

ABSIA Submission

IGT review into the future of the tax profession

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1. Introduction

The Inspector General of Taxation (IGT) has announced a review to examine the future of the tax profession in Australia. “The review is deliberately forward-looking and seeks to raise awareness about the risks, challenges and opportunities presented by technological, social, policy and regulatory changes.”¹

As part of the review process, the IGT called for Submissions from interested parties to help it and the Tax Practitioners Board (TPB) identify:

- the significant changes ahead.
- aspects of the current system that should be retained or augmented.
- aspects of the current system that need to be discarded.
- the new strategies required to meet future challenges and realise the potential benefits.

The Australian Business Software Industry Association (ABSIA) has prepared this Submission on behalf of its members.

The Structure of this Submission

It was our original intention to structure this Submission in the same way as the Inquiry’s Terms of Reference (see Appendix 1). But as we constructed the Submission this did not seem to be most logical way to present our views. We have however attempted to directly address the issues outlined in the Terms of Reference.

A Summary section outlines the observations on the submission, and our recommendations. Four sections provide an overview of the issues and ABSIA’s observations. The text contains illustrative breakout comments and quotes from ABSIA members made in the interviews and survey that formed the Submission creation process.

Parties to the Submission

This Submission is the result of extensive consultation with ABSIA members. This was in the form of detailed interviews with the five sponsors (see Appendix 2), and a survey of all members specific to the topics of the Inquiry.

An organisation as diverse as ABSIA will have a range of opinions amongst members, but we believe the methodology that has been adopted to inform this Submission ensures that it largely represents the views of ABSIA members. All five sponsors have approved the contents of this submission:

- ADP (payroll services)
- Ozedi (electronic document hub)
- Reckon (financial software)
- SuperChoice (superannuation services and software)
- Xero (financial software).

Note that this is not a combined Submission from these sponsors, but rather a Submission from ABSIA with input from these sponsors, other ABSIA members and from other sources.

¹ <http://igt.gov.au/publications/reports-of-reviews/review-into-the-future-of-the-tax-profession/>

2. Summary and Recommendations

2.1 Summary of key observations

The taxation profession, like many others, is undergoing substantial change. These are largely brought about by new digital technologies, which are enabling new business practices and new ways of working. They have also led to the introduction of many new intermediaries, such as FinTech software companies, into the taxation and related systems, while at the same time disintermediating many traditional functions.

This change is happening now - it is not some vague future trend. The challenges arising from these changes are of immediate concern to the industry, and there needs to be more of a sense of urgency in addressing them than is currently the case amongst many in the industry, within and outside of government.

New digital technologies are also changing people's expectations of what is possible from their service providers. This is true of the consumer level, where an increasing range of activities happen online, but is also true in small, medium and enterprise level businesses, many of which are being transformed.

The Australian Government and its agencies, and in particular the Australian Taxation Office, has largely embraced the digital revolution. But implementation has often been piecemeal, which has led to problems, some of them significant. There are indications that things are improving, but more needs to be done to properly take advantage of the many benefits made possible by digital technology.

ABSIA is concerned that there seems to be a lack of a coherent view in the Australian Government on how the cumulative impact of the various changes being made to the taxation system by the ATO and other agencies is impacting the tax profession. The changes should be much more integrated. While specific changes may seem to be justified in their own right, there are inadequate coordination mechanisms for ensuring they are implemented in a sensible and coherent way, and presented to the tax profession and to all Australian businesses as such.

This submission outlines ABSIA's observations on the causes and effects of the changes to the tax profession in Australia, highlights areas of concern, and makes recommendations on how we believe things can be improved in the broader context of industry and government partnership.

There is no doubt that the changes are threatening many existing business models, and even the livelihoods of many practitioners. But at the same time new opportunities are opening up. Whether the changes are an opportunity or a threat depends largely upon your point of view, and your attitude.

The biggest factor affecting the future of the taxation industry is technological change. Key technologies are:

- The Internet
- Cloud computing
- Mobile computing
- Social networking
- Data analytics
- The Internet of things
- APIs
- Robotic Process Automation and Artificial Intelligence
- Blockchain.

Most of these technologies are already affecting the taxation industry and taxation professionals. The Government, and in particular the ATO, also has a significant role to play as the nature of the profession transforms.

ABSIA believes there are four key challenges posed by new technologies:

- **Disintermediation:** Automation through technology is replacing many functions currently performed by human beings. This is the single biggest factor affecting the industry.
- **Information security and identity management:** Keeping systems secure from internal and external threats. When all systems are interconnected, it becomes even more difficult to minimise the risks.
- **System reliability and contingency planning:** Ensuring all components of an increasingly complex and interconnected infrastructure operate at satisfactory levels of reliability, and the plans put in place to mitigate the effects of system failure.
- **Legitimacy of digital transactions:** Ensuring that digital transactions are sufficiently transparent and compliant with relevant policy and regulations.

We also briefly consider three other challenges: greater social changes, changing community expectations, and skills and training.

One of the key premises of this Submission is that evolving technologies, while eliminating many functions in the taxation industry, are opening up many more. New technologies are causing individuals, and even whole companies, to become disintermediated. Technology is causing many jobs to disappear, but it is also creating new jobs, and even whole new professions.

There are opportunities for existing players in the profession, for new entrants, and for the ATO, whose role is also changing significantly.

The taxation policy and regulatory environment is too complex and should be simplified. Technology provides an opportunity to do this, but care needs to be taken that tax toleration related issues do not further contribute to the black economy, or to unfairness in the tax system. This complexity also adversely impacts on the potential for industry to deliver innovation.

The ATO has a major role to play in setting and implementing standards. It could do more to ensure the standards are more open, and it should engage with industry earlier, more effectively and more often.

The ATO's role has changed. In the digital world, the ATO is not just a government agency. It is a major service provider and facilitator of the digital economy, and the rest of the industry depends upon its efficient operation to ensure that the whole complex taxation infrastructure functions effectively and efficiently. It must also actively participate in the emerging API (application programming interface) economy which will enable further innovation by the industry and also help build a robust technology industry for Australia.

The ATO might be the biggest player in the taxation system, but it is by no means the only one, and it needs to think less in terms of it being at the top of a hierarchical structure and more in terms of its being a component in a complex interlocking environment. It needs to be more consultative.

2.2 Recommendations

1. Disintermediation is occurring largely because of technological change. But in many cases, it is the direct result of the ATO's actions. In such cases, the ATO has a responsibility to ensure that individuals and organisations impacted as a result should be offered assistance, particularly with transition, skills enhancement and training. The ATO's resources would be better utilised in this way, rather than to competing with the technology industry to provide capabilities to deliver taxation services.
2. The ATO needs to understand its role has changed. It remains the government agency charged with administering the taxation system, but it is also increasingly a service provider. It needs to adopt a service provider mindset as well as fulfilling a societal obligation in assisting the profession in transition stress.
3. The TPB should re-examine its definitions and qualifications for tax practitioners in view of changes in technology, roles and industry segment boundaries. It should regulate with a light hand, in what is an increasingly fluid environment while ensuring that compliance and quality of service safeguards are maintained.
4. Simplify, simplify, simplify. Australia's taxation system is far too complex. The advantages of simplicity far outweigh the disadvantages.
5. The ATO needs to work more closely with industry. It should take leadership position on working with the Digital Transformation Agency and the Digital Business Council. This can also help improve coordination between the different levels of government. The ATO also has societal leadership responsibility to drive initiatives in partnership with DTA for the greater good of the Australian communities, for example, common infrastructure platforms and e-Invoicing.
6. The ATO should not try to go it alone on system reliability. Recent outages indicate it has problems. The ATO should allow Industry to be part of the solution, and look more closely at proven cloud-based systems that now offer greater redundancy and integrity than in-house systems.
7. The ATO (and Government) should also not try to go it alone on security and identity management. It needs to work with industry on implementing end to end security and identity management systems.
8. Major changes in the tax system by the ATO should be implemented in small steps, rather than implementing a Big Bang approach, and within a coherent strategy toward the digital vision.
9. The ATO should put greater effort into ensuring it plays a more significant role internationally in the development of global standards and best practices for the digital transformation of the taxation system. It should adopt more open systems and international standards, not try to set and mandate its own. It should adopt an API-by-default and cloud-by-default position.

3. The Shape of Technological Changes

3.1 The importance of digital technology

Technological change is the most important factor affecting the future of the tax profession. And those that are changing most quickly are the interrelated digital technologies. The pace has accelerated and brought about a digital revolution.

Digital technology is all about data and how it is collected, transmitted, stored, retrieved, and analysed. It is also about the decisions to be made based on that data. The growth of digital technology will continue to have significant effects on every aspect of the financial industry, including taxation.

The march of technology will continue, and the effects on the financial industry will be even more profound in the years to come. This section briefly examines a number of key digital technologies, with reference to how they are affecting the taxation industry.

3.2 The growth and increasing use of the Internet

The growth of the Internet has been well documented. It was only in 1993 – a single human generation ago – that the invention of hypertext and the web browser enabled the widespread use of the Internet. That was also the year the US Congress authorised its commercial use. This ‘network of networks’ has since become ubiquitous, and acts as the underlying technology that enables so much of what we do today, in our personal and professional lives.

The growth of the Internet has transformed business and society. Ever higher bandwidth enables new applications, and has significantly changed expectations of what is possible. The Internet, more than any other technology, is changing the taxation industry. It is the key enabler of many other digital technologies.

3.3 Cloud computing

Cloud computing is not a technology as such, but a collection of technologies that enable the sharing of resources and data on demand to computers and other devices.

