

eJournal of Tax Research

Volume 13, Number 1

March 2015

CONTENTS

- 5 Role of reputational risk in tax decision making by large companies
Catriona Lavermicocca and Jenny Buchan
- 51 Assessing the quality of services provided by UK tax practitioners
Jane Frecknall-Hughes and Peter Moizer
- 76 Relational impact of tax practitioners' behavioural interaction and service satisfaction: Evidence from New Zealand
Ranjana Gupta
- 108 Tax compliance and the public disclosure of tax information: An Australia/Norway comparison
Ken Devos and Marcus Zackrisson
- 130 Let's talk about tax compliance: Building understanding and relationships through discourse
Robert Whait
- 158 The internal costs of VAT compliance: Evidence from Australia and the United Kingdom and suggestions for mitigation
Kathrin Bain, Michael Walpole, Ann Hansford and Chris Evans
- 183 Information sharing by government agencies: The effect on the integrity of the tax system
Peter Bickers, Virginia Hopkins-Burns, April Bennett and Rico Namay
- 202 Does the Australian Higher Education Loan Program (HELP) undermine personal income tax integrity?
Richard Highfield and Neil Warren
- 262 A chilling account: North American and Australasian approaches to fears of over-defensive responses to taxpayer claims against tax officials
John Bevacqua

CONTENTS

280 Tax simplification: A review of initiatives in Australia, New Zealand and the United Kingdom

Simon James, Adrian Sawyer and Ian Wallschutzky

303 Building trust through leadership: A longitudinal study on Inland Revenue's response to, and learnings from, the Canterbury earthquakes: Years 1 and 2

Elisabeth Poppelwell, Hailong Sun and Peter Bickers

338 Tax professionals' perception of tax system complexity: Some preliminary empirical evidence from Portugal

Ana Borrego, Ern Chen Loo, Cidália Lopes and Carlos Ferreira

361 Modernising the Australian Taxation Office: Vision, people, systems and values

Michael D'Ascenzo AO

378 Effective engagement: Building a relationship of cooperation and trust within the community

Jo'Anne Langham and Neil Paulsen

Modernising the Australian Taxation Office: Vision, people, systems and values

Presentation by Michael D'Ascenzo AO¹, to TAX INDABA 2014, Johannesburg, 11 June 2014.

Abstract:

The Australian Taxation Office (ATO) transformed itself into a pre-eminent tax administration over a period of 20 years. It changed from an unremarkable administration into a thought leader on tax administration globally. It did this through inspired and inspiring leadership and the engagement, commitment, innovation and integrity of the ATO's people. This paper chronicles the ATO's transformational journey and highlights key areas of focus, particularly the importance of alignment in values and engagement to achieve breakthrough improvements.

¹ Michael D'Ascenzo AO is an Adjunct Professor at the University of New South Wales and a Professorial Fellow at the University of Melbourne. He was a former Commissioner of Taxation, Australian Taxation Office.

1. INTRODUCTION

Many countries are seeking to improve their tax administrations as a way to advance national prosperity. The purpose of this paper is provide the Australian Taxation Office's (ATO) transformational story as a guide. The ATO's journey may provide lessons of wide application which could help tax administrations grow to their potential, while reminding the ATO as to where its strengths might lie. The paper does this by outlining in their historical setting the key areas of focus that made a good organization great.

It needs to be recognised up front that that each country has a different legal, political and cultural environment. What works in one country or even what is feasible may not be so in another. Moreover, the task facing countries with endemic corruption, low levels of community respect for or trust in government authorities, or whose administration is under-resourced or limited by its mandate is a daunting one. Nevertheless, if one is serious about improving tax administration, the tax agency itself must believe that reform is not only possible but essential for the development of the nation: "To accomplish great things, we must not only act, but also dream; not only plan, but also believe."²

2. GLOBAL ACCOLADES

It was not that long ago that Jeffrey Owens, then head of the Organisation for Economic Co-operation and Development's (OECD) Centre for Tax Policy and Administration, remarked to me that it was amazing how the Australian Taxation Office (ATO) had transformed itself from a good but unremarkable tax administration to a leading tax agency in 30 years.³

For tax authorities who wish to accelerate their transformational journey, 30 years might sound a long time, but in fact a tax agency's passion for enhancement needs to be an enduring value.

Mr Owens is not the only person to acknowledge the reputation of the ATO as a leading tax administration. In 2007 Professor John Hasseldine wrote:

Anecdotally, the Australian Tax Office is perceived as one of the leading tax agencies in the world. It has met challenges of tax administration through a close working relationship with the community and a focus on compliance.⁴

In the ATO's centenary year, 2010, Mr Pravin Gordhan, a former Minister of Finance and a former Commissioner of the South African Revenue Service, was gracious in his praise:

² Anatole France, *Works of Anatole France*,

http://www.goodreads.com/author/quotes/48535.Anatole_France

³ Conversation between Jeffrey Owen and author, Jeffrey Owen's visit to Australia, Canberra, 2011.

