

10: Complexity and administration

Overview

This chapter considers the sources of tax system complexity, the costs it creates and different methods through which it can be alleviated.

Key points

- The complexity of the Australian tax system reduces integrity and transparency, and imposes unnecessary compliance costs on taxpayers, as well as other costs on the Australian economy.
- The complexity largely reflects the historical foundations of the tax system and the way changes to the system have been implemented in the past. This makes it difficult to address without broad community support.
- Tax administration will play an increasingly important role in minimising the impact of tax system complexity by making it easier for members of the community to comply with their obligations.
- Establishing a metric to measure tax complexity could assist in managing the complexity of the tax system.

Australia's tax system has become increasingly complex over time. Previous government reviews, tax professionals and other stakeholders have expressed frustration and concern about its sustainability. Complexity also creates costs for the community as a whole. When excessive, these costs detract from the wellbeing of Australians. These costs include compliance costs for taxpayers, revenue impacts from forgone revenue and other unintended outcomes, distortion of commercial decisions, increased administration costs, and decreased confidence in the fairness of the tax system.

Tax systems, at their core, are a series of rules and procedures designed to produce revenue to fund government programmes. The Australian tax law has grown incrementally over time, delivering new policies and responding to integrity problems and other unintended outcomes.

Each addition to the law has involved trade-offs, such as those between the benefits sought and the competing interests of different groups of taxpayers. It is not clear, however, that the costs imposed by complexity have been given appropriate weight in balancing those trade-offs.

Growing tax system complexity is a problem facing most modern economies. While there appears to be a broad consensus that the Australian tax system is overly complex, addressing the problem requires common ground to be found on what strategies will be most effective in simplifying the system. There is compelling evidence that simplifying the system would provide significant benefits to both the economy and the taxpayer experience.

The Government's deregulation agenda seeks to directly address costs of compliance by reducing the volume of regulation with which individuals and entities must comply. This process can also include simplifying particularly complicated areas of law, including tax law. The Government's deregulation agenda takes a three-pronged approach to addressing the regulatory burden:

- using an enhanced regulation impact statement process to provide quality assurance for the flow of new regulation;
- systematically reviewing the stock of existing regulations in the context of a net annual red tape reduction target of \$1 billion per annum; and
- establishing a new framework for assessing regulator performance to ensure that regulators minimise the burden they create when administering legislation.

10.1: What is meant by complexity?

Taxpayers are likely to have differing perceptions of complexity depending on the impact it has on their compliance costs, other regulatory impacts, or tax outcomes. Perhaps unsurprisingly, people are more likely to tolerate the burden of complexity if it delivers a more beneficial outcome for them.

A useful way of discussing tax system complexity is by way of 'complexity indicators', such as:

- the number of treatments, choices and exceptions a particular taxpayer needs to navigate to work out their tax liability;
- the length and comprehensibility of the tax law and supporting material;
- the number of changes to the law or interpretation products;²²⁶
- the amount of information a taxpayer needs, or the difficulty of the processes required, to comply with the law or a request from the Australian Taxation Office (ATO); and
- the prevalence, or perceived likelihood, of tax disputes.

²²⁶ There has been an average of 77 tax measures introduced into Parliament each financial year since 2002-03.

The aspects of complexity reflected in these indicators cannot be considered in isolation. Each aspect interacts with and increases complexity in the others. For example, the number of treatments, choices or exceptions in the law will impact on the amount of administrative guidance the ATO needs to provide, the amount of information a taxpayer needs to inform their choices and meet their reporting obligations, and the prevalence of tax disputes.

In addition, frequent changes to the tax system contribute significantly to its complexity. In particular, taxpayers experience considerable uncertainty when announcements of proposed changes to the law are made but remain unenacted. When the Government came to office in September 2013, there were 96 outstanding announcements of an intention to change the law. These were addressed in the Government's announcement 'Restoring integrity in the Australian tax system' (November 2013).²²⁷

While these indicators are useful, they provide little guidance on the causes and drivers of complexity. Some of these causes and drivers are discussed later in this chapter.