“Cloud is a model for enabling ubiquitous, on-demand access to a shared pool of configurable computing resources which can be rapidly provisioned and released with minimal management effort.”²

The main component technologies are the Internet, servers that contain the applications and data, and access devices. Any device that can connect to the Internet, including mobile devices such as smartphones and tablets, can access cloud-based applications. But for them to do so effectively the system must be designed with mobile devices in mind.

Cloud has enabled the ‘Software as a Service’ (SaaS) business model, where users access an application’s functionality on a pay-as-you-go (PAYG) basis. The PAYG model means that users of

² Wikipedia https://en.wikipedia.org/wiki/Cloud_computing

SaaS based systems pay only for what they need and can ramp up usage as required. There is little or no upfront cost.

Cloud-based SaaS applications are typically run for large numbers of customers from servers connected via the Internet, bringing economies of scale and simplicity not possible with hosted on-premise systems. The SaaS model is widely used in the financial services industry, by software providers and by others in the financial value chain. It dramatically changes the economics of service provision both by and to tax professionals.

This can be a positive for tax professionals. Cloud technology is accessible by all sizes of business, and gives SMEs access to applications of the same sophistication as those available to large enterprises. It has the effect of demystifying technology to many people wary of expensive or complex in-house systems.

Industry and the Government need to ensure that barriers are not put in the way of leveraging this technology, and in fact should encourage it. ABSIA notes that the ATO is increasingly adopting cloud computing models – this could be publicised more to encourage the tax profession to embrace the technology more fully.

3.4 Mobile computing

Australia has one of the highest levels of usage of mobile computing in the world. The vast majority (84 percent) of Australian adults and teenagers use a smartphone (a telephone capable of Internet browsing) for a wide variety of activities, the fourth highest level of any country in the world³.

When it comes to the usage of mobile phones for banking mobile banking, Australia has the highest global usage.⁴ The impact of mobile computing, especially for transactional systems, is greatly increased by community expectations that all manner of applications should be available on a mobile platform.

Increasingly, mobile technology is being used for business purposes, including many applications in the taxation industry. Not only does the industry need to adapt, but government also needs to embrace mobile computing.

Mobile telephony has been around for a quarter of a century, but it is only ten years since Apple's iPhone ushered in the smartphone era. No technology in human history had been more quickly adopted. For three years now there have been more mobile connections on earth than there are people.⁵

Smartphones are now a primary source of access to the Internet for many people, and an important secondary source for many more. Virtually all business applications, including financial transactions, can now be conducted via mobile technology.

The bandwidth available to mobile devices has increased considerably in recent years, with 4G (fourth-generation) technology, and will increase even further with the advent of 5G in the 2020s. The latest generation of these devices have sophisticated security systems, including biometric identity recognition, which make them suitable for use in secure financial systems.

³ Deloitte Australia. 'Mobile Consumer Survey 2016'. www.deloitte.com.au (registration required)

⁴ Adobe. "Adobe Digital Index: State of Banking". www.adobe.com (registration required)

⁵ GSMA Intelligence. <https://www.gsmaintelligence.com>

3.5 Social networking

Social networking is an important phenomenon of the Internet revolution. Australians are major users of social media. There are 16 million Facebook users in Australia,⁶ out of a total population of 24 million, one of the highest proportions in the world.

As with mobile computing, social networking is moving from individual to business. Social media presence and social media marketing strategies are increasingly used in the financial services industry for marketing communications and analytics. FinTech online loan companies such as Prospa, for example, employ social media activity as a metric for evaluating loan applications.

Social networking also has implications for the tax profession. It is a channel to engage with the community, and it is a platform for the provision of resources to help tax professionals understand their clients. Industry and government can incorporate social media principles when developing service capabilities.

The convergence or interaction between cloud, mobile, and social networking is sometimes called SoMoClo. SoMoClo (social, mobile and cloud) is the convergence of collaborative, on-the-go technologies that allow users to access data and applications from anywhere at any time.⁷

Sometimes data analytics (see below) is added to form the term 'SMAC' (social, mobile, analytics and cloud):

“SMAC creates an ecosystem that allows a business to improve its operations and get closer to the customer with minimal overhead and maximum reach. The proliferation of structured and unstructured data that is being created by mobile devices, sensors, social media, loyalty card programs and website browsing is creating new business models built upon customer-generated data.

“None of the four technologies can be an afterthought, because it's the synergy created by social, mobile, analytics and cloud working together that creates a competitive advantage.”⁸

3.6 Data analytics

The vastly increased amount of data being generated by digital technology has led to many changes in the field of data analytics. Data analytics systems such as business intelligence have been around for decades, but what is different now is the sheer volume of the data, the sophistication of the tools available to analyse it, and raised awareness of such capabilities and their use.

Today's digital information systems generate vastly more data than was the case in the past. This increased volume of data is sometimes referred to as 'Big Data'. Financial systems in the past concentrated largely on a comparatively limited amount of transactional data, but today massive volumes of other data – from behavioural analysis, market research, social networking and other sources – are available.

⁶ Social Media News. “Social Media Statistics Australia -January 2017’.

<https://www.socialmedianews.com.au/social-media-statistics-australia-january-2017/>

⁷ TechTarget. ‘SoMoClo’. <http://searchmobilecomputing.techtarget.com/definition/SoMoClo-social-mobile-and-cloud>

⁸ TechTarget. ‘SMAC’ <http://searchcio.techtarget.com/definition/SMAC-social-mobile-analytics-and-cloud>

Data analytics affects the tax profession in that it makes available new ways of looking at and interpreting data. Tax professionals now have much greater access to their clients' transactional data. The recent Productivity Commission report into Data Availability and Use⁹ recommended greater transparency and ease of access to data held by governments and financial institutions. The Productivity commission's new inquiry into Competition in the Australian Financial System, currently underway and due for completion in 2018, will most likely recommend a range of innovative ways in which financial data can be accessed and used.

Financial data in particular is used by many FinTechs as input to new financial services. Banks, like governments, are under pressure to make data more open and more available, subject to data privacy rules and regulations. Tax professionals will increasingly be subject to the same pressures to make the data they have accessible to their clients.

Many accounting and tax firms now using analytics tools to detect non-compliance, and supplementing the traditional financial ratios with a range of other metrics that ensure a greater degree of accuracy in forecasting. This will lead to greater consulting opportunities.

3.7 The Internet of Things (IoT)

IoT refers to the use of devices, sensors, and other objects attach to the Internet. Leading analyst group Gartner forecasts 20.4 billion devices connected to the IoT by 2018.¹⁰ Other forecasts suggest even higher numbers.

While IoT's direct effect on the tax industry will be minimal, at least in the short term, the growth of the IoT ecosystem will greatly increase the amount of data available to most corporate ecosystems. This will in turn increase use of data analytics (see above), and feed even more data into corporate information systems.

3.8 APIs and the 'API economy'

An increasingly important aspect for the interconnectivity of business systems in the digital era are APIs (application programming interfaces). APIs enable applications to be shared and reused by other applications in other organisations. Leading analyst group Gartner even talks of an 'API economy'.

“We live in an API economy, a set of business models and channels based on secure access of functionality and exchange of data. APIs make it easier to integrate and connect people, places, systems, data, things and algorithms, create new user experiences, share data and information, authenticate people and things, enable transactions and algorithms, leverage third-party algorithms, and create new product/services and business models.”¹¹

The ATO needs to embrace the API economy. The ATO, and the Government, needs to recognise the emerging API economy and the need to make data availability and exchange with business, government and individuals easier. At the same time, close planning and partnership between the

⁹ Productivity Commission. 'Data Availability and Use'. <http://www.pc.gov.au/inquiries/completed/data-access/report/data-access.pdf>

¹⁰ <http://www.gartner.com/newsroom/id/3598917>

¹¹ Gartner. 'Welcome to the API economy'. <http://www.gartner.com/smarterwithgartner/welcome-to-the-api-economy>

Government and the software and digital service provider industry is essential to focus development efforts on areas of high priority so as not to dilute scarce resources.

Increasingly the market for business and consumer technology is expecting an API-first platform with interoperability as default. The wide availability of APIs is a key component of the increased functionality of the new breed of financial software systems.

3.9 Robotic Process Automation and Artificial Intelligence

Robotic Process Automation (RPA) is evolving from Business Process Automation (BPA). RPA is the term increasingly used to describe the automation of business processes through the use of artificial intelligence (AI) software, otherwise known as robotic agents.

The automation of business rules through BPA has been available for decades, but now the usage of AI techniques is making these applications increasingly sophisticated, to the extent that they are disintermediating many human activities, including back office functions.

RPA will have massive consequences. ABSIA believes many people, including many practitioners in the industry and policymakers in government, may not appreciate the impact RPA will have, nor the speed at which it will be widely implemented. RPA is beginning to attract significant attention in Australia, and two major market analysis reports have been released recently on the potential for RPA in the Australian market (from Mindfields¹² and from Telsyte).

“The Telsyte ANZ Robotic Process Automation Study 2017 found the ANZ RPA market will grow strongly with a compound annual growth rate of 45 percent from 2016 to 2020. The market is set to grow from \$216 million in 2017 to \$870 million by 2020.

“RPA has many uses across industries with large customer support and request processing requirements, including insurance, banking, telecommunications and government. Finance and insurance operations are expected to be the fastest adopters of RPA in the short term.”¹³

Technology giant DXC (formed by the merger in April 2017 of Computer Sciences Corporation and the services division of Hewlett-Packard) recently set up a 60 strong RPA practice in Australia,¹⁴ an enormous vote of confidence in the technology and a strong indication of how quickly it is growing in this country.