⁴ John Hasseldine, 'Consultancy Report for the National Audit Office of the United Kingdom', 15 October 2007.

The ATO is highly regarded amongst its peers around the world and in many instances has been the world leader both in terms of thought processes, strategic leadership, and, indeed, implementing those in day to day practice.⁵

Similarly generous was the accolade provided by Mr Doug Schulman, former Commissioner of the United States Internal Revenue Service:

ATO is one of the best Tax Agencies in the world in both words and deeds and one on the forefront of modern tax administration pushing forward innovative ideas to meet the challenges and opportunities of the future.⁶

For a former tax administrator such comments are a source of pride. For Australia, the effectiveness and integrity of the ATO provided the country with a comparative advantage in the reliable collection of taxes with which to fund the policies and vision of respective governments; and in terms of helping to build trust and confidence in Australia's democracy.

It would be easy to rest on one's laurels, but it would be a mistake to do so. Even when the fundamentals are sound you need to ensure that the agency continues to be a learning organization, responsive to a changing environment and thirsty for opportunities for improvement. This requires a questioning mind about the way things are done, or could be done. A good tax administration has high integrity and continually looks at its policies, processes and procedures from the taxpayer's perspective (and from the perspective of the taxpayers' agents).

3. HISTORICAL CONTEXT: A FIRM FOUNDATION

This story begins with a former Commissioner, Trevor Boucher. In the 1980s Boucher faced a new economic, social and political environment from what had gone before. They were in a time of change as governments around the world began to remove regulatory controls and expose their economies to greater competition. In Australia it was also a time of greater public scrutiny and accountability, a time when political and community consciousness turned to tax matters, and a time of reforms to the Commonwealth Public Service.

This is a good place to begin because of the similarities with the environment now faced by many countries. Indeed the growth of globalisation and advances in information communication technology have made the world a smaller place with countries more exposed to the winds of competition.

In addition, community expectations have continued to grow exponentially and most governments are looking for improvements in fiscal performance. The universal expectation is that their tax administrations will 'do more with less'.

In many ways change was and is inevitable. It is those public sector institutions that see change as both a challenge and as an opportunity that provide good value to their countries.

⁵ Pravin Gordhan, '*ATO Centenary Message*', October 2010.

⁶ Doug Schulman, '*ATO Centenary Message*', October 2010.

For the ATO the challenges of the tax avoidance scheme era of the late 1970s and early 1980s had shown that more resources had to be put into compliance, with more and better-trained staff, and that had to be matched by creating a better relationship with the taxation industry. Boucher recognized the need for change, and the schemes era provided the burning platform.

The momentum for change quickened with the introduction of self-assessment in 1986. Self-assessment required the ATO to provide taxpayers with assistance in helping them (and their agents) to fulfil their tax responsibilities.

Self-assessment was supported by the introduction of the electronic lodgement system, and also released scarce resources to field activities. These initiatives required the development of new procedures and approaches.

Reactions from taxpayers and their agents to the shift to self-assessment reinforced the need for consistency and certainty in ATO operations. This led to legislative changes to the administrative provisions of the tax law to include new interest, penalty and ruling regimes. These changes were recognized as making the system fairer and more certain for taxpayers.⁷

Today, citizens and non-resident investors seek, above all, consistency and certainty in the application of the tax law by the tax administrators of any country. Binding public ruling and private ruling systems are today regarded as best practice features of modern tax administrations because of the certainty they provide taxpayers and, especially with public rulings, because of the consistency of interpretations that is afforded by the directions they provide to tax officers.

A reasonably unique feature of Australia's private ruling system is the ability of taxpayers to appeal against a private ruling.⁸ Bellinz⁹ makes it clear that the Commissioner of Taxation must seek to properly apply the law and that the Commissioner would be acting *ultra vires* if that was not the case.

An important administrative enhancement to Australia's public ruling system was the introduction of a Public Rulings Panel by Commissioner Carmody. The existence of this Panel, which includes external experts, to advise the Commissioner on this important aspect of tax administration provides extra legitimacy to the quality and integrity of public rulings and also signalled the ATO's intent of being open and accountable.¹⁰

Commissioner Carmody began his term in the 1990s at the beginning of a long period of prosperity for the Australian economy. Nevertheless, community expectations had changed, and he realized that the community would no longer tolerate inconsistent treatment which was possible under a decentralized branch office structure. The hybrid headquarters and branch office organisation that existed at the time detracted

⁷ *Taxation Laws Amendment (Self Assessment) Act 1992*.

⁸ Michael D'Ascenzo, Ownership: *the Bellinz saga* [online]. *Tax Specialist*, Vol. 2, No. 2, Oct 1998. For another analysis of the implications of *Bellinz* see Yuri Grbich, '*After Bellinz and Ralph: A New Focus for Decision Making in the Australian Tax System*', www.abc.net.au/4corners/content/2003/20030630.../grbich.pdf.