10.2: Impact of complexity

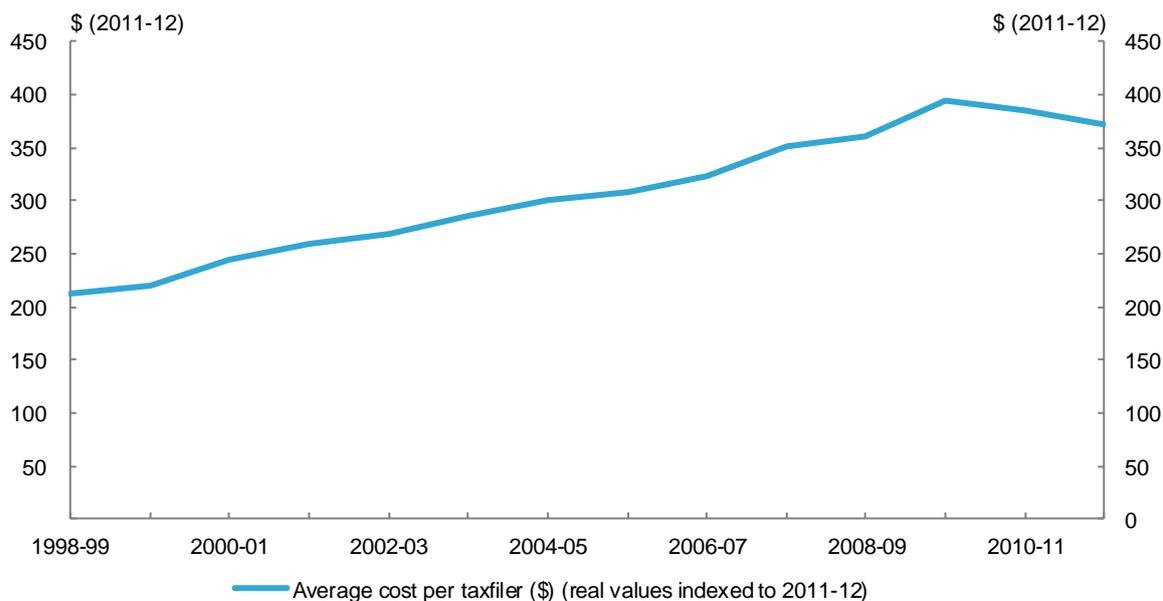
While a certain degree of complexity is inevitable in a dynamic, sophisticated and inter-connected economy, an overly complex tax system can have adverse consequences for the Australian economy.

Complexity can divert resources away from more welfare-enhancing activities. It makes it more difficult for taxpayers to identify their tax obligations, and to incorporate tax consequences into their decision-making, without significant professional advice. While some professional advice is likely to be necessary to manage the innate complexity of the tax system (especially for business taxpayers), the extent of tax advice currently relied upon suggests the system is overly complex. Time and resources spent by taxpayers or their agents on their tax affairs is time not spent innovating, creating products, delivering services, generating wealth or enjoying leisure.²²⁸

The time and resources spent on managing tax affairs rose significantly from 1998-99 to 2009-10. This could reflect the increasing complexity associated with the accumulation of changes that have been made to the tax system over time (Chart 10.1). The cost of managing tax affairs for individual tax filers appears to have levelled off since 2009-10. This could reflect the impact that technology is having on the taxpayer experience. While the underlying complexity of the system may have continued to build in this time, ATO use of electronic tools (such as pre-filled tax returns) has improved the taxpayer experience.

227 Treasurer the Hon Joe Hockey MP, Media Release, 6 November 2013, *Restoring integrity in the Australian tax system*, viewed 9 December 2014: <http://jbh.ministers.treasury.gov.au/media-release/017-2013/>.

228 In 2011-12, companies with turnover of less than \$1 million spent 224,849 hours on preparing income tax returns. Micro, small and medium businesses also spent 87,741 hours preparing fringe benefits tax forms and 5,464,245 hours preparing Business Activity Statements as shown in Australian Taxation Office 2014, *Taxation Statistics 2011-12*, Australian Taxation Office, Canberra.

Chart 10.1 Average real cost of managing tax affairs for Australian tax filers (individuals)

Source: Australian Taxation Office 2014, *Taxation Statistics 2011-12*, Australian Taxation Office, Canberra.
 Note: This data is sourced from taxpayers claiming a deduction for managing their tax affairs. The average cost for all taxpayers may be different.

By its nature, the tax system creates economic incentives for taxpayers to engage in particular behaviours or refrain from others. Where this is a deliberate policy choice, the resulting change in behaviour can be consistent with the policy objective. However, behavioural changes sought through the tax system often involve fine distinctions to ensure proper targeting. These distinctions often interact with other parts of the tax law and can lead to unintended consequences where the policy objective is not delivered. This, in turn, means integrity rules have to be introduced to safeguard the resulting boundaries.