As noted elsewhere in this Submission, the future for many tax professionals will be to move into an advisory role. This is likely to happen, but RPA also has the potential to automate aspects of the advice process. This evolution may be slowed down by government regulations and by the interference of those with a vested interest in prolonging existing ways of working, but it is likely to happen, even with the natural resistance to adopting new technology and processes.

¹² <http://mindfields.net.au>.

¹³ Telsyte. ‘ANZ Robotic Process Automation Study 2017’. <https://www.telsyte.com.au>

¹⁴ Australian Financial Review, 29 May 2017. <http://www.afr.com/technology/enterprise-it/tech-dxc-giant-targets-870-million-aussie-robot-workforce-with-rpa-practice-20170526-gwe6ce>

3.10 Blockchain

Blockchain is a decentralised distributed database technology particularly suited to scenarios where a shared ledger is beneficial. It allows digital information to be distributed but not copied, and to be kept secure but to be openly available.

“The blockchain network lives in a state of consensus, one that automatically checks in with itself every ten minutes. A kind of self-auditing ecosystem of a digital value, the network reconciles every transaction that happens in ten-minute intervals. Each group of these transactions is referred to as a block”.¹⁵

Blockchain technology is increasingly being used in financial systems, and is a favourite technology of FinTech start-ups. It is likely to have a significant impact on the financial industry, and therefore the taxation industry, over the next few years.

Standards Australia held an ‘International Blockchain Conference’ in Sydney in April 2017.¹⁶ In June second annual Australian ‘Blockchain Summit’ was held in Melbourne.¹⁷ Australia’s major banks, the ASX, and Treasury are all experimenting with Blockchain technology.

The technology will have a long-term impact on the taxation profession from an auditing perspective, but it is also likely that it will have a major effect on the financial industry, with consequences for all involved in every part of the financial value chain.

¹⁵ Blockgeeks. ‘What is Blockchain Technology’. <https://blockgeeks.com/guides/what-is-blockchain-technology/>

¹⁶ <http://www.standards.org.au/OurOrganisation/Events/Pages/International-Blockchain-Conference.aspx>

¹⁷ <https://blockchain.iqpc.com.au>

4. Challenges Posed by New Technologies

4.1 Four key challenges

Most of the technological changes described above are already affecting the taxation industry and taxation professionals. They are providing many opportunities (see Section 5 below), but so great are the associated challenges that many in the profession are having trouble adapting, to the extent that their livelihoods are threatened.

The changes are inevitable, and it is the role of the profession and those within it to adapt. The Government, and in particular the ATO, also has significant responsibility as the nature of the profession transforms. The ATO's changing role is examined in Section 6 below.

ABSIA believes there are four key challenges posed by new technologies:

- **Disintermediation:** Automation through technology is replacing many functions currently performed by human beings. This is the single biggest factor affecting the industry.
- **Information security and identity management:** Keeping systems secure from internal and external threats. When all systems are interconnected, it becomes even more difficult to minimise the risks.
- **System reliability and contingency planning:** Ensuring all components of an increasingly complex and interconnected infrastructure operate at satisfactory levels of reliability, and the plans put in place to mitigate the effects of system failure.
- **Legitimacy of digital transactions:** Ensuring that digital transactions are sufficiently transparent and compliant with relevant policy and regulations.

We also briefly consider three other challenges: greater social changes, changing community expectations, and skills and training.

4.2 Disintermediation

'Disintermediation' refers to the bypassing of a process, function, or organisation in the value chain due to a new business model enabled by evolving technologies.

Examples abound in the modern world. Years ago, automated telephone exchanges replaced telephone operators. Now streaming services such as Netflix are disintermediating video rental shops. Online booking sites are disintermediating travel agents. Amazon.com has disintermediated most of Australia's bookshops.

"Disintermediation is the removal of intermediaries in economics from a supply chain, or cutting out the middlemen in connection with a transaction or a series of transactions. Instead of going through traditional distribution channels, which had some type of intermediary (such as a distributor, wholesaler, broker, or agent), companies may now deal with customers directly, for example via the Internet."¹⁸

Legislating against technology rarely works in the short term, and never in the long term. Progress always wins in the end. Disintermediation will increasingly affect people and businesses, and rather

¹⁸ <https://en.wikipedia.org/wiki/Disintermediation>

than fight against it, it would be more productive to focus efforts to look for new opportunities made possible by the very technologies that caused the disintermediation in the first place.

There are significant societal issues (see section 4.6) beyond the scope of this Inquiry. Disintermediation is happening across the board, and many industries are grappling with its consequences.

The single most important point of this submission is that technology is disintermediating many individuals and organisations in the tax profession, but that it is also creating many opportunities. It is important to understand this phenomenon, and how to leverage the new landscape for prosperity.

The ubiquity and speed of the Internet has connected most – if not all – the participants in the Australian financial industry. This is increasingly happening in real time, so that changes have a ripple effect across the whole industry.

The increased use of Business Process Automation and now Robotic Process Automation (see Section 3 above) is automating many routine tasks such as data entry and reconciliation. Many of the clerks and bookkeepers that performed these tasks are being disintermediated.

The increased sophistication of financial software is allowing automation to creep further up the business process value chain. ATO initiatives such as Standard Business Reporting (SBR) and Practitioner Lodgement Service (PLS) use foundational automation elements intended to enable efficient interaction between business and government. Initiatives like SuperStream and Single Touch Payroll (STP) are designed with automation in mind, for a more streamlined business experience and more real-time reporting. This will have the result of disintermediating various processes and roles currently performed by a range of people in the industry.

There are, for example, around 2 billion invoices generated in Australia every year. Manually entering all of them is a massive job, and it is a process well suited to automation. Accounts payable is becoming totally automated, and Single Touch Payroll is intended to reduce the time bookkeepers and accountants spend on doing payment summaries for their clients. The intention is to reduce the reliance on the end-of-quarter or end-of-year processes and to distributed the workload more evenly across the year.

The streamlining and automation of tax returns for individuals and small businesses will reduce the need for conventional tax agents. Those whose jobs are displaced – disintermediated – will have to leave the industry, or find other jobs within it, which will require an investment from them to update their skills. These new jobs represent the future of the tax profession.

Disintermediation has already started to happen. For example, technology is facilitating online real-time tax reporting and collecting. Annual income tax returns may even become a thing of the past, which will remove a revenue stream for many tax agents. Consolidation or merging of the tax profession and other lines of business will increase.

The continued disruption to employment in the wider industry is likely to have major consequences for both for the taxation industry and the Government. Fewer employees means less income tax generated, and with greater automation, it could mean that even ATO's workers could be disintermediated.

Robotic Process Automation in particular will reduce the number of workers in the tax profession. Many tax agents may move into financial advisory services, or payroll or superannuation, or even start offering legal advice if they acquire the necessary skills and qualifications.

The tax and audit departments in many corporations could conceivably reduce in size. With many taxation functions automated and the people performing them disintermediated, it is possible that the taxation profession will lose its identity as a separate discipline within the broader financial services industry. Taxation will increasingly become just one aspect of a more multidisciplinary financial services profession, which will increase pressure on the Taxation Practitioners Board to re-evaluate the tax agent licensing process (see Section 6).

There is also the important question of what the Government should do about this, and indeed whether it is the Government's responsibility, the industry's responsibility, or both. Anecdotal evidence suggests that the average age of tax professionals in Australia is higher than that of the workforce as a whole, and that many individuals will leave the industry rather than seek retraining. But many will wish to stay.

This is happening already. Many of the traditional small suburban accounting practices are being wound up as their principals retire. They are often being replaced with more integrated, start-up style 'virtual CFO' firms.

In the case of taxation, it is the Government's ambitious vision of Digital-by-Default that is a major facilitator of disintermediation in the profession. ABSIA argues that the ATO has an obligation in addressing the social consequences, and in ensuring that those affected by it have a continuing meaningful role in the Australian society.

The pace of disintermediation will speed up, rather than slow down. Disintermediation represents the single biggest challenge facing the industry and the Australian community. But the technology bringing about disintermediation also offers opportunities, which are discussed in Section 5 below.

4.3 Information Security and Identity Management

Information security has become a major issue in recent years. This is largely because of the interconnectivity of information systems - when computers were not connected they could not pose a threat to each other. Today, with virtually every computer or mobile device connected to the Internet, there is an increased threat that a single breach will enable access to other devices and vast amounts of data.

Threats may be external: from nation states, criminals, publicity seekers, malicious ex-employees, and others. Threats may be internal: from malicious current employees or from negligence.

Whatever the cause, the source or the motivation, the results are the same: compromised information systems and loss of data, money or reputation – often all three.

The Australian Government has made cyber security a top priority. It has established an Australian Cyber Security Centre and appointed a high-profile CEO. But what is still lacking in many quarters is an information security mindset. There is much more to it than technology.

There is a vast literature on information security that need not be covered in detail here. But information security is everybody's concern, and all stakeholders have a responsibility for ensuring the security of complex interconnected systems, such as Australia's financial system has become.

Opening up systems for interconnection, while at the same time ensuring adequate security, poses unprecedented challenges to the Government and to practitioners in the tax industry. Mandating security is not sufficient. Rather, a concerted effort of consultation and finding end-to-end solutions with all relevant stakeholders is necessary, with software developers and Digital Service Providers necessarily play a central role in this effort.

Despite increased awareness and efforts to address data security, significant data breaches continue to occur, often because of failure to follow routine security practices. The ATO and other government agencies are prime targets for hackers, criminals and others who wish to embarrass the government or profit from its data. It can be argued that government has a greater responsibility than private industry to protect the data which is entrusted to it.

