Australian Government
Australian Taxation Office

Fostering Voluntary Compliance: A Conversation with Tax Administrators

Contemporary Tax Administration – More Science than Art

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International Conference on Taxpayer Rights

November 19 2015

National Archives, Washington DC

Australian Government
Australian Taxation Office

Introduction

To begin with the obvious, the world in which we live is changing rapidly. Tax administrators all over the world are faced with the enormous challenge of delivering contemporary tax administration that optimises the value of sophisticated technology and meeting the ever rising expectations of taxpayers, the community and governments.

In this new world how do we foster voluntary compliance and build trust and confidence in the administration of the tax system? The traditional approach to tax administration with its strong focus on tax paid at the taxpayer level and protecting the revenue through post lodgement audits and reviews has lost its currency and effectiveness.

Contemporary tax administration has a much greater emphasis on influencing behaviour, community ownership of the tax system and providing greater certainty by helping to navigate complexity.

It also requires administrators to invest differently to optimise the value from the rapid sophistication of technology and the big data opportunities available to both administrators and the community.

What does contemporary tax administration look like?

Delivering a service that gives real-time certainty tailored very specifically to individual circumstances and where the design of the system minimises the effort required to meet a tax obligation is paramount.

That is easy to say however is not that easy in practice.

This transformation is occurring across all administrators and can best be summarised as follows:

- From correction to prevention
- From 'gotcha' to early warnings and compliance assurance
- From reticence to actively looking for opportunities to provide taxpayers with safe harbours and 'flags on the beach'
- From isolated transaction view to relationship and whole of client
- From risk aversion to risk management - focussing on material issues and knowing when to let go and when not to
- From a focus on the past to a focus on the future
- Shifting from amended assessments and compliance dollars as the key indicators of success to a focus on shrinking the 'tax gap'
- Shifting from a focus on non-compliance to a focus on providing the community with an appropriate level of assurance that other taxpayers are compliant

It is critical to look at the design principles of administration that will lead us to our future state:

- Make it easy to comply and difficult not to (design the system for the majority of taxpayers who will willingly meet their obligations, with the appropriate controls for those who may not)
- Provide certainty

- Influence norms through the use of behavioural insights (influence future compliance behaviour)
- Involve taxpayers and stakeholders in the design and delivery
- Use natural systems

So what do we need to do?

To deliver on this ambitious transformation agenda a number of traditional approaches must be set aside and some existing paradigms re-examined:

- How can a co-designed system place greater control in the hands of taxpayers, tax practitioners and other intermediaries? (I will expand on the client experience shortly)
- To what extent can we leverage, in a seamless way, data that is held in accounting systems and financial institutions to calculate a tax obligation (with no effort required from a taxpayer)?
- How can we provide a tailored experience for individual taxpayer when we are managing large volumes?
- And how can this be achieved in a way that is delivered in a fair and respectful manner that fosters a natural ownership of the tax system by the community?
- Can transparency of risk profiles influence compliance behaviour?

Tax administrators must now turbo charge their investment in data and analytics to create taxpayer profiles so that every interaction with the tax administrator is shaped not only by a real time picture (lifestyle) of a taxpayer but also by the past dealings (and behaviour) with a view to influencing future compliant behaviour.