As the system becomes more complex, interactions between different parts of the tax law can create unintended incentives or disincentives that may be inconsistent with good policy outcomes. Confronted with this complexity and the opportunities it creates, taxpayers who can afford it are more likely to seek expert assistance to manage their tax affairs.

The complexity of the tax system also makes it less transparent. It can conceal special treatments that result in taxpayers in similar circumstances receiving very different tax outcomes, and can mask effective tax rates. This can adversely affect voluntary compliance. Researchers have consistently found that perceived unfairness in the tax system reduces taxpayers' willingness to comply.²²⁹

229 Ayres, I and Braithwaite, J 1992, *Responsive Regulation: Transcending the Deregulation Debate*, Oxford; Braithwaite, J 2011, 'The Essence of Responsive Regulation', *University of British Columbia Law Review*, vol. 44 issue 3; Braithwaite, J 2005, *Markets in Vice, Markets in Virtue*, Oxford; Braithwaite, V 2003, *Taxing Democracy: Understanding Tax Avoidance and Evasion*, Ashgate Publishing Ltd, Aldershot: <http://vab.anu.edu.au/pubs/1/taxingdemocracy.pdf>; Ashgate; and Freedman, J, 'Responsive regulation, risks and rules — applying the theory to tax practice', *University of British Columbia Law Review*, vol. 44 issue 3.

Finally, a more complex tax system is more expensive to administer, and thereby increases the resources required by the ATO. For example, complexity in the tax law is more likely to give rise to protracted disputes. This reflects the difficulty taxpayers, tax professionals, the ATO and the courts face in working out how the law is meant to apply in particular situations.

Discussion questions:

56. What parts of Australia's tax system, and which groups of taxpayers, are most affected by complexity? What are the main causes of complexity?

Measuring complexity

While there is general agreement that complexity can have significant impacts on the Australian economy, there is not agreement on an approach to measure it. One common measure is the compliance burden — that is, the time spent engaging with the tax system (including completing a tax return, maintaining records or substantiating eligibility for tax treatments).

Compliance burden

The Commonwealth Government is committed to reducing the regulatory compliance burden for Australian businesses and individuals. Australia's tax system is a major contributor to the regulatory burden faced by businesses and the wider economy, with the ATO estimating that compliance with the tax system costs Australian taxpayers in the vicinity of \$40 billion annually.²³⁰ For individuals, the cost of managing tax affairs can be significant (see Chart 10.1 above), and 72.4 per cent of Australian tax filers lodged their tax return through a tax agent in 2011-12.²³¹ However, the compliance burden is only one measure of complexity of the tax system.

Developing a metric to measure complexity

Developing a broader metric for measuring the complexity of Australia's tax law could help identify the areas of the tax law most in need of simplification, and the areas where reform could have the greatest impact. While quantifying the compliance burden would be an important element of such a metric, other aspects or indicators could be incorporated into an index to provide a more holistic assessment of the complexity of the system.

Such a metric would provide a measurable way to compare different areas of the tax law. It may also provide an opportunity to measure relative complexity over time, which would show whether areas of the tax law, or the tax law as a whole, are becoming more complex. This would provide a way to assess regularly how the degree of complexity in the tax system is

230 ATO analysis of commissioned Newspoll survey data relating to the 2011-12 tax year, to be presented at an upcoming conference in 2015.

231 Australian Taxation Office 2014, *Taxation Statistics 2011-12*, Australian Taxation Office, Canberra. Table 1: Individuals Tax, as at 30 September 2014.

changing. The idea of developing a tax complexity metric is receiving increased attention from governments and academics. For example, the United Kingdom Office of Tax Simplification is currently developing a 'Tax Complexity Index', and Australian academics have published papers and research on the measurement of complexity. Possible examples of approaches to develop a metric are considered in Attachment A.

There is no single, easily measurable factor that directly correlates with the overall complexity of the tax law. Factors are most useful if they are easily measured while still providing a meaningful indicator of complexity. Further, a metric would need to be intuitive and easy to use.

It is important to recognise that developing a metric will not, of itself, be enough to tackle complexity. Best practice strategies would be needed to properly manage complexity in the tax system, while a metric would inform where those strategies are best engaged.