The ATO needs to ensure that its own security procedures are of the highest quality. It should also be proactive in ensuring information security across the whole taxation system, beyond its own to find proactive solutions together. It is not a viable option for the ATO to close its doors and adopt a fortress mentality – it is part of a much larger cloud computing ecosystem which provides information, solutions and services to the Australian, and indeed the global, tax industry.

Related to information security is identity management: how to ensure the identity of individuals and organisations interacting with the ecosystem. Identity management is a large discipline in its own right, and one in which major advances are being made globally. Many of the most exciting developments are in the field of biometrics – the identification of individuals through such means as fingerprints and iris scans.

The technical and procedural aspects of data security are well known – but they have not always been implemented, or implemented well. What is missing is a high level trusted identity management system for businesses which can be used for both B2B and B2G.

All the other components of data security break down if transacting parties do not have a means of digitally signing a message. The ATO and DTA have done a lot of work in the area of individual identity management, but both have either explicitly or implicitly shied away from providing any business-to-business or business-to-government capability.

Identity management schemes for individuals increasingly involve biometrics, a technology well suited to single transaction usage involving human interaction. But biometrics is not suited to automated machine-to-machine processes which might occur at any hour of the day. This represents a massive hole in the digital landscape - there needs to be functional trust mechanism between businesses, and between business and government.

The Australian Government and the ATO still need to earn the right to be seen by the community as good practitioners of security systems. They have not done a good job in setting an example. Most business software platforms and many businesses have greater levels of security than the ATO and the Government.

There is no simple answer to implementing adequate security and identity management systems. The taxation system is not unique in this regard, and shares the same challenges with other government agencies' information systems. This presents a whole-of-government approach to identity management that can be implemented under the leadership of Digital Transformation Agency.

Fraud does not need to be technology-based. The recent Plutus Payroll scandal, for example, in which a legitimate payroll services company was subject to a \$165 million fraud with shelf companies, was an old-fashioned swindle.

Where there is money there will always be fraud. The Government as a whole, and the ATO in particular, needs to be more proactive in its prevention. Digital-by-Default and the goal of real-time transactions should help. When payroll, superannuation and other tax related matters occur in real time there will be less scope for fraudulent activities.

4.4 System reliability and contingency arrangements

The Terms of Reference of the Inquiry mention 'Contingency' as an issue, and rightly so. In this context, contingency refers of the ability of the taxation system to minimise the possibility of outages and downtime and to maximise effectiveness of any remediation.

As the tax system becomes increasingly reliant upon technology, greater importance is being placed upon contingency plans that ensure that disruptions in technology do not adversely affect practitioners and clients.

Recent well-publicised outages at the Australian Tax Office have highlighted the need for effective contingency arrangements. The increased interrelationship between government agencies, and between those agencies and businesses and individuals, places greater emphasis on the need for reliability and redundancy, and for effective and transparent systems to mitigate against the effects of downtime and, if possible, to eliminate it entirely.

There is strong feeling in the financial services industry, reinforced by the severity of the recent outages, that the ATO still has a 20th century mindset, and is using 20th century technology, in a 21st century world. Monolithic and proprietary in-house enterprise systems are a weak link in an economy wide chain of interlocked systems. Comments from ABSIA members interviewed for input into this submission:

- “The ATO should not be responsible for inventing their own infrastructure in a cloud computing world. Moreover, business is now "always on" and ATO online services must be as well (including support).”
- “Part of the reason there have been so many software and hardware issues over the decade caused by antiquated government procurement processes. They're buying the wrong stuff from the wrong people, to put it bluntly. Until that changes I don't think they're going to solve their problems, and I think that's not necessarily just an ATO issue. I think it's a government wide issue.”
- “The ATO needs to be like private industry, and have plans in place to recover from a disaster. The ATO shuts down from Dec to now are an embarrassment to the IT industry. There was no redundancy on key parts of the architecture!”
- “Make sure the back-up facilities are set up properly and working at the ATO end. System failures in the industry are normally less impactful, as clients have alternative avenues for submissions. There is nothing wrong with having old technology concepts such as batching and queues until the systems return. This may not provide real-time responses or answers, but will not disrupt too much of the day to day natural rhythm of the tax professionals.”
- “The ATO's architecture and design of things is wrong. If you structured it properly you would have absolute minimal downtime. Look at the SuperStream network, which has now been running for three years with a total of about eight hours downtime. You stack that up against the ATO systems which have been up and down for months and months with no reliability. There's a message there. There is a right way of doing things and a wrong way. You'll never get zero but you'll get close to it if you get the infrastructure right, and you test it properly.”

It is important to establish effective contingency arrangements, at all levels. As with security, the techniques of maintaining system reliability and recovering from errors and outages when they occur are well-known.

The evidence suggests that the ATO's extended and frequent outages happened because it failed to implement effective measures and follow best practice, not because of something specific to the nature of ATO's operations. It appears that the ATO did not follow the basic precepts. The ATO has admitted, for example, that the essential components of its backup system were also on the server that failed.

“The recovery was slower because some of the actual recovery tools themselves required for that restoration were stored on the same SAN that failed.”¹⁹

Unless the ATO adopts more rigorous methods for ensuring reliability, and better backup and recovery procedures, there is a good chance they will continue to occur. Though total reliability may not be achieved, it is possible to minimise the overall impact, with resilient cloud-based systems with appropriate levels of redundancy. At the very least the ATO should implement such techniques as:

- The usage of cloud-based technology with high Quality of Service (QoS) guarantees, rather than in-house processing.
- The maintenance of legacy technology until replacement technology has been tested, implemented and proven itself. Then the risk of using any contingency plan is minimal.
- Redundancy (replication of systems).
- Decoupling (independence of systems).

The reliability of ATO's information systems can no longer be regarded as an internal matter. Its systems are central to the operation of the entire tax ecosystem, which now comprises a complex network with thousands of stakeholders. Its effective management and operation is an important part of the integrity and trustworthiness of Australia's taxation system.

4.5 The legitimacy of digital transactions

Current business processes and related taxation policy and legislation were mostly conceived when businesses were located in physical locations and traded physical objects and services. The Global Financial Crisis and rapid advances in technology have driven radical changes in trading patterns.

Businesses are extending their reach by expanding their trading networks, and are seeking to use technology to operate more effectively and efficiently. These developments have had a significant impact on supply chains in areas such as procure-to-pay, logistics, trade facilitation and financial markets trading. Indirect taxes such as GST, customs and excise are based on trade flows and transactions, and hence are closely linked to supply chain activities.

The indirect tax impacts of these business changes introduce further changes to supply chains. This has a downstream impact on where activities are carried out, and on the cost of finished products and the distribution of those products. This is particularly true in the case of cross-border trade, where inefficient import/export control management can lead to overpaid customs and excise duties, as well as severe delays in supply chains.

Supply chain transparency is a growing concern for businesses, and for regulatory bodies. Emerging digital technologies can be used to provide greater supply chain transparency, but they can also be used to effectively hide transactions and hence steer the digital economy in a direction that further reduces revenue for the government or grows the black economy.

¹⁹ Chris Jordan, ATO, Economics Legislation Committee, Senate Estimates Hearings, 30 May 2017.

A better and more in-depth understanding of emerging technologies would help the ATO understand how to better regulate the digital economy while not compromising supply chain efficiency. The ATO's leadership in this area is fundamental to ensuring that digital transactions are sufficiently transparent and compliant with relevant policy and regulations.

4.6 Other challenges

Social changes

The most significant societal changes in the context of this Inquiry relate to the changing nature of work and the changing structure of the workforce. In the 19th and early 20th centuries, technology saw massive shifts in employment and primary industries such as agriculture to secondary industries such as manufacturing - the Industrial Revolution. This continued in the later parts of the 20th century with an increased move into the tertiary, or services, industries – the Information Revolution.

In the 21st century the shift has been equally profound. The primary driver has been digital technology, a process which is still underway and whose consequences have yet to be fully realised. Society is in the midst of a major transition for which many are unprepared – at the government, professional, and individual levels.

The issue of how society balances the reduced requirements for human effort with the productivity improvements, and the ratio of the workers who were displaced versus those who managed to retain gainful employment, have not been adequately addressed by any economy. The strains being placed on society by the increasingly two-tier nature of employment (casual versus permanent, low income versus high income) and the 'hollowing out' of middle-class has received wide comment, and have been blamed for many of the political disruptions apparent in recent elections in the Western world.

There is likely to be a change in how society will view tax professionals, as they move away from transactional relationships to the concept of trusted advisor for additional services, and as an intermediary as part of the network of tax processes between individual, business and government.

It is beyond the scope of this Submission to examine at any length on the changes to society being caused by the digital revolution. History has shown that these changes, while at the time feared, may result in net gains in output for industries and growth in workforces with new skills. Approaching this with a change management mindset and enabling people to participate in the economic response to these changes²⁰ is the issue that needs to be considered.

There will continue to be major changes in structure of the workforce. The way societies, economies and governments address these issues will be the biggest story of the next few decades.

Skills and training

In an industry evolving as quickly as the tax profession, practitioners at all levels constantly need to update their skills. The provision of the training necessary to ensure this happens is a major issue.

As the industry changes, there is a role for government to prepare and educate the industry about the changes brought about by its own decisions. ABSIA believes that it is essentially the industry's

²⁰ <https://www.economist.com/news/special-report/21700758-will-smarter-machines-cause-mass-unemployment-automation-and-anxiety>

responsibility to ensure that those within it have the appropriate skills and training. This is one of the key roles of the professional bodies and industry associations.

