ADMINISTRATION AND TAX REFORM

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INTRODUCTION

A starting point for recent tax reform is the government’s 1998 blueprint for reform: ‘Tax Reform – Not a New Tax, a New Tax System’ (ANTS).1

This paper highlights the administrative challenge of introducing the ANTS measures for the period August 1998 to July 2001.

In ANTS the government expressed its view ‘that a modern tax system is one of the keys to Australia’s future economic growth and dynamism’.2 In the government’s opinion at that time, ‘[t]he existing tax system is out of date, unfair, internationally uncompetitive, ineffective and unnecessarily complex”’.3 The solution proffered was a new tax system because ‘systemic problems require systemic solutions’.4

The reforms were intended to fall into four broad categories:

1. Incentive—personal income tax and social security
2. Security—indirect tax and state finances
3. Consistency— Review of Business Taxation (RBT)
4. Simplicity— tax administration

A Incentive

Under the heading of ‘Incentive’ came a new income tax scale (with reductions in personal income tax and the progressive move of the company tax rate from 36 per cent to 30 per cent); complemented by a families assistance package, a health insurance rebate, and extra assistance to social security recipients.

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2 Ibid 3.
3 Ibid 5.
4 Ibid 112.
There were also changes to the Fringe Benefits Tax (FBT) system, for example, limiting FBT exemption for public benevolent institutions to $17,000 of the grossed-up value per employee.

**B Indirect Taxes and State Finances**

The proposals around ‘Indirect Taxes and State Finances’ centred around the introduction of a Goods and Services Tax (GST), with a start date of 1 July 2000.

The diagram below shows how in November 1998 the ATO saw the administrative challenge of implementing the GST.

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Other proposals under the banner of ‘Indirect Taxes and State Finances’ included the abolition of the Wholesale Sales Tax, the introduction of Luxury Car and Wine Equalisation taxes and changes to tobacco excise to ensure no reduction in the prices of these goods. A new comprehensive diesel fuel credit was also proposed.
C Tax Administration

The ‘Tax Administration’ proposals included the:
- introduction of a new business registration system based on the Australia Business Number (ABN);
- implementation of the Pay As You Go (PAYG) system to replace the existing company instalment system (COIN), provisional tax, Pay As You Earn (PAYE), Prescribed Payments System (PPS), Reportable Payments System (RPS) and a number of smaller withholding tax arrangements (for example, payments of interest, dividends and royalties to non-residents);
- registration of charitable organisations;
- binding oral advice — for taxpayers with simple affairs; and
- the reduction of the period for review and adjustment of assessments — for taxpayers with simple affairs.

A significant driver of the tax administration changes was the intention to rationalise and simplify the way in which taxpayers made provision for tax as they earned income, including changes to the tax withholding arrangements.

Prior to PAYG there were five payment and reporting systems with their own rules administered by the ATO.

The two arms of the new PAYG arrangements are:
(a) The PAYG instalment system which replaced both the provisional tax and company instalment system with a comprehensive PAYG system;5 and
(b) The PAYG withholding system which replaced the PAYE, the PPS and the RPS.

Integral to rationalising the various taxes and reporting systems is the way taxpayers pay their tax. The policy intent was to ease the tax compliance costs for small business by introducing a single BAS statement with one payment for each quarter for a large number of taxpayers.6

The BAS also provided the opportunity to integrate other functions such as compliance activities with the more regular flow of information provided by the BAS reporting process. For example, as the Treasurer has recently commented:

What the GST did is that the Australian Business Number and the reporting of these transactions for goods and services [tax] gave you a tool that you could take back into the income tax area. Some business would report that it had big transactions – purchases, for example, from one of its suppliers – and you go back into the income tax area and look for that supplier’s income and it does not

5 ‘Individuals who pay provisional tax will benefit from these changes ... Companies will have to pay tax earlier, but the impact of the earlier payments will be more then offset by GST cash flow benefits for all but larger companies’. Ibid 136.
6 The BAS was designed on the assumption that most taxpayers keep a full set of accounts—and the timeframes limited the initial scope for further segmentation. In response to community concerns, the government announced in February 2001 the BAS simplification measures. They allowed for simplified reporting arrangements and an instalment system accompanied with an end of year settlement. These changes required significant systems and form redesign, and a marketing strategy for the new measure.
match. I think matching of the indirect tax with the income tax, which is happening now and will happen progressively [even more], will give us more tools to handle the black economy.7

However, while the reform package for a single account related to business tax obligations, the design and differing platforms of ATO systems made the separation of business and non-business accounting functions and the implementation of a ‘running balance’ account extremely difficult. The latter was made more complicated because taxpayers could choose to have different accounts for different revenue products. There were also the associated difficulties of allocating payments and credits to the taxpayer’s different accounts.