⁹ *Bellinz Pty Ltd v FCT*, 98 ATC 4634.

¹⁰ The Auditor-General, Audit Report No.7, '*Administration of Taxation Rulings*', 2004–05.

from national approaches and made the lines of authority unclear. Structure was inhibiting strategy and the further innovation possible under national programs.

In 1994 the ATO was reorganized around business and service Lines (Divisions), using modern communications and transport technologies to link all ATO sites around Australia into one unified office. This was a major transformation for the ATO. The move to a national approach provided the ATO with greater flexibility and a customer centric focus based on market segmentation. A national approach allowed for the better allocation of scarce resources to manage the higher priority tax risks, assessed on a national basis.

Moreover, by bringing service and enforcement together within the new Line structures, real coherence could be given to the development of strategies based on the new Compliance Model. The development of the ATO Compliance Model represented a breakthrough and one that today is followed by most leading tax agencies around the world.

The Australian tax compliance model is state of the art in literature and in practice for tax administrations.¹¹

Under the Compliance Model, strategies are developed to address the causes of non-compliance and not merely the symptoms. These strategies can utilise all the levers available to the ATO to address compliance concerns and to nurture high levels of voluntary compliance. Typically this involves a balanced program of service and enforcement. While this approach could be described as a ‘carrot and stick’ method it grew in sophistication to be a melding of assistance and harder edged strategies forming holistic and integrated compliance programs. The ATO approach has been described as ‘responsive regulation’.

Australia was an early pioneer of the tax risk management model for tax authorities, utilizing the concept of responsive regulation and a compliance model based on the notion of an enforcement pyramid...¹²

National programs facilitated the development of a National Plan.¹³ This refinement to the ATO’s planning processes provided greater flexibility for structure to follow strategy rather than circumscribing the treatments that could be used under functional approaches to improve levels of compliance (and to minimise compliance costs).

Planning processes became more sophisticated as the ATO undertook regular ‘health of the system analyses’ based on market segments and using multiple lenses. The three lenses involved a consideration of potential risks inherent across a revenue type, for example income tax or the Goods and Services Tax; across a segment or industry level; and at the entity level. In this way the ATO is able to identify material tax risks and to guide national resource allocation to areas of higher risk.

¹¹ Tax Tribune, Magazine of the Intra-European Organization of Tax Administrations, Issue 27, January 2011, p. 24.

¹² Anuhka Bakker and Sandor Kloosterhof, *Tax Risk Management: From Risk to Opportunity*, IBFD ed., 2009. See also Sagit Leviner, *A New Era of Tax Enforcement: From ‘Big Stick’ to Responsive Regulation*, Michigan Law School, 2006; and Valerie Braithwaite, ‘Responsive Regulation and Taxation’, *Law & Policy*, Vol. 29, No 1, January 2007.

¹³ See now the ATO’s annual Corporate Plan and ATO Plan which flesh out the annual priorities for achievement of the organisation’s strategic directions.

The ATO Plan was reviewed every year to meet the ATO's changing business and political environment, helping it to identify risks and to respond to them quickly with detailed market segment and Line plans.

The ATO's approach to risk management and risk differentiation is widely considered to be best practice.¹⁴

4. THE TAXPAYERS' CHARTER

In 1997 the Ombudsman wrote on the ATO's role in the Australian community:

The ATO administers an enormously complex body of law and it invests considerable resources in trying to make its operations as effective as possible within the constraints of the law. The ATO generally makes an honest attempt to balance the interests of revenue collection against the interests of citizens. That balance can be difficult, given the nature of revenue collection and the passions it can excite in individuals. The ATO has a variety of internal guidelines which are designed to minimise the possibility of individual officers taking inappropriate action.¹⁵

In 1997 the ATO also released its Taxpayers Charter and launched the ATO website.

The Taxpayers' Charter reaffirmed the ATO's commitment to providing the highest possible level of service to the community. This cultural signal was complemented by regular surveys of community attitudes to the ATO and the tax system. These surveys helped to identify ways to make the system easier, cheaper and more personalised for taxpayers.

The underpinnings of the Taxpayers' Charter were embedded into the ATO's culture:

Furthermore, at least so far, the charter approach to tax administration has continued in Australia and found support from both ATO staff and Australian taxpayers. In addition the Australian Taxpayers' Charter has moved on from a simple list of principles and become more embodied in the culture of the ATO. The survey evidence from Australian taxpayers is not only positive but also fits in with the way compliance policy is developing in the organisation.¹⁶

The ATO website made the ATO more accessible to taxpayers and their agents and started the trend towards self-service applications which in recent times have become a feature of leading tax administrations. The ATO has continued to upgrade the website as more and more taxpayers use electronic mediums as their first port of call. For example, the ATO website gives access to tax technical information including tax laws, rulings and determinations, it provides general guidance in plain English on taxpayer rights and obligations and on the supporting processes and procedures, and it

¹⁴ Anuhka Bakker and Sandor Kloosterhof, *Tax Risk Management: From Risk to Opportunity*, IBFD ed., 2009.