Discussion questions:

57. Would there be benefit in developing an Australian metric for tax complexity? What factors should be included? How should they be combined into a metric?

Drivers of complexity

Complexity is rarely introduced intentionally and there are a number of factors that contribute to its continuing growth. Tax reviews, academics and other key stakeholders in the tax system have been examining and attempting to articulate the underlying causes for many decades.²³² What is clear is that there are many drivers of increasing complexity that do not operate in isolation. Rather, each tends to feed into and exacerbate the others.

At a general level, complexity may be sourced or found in the setting of tax policy and amendment to the tax law to reflect those policy settings, and compliance with and administration of the tax law.²³³ Complexity is particularly intractable when it is a result of underlying policy settings or of how these settings are translated into law. This complexity may also be found in law that is difficult to understand or navigate, and in elaborate compliance and administrative requirements. On the other hand, complexity that results from administrative practices may be relatively straightforward to address, where the ATO is able

232 Parsons, R 1991, 'Income Taxation: An Institution in Decay', *Sydney Law Review*, vol. 13, page 435; Krever, R 2003, 'Taming Complexity in Australian Income Tax', *Sydney Law Review*, vol. 25, no. 4; Review of Business Taxation 1998, *Review of Business Taxation — A Strong Foundation: Discussion Paper Establishing objective, principles and processes*, Canberra, viewed 10 December 2014: www.rbt.treasury.gov.au/publications/paper1/html/Prelim.htm; and; High Court Chief Justice French 2013, *Law — Complexity and Moral Clarity*, speech delivered to North West Law Association and Murray Mallee Community Legal Service viewed on 10 December 2014: www.hcourt.gov.au/assets/publications/speeches/current-justices/frenchcj/frenchcj19may13.pdf.

233 See further Ralph Review of Business Taxation 1998, *Review of Business Taxation — A Strong Foundation: Discussion Paper Establishing objective, principles and processes*, Review of Business Taxation, Canberra, viewed 10 December 2014: www.rbt.treasury.gov.au/publications/paper1/html/Prelim.htm.

to adjust its administrative requirements without any need for the Government to change policy settings or the law.

More specifically, historical and continuing causes of these kinds of complexity include:

- artificial boundaries and distinctions that do not reflect commercial or economic differences;
- ‘patching’ the law to fix particular outcomes (especially by adding specific integrity measures);
- attempts to provide certainty for particular groups of taxpayers or transactions;
- attempts to minimise compliance costs or adverse outcomes of reform for existing situations; and
- complex drafting styles.

Artificial boundaries and distinctions

Australia’s tax system, particularly its income tax system, is based on an architecture that reflects the economy and environment prevailing at the time the system was introduced, including the transactions common at that time. Changes to the system have been built on these historical foundations and have tried to make this architecture fit new and innovative ways of doing business. For example, rather than a general income tax that captures all realised gains and then carves out intended exceptions and concessions, Australia’s income tax law is based on a narrower concept of income. This was construed by the courts as embracing the Court of Chancery trust law understanding of ‘income of a trust’, to which income beneficiaries are entitled, and distinguished from the ‘capital of a trust’, to which any ‘remainderman’ is entitled. The persistence of distinctions like this, as well as the additional complexity it generates, illustrates the difficulty of a system designed for previous generations but operating in a modern context.

This narrow historical foundation has also seen a significant number of extensions made to the law over the years to ensure the overall integrity of the income tax base. These extensions are often accompanied by concessions and exceptions that seek to ensure that these extensions do not inappropriately apply to particular taxpayers or circumstances. This framework of constantly introducing integrity measures to protect the base creates an ever increasing number of artificial boundaries within the tax system. These boundaries and the way they interact with each other and other areas of the tax law can create unforeseen or unintended outcomes that may be exploited by taxpayers. If these outcomes are inconsistent with broader tax policy and the objectives of the system, it can create a need for further integrity measures that further exacerbate the problem. The ultimate outcome viewed over time is a cycle of changes in a perpetual attempt to achieve the appropriate policy scope for the particular extension in question.

There is also a link between the frequency of rule changes and taxpayer attitudes. The more taxpayers want certainty about particular provisions, and especially the more taxpayers seek to exploit weaknesses in the law to minimise tax, the more pressure there is for legislative change. Accordingly, the broader ‘compliance culture’ is an important factor in the design and administration of the system.