In addition, specific rebates and benefits provided under the tax system further complicated the notion of a single running account which automatically offset credits and rebates against outstanding debts.

The policy intent was as follows:

Businesses that register for GST (whether company, sole trader or other) will pay their income tax in four quarterly instalments, at the time they remit their GST payments (or claim their GST refunds). They will be able to offset credits of GST against instalments of income tax or other payments (such as remittances of withholding tax instalments) that are made at that time.

However, the same policy intent did not necessarily apply to the off-set of family tax benefits or diesel fuel rebates.

D The Way We Were: 1998

Even without the looming legislative changes associated with business tax reform the ATO (as well as businesses and tax agents) were involved in a major change program. The implementation challenge was acknowledged:

A reform package of the scope contemplated by the Government requires considerable time to implement. Legislation needs to be drafted and enacted. There is a need to develop, in some cases, new computer and other administrative systems. Taxpayers need to be informed about their obligations under the new system and given time to adjust.

Nevertheless, the timeframe for implementation of the massive changes contemplated in the first tranche of ANTS was ambitious. Below is the timeline developed for this implementation:8

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8 ATO November 1998.
Notably, some earning legislation for the implementation of ANTS was enacted a few days before the start of the system.

**E The New ATO**

In 1991 the then tax Commissioner gave a presentation which he entitled ‘we eat change for breakfast’. The historical context was dramatic. We had moved to self-assessment and were in the midst of our modernisation and redevelopment program that involved re-equipment in excess of $1 billion. There was also significant focus on federal public sector management reform.

The winds of change did not abate and indeed the federal government’s ANTS agenda was described by the current Commissioner as ‘the biggest change to taxation in Australia’s history’. The Commissioner went on to say that ‘[t]o meet the challenges before us, we are designing and creating a new Tax Office’.

The ATO also faced other challenges in 1998 – 99:

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10 M Carmody, May 1999.
The chart below illustrates how the ATO sought to integrate tax reform with the ATO’s then newly developed strategic directions.¹¹

These strategic directions are generally still current.

¹¹ ATO, November 1998.
F Implementation of ANTS

The intensity of activity required to implement the New Tax System changes for 1 July 2000 was unprecedented. To illustrate, over the 12 months to 1 July 2000 we:

- registered almost 2.8 million businesses for the new Australian Business Register, with 0.5 million of these being registered on line through the Internet;
- responded to over 2.4 million reform telephone enquiries and almost 40 000 written or email reform enquiries;
- conducted over 100 000 business advisory visits;
- conducted 1000 seminars around the country, produced and distributed educational videos and something like 12 million booklets, etc;
- conducted a high profile media and marketing campaign;
- issued 46 significant GST public rulings;
- implemented massive systems changes, the TR2 release for July 2000 involved some 4000 program changes and 17 million lines of code (done while facing Y2K risks and in the middle of outsourcing the ATO’s IT infrastructure);
- undertook the largest direct distribution of accounting software ever seen in this country with 1.5 million CD copies of e-record distributed in that period;
- recruited, trained and equipped more than 4000 staff;
- acquired and fitted out an extra 53 000 square metres of accommodation across an extra 50 sites to give us a new network of field presences around the country;
- implemented not only the GST and the PAYG system but also
  - an extension of the Diesel Fuel rebate for off road vehicles and the introduction of the new Diesel and Alternative Grants Scheme for certain on road transport
  - the Fuel Sales Grant Scheme for regional and remote service stations; and
  - the new product stewardship arrangements for waste oil that from 1 July 2000 saw the ATO collecting the levy on relevant oils and paying benefits to companies recycling waste oil in environmentally appropriate ways.

ANTS call centre volumes for June 2000 were:
- 242 000 calls per week (average)
- daily calls peaked at 72 800, most of which related to the registration process and status of registration details.

By 1 July 2001:
- 2300 ANTS correspondence were on hand
  - volumes for March May 2001, approximately 400 per week
  - ATO completed 98 000 requests for written advice on ANTS in the period March 2000 – 30 June 2001
- ANTS call centre volumes for June 2001
  - 93 000 calls per week (average)
  - daily calls peaked at 27 500
  - 7.1 million calls since 1 July 2000 (10.9 million since July 1999)
  - most calls were on annual instalment variations, lodgement and refunds
• 400 000 advisory visits completed
  - 50 000 client verification calls
  - 20 000 field verification visits
  - gradual redeployment of field resources to field verification activities from March 2001
• 3.6 million ABNs issued (in total)
  - 3.6 million ABNs issued
  - 2.2 million GST registrations
  - 213 500 GST cancellations
  - 35 per cent of new registrations were by this time being completed online
  - significant increase in use of ABR online by business (for example, establishing registration status of other businesses)
• 3.164 million Activity Statements issued in the June 2001 quarter (quarterly and monthly BAS, IAS)
  - 3.065 million paper, 45 000 ELS and 54 000 ECI
  - new customised forms gave effect to new GST/PAYG reporting and payment options
• 109 507 851 hits to taxreform.ato.gov.au in 2000–01
  - 1500 public education seminars
  - 100 000 users of e-record
  - over 1.6 million e-record CDs distributed in total at a rate of 9450 CDs requested per month and 1214 downloads per month

