



**The Hon Stuart Robert MP
Assistant Treasurer**

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03 APR 2019

Mr Andrew McLoughlin
Acting Inspector-General of Taxation
GPO Box 551
SYDNEY NSW 2001

Dear Mr McLoughlin 

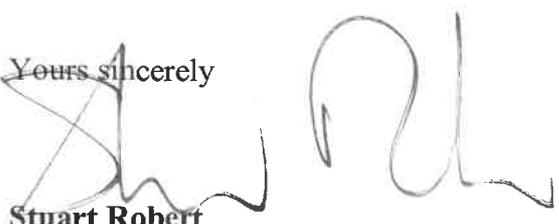
On 1 November 2018 Mr Ali Noroozi, the then Inspector-General of Taxation, provided me with a copy of his report, *The Future of the Tax Profession*.

Pursuant to section 18 of the Inspector-General of Taxation Act 2003, I must arrange for this report to be released publicly within 25 sitting days of receipt.

However, as the Report may be of assistance to stakeholders wishing to engage in the current review of the Tax Practitioners Board, I ask if you would make the Report available on your official website as soon as practicable.

I would like to extend my sincere thanks to you and your staff for your efforts in producing this report.

Yours sincerely


Stuart Robert



Australian Government

Australian Government response to the
Inspector-General of Taxation report:

The Future of the Tax Profession

APRIL 2019

INSPECTOR-GENERAL OF TAXATION

THE FUTURE OF THE TAX PROFESSION

Background

The Inspector-General of Taxation (Inspector-General) commenced a review in June 2017 into the Future of the Tax Profession. The review was conducted in response to a request from the Commissioner of Taxation as well as concerns raised with the Inspector-General by tax professionals.

The Inspector-General invited and received submissions to this review from a wide range of stakeholders, and also engaged with a number of stakeholders including government agencies, professional bodies, taxpayers, tax practitioners and their representative bodies.

The Inspector-General's recommendations are for Government [three parts], the Australian Taxation Office (ATO) [19 parts] and the Tax Practitioners Board (TPB) [six parts]. The complete list of recommendations is at Attachment 1.

Response to Inspector-General's recommendations to Government

The Government thanks the Inspector-General for the work undertaken on this important issue.

The Government notes that the Commissioner of Taxation has statutory independence to administer, through the ATO, the principal Australian Government taxation legislation. Consequently, how the ATO responds to the ATO recommendations is a matter for the Commissioner of Taxation.

The Government notes that the TPB is an independent statutory body. It is responsible for the general administration of the *Tax Agent Services Act 2009* and the regulation of tax practitioners, including tax agents, business activity statement (BAS) agents and tax (financial) advisers. Due to its operational independence and statutory obligations from the ATO, how the TPB responds to the TPB recommendations is a matter for the TPB.

Recommendation 5.2

The Inspector-General recommends the:

- a) **Government consider reform of the work-related expense deduction regime, having regard to prior reviews in this area, including the possibility of introducing standard deductions with a view to eliminating the need for most individuals to lodge income tax returns; and**
- b) *...[for the ATO]*

The Government notes this recommendation.

A long-standing principle of the Australian tax system is to tax an individual on their income after accounting for legitimate costs incurred in earning that income. Deductions for costs incurred in producing income recognise that people incur different costs in producing income and permitting deductions is intended to equalise the treatment between those who incur costs in producing their income and those who do not.

From an administration perspective, the ATO have taken steps to make compliance easier for individuals with work related expenses, such as the ATO's myDeductions feature in the ATO app which can be uploaded to pre-fill the individual tax return.

Recommendation 5.3

The Inspector-General recommends that the Government, in seeking to improve the administration of the tax system as well as public service delivery more broadly, consider

whether the Digital Transformation Agency, or a similar agency, should adopt a more comprehensive role in driving the whole-of-government digital transformation.

The Government notes this recommendation.

The Government recognises that a whole-of-government approach to digital platforms is needed to sustain Australia's reputation as one of the most advanced digital governments globally and continue to deliver benefits to the Australian people and businesses.

The Digital Transformation Agency (DTA) was established to guide, oversee and drive the Government's ambitious digital and information and communications technology (ICT) agendas. The DTA is responsible for providing greater transparency of the investment in, and benefits realised from, the Commonwealth's ICT and digital projects. The DTA also manages the strategy and integration of the digital transformation agenda across government.

In November 2018, the DTA launched the whole-of-government Digital Transformation Strategy, which aims to put people and business at the centre of digital transformation. In November 2018, the DTA also released the whole-of-government Platforms Strategy, which provides guidance for departments who create or manage digital platforms, and outlines how the DTA will achieve the benefits of reusable platforms such as Digital Identity, Tell Us Once and Notifications. This will enable agencies to share functionality, consolidate services and develop methods of exchanging data to deliver better value and experiences for users.

Recommendation 6.3

The Inspector-General recommends that:

- a) **the Government consider increasing the range of sanctions that the TPB may impose on non-compliant tax professionals, including empowering the TPB to release information to the professional associations, in appropriate cases, to enable the latter to undertake disciplinary action against their members**
- b) *...[for the TPB]*
- c) *...[for the ATO]*

The Government notes this recommendation.

The Government acknowledges that there are opportunities and challenges to the tax profession in the short, medium and long terms. To address this, the Government has announced a review into the effectiveness of the TPB and the operation of the *Tax Agent Services Act 2009* and the *Tax Agent Services Regulations 2009*, which establish the regulatory regime for tax practitioners in Australia.