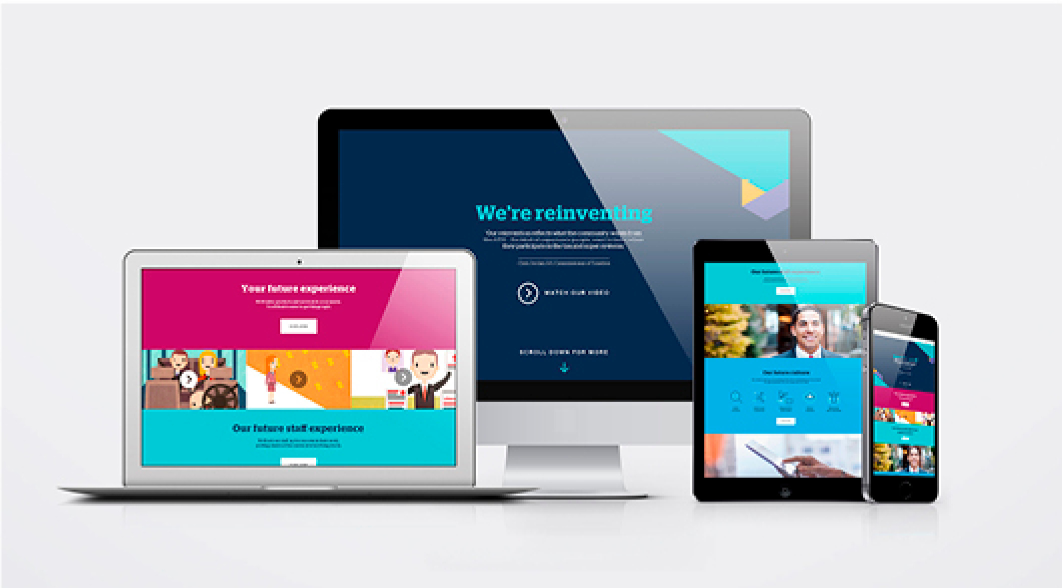
It is clear that every interaction between the tax administrator and taxpayers impacts on the confidence and trust of the community. It is essential in today's environment that two key dimensions are subject to significant transformation - the taxpayers' experience and the culture (the DNA) of the tax administrator.

The Australian journey – Reinventing the ATO

Let me share with you how we are going about this in the transformation of the administration of Australia's tax system. Since 2013 the Australian tax administration has been on a transformation journey, we call Reinventing the ATO.

Our Commissioner headlines our program as:

> "Reinvention is about challenging and stretching ourselves, experimenting with different ways of working and trying new things that push us towards improvements."



We are transforming how we go about our core business, and making it a contemporary and service-oriented organisation. *Reinventing the ATO* is a long term journey — recognising that building trust in a tax administration is not a simple or quick effort, nor one that you can let up on.

By 2020 our vision is to be ”*a leading taxation and superannuation administration known for our contemporary service, expertise and integrity”.*

A significant milestone so far is the public release in March 2015 of our Reinventing the ATO program blueprint. This blueprint was built on extensive consultation with the community and an understanding of the interactions people have with the tax and super systems.

We identified five key principles to guide the design and delivery of the transformed client and staff experience.

- Easy to get things right
- Tailored experience
- Excellent service
- Fair and respectful treatment (procedural fairness)
- Service delivered in the most effective and efficient way

We also identified three key elements of the Program that will help shape our future and our success:

- Client experience
- Staff experience
- Culture Change

Client experience

We are placing the taxpayer at the centre of everything we do (client centric). We are reviewing our products and services so that they can be tailored for individual taxpayers' profiles and needs. Our clients will find it easier to get things right. They can also expect greater certainty in their tax and super affairs. To improve their experience with the tax and super systems our clients told us we need to fix the basics, foster confidence and trust, tailor their interactions and help them navigate complexity. Timely access to the right information will enable us to be more transparent and give the community greater certainty about their entitlements and obligations. We'll base our interactions with clients on their behaviours and choices.

In short taxpayers must have confidence and trust that we are working with them to help meet their obligations and ensuring a level playing field for all.

To ensure that we achieve the transformation we are seeking to make we have put in place client experience leaders. They have accountability for the client experience which encapsulates all of the dealings that we have with a client – all products, all areas and all interactions. These roles and the areas that support them will substantially shape our change agenda. Client experience owners need to work with Program Board leads to seek to ensure that the changes delivered through the program boards are the ones we want to improve client experience.

Staff experience

Our people are central to our Reinvention. We need a new staff experience paradigm to support the overarching client experience. Our processes, systems and work environments must also adapt to meet our changing services. To deliver an improved experience our people are being empowered and will have access to more contemporary tools. They will have the capabilities to succeed.

Culture change

Our new culture is about an easier, contemporary and more responsive way of doing business and the way we work – a vibrant, client focused culture that will position us to thrive in a rapidly changing world. The five traits of our new culture are:

- Client focused
- United and connected
- Empowered and trusted
- Future oriented
- Passionate and committed.

Strategic program boards

To drive this transformation, we have established six strategic programs of change that will shape the future tax system for taxpayers and staff set out in our blueprint.

The programs are:

- Contemporary Digital Services – the program will provide contemporary digital end-to-end services and products that are streamlined and easy to access, understand and use. The program covers the provision of information to our clients, our interactions with them and our in/outbound transactions.