When changes are instigated by government policies and regulations, it is up to government to ensure that those affected are properly informed. When these changes impinge upon the ability of individuals to do their jobs and ensure their livelihoods, the government's responsibility should extend to help transition the affected professionals to acquire new skills and new roles.

Tax professionals have a responsibility to ensure their skills are up-to-date, and they have an obligation to meet minimum Continuing Professional Development (CPD) requirements, with industry and government support. The ATO needs to ensure that it properly communicates any changes to its systems, and that it properly educates the Tax Profession about those changes and their consequences. ABSIA believes this has not always happened in the past.

Evolving community and business expectations

The pace of digitisation in recent years has massively raised consumer and business expectations of what is possible in business and interpersonal transactions. It has become a truism to say that we live in an always-on connected world, where business can be conducted at any time and from any place. People expect to be able to conduct their social and commercial activities in real time from wherever they are.

In the taxation industry, all providers and stakeholders have the reasonable expectation that the ATO should provide a stable system environment as a minimum. Newer systems and innovations cannot be expected to succeed unless the basics are in place and executed well.

Tax professionals have a role to play to help move their clients to more automated methods, otherwise their market will disappear. Already older people may be finding it challenging to migrate to new processes using new technology tools and online systems, and the traditional tax practices can still fill the gap.

Established professionals tend to be short of time, and are open to use online and real-time lodgements which will assist with productivity, if the rules of tax are readily available and easily understood.

“Younger people in particular resent the need to see a tax accountant at the end of a financial year. They ask why it can't all be done online and in apps. All taxpayers expect the government to take the lead on making systems more efficient and responsive, but expectations are in many cases outstripping the Government's ability to deliver.

“This has significant consequences for the future of the Tax Profession. As societal expectations of real-time lodgement and assessments rise, the tax profession, including the ATO, will be expected to perform at near real-time, or it will be seen as a barrier to the faster resolution of tax affairs for taxpayers.”²¹

This means that ATO services should be available anywhere, any time, on any device, with communication methods like Live Chat becoming the norm for complex queries – as opposed to call centre based communications in business hours.

²¹ Interview with ABSIA member

5. Opportunities Offered by New Technologies

5.1 One door shuts, another opens

One of the key premises of this Submission is that evolving technologies, while eliminating many functions in the taxation industry, are opening up many more.

The new technologies described in Section 3 are contributing to changes in the tax profession. Individuals, and even whole companies, are being disintermediated. Technology is causing many jobs to disappear, but it is also creating new jobs, new markets and even whole new professions.

The health of the FinTech (financial technology) industry in Australia is proof of this. The term 'FinTech' is used by many people to describe start-up companies, but the term is ill-defined. By its broadest definition it is any company in the financial industry that uses technology to deliver its products and services. This would include many established companies - for example SuperChoice, established in 1997, describes itself as 'an original FinTech company'. And many new companies that are using technology in this area would not consider themselves FinTechs.

The sheer number of new companies springing up indicates the sheer volume of opportunity that digital technology is enabling. One of the highest profile and most successful start-up incubator, Stone & Chalk,²² is devoted solely to FinTechs. Most of these new companies are not directly involved in the taxation industry, but they do operate in the wider financial sector, and are prime examples of how technology is creating new opportunities. Prime examples are:

- Coinjar: bitcoin exchange.
- Employment Hero – HR services
- foundU – HR services
- Midasium: blockchain utilities.
- MoneyBrilliant: budget management.
- MoneyPlace: peer-to-peer lending.
- Moula: online lending to small business.
- Ozedi: electronic document hub
- Pin Payments: credit card payments on mobile phones.
- Prospa: online lending to small business.
- SelfWealth: tools for self managed super funds.
- Sharesight: stock market trading utilities.
- Simply Wall Street: stock market visualisation.
- SocietyOne: peer-to-peer lending.
- Squirrel Street (formerly Shoeboxed): electronic document management and workflow
- Stockspot: financial advice and Wealth Management.
- Titanium Digital: web-based financial services software
- Tyro: EFTPOS payments.
- VisualRisk: desktop CFO dashboards.

The range of products and services provided by these companies show how the technology is enabling the growth of the financial services industry, which is exactly where the future of many current tax professionals lies, so long as they update their skills in these new areas.

The Australian Government, and in particular the ATO, should proactively look at new opportunities afforded by the trends of technological disruptions, and plan migration and transition strategies before the disintermediation overtake the Australian economy.

²² <https://www.stoneandchalk.com.au>

5.2 Opportunities for existing players

As discussed above, many existing players in the taxation industry are under threat. But there are many opportunities for them to expand the tax business into related areas, such as case management, financial advice, financial planning, legal services and new areas that many of them would not have yet considered. In many cases this will entail substantial investment in training to acquire the necessary skills and qualifications.

Technology is putting better and more actionable sets of information in the hands of tax agents, who are able to complete their routine tasks more efficiently and easily. The greater volume and improved accessibility of information is already leading to new services being provided by accounting and other financial services firms, expanding their business offerings and revenue streams.

But no matter how the tax profession changes, unless tax is abolished altogether (an unlikely prospect) there will always be individuals and businesses who will enlist an intermediary with in-depth knowledge of the tax rules and regulations to handle their tax affairs. There may be fewer of the tax experts, but the level of service and depth of knowledge that they are likely to require will grow.

The tax profession has comparatively stringent qualification criteria. The level of professionalism this entails means that many individuals in the industry are naturally suited to working in areas that provide additional financial services. The ATO recognises this:

“Many tax professionals have already started taking advantage of technology and are exploring ways to improve processes for clients and establish their roles as strategic advisers.

“The work of tax professionals will continue to be essential, but the needs and expectations of the community are already changing. Tax professionals need to identify what changes will be necessary, to ensure they are prepared for the future.”²³

Automation through technology may eventually lead to a situation where there is no longer any need for individuals, or even companies, to lodge tax returns at specific times. The tax ‘event’ will disappear, but people will still need, and will still seek, professional tax advice they can trust.

Technology is already enabling the tax profession to eliminate mundane and repetitive work and many manual interventions. While this is threatening many lower-level positions, it is enabling tax professionals to consider how they can provide value-added services and be the knowledgeable and trusted advisers, teachers and trainers.

Australians will likely continue to utilise tax and BAS agents into the future. Real-time lodgements and near real-time assessments will provide a value-based pricing opportunity for the Tax Professionals, beyond the current time-based service charges.

As online direct lodgement facilities become readily available, tax agents and accountants can take on the role of a trainer or mentor, to help facilitate evolving business models, and assume a trusted advisor role. What really matters to most taxpayers are the big financial questions: How will I plan for my retirement? How is my business running? How can I make it grow? How can I most efficiently conduct my financial affairs?

²³ Australian Taxation Office. ‘Roadmap of change for tax professionals’. https://lets-talk.ato.gov.au/tpcommunity/news_feed/future-of-the-tax-profession

“While ever the ATO’s systems remain unreliable and less than effective, and while its call centres continue to have long hold times and it is unable to assist the lay-man taxpayers in an appropriate way, taxpayer individuals and businesses will continue to rely on the tax and BAS agents to handle their affairs.”²⁴

The bottom line is that the tax profession and the individuals within it have many opportunities. But they will not happen automatically - people need to be proactive in identifying them.

5.3 Opportunities for new entrants

The Tax Practitioners Board (TPB) regulates and registers tax agents in Australia. “If anyone provides tax agent services for a fee or other reward, they must be registered with the TPB”.²⁵ This is intended to ensure that only qualified and ‘fit and proper’ individuals and companies operate as tax agents.

The TPB will continue to regulate the industry, but it is in the nature of the changes discussed in this Submission that the definition of what constitutes a tax professional is becoming wider and more ambiguous over time. The TPB may need to adjust its requirements and the nature of its regulations to accommodate the role of new players.

Tax agents are currently defined as practitioners (individuals and organisations) who can deal with the ATO on behalf of their clients to provide advice as tax agents or advising clients about ‘liabilities, obligations and entitlements’²⁶ under the taxation law.

But the evolving scope and nature of taxation advice is testing the boundaries of this comparatively limited definition. The term ‘tax agent’ increasingly encompasses organisations such as software companies (both established and FinTech), financial advisers, payroll service providers, banks and providers of payments systems, and many other individuals and organisations are involved in tax system. Some of these roles are so new that they have not been properly defined and no term exists for them.

The technology changes outlined in this Submission have led to the rise of a large range of new intermediaries in the taxation system and in the broader financial system. This is happening at the same time that many traditional operators and functions are being disintermediated, meaning that the structure of the industry is changing profoundly.

There will always be the need for new types of services, and entrepreneurial operators will always be looking for new openings. It is a dynamic ecosystem rich in new opportunities, and the environment is becoming much more complex.

The term ‘financial advisor’ has become vague since providing virtually any type of financial advice must consider tax aspects, if the advice is to be relevant and beneficial to the client. Upper and middle-income earners, for example, typically have complex financial management strategies that involve superannuation, other investments, trusts, etc. Such individuals now expect the two professions, the financial advisor and tax agent to operate seamlessly, and to be found in the same firm, or even the same person.