Box 10.1: General anti-avoidance rules

The spread of integrity rules and specific anti-avoidance provisions at different points of the system's evolution (for example, during the 1970s and 1980s in the income tax system) prompted the development or refinement of general anti-avoidance rules (GAARs). GAARs are intended to provide an ongoing solution to arrangements that have the dominant purpose of avoiding tax, particularly where these arrangements are entered into in an artificial or contrived manner. Nevertheless, GAARs present their own complexity trade-offs.

More specifically, GAARs are an example of the challenge of seeking to find an appropriate balance between maintaining a robust system and providing certainty in tax treatment. As they are designed to operate, GAARs can apply to any transaction or structure where there is a predominant purpose of avoiding tax. In doing so, they can eliminate or reduce the need to legislate against specific schemes.

However, these provisions can also reduce certainty, particularly when they are first developed or modified, as taxpayers may be uncertain whether the provisions will apply to their specific circumstances. To obtain certainty a taxpayer may need to seek advice and apply for a ruling from the ATO that may delay a business transaction and increase costs, and may ultimately have the scope of GAARs tested through the courts.

Once the operation of all of these additions is considered across the entire system, a range of different regimes and rules can be identified, which are often essentially trying to do the same or a similar thing, or are dealing with the same or a similar transaction. Such an overgrown myriad of regimes and rules produces overlaps that are difficult to reconcile or resolve, as well as gaps that create uncertain or unfair outcomes.

'Patching' the law to fix particular outcomes

The common systemic response to fixing particular outcomes has been to 'patch' gaps or problems in the law. Such amendments are introduced frequently in response to particular unwanted or anomalous outcomes, for example, to close a loophole or to ensure a concession applies as intended. These types of amendments tend to be driven by a need to 'fix' the outcomes for particular situations identified by ATO audits or by taxpayers seeking the benefit of a concession that applies to others in similar circumstances. However, these amendments only address symptoms. The underlying systemic cause of the problem remains, meaning that further adjustments may be required for situations not covered by the amendments. 'Patching' responses are also a major cause of backlogs of announced but un-enacted legislative measures, such as the one the Government addressed in its announcement 'Restoring integrity in the Australian tax system' November 2013.²³⁴

Without a change in approach, amendments to patch the law to fix particular outcomes will continue to generate extra complexity while masking the need for structural repairs.

234 Treasurer the Hon Joe Hockey MP, Media Release, 6 November 2013, *Restoring integrity in the Australian tax system*, viewed 9 December 2014: <http://jbh.ministers.treasury.gov.au/media-release/017-2013/>.

Attempting to provide certainty for particular groups of taxpayers or transactions

Complexity in the tax law can also be exacerbated by pursuit of certainty at the margin of a particular tax obligation or the intended operation of a particular tax benefit. While the core operation of tax rules is generally clear, there can never be certainty for every possible taxpayer circumstance. Attempts are often made in the law to specifically articulate that particular taxpayers or transactions are included or excluded from the operation of a regime. These attempts to seek a guaranteed outcome for particular transactions historically reflect risk aversion on the part of policy advisers, administrators and other stakeholders in the system.

Certainty makes tax outcomes easier to anticipate, plan for and administer, while also reducing the disputes arising from differing interpretations. 'Black letter' rules are often proposed to achieve regulatory certainty by providing specific rules that apply clearly to particular situations. However, while black letter rules can make the law certain for regulating simple and stable situations, they are not suitable as the basis for regulating complex, dynamic systems and can obscure any underlying policy principles in the law.²³⁵ Uncertainty will inevitably arise when a new situation is not covered by specific rules. Parliament can never foresee all possible ways a commercial outcome might be achieved, particularly in the contemporary global economy, where business structures, investments and financial products are constantly evolving.

Rules providing certainty for some taxpayers may also generate uncertainty for others not specifically covered.

Tax reviews and academics have recommended principles-based design as best practice. This means developing laws in a way that clearly articulates the intended policy outcome in operating principles.²³⁶ Nevertheless, there are trade-offs between broadly applying principles that are more likely to be robust over time and the desire for certainty in known situations. When broad principles are used, certainty in specific circumstances is delivered through the administration or interpretation of the law, rather than in explicit rules or amendments to tax legislation.