¹⁵ The Australian Ombudsman, cited in Leigh Edmonds, 'Working for all Australians 1910-2010: A brief history of the Australian Taxation Office', 2010.

¹⁶ Simon James, Kristina Murphy and Monika Reinhart, *Taxpayers' Charter: A Case Study in Tax Administration*, 7 *Journal of Australian Taxation*, 336 (2004).

increasingly makes use of calculators and other tools to ‘mask’ the underlying complexity of the tax law.

5. A NEW TAX OFFICE FOR A NEW TAX SYSTEM

The impetus for change was not just internally driven. In the late 1990s the government released details of its tax reform package, ‘Tax Reform, not a new tax, a new tax system’¹⁷. The significant aspects of the new system were the introduction of the Goods and Services Tax (GST); an Australian Business Number that would be a single identification number for government to business and business to government activities; a quarterly business activity statement; and pay as you go instalment and withholding systems that replaced previous arrangements.

To manage the introduction of the GST and other measures, the ATO went through yet another cycle of introspection and change under the mantra of ‘A new tax office for a new tax system’.

Responding to change was becoming part and parcel of the way the ATO operated. Over the next decade the ATO responded to major legislative changes, gaining in change management expertise as it learned from experience. For example, the Report to the Treasurer, *Australia’s Future Tax System*¹⁸ resulted in further legislative priorities for the ATO. In an ATO employee engagement survey undertaken in 2011, many staff commented that change in the ATO was business as usual for them.¹⁹

The introduction of the GST in 2000 was a particularly massive challenge for businesses and their agents who struggled to cope with the requirements of the new tax. The confidence of tax agents in the ATO reached a low ebb.

The ATO also felt the strain of implementing what was a politically charged tax package. The implementation of the reform initiatives required new IT systems and major modifications to the ATO’s legacy systems; and it required new processes and procedures, new guidelines and rulings, new educational material for businesses and for other affected taxpayers. A comprehensive communication and marketing strategy was implemented, and the change necessitated significant recruitment and the intensive training of staff.

A major new tax and the difficulties associated with its implementation reduced community confidence in the ATO. Something out of the box needed to be done. But what?

6. LISTENING TO THE COMMUNITY

The ATO looked outside itself for answers. It initiated a ‘Listening to the Community’ program which coalesced around three key objectives:

¹⁷ *A New Tax System* circulated by the Honourable Peter Costello, M.P., Treasurer of the Commonwealth of Australia, August 1998.

¹⁸ Report to the Treasurer, *Australia’s Future Tax System*, December 2009, Commonwealth of Australia, 2010.

¹⁹ An echo of the sentiments in a speech by Commissioner Boucher, *‘We Eat Change for Breakfast.’*

- Improved compliance;
- Increased service and certainty; and
- Making people's experience 'easier, cheaper and more personalized'.

In many ways the ambitious, risky and largely self-funded Change Program initiated by Commissioner Carmody was critical to the achievement of each of these objectives. It was intended to be and proved to be a real and substantial reinvention of the ATO. In the words of Commissioner Carmody, it was intended to be transformational for the ATO. On the completion of the Change Program in 2010 it had achieved that objective and laid a firm platform for the future.

7. THE ATO'S CHANGE PROGRAM

The ATO decided to turn the need for new IT into an opportunity, an opportunity to make very significant improvements to its products and services. The goal of the Change Program was to improve services to Australians while streamlining the ATO's operations, and enhancing the ATO's compliance and intelligence capabilities. It was delivered in three major releases, together with other system initiatives:

- The Tax Agent Portal provided tax agents with a secure on-line interface with the ATO and revolutionised the relationship between tax agents and the ATO. Subsequently, the Business Portal allowed business to interact with the ATO on-line reducing compliance costs.
- Release 1 of the Change Program implemented a client relationship management system that improved client experiences.
- Release 2 replaced 187 case management systems with one national and integrated system with work flow capabilities which facilitated effective national risk management and monitoring.²⁰
- Release 3 is the largest information technology deployment ever undertaken by the ATO. The new integrated core processing system replaced the ATO's national taxpayer system.

The transformational nature of the Change Program also meant that new ways of thinking, behaving and perceiving were needed.

We are intent on transforming the Tax Office from an organisation-centric body into a user-centric one—putting the needs of the community first, standing in their shoes, getting to know them better and working with taxpayers and their representatives—tax agents and the IT industry and others—to work together in developing better services and products to make one of life's certainties just that much easier. It's a big departure from the past.²¹

²⁰ In relation to Release 1 and 2 of the Change Program, see ANAO, 'Tax Office's Implementation of the client contact – work management – case management system', 2010.

²¹ Greg Farr, former Second Commissioner of Taxation, speech to the Government Technology World Conference, 2006.

The Change Program reshaped the ATO's entire information technology infrastructure by replacing several systems (some 30 years old) with a single integrated information technology platform.