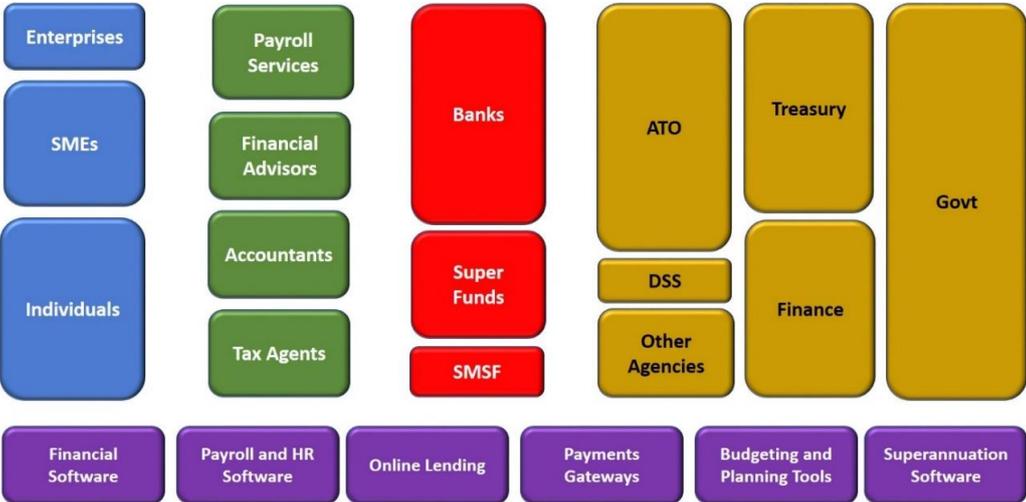
²⁴ Interview with ABSIA member

²⁵ Tax Practitioners Board. ‘Who needs to register the tax agent?’ <https://www.tpb.gov.au/who-needs-register-tax-agent>

²⁶ Tax Practitioners Board. ‘What is a tax agent service?’ <https://www.tpb.gov.au/who-needs-register-tax-agent>

The same is true of small and large businesses. The larger the business the more likely it is to have in-house skills, but even the largest enterprises have need of external financial advisors. Unless the regulations governing the taxation systems are dramatically simplified, which is unlikely in the short-term, there will still be need for a robust tax profession which can provide advice and guidance to navigate the complexities and intricacies of interpretation.

A Financial Services Industry Taxonomy



Source: ABSIA

To our knowledge, no one has attempted any sort of taxonomy defining the many participants in the taxation and financial services industries. A simple taxonomy is contained in the chart above.

The diagram could be made much more complex. But no chart could ever represent the full complexity, or the changing nature of the financial services industry, the tax profession, and the interrelationship between all the components. Changes in technology, regulations, and business practices all mean that the roles of different players are more fluid, and that the distinction between them are blurring.

5.4 Opportunities for the ATO with industry bodies

New technologies will bring significant opportunities for more efficient government. Current efforts to automate taxation, payroll and superannuation processes have as their ultimate aim interoperability and data sharing between administrative systems in individual government departments.

This is the aim of the ‘Digital by Default’ and ‘Digital First’ strategies, and of the Digital Transformation Agency – that government agencies will be able to transparently share data as appropriate to provide seamless digitally delivered services to the Australian community.

This will mean that the current problems such as matching of Centrelink payments with ATO records will no longer happen. Many well publicised incidents, and thousands of others that have received no publicity, have occurred because of inconsistencies in data formats and a lack of timeliness in sharing relevant information between agencies.

When agency systems use common data definitions and are linked together in real time, significantly greater efficiencies will occur. Up-to-date information sharing about what individuals earn and what they are entitled to in welfare payments will revolutionise the welfare and taxation systems. Another

example is the real-time updating of employment and other financial data to the Australian Bureau of Statistics to improve the timeliness of policy-making.

Many in government are aware of these potential advantages. It is a natural human reaction to resist change, and this tendency is probably stronger in the public sector than in private industry. ABSIA commends the ATO's willingness to embrace technology, but we believe that the implementation of much of this technology has been suboptimal (see Section 6 below) – though we acknowledge that it is a complex area.

The changes to the taxation system and the tax profession are part of the much larger impact of technological changes. Any incremental changes should be made in this context. It has been a common criticism by many ABSIA members that too many people in the ATO and other government departments look only at their own area and fail to recognise the macro environment of what they are attempting to implement.

ABSIA believes that these new technologies offer many opportunities to the ATO. Chief amongst them is the real-time coordination of all individuals' and organisations' dealings with the Government. This will eventually happen across the whole of government, not just within the ATO and the taxation system.

It is hard to overstate the advantages this will bring. It will increase compliance, vastly improve the efficiency of taxation collections and welfare disbursements, and facilitate much greater coordination between agencies.

From the software and digital service provider industry perspective, the Single Entry Point project (which has been put on hold) is one such project that will help with engagement and coordination between the industry and ATO. It should be replicable to other government agencies and other industry associations.

The Government's new Digital Transformation Agency (DTA) is attempting to encourage agencies to deliver their services digitally and to better coordinate their activities across agencies through the use of digital technology. While the DTA is still ramping up its activities, most of the effort is up to individual agencies, such as ATO.

The ATO's SBR program started in 2010 slowly and laboriously. It is still not widely implemented. But as the system's stability and reliability increase and the barriers fall away, SBR's adoption is expected to increase.

SBR has evolved and expanded from business-to-government regulatory reporting to an interoperability framework that will be able to transact multi-way business-to-business and business-to-government commercial transactions.

SBR is a national asset, and should be leveraged by other government agencies with the 're-use, not reinvent' philosophy to maximise taxpayer's dollars. The DTA should take an assertive lead to coordinate and ensure that assets within government agencies are leveraged by others in whole-of-government approach.

While acknowledging the slow start and many lessons along the way, the ATO says SBR has saved \$1.2 billion in FY2016 and \$1.4 billion in FY2017 to the Australian economy. Cumulative savings 2014-18 are estimated at \$5 billion,²⁷ and delivered benefits are expected to grow near-exponentially through STP and e-Invoicing.

²⁷ John McAllister, ATO. 'Evolution of SBR'. ABSIA Conference 30 November 2016.

https://www.absia.asn.au/data/2016_Nov_conferencePapers/Evolution_of_SBR_JohnMcAlister_Nov2016.pdf

5.5 The ATO and the international scene

The ATO also has the opportunity to be an exemplar internationally - showing revenue agencies in other countries how digital should be done. Globalisation is a reality, with increasing number of even small businesses operating internationally. Individuals are also more mobile than ever before, the number of people working in different jurisdictions over the course of their working lives is higher than ever.

Just as the Australian Government is attempting to better coordinate the activities of its individual agencies, so are governments worldwide discussing ways of using digital technology to improve their cooperation on financial and taxation matters. This is an increasingly high-profile issue in the amount of publicity given to the transnational taxation minimisation activities of many multinational enterprises.

Cooperation between governments is more difficult than cooperation between agencies within governments, but it is still a worthwhile objective. Australia has a long and impressive record of taking the lead or being a major player in international agreements. It has the potential to show the way the usage of digital technology to make the taxation system more efficient and more equitable.

In 2016, the Department of Immigration and Border Protection (DIBP), Standard Business Reporting and the Department of Foreign Affairs and Trade (DFAT) formed a partnership to undertake two research studies, the Domestic Single Window Study²⁸ and the International Single Window Study.²⁹ These studies showed a potential \$2 billion in savings for Australia in import-export trade processes by using SBR infrastructure and philosophy.

SBR is seen as an exemplar program in which the US Government has taken a keen interest. ABSIA, with the assistance of one of its members, has demonstrated Australia's SBR capability to the White House and the US Congress, in particular the power of a common taxonomy and data-entered-once digital transactions that will help simplify processes for the businesses and the government agencies.

Australia has been invited to testify in front of the US House Committee for Oversight and Government Reform³⁰ regarding Australia's SBR program achievements, with a view to US Government taking up a similar SBR program.

²⁸ http://www.sbr.gov.au/_data/assets/file/0007/45169/KPMG_ABR_Domestic-Single-Window-Study_Final-Report_Client-Copy_22-December-2016.pdf

²⁹ http://www.sbr.gov.au/_data/assets/pdf_file/0006/44961/KGH-DIBP-SW-International-Study-Final-Report-v1.0_FINAL.pdf

³⁰ <https://oversight.house.gov>

6. The Role of Government

6.1 The policy and regulatory environment

The Australian taxation industry exists within a policy and regulatory environment that continues to evolve. Unfortunately, it is not moving as quickly as the advance of technology. This means a continued disconnect between legislation on the one hand and the environment it is intended to regulate on the other.

The situation is not unique to taxation. Legislation in such areas as copyright and intellectual property is notoriously behind the times. Wherever there is a contrast between fast changing technology and the slow pace of policy development and legislation, such disconnects will exist.

For several reasons, Australia has a very complex taxation system. It is one of the most complex in the world, and there is almost universal agreement that it should be simplified. Technology provides an opportunity to do this.

The Government is aware of this and says it is committed to simplification, but little has happened. In November 2015 and engage consultancy ACIL Allen to undertake a review of the taxation system with a goal of understanding the drivers of complexity in tax policy and law and how the complexity they cause can be addressed.³¹

Australia's payroll taxation system is the sixth most complex in the world. It is ranked fifth in the complexity of the payroll calculation process, and fourth in the complexity of managing guidelines, rules and agreements coming from a multitude of levels.³²

Any simplification of Australia's tax system would be a step in the right direction. The complexity of our taxation system contributes to the perception that Australia is uncompetitive globally. OECD figures show that Australia has a relatively low tax burden compared to other developed member countries. But it is also the case that Australia tax system is far too complex and too reliant on individual and corporate income tax revenue. This complexity also adversely impacts on the potential for industry to deliver innovation with speed, or at all.