Use of concessions

The use of concessions, or specific treatments for particular groups of taxpayers, is another driver of complexity in the Australian tax system. Although tax reform can benefit Australia as a whole, there are often adverse impacts for individual taxpayers, such as losing a

235 Braithwaite. J 2003, 'Making tax law more certain: A theory', *Australian Business Law Journal*, vol. 31, pages 2-80; and Freedman, J 2010, 'Improving (Not Perfecting) Tax Legislation: Rules and Principles Revisited' *British Tax Review*, vol. 717.

236 See for example: Review of Business Taxation 1999 *Review of Business Taxation — a Tax System Redesigned*, Canberra, viewed 12 December 2014: www.rbt.treasury.gov.au/publications/paper4/index.htm; Australian Government 2010, *Australia's Future Tax System Review (Henry Tax Review)*, Australian Government, Canberra; Avery-Jones, J, 1997 'Tax Law: Rules or Principles?' (1997) *Fiscal Studies*, Vol 17, page 63; Braithwaite J 2003, 'Making tax law more certain: a theory' *Australian Business Law Journal*, vol 31, page 2; Krever R 2003 'Taming Complexity in Australian Income Tax', *Sydney Law Review* vol 25, no 4; and Freedman J 2010, 'Improving (Not Perfecting) Tax Legislation: Rules and Principles Revisited' *British Tax Review*, vol 717.

concession or incurring additional compliance costs. Parliaments often try to minimise these costs to groups of taxpayers by including concessions and exemptions from all or part of the reform. These concessions are often provided in response to lobbying by particular industry groups. While the benefits of such concessions could be seen as promoting equity or fairness in the tax law, they also need to be balanced with the cost of complexity to the tax system as a whole. In addition, significant compliance costs may be incurred by taxpayers devoting resources to understanding how the rules apply to them.

One common example of this is concessional ‘grandfathering’, which is a way of sheltering the tax treatment of particular segments of taxpayers when a new regime is introduced by creating an artificial boundary in time. ‘Grandfathering’ can support investment activities because it provides certainty for arrangements that had already been entered into at the time the new regime was introduced. However, grandfathering also means that there is an enduring need to recognise and administer regimes that would otherwise have been replaced by new, potentially more efficient approaches. Grandfathering also creates new boundaries in the system, because transactions are taxed based on when an event occurred, rather than because they are economically different.

Sometimes Parliament tries to reduce compliance costs or impacts for taxpayers of changes to the tax law by offering choices of tax treatment. For example, taxpayers may be offered a choice of two or more methodologies in calculating an income or deduction amount. The choice does not necessarily alleviate compliance costs for taxpayers and may actually increase them if taxpayers closely assess the relative merits of each of the options.

Preparation of legislation and complex drafting style

As with all regulatory systems, legislation generally follows the Government’s announcement to implement a particular policy. The period between the announcement of a policy and the introduction of legislation can be significant, and can cause uncertainty for affected taxpayers. Circumstances where a policy is ultimately not enacted can create even more uncertainty and complexity.

The way policy is translated into law can be another cause of complexity. The Tax Law Improvement Project is one example of an attempt to rewrite the tax law with a better structure and make it easier to understand.²³⁷ For a number of reasons, this process has not been completed, so the income tax law is now spread over two income tax assessment acts — one dated 1936, the other 1997. The aim of the project was not to review the policy behind the law but to concentrate on improving the expression and structure of the existing law.

While useful in addressing a particular aspect of complexity, the overall value of simplifying the drafting of legislation without any change in underlying outcomes is questionable. Simplifying language can only do so much if the underlying policy remains highly complex. In many cases, it will simply make the complexity of the policy more apparent and, in practice, only benefits the very small section of society using the tax legislation itself or related guidance material.

237 Tax Law Improvement Project 1995, *Building the New Tax Law*, information paper number 2 April 1995, Australian Government, Canberra.

Discussion questions:

58. What system-wide approaches could have the greatest impact on reducing complexity in the tax system? Why have previous attempts to address complexity in the Australian tax system not succeeded? How might it be done in a way that is more successful?

10.3: The Australian Taxation Office's role in administering a complex system

Almost all Australians interact with the tax system at some point in their lives, with most individuals having at least an annual obligation to lodge an income tax return. Businesses generally have more frequent and expensive interactions with the tax system. Complexity makes it more difficult for the ATO to design administrative systems, communicate obligations and resolve disputes which in turn increases administration costs.

