there are challenges that need to be addressed such as certain functions becoming redundant or significantly diminished and how the affected parties, such as sole tax practitioners and in-house corporate tax specialists, may need to adapt to the new environment. A more pressing concern of the tax profession is the level of dependency on ATO digital systems, their reliability and the lack of contingency plans particularly when unforeseen failures arise such as those in late 2016 and early 2017.<sup>12</sup> The Commissioner has also recently reflected on some of these issues.<sup>13</sup> Other issues raised with the IGT include privacy and data security. Broader concerns in this regard have resulted in the Government's recent 'Cyber Security Strategy' aimed at protecting Australia's interests online.<sup>14</sup>

There are also policy and regulatory changes which are shaping the tax profession. In addition to the Government's digital transformation agenda, financial advisers, who are involved in the provision of tax advice, have recently become subject to the jurisdiction of the Tax Practitioners Board (TPB).<sup>15</sup> Furthermore, increased focus on transfer pricing and the greater need for market valuation have placed heavier reliance on economists and valuers. By contrast, tax academics and educators, who have always played a significant role in the tax system, are likely to continue to do so although their research and the training that they provide may need to expand to new areas. Similarly, professional bodies and industry associations will also continue to play an important role.

It is evident from the above discussion that the impending technological, social, policy and regulatory changes will have vast and lasting impacts on the tax profession, the ATO, the TPB and the wider community. The IGT will seek input from a broad spectrum of stakeholders, as well as consider overseas experiences and research, to identify the significant changes ahead, aspects of the current system that should be retained and/or augmented, those that need to be discarded and the new strategies required to meet future challenges and realise the potential benefits.

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<sup>10</sup> Deloitte Private, 'Insights: Cloud Accounting' (undated) <[www2.deloitte.com](http://www2.deloitte.com)>. Cloud accounting enables access to client information on-line in real-time as well as access to more up-to-date and detailed business information.

<sup>11</sup> PwC, 'A primer on blockchain (infographic)' (6 December 2016) <<http://usblogs.pwc.com>>. Blockchain is a digital, decentralised ledger that keeps a record of all transactions that take place across a peer-to-peer network.

<sup>12</sup> ATO, 'ATO Systems Update' (8 February 2017) <[www.ato.gov.au](http://www.ato.gov.au)>.

<sup>13</sup> Chris Jordan, 'Commissioner's address to the Tax Institute National Convention 2017' (16 March 2017) <[www.ato.gov.au](http://www.ato.gov.au)>.

<sup>14</sup> Department of the Prime Minister and Cabinet, *Australia's Cyber Security Strategy* (2017).

<sup>15</sup> Tax Practitioners Board, 'Register as an individual tax (financial) adviser' (undated) <[www.tpb.gov.au](http://www.tpb.gov.au)>.

## TERMS OF REFERENCE

*The IGT will conduct a review into the future of the tax profession with a focus on:*

1. *The opportunities, risks and challenges presented by new technological, social, policy and regulatory developments on the administration of the tax system including:*
  - a) *the changing nature of existing automated or online services as well as the proliferation of future services through other technological advancements;*
  - b) *community expectations for 'real-time' online response and changes in work and communication practices; and*
  - c) *the entry of new intermediaries into the tax system such as financial advisers, who provide tax advice, falling within the purview of the TPB.*
2. *The strategies necessary to assist the tax profession to meet the potential challenges posed by the above developments including the:*
  - a) *changing demographic of the tax profession and the greater role played by other third parties in the tax system, such as financial advisers, software and hardware developers, data analysts, providers of banking and payment services, economist and valuers;*
  - b) *services that the tax profession would be expected to provide and the need to adapt to the changing environment in the face of potential redundant or diminishing functions;*
  - c) *skills, training and on-going education that tax professionals may require;*
  - d) *need for effective contingency arrangements to alleviate the impacts of unavoidable system failures; and*
  - e) *support that the tax profession would require from the ATO, the TPB and others such as tax academics and educators as well as professional bodies and industry associations.*
3. *How the ATO and the TPB can seize the opportunities presented by technological, social, policy and regulatory developments to:*
  - a) *work with the tax profession in providing contemporary, reliable, accessible and secure services that foster voluntary compliance by meeting the increasing expectations of taxpayers and tax professionals and improving their productivity; and*
  - b) *establish effective contingency arrangements to alleviate the impacts of unavoidable system failures.*
4. *The IGT may also examine other relevant concerns or potential improvements identified during the course of the review.*

## SUBMISSION

We are interested in the views of all members of the community including taxpayers, tax practitioners, professional bodies as well as other third parties such as financial advisers, software and hardware developers, data analysts, providers of banking and payment services, economists and valuers. We envisage that your submission will set out your views on the future of the tax profession in line with the terms of reference and identify the potential opportunities for improvement, including:

- the aspects of the current system that you believe should be retained and/or augmented and those that need to be discarded; and
- any new strategies or initiatives that are required to meet future challenges and realise potential benefits.

You may wish to cite examples from your own experiences as well as any international research or developments that you believe would be of assistance or lead to improvements.

## LODGMET

The closing date for submissions is 28 July 2017. Submissions can be sent by:

Post to:           Inspector-General of Taxation  
                      GPO Box 551  
                      SYDNEY NSW 2001

Fax:               (02) 8239 2100

Email to:         taxprofession@igt.gov.au

## CONFIDENTIALITY

Submissions provided to the IGT are maintained in strict confidence (unless you specify otherwise). This means that the identity of the taxpayer, the identity of the adviser and any information contained in such submissions will not be made available to any other person, including the ATO. Section 37 of the *Inspector-General of Taxation Act 2003* safeguards the confidentiality and secrecy of such information provided to the IGT – for example, the IGT cannot disclose the information as a result of a Freedom of Information (FOI) request, or as a result of a court order generally. Furthermore, if such information is the subject of client legal privilege (also referred to as legal professional privilege), disclosing that information to the IGT will **not** result in a waiver of that privilege.