The complexity of the current tax system is the cause of significant taxation non-compliance in Australia. It is often simply too difficult to be compliant. Many taxes may seem to make sense on their own, but they are a significant burden on business, which also has to consider Fringe Benefits Tax, PAYG withholding tax, Payroll Tax (regarded as a tax on employment), and a range of other taxes, state and federal. There are also other mandated costs that are not strictly taxes, such as superannuation and WorkCover obligations.

Simplicity leads to greater compliance, which leads to higher tax revenues. But it can also mean greater unfairness – many complex rules were implemented in an attempt to ensure the tax system is fair. But complexity is also unfair, because it imposes an unreasonable burden on taxpayers, and it enables those with greater resources to more easily determine ways to beat the system.

Attempts to simplify the taxation systems have been piecemeal, and the introduction of new systems like SBR have – at least in the short term – increased complexity for software developers and digital

³¹ ACIL Allen Consulting. 'Cutting the Gordian Knot: Addressing complexity in Australia's tax system. May 2016. http://www.acilallen.com.au/cms_files/ACILAllen_AustralianTaxationSystem_2016.pdf

³² NGA Human Resources Research. 'Payroll Complexity Index 2014'. <http://www.ngahr.com/nga-payroll-complexity-research-2014>

service providers. ABSIA realises that it is beyond the scope of this Inquiry to act on the simplification of the taxation system, but anything that can be done should be done to reduce complexity at every stage.

On the other hand, some tax industry consultants thrive on policy change. For those who offer advice, complex tax regulations mean clients need in-depth advice, which creates additional business opportunities for them to provide more advice and training. Simplifying tax and welfare systems would pose a major risk to these people.

The complexity of the Australian tax system, and the adversarial nature of Australian politics, means that change is constant. Few governments can resist the temptation to tinker with the tax system, which is one of the reasons for its complexity.

There is a multitude of different types of taxes, concessions, tax breaks, and tax relief, plus a highly complex social welfare system which is linked to the tax system. There are also industry-specific incentives and grants and a range of other policy initiatives that add to the complexity.

Australia's political system encourages parties in power to constantly invent and reinvent tax and welfare incentives and disincentives to gain votes. All of this reinforces the need for highly competent tax professionals with deep knowledge of the increasing number of interdependencies between the different tax laws, industry grants and incentives and welfare payments.

The simplification of taxation regulations would ease the workload for many tax professionals and would certainly make compliance easier. Although it would reduce work for some professionals, who delight in complexity, it would be beneficial overall as it would lead to greater efficiencies across the board.

6.2 The importance of standards

With the growth in the Internet and the proliferation of devices attached to it, interoperability has become paramount. But hardware devices and software applications cannot talk to each other without standards, which might be thought of as languages.

Standards come from two main sources. There are mandated (*de jure*) standards, and there are *de facto* standards. Mandated standards are those set by governments or other accredited bodies, and anybody which will do business with them must comply. An example is the Australian government's SBR.

De facto standards are those that arise from common usage. They may have been initiated by individual organisations, but they become accepted the widespread usage. An example is HTML, the language for creating web pages.

Both types often become official standards under the auspices of the International Organization for Standardization (ISO), a non-governmental organisation recognised by the United Nations as international standard-setting body. Standards Australia is a leading member of ISO, and has been instrumental in the development of many standards in many areas.

Fit-for-purpose standards are essential in financial transactions. For example, the Australian Government SBR uses the XBRL (eXtensible Business Reporting Language) standard specified by XBRL International, a not-for-profit organisation which attempts to harmonise language with existing ISO standards.

It is very important that the Australian Government and its agencies, such as the ATO, follow standards wherever possible. This needs to go beyond technical standards, and include standards-based protocols in such areas as cloud infrastructure, security, data structures and other protocols. This has not always been the case.

“Standards ensure the easiest and the lowest cost of the business. One of the challenges that we've had is the ATO has adopted a standard, but then they've tweaked it to their own sort of flavour.

“It's made it very hard to buy off-the-shelf solutions and to get them to plug-and-play. People expect plug-and-play now. The ATO makes it more difficult than it needs to be in that respect.”³³

Adherence to standards is more a mindset than a box ticking exercise. Applications and systems should be designed from the ground up with standards in mind – attempts to conform to standards should not be an afterthought. And adherence to standards, once begun, should be sustained, and the temptation to deviate from them resisted.

The ATO has attempted to take a lead with Standard Business Reporting (SBR), introduced in 2010 to simplify business reporting obligations. ABSIA believes that although it is a good initiative, its introduction has been uncoordinated and cumbersome, and would have had a better outcome if the industry had been involved earlier in the planning stages. Three comments from ABSIA members:

- “We agree with the change to the SBR platform 100 percent, but it's cost us millions of dollars in manpower, with no real enhancements to the tax product. It has happened for all the right reasons, but if the ATO had delivered to its timeframe and supported us more, we would have been a lot more appreciative. It's been very hard – there's been poor execution.”
- “The way the ATO has conducted SBR project was not ideal. They need to actually listen to the industry more. We were excluded from the process. They pulled us in too late, after mistakes had been made. The ATO will probably change it eventually to improve it, but that will cost us even more money. The ATO really needs to take on-board the feedback it is receiving.”
- SuperStream uses the older XBRL language for business-to-business and Single Touch Payroll using the newer XML language for business-to-government. These two important functions use two different architectures and infrastructures because of the short-sighted and limited design from the ATO.

6.3 The changing role of the ATO

Central to any discussion about the future of the tax profession is an understanding of the role of government, and in the local context, that of the Australian Taxation Office. Taxation exists because government needs revenue. It is government that determines the nature of the taxation system, government that administers it, and government that is responsible for its ability to fulfil its functions.

³³ Interview with ABSIA member

The ATO's role is to implement the government's legislated taxation system, and has traditionally regarded itself as the arbiter of every aspect of the taxation system. This worked well enough in the pre-digital world, where the ATO set rules and controlled the taxation system as it wished.

In the digital world things are different. The ATO is still the central government agency, but the interconnected nature of the digital environment means that the ATO needs to be much more aware of the broader taxation industry and how it works. Unfortunately, the ATO often does not seem to realise that the world has changed and that its role has changed as well.

In the digital world, the ATO is not just a government agency. It is a major service and information provider, and the rest of the industry depends upon its efficient operation to ensure that the whole complex taxation infrastructure functions efficiently. The ATO might be the biggest player in the taxation system, but it is by no means the only one, and it needs to think less in terms of it being at the top of a hierarchical structure and more in terms of its being a component in a complex interlocking environment.

ATO also has responsibility to take a leadership role in helping to facilitate programs to meet Australian business more efficient. This is true even of those the government's immediate area, for example eCommerce and e-Invoicing. Under the Government's leadership, it has been shown that industry associations and private sector are willing to work together for the good of Australia, with the Digital Business Council as a successful example to-date. Government can no longer say that it is not its job, because if it isn't, whose is it? A lack of such leadership will have Australia fall behind the other countries.

ATO needs to not only be a leader, it should be an exemplar. This view is summed up well by one ABSIA member interviewed for this submission:

"The nature of the relationship between tax professionals and the ATO has fundamentally changed. In the past, the ATO was the master, so to speak, and the tax professional was the slave, 'This is what you do and you do it when I tell you to.'

"The market has developed in such a way that the ATO still plays that policy role in terms of defining how things work, but it has also become a very important and material service provider to tax professionals to enable them to do their job. I don't think the ATO has yet understood that its role has changed – from being the orchestrator of how the things work, to being a key service provider that enables tax professionals to do their job. That's been highlighted quite graphically through the outages and the impacts that has had on many organisations.

"People's expectations have changed, partially because of the way Amazon and Apple deal with their customers. People are less inclined to accept the ATO saying, 'I'll tell you when to do something, and I'll tell you when I get back to you' to 'If I can get this service from Amazon, why can't I get the same service from the ATO?' There are much higher expectation around the level of service and the obligations."

The ATO needs to offer the same level of guaranteed service as operators who provide similar services in private industry. This involves Service Level Agreements (SLAs). There should be clearer guidelines, particularly around the ATO responsibilities when there is a negative impact on the operations of superannuation trustees or employers or others who are relying on the ATO's services. The ATO has argued that it is a free service and therefore not subject to service-level obligations. It is more reasonable to argue that the tax payers are paying for the services provided by the ATO and therefore should expect committed SLAs.

For Australia's taxation system to work most efficiently, the ATO needs to revisit how it should partner with tax agents to help them influence the behaviours of taxpayers in order to achieve compliance.

With all business and practice software increasingly reliant on PLS derived interactive services, it is imperative that all ATO infrastructure be available 24/7 with an industry standard 97 percent plus uptime, like most business and practice software.

6.4 How the ATO and the TPB could better work with the tax industry

ABSIA is concerned that there seems to be a lack of a coherent view in the Australian Government on how the cumulative impact of the various changes being made to the taxation system by the ATO and other agencies is impacting the tax profession. The changes should be much more integrated. While individual changes may seem to be justified in their own right, there are inadequate coordination mechanisms for ensuring they are implemented in a sensible and coherent way, and presented to the tax profession and to all Australian businesses as such.

The ATO needs to consult more with individual players and industry, and also with industry bodies. An important body is the Digital Business Council comprising primarily of representatives from different industries. Since it was established in 2015 the DBC has been an effective forum for many of the issues canvassed in this Submission.

The ATO is a member of the DBC, and has been supportive of its activities to-date. This should continue beyond the current changes in leadership inside ATO. The DBC has been very effective in defining standards and ensure cooperation between the different industries in the Australian communities. DBC is a good model of how the industry in partnership and with support by the Government is taking a leadership role for the Australian community.