Importantly, we had to continue to successfully manage our existing revenue systems, including our newly acquired responsibilities for excise and self-managed superannuation funds.
G Legislative Activity

The period to January 2001 was also a hive of legislative activity:

While the range of tax measures introduced into Parliament has remained high, there has been a decline in Bills passed (except for the 2002 calendar year)\textsuperscript{12}:

<table>
<thead>
<tr>
<th>CALENDAR YEAR</th>
<th>BILLS\textsuperscript{13}</th>
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<tbody>
<tr>
<td></td>
<td>Introduced</td>
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<tr>
<td>1999</td>
<td>50</td>
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<td>2000</td>
<td>35</td>
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<td>2002</td>
<td>36</td>
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<tr>
<td>2003</td>
<td>20</td>
</tr>
<tr>
<td>TOTAL</td>
<td>156</td>
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\textsuperscript{12} Difficulties arise for taxpayers and the ATO where a Bill has a commencement date prior to its enactment date.

\textsuperscript{13} There may be some small discrepancies in numbers as Bills can be reintroduced in subsequent years.
**Business Tax Reform**

In August 1998 the government established a review, chaired by Mr John Ralph AO to consult with business and industry on the proposed business tax reforms. As part of this process the committee issued a number of information papers.\(^{14}\) John Ralph’s final report, Review of Business Taxation: ‘A Tax System Redesigned’ was released by the government on 21 September 1999, along with the government’s decisions on many of the measures. A second set of decisions was announced on 11 November 1999.

During 2000, the business tax reform changes included:
- A reduction in the company tax rate from 36 to 34 per cent, with effect from 1 July 2000 and a further cut to 30 per cent from 1 July 2001;
- Alienation of personal services income, introducing new rules for the income tax treatment;
- A limit to the extent non-commercial losses can be used to reduce tax paid on other income;
- A change to the timing of deductions for prepayments for services under tax shelter arrangements; and
- A range of benefit and grants schemes including excess imputation credits and diesel and fuel rebates and grants schemes.

There were also a further seven Tax Law Amendment Acts passed in 2000 which supported the changes to a New Business Tax System.

In 2001 the Uniform Capital Allowance regime was introduced, along with the Simplified Tax System, and new rules for determining the equity and debt borderline for tax purposes and a new Thin Capitalisation regime.

In 2002, the Business Tax Reform initiatives including Consolidation, General Value Shifting regime, Demergers and a new approach to imputation—the Simplified Imputation System—were introduced.

In 2003 further Business Tax Reform initiatives were introduced, such as Foreign Exchange Gains and Losses, and more of the Consolidation regime.

From 2001 – 2004 there have been numerous Tax Law Amendment Acts passed by the parliament which have supported, refined and expanded upon the Business Tax Reform initiatives.

The story of the implementation of these measures maps out its own administrative challenges.

I ATO Management Perspective

The ATO’s main focus from August 1998 had been the implementation of the governments reform agenda by:
- meeting absolute policy implementation deadlines;
- changing our relationship with the community;
- introducing or reengineering our administration processes; and
- changing the way we support our work.

Even in the ATO’s Strategic Statement for 2003 – 05 one of the current challenges is [c]ontinuing to implement reform and deliver the revenue and compliance improvements promised by the new revenue system.

However, as we started to shift resources more towards active compliance activities from 2002 – 03, as envisaged in the ATO Output Pricing Agreement with government, we recognised that this had to be balanced by a program of making it administratively easier for people to comply.

The challenges posed by building systems for legislation are not yet finalised — the challenge of integrating policy, law and administration is still maturing.