The change program has significantly revolutionised how the ATO develops and delivers its services to its customers ... [it] has provided the ATO with an integrated technology and business delivery capability that provides the basis of future efficiency dividends.²²

External reviews by Aquitaine Consulting²³ and CPT Global Limited²⁴ concluded that the change program realised the following benefits:

- over \$150 million annual savings as a result of efficiency gains,
- financial benefits to government through use of analytics in increased compliance and prevention of fraudulent refund payments,
- ability to deliver new policy changes faster through 'in pattern' changes,
- ability to resolve more client contact on 'first call' activities due to improved case management and improved analytics, and
- an enhanced ability to pre-fill returns, making it easier for registered tax agents and taxpayers to comply.

The change program also provided a basis for further realisation of benefits, such as improved fraud detection and analytics; greater leveraging of pre-filing opportunities; and the development of front-end user friendly applications to meet the contemporary needs of individuals and businesses.

In terms of scale, size and timeframe, the Change Program is unique in the world. The ATO is positioning itself for organisational capability that other tax administrations aspire to.²⁵

Parliament too recognised the importance of the Change Program for future tax administration:

Overall the Committee was pleased that the investment in the change program was beginning to pay dividends in reducing processing time and in identifying potentially fraudulent claims which would improve the integrity of the system.²⁶

The changes made to the way the ATO operates as a result of the Change Program were pervasive and in their totality provided a platform for innovation and for building comparative advantage for the ATO and Australia.

The pace of innovation did not falter, and even before the Change Program was completed in 2010 the ATO was developing its new *ATO On-line Strategy 2015*

²² CPT Global Limited, 'Report on Release 3 Income Tax', 2010.

²³ Aquitaine Consulting, 'Review of the Benefits from the Change Program', 2010.

²⁴ CPT Global Limited, 'Change program benefits realisation assessment', 2012.

²⁵ Gary Pascoe, CapGemini, 2010.

²⁶ Joint Committee of Public Accounts and Audit, Report 426, Ninth biannual hearing with the Commission of Taxation 23 November 2011, Commonwealth of Australia, 2011.

(designed to improve the community's interface with the ATO and to include tools to further empower taxpayers). The ATO On-Line Strategy focused on online services but was also about championing a digital Australia. The new On-Line Strategy was complemented by a structured program for the on-going enhancement of the ATO's IT capabilities.²⁷ For example, the ATO developed specifications for the extension of *e-Tax* to web-based platforms and worked on the introduction of an Individual's Portal (which could link with whole of government initiatives designed to provide the citizen with a one-stop shop).

Nevertheless, IT platforms on their own do not guarantee transformation without the engagement, commitment and innovation of people.

8. PEOPLE AND SKILLS

Ultimately it is people that in large measure govern the effectiveness of a public sector administration, particularly in the way they interact with the public and in the manner in which they gain the community's trust and confidence.

Graduates and call centre staff brought generational change and greater diversity to the ATO. They were less accepting of existing structures and processes than earlier generations had been and more positive in promoting themselves and their ideas. However, ATO values remained constant and second nature and almost all tax officers worked hard and were enthusiastic, skilful and committed to ATO goals.²⁸

The profile of the workforce of a public sector organisation depends on the nature of the tasks required of the agency. As the ATO had digitised many of its processing activities there was an increasing need for knowledge and intelligence based expertise in a wide range of disciplines.

The ATO graduate program played its part in meeting the skills required for the sustainability of a leading tax administration.²⁹ This was supplemented by the melding of private and public sector expertise within the ATO. For example, in 2012, the ATO had a good balance of public and private sector expertise, with 35 per cent of its senior leadership having substantial private sector experience.

An emphasis on having people with the right skills, training and values in the right place saw the ATO lift its standards of professionalism and the expectation of the organisation and of staff themselves as to what amounted to superior performance. The investment in people and in their level of professionalism was facilitated by the progressive enhancement of performance management and development practices essential to the efficient operation of a large organisation. For example, the ATO made

²⁷ See Commissioner of Taxation, Annual Report 2011-12.

²⁸ Leigh Edmonds, 'Working for all Australians 1910-2010: A brief history of the Australian Taxation Office', 2010, p250.

²⁹ For example, the ATO's graduate program was ranked third in the 'Aspirational employer of choice' category in the Australian Association of Graduate Employers *Candidate survey 2011*. In 2012, the ATO was the only government agency to make the top 10 in the 'Aspirational employer of choice' category; and for the third year in a row, the ATO's graduate development program was recognised as the 'Best graduate program'. It also ranked seventh in the 'Best recruitment process' and 'Best opportunities for graduates' categories in 2012.

performance management an essential element of the role of team leaders and managers. Performance management and development at the ATO included an assessment of staff performance against professional standards, coaching, 360 degree feedback, comparison with qualitative and quantitative data from the rest of the organisation, and feedback from taxpayers and their agents. A survey of ATO staff showed that they rated well by these criteria against private and public sector benchmarks and this focus on professionalism significantly improved the tone, standards and productivity of ATO people.³⁰

9. THE ATO'S INTEGRITY FRAMEWORK

The integrity of a tax administration and of its staff is fundamental to maintaining community trust and confidence.