The ATO has an important role in minimising complexity for taxpayers and in improving the efficiency of tax system administration. While a clear and simple articulation of the policy objective in formulating policy can make it easier for the ATO to communicate the tax system to taxpayers, there are other options to improve the administrative experience for taxpayers that would also help. The ATO can assist in this respect by designing administrative solutions that make it easy for taxpayers to fulfil their obligations, harnessing information to reduce and simplify interactions with taxpayers and working together to understand compliance obligations and devise solutions. While tax administration cannot eliminate the impact of complexity, it can certainly help reduce it.

The ATO has embarked on a long-term *Reinventing the ATO* programme, which is aimed at making it easier for taxpayers to understand their tax entitlements and obligations and comply with the law, and harder for taxpayers not to meet their obligations. The programme combines contemporary technology and digital information to simplify tax compliance and reduce complexity by way of services that are tailored to the taxpayer's circumstances. The focus will shift toward early intervention to help taxpayers get the right outcomes, as well as more effective and timely engagement with taxpayers, supported by changes in the ATO's internal culture and operations.

Advances in information technology, and the storage of digital information and digital interfaces, provide many opportunities for streamlined digital or online tax system administration that could mitigate the impact of tax system complexity. Since 1990, the ATO has offered its Electronic Lodgement Service to tax agents, and e-tax has been available to individual taxpayers since 1999. Pre-filing electronic tax returns has been occurring since 2004-05, with most taxpayers who lodge electronically using the prefilling service either

through etax, myTax or through tax agents. Last year, over 10.5 million taxpayers used pre-filled information.²³⁸

In 2014, myTax was offered for individual taxpayers with relatively simple tax affairs. MyTax offers a simple online interface through which taxpayers can access and lodge tax returns already pre-filled by the ATO. This is expected to save approximately \$156 million in compliance costs each year.²³⁹

Similarly, the ATO has embraced digital information solutions for small businesses through its Small Business Assist initiative. Standard Business Reporting (SBR) also offers further potential benefits in terms of reducing compliance and administration costs.

The ATO continues to seek opportunities for technology to improve the experience of taxpayers when interacting with the tax system. There may be specific opportunities to leverage off the experience of other 'natural systems', whereby businesses or individuals are engaging in and recording transactions for purposes unrelated to taxation. If separate tax reporting obligations can be dispensed with as part of those natural business processes, compliance costs for taxpayers could be significantly reduced. Further benefits, in terms of faster, more convenient and more reliable service for taxpayers, alongside lower long-term compliance and administration costs, could be realised for taxpayers by embracing digital and online engagement where possible.

The impact of complexity in the tax system, as well as in other areas of government administration, could also be minimised for the community by better integrating administration across government. Better integration, in turn, could reduce reporting obligations and the number of interactions members of the community need to have with government. In recent years, there has been an expanded, whole-of-government approach to administration with measures such as myGov, which provides a single digital entry point for interaction with the government. Ensuring privacy of information continues to be an important consideration of such measures.

This type of integration could also be considered in the context of the administration of taxes across the federation. Most Australian taxes are administered by the jurisdiction that receives the taxation revenue, with the key exception of the GST. This may lead to a duplication of some administrative arrangements and greater complexity and compliance costs for taxpayers who engage with multiple revenue agencies. Tax administration and compliance costs could potentially be reduced by centralising the administration of some taxes or through a single government entry point. However, any changes in this area would need to be carefully examined to ensure state and territory governments have appropriate flexibility and control. There may also be some taxes that are best administered by state and local agencies (the GST and state taxes are discussed in chapter 8).

238 ATO internal data.

239 Australian Government 2014, *Spring Repeal Day October 2014*, Australian Government, Canberra, viewed 10 December 2014:

www.cuttingredtape.gov.au/sites/default/files/documents/2014_spring_repeal_day_overview.pdf.

Discussion questions:

59. In what ways can reforms of tax administration best assist in reducing the impact of complexity on taxpayers? Are there examples from other countries of tax administration reform to reduce the impact of complexity that Australia should adopt?
60. What processes or systems currently being used by businesses and individuals could the ATO better utilise to lower the compliance costs of the tax system?
61. Could administrative responses — such as embracing technology, harnessing data and taking the whole-of-government approach to administration — help address the issue of tax system complexity?
62. Would there be benefits in integrating the administration of taxes across the Federation? If so, what would be required to realise these benefits?