The Industry as a whole expects the ATO to perform a leadership role in guiding a coordinated coherent approach to e-Invoicing as part of the larger eCommerce effort across the Australian economy.

Working closely with the central agency DTA, ATO needs to show courage to step up amongst its sister government agencies to lead certain areas of technological progressions where it could take the leadership role in such areas as SBR and e-Invoicing.

ABSIA members have many views on how the ATO and the TPB can better work with industry. Below are some direct quotes from members. Most of the comments have to do with the ATO being more consultative and better fulfilling its promise to execute:

- “Major changes in the tax system by the ATO should be implemented in small agile steps, rather than looking to create or replace entire systems with hard deadlines. For example, SBR could have replaced the transmission mechanism first and run the ELS data format over it, and then once that was successful, roll out the first form using the new taxonomy, verifying success before moving onto the next one.”
- “Let Industry be part of the solution, through the whole journey. The ATO will then get more innovative and relevant solutions to its vision of a digital tax service provider. For example,

when designing new tax-related 'improvements', consult with the industry first before putting out a mandatory deadline.

- “There needs to be a more coordinated strategy on the Digital Roadmap. Software developers and digital service providers are businesses like any other, and they need to show a return on investment Plan ahead on the new developments needed to feed into the strategies of each company.”
- “Listen to users rather than preach the ATO message.”
- “The ATO and the industry need to work together and support each other. I have seen the ATO marketing people send messages about prefill saying how great it is, while the feature has been down for more than two weeks.”
- “Be better at project and change management. Accountants don't like change!”
- “The ATO needs to better Inform us and help us visualise the future state on the digital transformation journey.”
- “The ATO should run education and seminars on the future of the tax profession to help them determine if alternative business strategies may be required. They should provide information on potential alternative strategies (e.g. expansion, exit, merge ...) for those who are ready and willing to explore them.”
- “There needs to be greater detail around yearly cyclical legislated changes to taxation.”
- “The ATO’s right hand does not know what its left hand is doing. The ATO has released too many unrelated initiatives simultaneously, making it difficult for industry to keep up. It seemed like each Deputy Commissioner of Taxation as his own agenda and they don’t talk to each other.”
- “The drip-feed of information makes initiatives like Single Touch Payroll and SuperStream seem more like additional compliance when they are meant to be the exact opposite.”
- “You can’t make a change yesterday and expect software developers to have this change next week. It takes time to develop great software.”
- “There is a challenge in creating the documentation that encompasses the policy and regulatory changes that is uniform in design and easily readable by developers and other stakeholders.”
- “The ATO needs to recognise the investment we make every time they say they are going to deliver something wholesale. That simply means they don't implement it in such a way that we can use it to develop other systems. They say that a lot. That type of approach has got to stop, we've got to be able to recoup our investment. They need to be more consultative.”
- “The ATO needs to stop hiding behind the outdated concept that it is nothing more than an enforcement agency and that it is only doing what the tax payers expect it to do.”
- “The Australian Government has a moral obligation to show leadership especially where the industry and the private sector are already demanding that it fills the void. To let market economy approach unfold would lead to fragmented and competitive solutions that will not allow Australia to advance as quickly as is required compared to other countries.”

- “PLS is a joke! Everyone who has had five minutes in the software industry knows you don't shut down a perfectly good system for a new one, if it's not reliable. Simplify PLS – don't shut down older services until the new service has proved itself.”
- “Forget tax accountants and work with software vendors to automate as much as possible.”
- “The ATO should provide wholesale services that DSPs can consume, allowing for DSPs to provide to tax professionals a one stop shop for all their needs.”
- “The ATO's Operational Framework approach being mandated across the industry is grossly and manifestly unfair. It is clearly an impediment to partnership and cooperative arrangements with the ATO.”
- “Whenever ATO is implementing a program, the change management aspect of that should expand much wider to include actions to mitigate the impact on the affected professions.”
- There are many architectures and infrastructures because of short-sighted and limited design from the ATO. It is because of lack of leadership and coordination that we have such a siloed based approach. The net result is that multiple government projects compete for the market's attention.”

7. Conclusion

The tax profession, like many others, is changing quickly due to evolving technologies and business practices. These changes are causing disruption, but are also offering many opportunities to new and existing players.

The Inquiry to which this document is a Submission is titled 'A Review into the Future the Tax Profession'. It is an important subject, and in this Submission we have attempted to examine all the relevant angles. No matter what happens – whether it happens quickly or slowly, and whether they are easy or hard – the industry will change profoundly over the next few years. Major change is inevitable.

It is up to all players in the industry to ensure that the changes are positive. It is natural for many people to resist change, but that is the least effective way to deal with it. The best results come from embracing change and looking at and acting on the opportunities it brings. That is true of individuals, of organisations in the tax industry, and of government agencies.

There are many complexities, but the bottom line is very simple. Technological change will bring significant disruption to the taxation profession. How the taxation industry handles those changes will determine its future.

Taxation is not a trivial matter. It lies at the centre of the economy, and at the contract between a government and its citizens. Its effective operation is central to good governance and an efficient economy. Technology has the potential to enable a much more efficient, transparent, and fairer taxation system. It is very important that Australia manages the transition well.

The key to doing so is cooperation between all parties, open minds, generosity of spirit, and intelligent behaviour. We encourage all players in the industry to approach the inevitable changes positively. Properly managed there is potential for Australia to build a truly world-class tax system, one that can be an example to other countries.

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Appendix 1 Terms of Reference

The IGT will conduct a review into the future of the tax profession with a focus on:

1. The opportunities, risks and challenges presented by new technological, social, policy and regulatory developments on the administration of the tax system including:
 - a. the changing nature of existing automated or online services as well as the proliferation of future services through other technological advancements;
 - b. community expectations for 'real-time' online response and changes in work and communication practices; and
 - c. the entry of new intermediaries into the tax system such as financial advisers, who provide tax advice, falling within the purview of the TPB.
2. The strategies necessary to assist the tax profession to meet the potential challenges posed by the above developments including the:
 - a. changing demographic of the tax profession and the greater role played by other third parties in the tax system, such as financial advisers, software and hardware developers, data analysts, providers of banking and payment services, economist and valuers;
 - b. services that the tax profession would be expected to provide and the need to adapt to the changing environment in the face of potential redundant or diminishing functions;
 - c. skills, training and on-going education that tax professionals may require;
 - d. need for effective contingency arrangements to alleviate the impacts of unavoidable system failures; and
 - e. support that the tax profession would require from the ATO, the TPB and others such as tax academics and educators as well as professional bodies and industry associations.
3. How the ATO and the TPB can seize the opportunities presented by technological, social, policy and regulatory developments to:
 - a. work with the tax profession in providing contemporary, reliable, accessible and secure services that foster voluntary compliance by meeting the increasing expectations of taxpayers and tax professionals and improving their productivity; and
 - b. establish effective contingency arrangements to alleviate the impacts of unavoidable system failures.
4. The IGT may also examine other relevant concerns or potential improvements identified during the course of the review.³⁴

³⁴ <http://igt.gov.au/publications/reports-of-reviews/review-into-the-future-of-the-tax-profession/>

Appendix 2 Parties to the Submission



Australian Business Software Industry Association (ABSIA)

ABSIA is a non-profit association created to be the collective voice of the Australian business software industry. ABSIA has an important part in transforming how the Government and Australia's software vendors relate, communicate and collaborate, by acting as the primary contact point role for interaction between the parties.

ABSIA aims to serve all stakeholders in the Australian business software industry, including – but not limited to – business software developers, consulting and software service providers, large corporations, SMEs, individual consumers, and other industry associations and Governments at all levels.

www.absia.asn.au

ABSIA members who provided major input to this Submission:



ADP Employer Services Pty Ltd

ADP Australia is the local subsidiary of the US-based ADP Group, one of the world's largest providers of business outsourcing payroll and HR services. ADP has been operating locally for more than 35 years and has over 7,000 clients across Australia and New Zealand. ADP Group's global revenues exceed US\$11 billion. It has over 40 percent market share of outsourced payroll in Australia.

www.adppayroll.com.au



Ozedi Holdings Pty Ltd

Ozedi is a messaging hub which provides a complete set of services for Standard Business Reporting, SuperStream and Single Touch Payroll to allow software providers to attain compliance with government requirements. In addition to the legislated requirements, Ozedi is one of seven SuperStream gateways and has a significant share of the superannuation contributions processed in Australia.

www.ozedi.com.au



Reckon

Reckon Limited

Australian Reckon is a publicly listed ASX company founded in 1987. It develops and sells financial, document management and practice management software for accountants, bookkeepers, small to medium businesses, and personal users. The company has offices in Australia, New Zealand, the UK and the USA. Reckon employs over 500 people and has over 600,000 businesses using its software across Australia and New Zealand.

www.reckon.com



SuperChoice Services Pty Ltd

Sydney-based SuperChoice was established in 1997 within the CPS group of companies. It provides a cloud-based microservices payment, data and messaging platform and superannuation payment clearinghouse. Over 100,000 Australian employers, including two thirds of all companies with more than 200 employees, use the SuperChoice platform to pay almost 40 million SuperStream compliant contributions per annum (worth around \$25 billion) on behalf of 2.3 million employees.

www.superchoice.com.au



Xero Limited

Xero is an ASX listed company that supplies cloud-based accounting software to small businesses, accountants and bookkeepers in 180 countries. Xero has over 1 million subscribers and 16,000 business partners and was identified by Forbes Magazine as the world's most innovative growth company in 2014 and 2015.

www.xero.com