Internal integrity was ensured by the ATO's integrity framework that won a global award for governance in 2007, and by an internal investigation unit supported by a fraud and ethics team that had long existed to detect and deal with staff dishonesty.³¹

As at 2012, the ATO's integrity framework included a wide range of integrity indicators and a program of certificates of assurance, complemented by internal audit and fraud prevention functions. As part of this framework the ATO:

- set ethical standards for employees, including adherence to the ATO and Australian Public Service values;
- told the community how they could raise concerns or make complaints;
- had an independent Integrity Adviser to provide advice directly to the Commissioner;
- had systems to prevent and control fraud; and
- used its corporate governance committees to consider and monitor integrity.

Rules and regulations as well as processes to monitor adherence to those rules work best in an environment where the culture and values of its staff reflect an integrity-based organisation. A focus on nurturing the right culture is at the centre of building a world class tax administration.

10. VALUES AND ENGAGEMENT

Getting people to do their work well is only the start of staff engagement with the goals and values of the organisation and with the community they serve. The objective at the ATO became to embed within the organisation a virtuous circle of care, integrity and commitment by staff to the important work of the ATO, to continuous

³⁰ Leigh Edmonds, 'Working for all Australians 1910-2010: A brief history of the Australian Taxation Office', 2010, p253-4.

³¹ Leigh Edmonds, 'Working for all Australians 1910-2010: A brief history of the Australian Taxation Office', 2010, p240.

improvement and top down and bottom up innovation, to new thinking and new ideas, and to success. Success in turn leads to increased engagement and alignment with organisational goals and values, which in turn spin another cycle of success for the agency and the community.

An important part of this focus on values was the development of personal empathy between tax officers and taxpayers to dissolve the barriers that separated the ATO and the community, as much as possible.³² This was reflected in the ATO Strategic Statement 2010–15 and the associated linkage of proper participation in Australia’s tax system with good citizenship.³³

Placing emphasis on the concept of corporate values and on trying to treat people as you would want to be treated yourself supported a culture conducive to the making real and tangible the ATO’s strategic themes. The ATO culture was of “a community of people bound together by the shared knowledge that they were doing important work for the Australian community and a sense of shared professionalism”.³⁴

11. ATO’S SERVICE INITIATIVES AND REDUCING COMPLIANCE COSTS

New technologies allowed the ATO to provide contemporary services. They included online access to information such as rulings and publications, online registration for an Australian Business Number, improvements to the ATO website’s search capabilities, and social media such as Facebook. Electronic lodgment, called *e-tax*, facilitated electronic lodgment of returns by individual self-preparers and was progressively upgraded to include pre-filling of returns with details provided by third parties.

The ATO’s call centres responded to over 11 million calls in 2011–12 and were recognised as amongst the nation’s best.³⁵ In the same year the ATO started using new technology to better understand taxpayers’ needs, to improve service and to detect potential risks. This technology scans for key words and phrases in millions of call recordings and allows the ATO to respond to emerging trends in a timely manner. By better understanding the volume and nature of these enquiries the ATO is able to improve the way it communicates and responds to them, including improving end to end services.

Notwithstanding these significant service improvements, a major ATO initiative that commenced in 2011 was the wholesale review of the ATO’s service standards.³⁶ The

³² Leigh Edmonds, ‘Working for all Australians 1910-2010: A brief history of the Australian Taxation Office’, 2010, p240.

³³ ‘Tax and Citizenship’, Presentation by Michael D’Ascenzo, Harvard Kennedy School and Irish Tax Institute - Global Tax Policy Conference, Dublin, October 2013.

³⁴ Leigh Edmonds, ‘Working for all Australians 1910-2010: A brief history of the Australian Taxation Office’, 2010, p253.

³⁵ For example, the ATO’s integrated quality framework for quality assessment of call centres, recorded telephony quality for 2011–12 at 96.4% against a benchmark of 90%. In 2012 the ATO’s Chermside contact centre was awarded the Australian Teleservices Association contact centre of the year for Queensland. The ATO was also a finalist at the NSW Australian Teleservices Association awards.

³⁶ Service Standards were first introduced by the ATO in 1997 with the implementation of the Taxpayers’ Charter. See also the ATO submission to Joint Committee of Public Accounts and Audit hearing, Friday 14 September 2012.

intent of the review was to provide a roadmap of progressive implementation of new standards and approaches under the banner of five service commitments:

- Helpful and accurate: You help me by giving me accurate information that I can rely on and understand.
- Easy to deal with: You make it easy for me to access the services and information I need.
- Timely: The time taken in my dealings with you is acceptable to me.
- Keep me informed: I am informed of what I need to do and you let me know of status or delays.
- Be professional: You are professional because you treat me respectfully, courteously, and you are knowledgeable in my dealings with you.