In particular, the review will consider whether the powers and the functions of the TPB sufficiently facilitate the objects of the legislative framework. It will also consider whether the legislative framework for the TPB delivers on its policy objectives. This will ensure that tax agent services are provided to the public in accordance with appropriate standards of professional and ethical conduct.

The TPB review presents an opportunity to evaluate current and future suitability and effectiveness of the legislative and governance framework, the regulation of the sector and identify possible improvements. The review will report to Government by 31 October 2019.

ATTACHMENT 1 – Full list of recommendations by the Inspector-General

Opportunities and Challenges Presented by Emerging Technologies

Recommendation 4.1

The Inspector-General recommends that:

- a) the ATO:
 - i. in collaboration with its staff and the unions, develop a roadmap outlining its current position, desired future state and how it intends to make the transition from one to the other, including redeployment and upskilling options for staff and support them through the transition;
 - ii. in consultation with recognised professional associations, offer assistance to tax practitioners who may wish to develop their own roadmaps to transition from the current to future states; and
 - iii. engage with the professional associations, tertiary institutions or other education providers to co-design training programs and courses to upskill ATO staff for the roles of the future; and
- b) the TPB:
 - i. implement a framework to periodically review its workforce capability needs to meet future regulatory and compliance challenges; and
 - ii. in consultation with recognised professional associations, offer assistance to tax practitioners by, for example, providing advice on whether their future plans meet the ongoing obligations of the Tax Agent Services Act 2009.

Recommendation 4.2

The Inspector-General recommends that the ATO:

- a) conduct a cost-benefit analysis on the design and production of its own software solutions as compared to outsourcing the work to the private sector;
- b) in collaboration with the relevant professional bodies, implement a communication strategy to inform tax practitioners of its research and adoption of new technologies that may impact on them and their business;
- c) expand its beta testing program to reach as wide a spectrum of tax practitioners as possible, particularly those operating small businesses or who are remotely located;
- d) assess the number of taxpayers who will continue to require access to traditional methods of communication, and use that research to develop a plan for meeting the needs of those taxpayers in the future;
- e) determine the effectiveness of automated decision making tools to minimise the risk of under compliance or over compliance and ensure they are periodically tested to produce accurate outcomes;
- f) consider whether it can devolve some of its functions to tax practitioners with appropriate safeguards;
- g) align its service standards for the performance of its systems with those of commercial providers, including a dedicated scheme for compensation where outages or system failures result in loss for the users;
- h) engage with the tax practitioner community to develop an action plan to bolster the stability of systems which enable them to assist the community to comply with their tax obligations,

including an updated timeframe for the migration of the Tax Agent Portal functionality to ATO Online; and

- i) ensure that any future messaging regarding concerns it may have with the tax profession is appropriately considered and accompanied by robust and properly tested data.

Technology and Policy Change

Recommendation 5.1

The Inspector-General recommends that the ATO review its current framework for monitoring and identifying new or emerging technologies or innovations to ensure that it is able to take prompt action to address any tax implications.

Recommendation 5.2

The Inspector-General recommends the:

- a) Government consider reform of the work-related expense deduction regime, having regard to prior reviews in this area, including the possibility of introducing standard deductions with a view to eliminating the need for most individuals to lodge income tax returns; and
- b) ATO engage with:
 - a. third party data providers to maximise access to reliable information whilst minimising costs and disruption to their business and systems; and
 - b. the CSIRO's Data61 group on the latter's work on machine-readability of tax laws.

Recommendation 5.3

The Inspector-General recommends that the Government, in seeking to improve the administration of the tax system as well as public service delivery more broadly, consider whether the Digital Transformation Agency, or a similar agency, should adopt a more comprehensive role in driving the whole-of-government digital transformation.

Recommendation 5.4

The Inspector-General recommends that the ATO:

- a) review its current internal arrangements for identifying and responding to cyber security risks to ensure efficiency, effectiveness and, in particular, that responsible areas within the ATO are clear on their remit, communicate and share intelligence appropriately and deliver a unified and coordinated response in addressing the risks;
- b) assist tax professionals, particularly those operating in small practices, to develop and maintain their own cyber security risk management and response plans; and
- c) broadly communicate and inform the public about the measures it has implemented to mitigate risks of cyberattacks and data breaches.

The Future of Professional Regulation

Recommendation 6.1

The Inspector-General recommends that the TPB, in consultation with recognised professional associations, undertake research to determine if its policies and procedures appropriately cater for all tax professionals within its jurisdiction, including tax (financial) advisers.

Recommendation 6.2

The Inspector-General recommends that the TPB:

- a) periodically review the suitability of the educational requirements of the Tax Agent Services Regulations 2009 and its own related guidance with input from practitioners, professional

associations, tertiary institutions and the ATO and act upon any findings including requesting the Government to consider legislative change where necessary; and

- b) consider whether the TASA regime provides sufficient flexibility to manage the range of professionals who may offer tax services and present its findings to the Government.

Recommendation 6.3

The Inspector-General recommends that:

- a) the Government consider increasing the range of sanctions that the TPB may impose on non-compliant tax professionals, including empowering the TPB to release information to the professional associations, in appropriate cases, to enable the latter to undertake disciplinary action against their members;
- b) the TPB undertake research to determine the extent to which tax services may be offered in the gig economy by people who are not appropriately registered and engage with other agencies, such as the ATO, the Australian Competition and Consumer Commission and the Australian Securities and Investments Commission to consider options to protect taxpayers from such service providers; and
- c) the ATO broaden the membership of its Tax Profession Future State Working Group to include new entrants into the tax profession such as digital service providers, tax (financial) advisers and their representative bodies as well as publish more comprehensive information about the work of the Group.