Most people focus on the measures and mechanisms contained in the ANTS package when they think about Reform Implementation — GST, PAYG, Diesel Fuel Rebate Scheme, ABN, Business Activity Statement, Personal Tax Simplification, Family Tax Benefits, Private Health Insurance Rebates and successive waves of Business Tax Reform. From a management perspective we would also include:

- Recognising the ATO as only one player in the larger system — but with a unique role/niche;
- Taking into account change occurring in the broader environment particularly technological change, for example, greater use of electronic media, public key infrastructure, call centre processes, natural language speech recognition (telefiling), and contributing purposefully to wider government policy outcomes, for example, more small business participating in the electronic world;
- Managing several waves of reform concurrently:
  - ANTS initiative which commenced on 1 January 1999, through to registration for ABN in November 1999 and GST/PAYG from 1 July 2000
  - Early BTR initiatives (Alienation and Non Commercial Losses measures from 1 July 2000)

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17 See Ralph Report, Review of Business Taxation, ‘A Tax System Redesigned’ (1999) recommendation 1.1. 95 regarding an integrated design process. On 2 May 2002 the Commonwealth Treasurer announced that from 1 July 2002 responsibility for the design of tax laws and regulations would shift from the ATO to Treasury. However, the Treasurer noted that the ‘new working arrangements between the agencies in developing future tax measures should seek to build on progress to date in ensuring a high level of integration across the policy, legislative and administrative aspects of change.’
- Progressive tranches to implement other BTR measures (from July 2001)

- Establishment of the Board of Taxation and other mechanisms to strengthen alliances with business, industry and professional associations, and the community;

- Challenges posed by building systems for legislation not yet finalised — integrating policy, law and administration when the policy is still evolving;

- Recognising that the scale of reform poses significant challenges for the ATO in meeting clients’ needs and expectations, for example:
  - awareness, education and support mechanisms for taxpayers
  - increased collaboration and business support for tax practitioners and other intermediaries;
  - skilling, education and support for ATO staff;

- Further big shifts in how we do our business and the need to ‘do business the way our clients do business’;

- Organisational changes following the 1998 election — separating from the Child Support Agency; inclusion of Excise, and the creation of the GST and Excise Business Lines. The ATO positioned by government as the main revenue collection agency but with new roles in relation to the payments of benefits and transfers and new regulatory responsibilities;

- Shifts in the way we resource our operations. For example, the ATO, out of a total budget of some $2 billion, would ‘invest’:
  - in a ‘typical year’ about $200 –300 million (10 – 15 per cent of the budget)
  - during 1998 – 2002 this was about $500 – 600 million (ie > 25 –30 per cent of the budget)

- Increased accountabilities because of the GST administration arrangements with the states, and integration of whole of government activities including formal purchaser–provider arrangements with Family and Community Services and Department of Health and Aged Care

- Cross-agency partnerships with Centrelink, Veterans Affairs and Employment, Workplace Relations and Small Business requiring greater collaboration and an increased understanding of the interconnectedness of systems;

- Progressive ATO organisational shifts from a separate internal business line management structure to more end to end and corporate processes, while maintaining a strong market focus in the respective ATO business lines.

J Learnings

Key managerial learnings from Reform Implementation include:

- Flexible organisational arrangements are essential.
  - There is a need to recognise the constraints that can be posed by existing organisational arrangements, and to be more flexible and rapid in approaches and changes
  - Organisationally, we developed a stronger appreciation of the need for shared as well as single responsibility, particularly the need to develop
end to end processes, and to recognise interdependencies and flow-on effects earlier in the process of design.

- Need to maintain multiple views of the business (market segment, product, process, and structure) to be better placed for the early identification of emerging risks to the system and to develop appropriate responses.

- Investment in the design stage is critical: lack of design focus at all levels can create unaligned products, slow down subsequent work, shorten viable product life and create reverse work.

- The ATO would be destined to remain in the constraints of the annual cycle, unless there is deliberate investment in the longer term, although this is not always easy because of budgetary constraints and competing priorities.

- Need to articulate clear future intent and longer-term strategy, and set aside specific resources to enable this, while still focussing on the delivery of the current system.

- Program and/or project management is a significant cultural shift

- Support staff in:
  - understanding and responding to the stresses and impacts on staff
  - management approaches/language/communication
  - skilling in program/project management and in change/reform areas
  - recognition of achievement and being sympathetic to the impact of waves of change

In relation to policy design, and the design of administrative systems, learnings include:

- The importance of effective consultation and co-design with effected parties; and

- Listening to the community to make administrative compliance for taxpayers easier, cheaper and more personalised.

In respect of the wider community, another critical learning is the difficult task of assisting others in coping with change including the need to ‘walk them through’ new technology. This issue is exacerbated because people and businesses have different levels of technological accounting sophistication and support. Accordingly, it is important for empathetic understanding to recognise the capability limits of others in absorbing and dealing with massive change. For example, many businesses faced new arrangements and increased interactions with the ATO under the new tax system, and key intermediaries such as tax agents struggled to keep pace with the magnitude of the tax reform agenda.

CONCLUSION

The tax system has undergone unprecedented change in recent years, with particular impact on the business community and tax professionals. Inevitably, some changes have been smoother than others. However, in regard to the scale and intensity of the reform agenda, that’s a commendable result.

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