12. THE 3Cs AND USER-BASED DESIGN

In seeking to make the system easier cheaper and more personalised for taxpayers, the ATO pioneered two closely related concepts:

- User- Based Design; and
- The 3Cs of ‘consultation’, ‘collaboration’ and ‘co-design’.

Bringing these concepts to life helps to make the tax system easier, cheaper and more personalised for taxpayers.³⁷

The 3Cs became formal elements of the ATO’s 2006–2010 Strategic Statement and were prominent in the values and themes that underpinned the ATO’s 2010–15 Strategic Statement.

As one ATO officer put it:

I think the 3Cs has improved our ability to do this and inspires confidence among those who want to know about what we do...

User-based design allows us to view the world from the taxpayer’s perspective. Using this approach we will get better outcomes because the materials we produce for the community will be written in **their** words not ours, using their thinking and not ours, and fitting with their natural systems, not ours. If we apply these principles, compliance becomes the norm because it is easy.³⁸

³⁷ Commissioner of Taxation, ‘Making a difference - the intent behind our strategic statement 2010 – 2015’, (which accompanied the release of the ATO’s Strategic statement 2010-15).

³⁸ Michael Strong, ATO National Director, Excise Change and Product Management, in Case Study— Improving our products and services through the 3Cs – consultation, collaboration and co-design, in Making it Easier to Comply, ato.gov.au.

These comments illustrate how bringing to life the ATO's corporate values in its 2010–15 Strategic Statement helped to create a community first tax administration.³⁹

13. TAX AGENT ACTION PLAN

In recent years the registration and regulation of tax practitioners in Australia has been strengthened by the introduction of a new national Tax Practitioner Board (TPB). The TPB is a national body responsible for the registration and regulation of tax practitioners and for ensuring compliance with the *Tax Agent Services Act 2009* (TASA), including the *Code of Professional Conduct* (Code). This is achieved by:

- administering a system to register tax and BAS agents, ensuring they have the necessary competence and personal attributes
- providing guidelines and information on relevant matters
- investigating conduct that may breach the TASA, including non-compliance with the Code, and breaches of the civil penalty provisions, and
- imposing administrative sanctions for non-compliance with the Code.

The new arrangements help to promote a capable and well regulated tax profession of high integrity. This makes tax agents a key leverage point for the effective operation of the tax system.

Overall, tax agents in Australian have been a positive influence on the proper compliance with the law by their clients. For the ATO the operating premise has been that tax practitioners and other intermediaries play a positive and integral part in the effective operation of the tax system. However they too benefit from the assistance and streamlined processes that the ATO provides to them, including the tax agent portal. Moreover, their needs for assistance change with market expectations, frequent amendments to the tax laws, and the opportunities and challenges of new technology. In 2011 the ATO launched its *Tax Practitioner Action Plan* to refresh the relationship with this important stakeholder group.⁴⁰

14. TAX TECHNICAL DECISION MAKING

Tax technical decision making is at the centre of the ATO's responsibilities. The ATO took a purposive approach to the interpretation of the law and this flowed through the practical and common sense application of the law to relevant facts. By applying the rule of law, which delineates the extent of the ATO's powers,⁴¹ the ATO provided a

³⁹ Commissioner of Taxation, "*Creating a community first culture in the Tax Office*", Australian Public Service Commission – Leadership Development Network, 15 November 2006.

⁴⁰ Tax Practitioner Action Plan, ato.gov.au.

⁴¹ Bruce Quigley, former Second Commissioner of Taxation, '*The Commissioner's powers of general administration: how far can he go?*', 24th Taxation Institute of Australia, National Convention, Sydney, 12 March 2009.

high degree of certainty and consistency conducive to a positive business and investment climate.

In addition the ATO took steps to make it easier for taxpayers and their advisers to access its technical experts in a timely manner and to streamline the tax decision making process by:

- designing flexible processes to support staff making decisions at the front line,
- removing barriers to engaging with the ATO's tax technical experts and decision makers,
- ensuring the reasons for decisions are known and understood by everyone, and
- establishing early engagement mechanisms such as dedicated triage teams.

The ATO used its best tax technical specialists (including its Tax Counsel Network) to help ensure good decision making up-front in the application of the tax law to significant issues. This provided taxpayers up-front with the authoritative ATO view of the application of the law on precedential and complex matters rather than it being developed sequentially through internal review processes. The intent was to reduce the time taken to resolve disputes either administratively or through the courts.

15. ATO REFINEMENT OF ITS COMPLIANCE APPROACH

In developing the compliance model, which differentiates between the economic, psychological, and social circumstances of taxpayers, the ATO has been a global innovator.