Initiatives underway:

- *Voice authentication via ATO App*
- *Virtual Assistant*
- *MyDeductions tool*
- *Certainty letters*

- Tailored engagement and support – the program will deliver a whole-of-system experience through tailoring engagement with our clients based on their circumstances and behaviour.

Initiatives underway:

- *Transparency of risk based on taxpayer profile*
- *myRuling*

- Smarter data – the program will acquire and connect to infrastructure that builds on our data and information assets to enable greater insight, make informed decisions and deliver outcomes with agility. We will create the capability that allows the ATO to differentiate client engagement based on circumstance and behaviour.

Initiative underway:

- *Enterprise client profile*

- Working with our partners in the tax and super systems – the program will, in collaboration, implement a new business model for tax agents and intermediaries and support these partners to adopt and adapt to the model. We will leverage off working relationships with existing and new partners, including practitioner intermediaries, software providers, Treasury and other government agencies to drive fundamental legislative change to the broader tax and super systems that will deliver a future experience that meets client needs.

Initiative underway:

- *Designing interface with accounting software and financial institutions to prepare Activity Statements and income tax returns*

- Optimised workforce capability and culture – the program will build a professional and flexible workforce with the right skills, knowledge, attitude and tools to deliver excellent client service in a collaborative, supported and trusted environment.

- Governance, design and evaluation – the program will establish and implement new operating model, leadership, planning and assurance mechanisms necessary to ensure strategic programs remain integrated and outcome focused. We will build a performance evaluation system that measures and reports on what government and the community value.

The first suite of community communication was delivered in July with the release of the ‘Every Year Counts’ suite of experience changes we will be delivering in the 2015-16 year.

Every year counts for **Small business**

The **blueprint** outlines how we're reinventing the experience you have in the tax and super systems. Here are some examples of how we're making 2015–16 count:

JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN

Managing tax for new business
I can choose to pay my tax in instalments so I don't have to pay it all at once when I lodge my first tax return.

Clear information on how to manage payments
I will receive easy-to-understand information explaining what I have to do, including how to pay and how to get help if I need it.

Making super easier for small business
- I can now pay all super contributions at once to the Small Business Superannuation Clearing House if my annual aggregated turnover is less than $2m or I have 19 or fewer employees.
- I can save time using SuperStream to pay super for my employees.

Employee super is important
If I have made a mistake or paid superannuation guarantee late for my employees the ATO will help me get back on track.

Employee share schemes
I will be able to access standard documents to establish an employee share scheme at a significantly reduced cost.

Resolving disputes
I know if a dispute arises, I can work with an independent officer in the ATO, who will engage with me in resolving my matter quickly and cooperatively.

A user-friendly website
I find it easier to search, navigate and understand the information and services on the ATO website.

Online services for sole traders
I can use online services and the ATO app without an AUSkey to:
- view, lodge, revise and pay my activity statements
- manage and pay my pay as you go instalments
- view my income tax and activity statement accounts and balances
- view my lodgment history.

Business performance check
I can compare how my business is performing against similar business in my industry in the ATO app.

Linking my business to myGov
I can link all my business ABNs to my personal myGov account. I can view, lodge and pay my business activity statement online without using AUSkey.

Entering into payment plan online
I can use my myGov account to enter into a payment plan for activity statements.

Easy to manage my payment plan
I will receive an email or SMS payment reminder before each instalment is due.

Employee or contractor tool
I use one tool to easily work out if my workers are employees or contractors and what I need to do for tax and super.

We also have taken a market segment approach and are putting the client at the centre of all that we do. Our current focus is on drawing together, after further more detailed analysis with the community, a high level four year plan to improve the client experience in each of the market segments.

Conclusion

The paradigm shift is clear. Contemporary tax administration must be delivered in partnership with taxpayers. Taxpayers must see the value we bring to them if they are to have trust and confidence in our administration, optimising the level of voluntary compliance. In Australia, it is an unfinished story as we still have some way to go. We are, however, confident that we are on the right track.

Finally, I suspect all administrators are on this journey of change, a journey that is challenging, exciting and rewarding. However we should not face these challenges on our own. Sharing our learnings and experiences provides the opportunity to tap into the collective knowledge and experience that will assist all of us to keep pace with the ever increasing change in the environments we are operating in.

Tax administration is no longer an art, it is a science.