Progressively the ATO has sought to shift its thinking and that of the community to prevention rather than cure strategies. The ATO has focused increasingly on early engagement, greater differentiations, and encouraging, supporting and championing mutual transparency through enhancing its relationships with taxpayers and their advisers. Taking this approach, particularly with large business, the ATO has sought to foster a 'no surprises' approach with those taxpayers who see advantages in reciprocating a more open and constructive relationship with the ATO.⁴²

Today many leading tax administrations are adopting the concept of co-operative compliance to develop an enhanced relationship between business, tax practitioners, corporate advisors and tax authorities.⁴³

Segmentation into broad market sectors is useful because different market segments have different service needs and give rise to different risks. In addition the ATO has recognised that analytics can provide a more granular understanding of taxpayer needs and risks and has invested in this capability.⁴⁴

⁴² Commissioner of Taxation, *Mitigating risk*, 10th International Tax Administration Conference (ATAX), Sydney, 2 April 2012.

⁴³ OECD Forum on Tax Administration, 'OECD Tax Intermediaries Study, Working Paper 6 – The Enhanced Relationship', July 2007.

⁴⁴ Reflecting the theme of "Enhancement"—one of the 5 themes that underpinned the ATO's Strategic Statement 2010–15.

The ATO values as described in *'The Intent behind the 2010-15 Strategic Statement'* are also at play in the ATO's approach to compliance. For example, the ATO is using collaborative approaches, both at domestic and international levels, to contribute to breakthrough solutions. This is all part of a vision of making a difference—encouraging and supporting willing participation in Australia's tax system, protecting the community from those who are not willing to meet their civic and legal responsibilities, and continuously improving the ATO's capabilities in order to champion community interests.

16. CONCLUSION

“In 100 years Australia had changed beyond the imagining of the politicians who fought the 1910 election over issues including the land tax...It was [in 2010] an entirely different world from the one into which the ATO had been born. It had begun as a tool of social change in a world of hierarchies, controls and parochialism and survived and grown over 100 years as the result of decades of hard work and the dedication and values of its people. As a result, most Australians no longer saw the ATO as a large, alien and authoritative organisation, but as a friendly, firm but fair and necessary part of Australian life that existed to serve the community. This close relationship with the community was the view of its role that the ATO unveiled in June 2010 as its strategic statement for the years ahead, marking the beginning of the ATO's second century of working for all Australians.”⁴⁵

If I had to put my finger on what enabled the ATO's transformation I would have to give credit to the leadership of my predecessors and the engagement, commitment, innovation and integrity of the ATO's people.

The Joint Committee of Public Accounts and Audit's (JCPAA) in its 2011 Report 426 and 2012 Report 434 noted “the many improvements that have occurred in Australian tax administration.”⁴⁶ The JCPAA's Report 426 in particular highlights the trust that has been built over time, bridging the gap between the ATO and its stakeholders:

The Committee found that the administration of Australia's tax system is robust. Overall it is well managed, providing a trusted foundation for Australia's people, business and government.⁴⁷

⁴⁵ Leigh Edmonds, 'Working for all Australians 1910-2010: A brief history of the Australian Taxation Office', 2010, p256.

⁴⁶ The Joint Committee of Public Accounts and Audit, Report 434, Tenth biannual hearing with the Commissioner of Taxation, November 2012, *Foreword* by Chair Rob Oakshott MP at vi.

⁴⁷ Joint Committee of Public Accounts and Audit, Report 426, Ninth biannual hearing with the Commissioner of Taxation, November 2011. See also, the Joint Committee of Public Accounts and Audit, Report 434, Annual Public Hearing with the Commissioner of Taxation – 2012, November 2012.

17. ATTACHMENT A: CHANGE PROGRAM TIMELINE

2002	'Listening to the community' program helped the ATO develop ideas to make it easier and cheaper for people to comply with their tax obligations.
2004-05	Business case for the change program approved in December 2004. Accenture contracted in December 2004 to deliver a single integrated system through three releases. Release 1 sees the implementation of a single client relationship management system. This provided improved efficiencies for 2,500 ATO employees and improved client experiences.
2006-07	Release 2 enables over 13,000 staff in over 1,000 teams across 60 sites to fundamentally change the way they carry out their work.
2008-10	Release 3 is the largest information technology deployment ever undertaken by the ATO. It provided a single way of working across the ATO and involved rolling out a new Integrated Core Processing system. Revised change program schedules and budgeted costs approved to reflect Super Simplification reforms, other legislative changes, annual provision for tax time and scope changes. Australian National Audit Office report on 'Performance audit of the ATO's implementation of the Change Program: Strategic overview of benefits and costs' tabled in October 2009.
2010	The change program was officially closed in July 2010. <i>Review of the Benefits from the Change Program</i> developed by Aquitaine Consulting in September 2010. ANAO report on 'Tax Office's implementation of the client contact - work management - case management system' tabled in September 2010.
2011-12	Inspector-General of Taxation report on 'Review into the ATO's Change Program' was released in May 2011. <i>Change program benefits realisation assessment</i> developed by CPT Global Limited in June 2012.