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ATTA 2018 Conference: The Future of the Tax Profession

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Introductory remarks

Good morning.

It's a pleasure to be here for the 2018 ATTA Conference and I'm delighted to have been invited to speak today on The Future of the Tax Profession.

CPA Australia

CPA Australia is one of the largest accounting bodies in the world, with more than 160,000 members across 118 countries.

Collectively, around 17 per cent of our members hold senior leadership roles, including more than 25,000 members in CEO, CFO or Financial Controller positions, or in business ownership roles.

As a professional accounting body, the future of the accounting and tax profession are areas of keen interest for CPA Australia and both are also key areas of ongoing focus.

Of the 19,000 CPA Australia members in public practice, we know that around 90 per cent work in the tax space on a daily basis.

And when we take into account other members who are working in tax in other capacities and sectors – for example in the commercial, academic, public sector and not-for-profit areas – that number is much greater.

Part of our job is to guide these members through change in the profession and when it comes to technology, CPA Australia is seeking to encourage members – including those working in tax – to embrace technological change.

We want to make it easier for our members to adapt to change, to understand what change and technological developments will mean for them and their practices, and to see the enormous potential that innovation in technology brings.

CPA Australia welcomed the opportunity to make a submission to the Inspector General of Taxation's review into the future of the tax profession in 2017.

Much of what I'll be talking about in the next short while is contained in that submission.

'Firm of the Future' report

CPA Australia has undertaken significant research on the future of public practice firms over the last decade and prior.

For example, in 2007 we published our 'Firm of the Future' report.

This was a major piece of research that we undertook to gain a better understanding of what future public practice firms may look like in an increasingly competitive and rapidly changing environment.

Over the last decade, this report – combined with ongoing feedback from members – has guided our organisation in developing strategies and tools for members to assist them with the opportunities, risks and challenges presented by developments in the administration of the tax system.

The report highlights that back in 2007, members in our focus groups had an overwhelmingly positive attitude towards technology and their practice.

They saw technology as being critical to:

- creating and sustaining their competitive advantage
- enabling them to focus more on providing value-added services
- assisting them to provide advice to clients in real time
- putting downward pressure on some costs, and
- assisting them to better respond to changes in client expectations.

Predicting the future

But while our 2007 report was a very useful piece of research, trying to predict the future is a risky exercise.

Technology is manifesting itself in ways that we didn't predict and no doubt will continue to do so.

Many of the key drivers of change identified in our report were proven correct and remain a factor for practices today, such as developments in technology, business processes; knowledge management; and the importance of having a mobile workforce.

But while our report highlighted the growing importance of the internet, automation and data analytics, **it did not mention the cloud, blockchain or Artificial Intelligence (AI).**

Looking at this research again highlights how important it is to keep revisiting and revising our expectations about what to expect in the future.

It's instructive to look back to see what we, as tax professionals, may have been afraid of in times gone by.

I recall back in my post-graduate tax student days a guest lecture that I attended here in Melbourne that was given by one Eric Risstrom – I'm sure many of you will remember him or have at least heard of him – who, amongst other things was a CPA member – who worked for some 50 years in taxation at Taxpayers Australia.

In that lecture he outlined his views – and grave concerns – about tax and the future of the tax profession, given the enormous amount of change that the tax profession was facing at that time. Changes such as:

- the new self-assessment system
- new substantiation rules for work related expenses
- a company dividend imputation system
- a relatively young general anti avoidance rule (GAAR) – one that had yet to be tested by the courts
- the new capital gains tax regime, and of course

- the new fringe benefits tax regime.

One could also fast-forward to the *A New Tax System* and the introduction of Australia's GST in 2000 – more examples of seismic events that many predicted would mean the end of the tax profession – but were not.

None of these changes have turned out to be 'showstoppers' to the economy or to business, and have not been to the detriment of the tax and accounting professions.

On the contrary, they have all in their own way provided enormous opportunities in the tax advisory and business advisory space since their introduction.

So, what might we be concerned about – or even afraid of now?

At one level there are the technological changes and services being implemented by government agencies that impact the way we, as citizens, taxpayers and tax professionals, engage with the system.

These include initiatives such as:

- MyGov;
- MyTax;
- ELS to SBR; and
- Single Touch Payroll.

Each of these initiatives is 'changing the game' in one way or another, with potential winners and losers. I do not intend to cover these here today (and as such it will leave some space for the following speaker.)

Artificial intelligence

Earlier, I mentioned AI.

A recent PwC report predicted AI will boost global GDP by US$15.7 trillion by 2030.

AI is certainly already transforming accounting and finance and it will have a major impact on the tax profession – and not just on tax practitioners but on tax administrators as well.

Machines can and are learning to perform repetitive and time-consuming tasks, freeing up accountants to do other things.

Machines are taking over the transactional, processing-type work that they're very good at, such as:

- auditing of expense submissions
- clear invoice payments
- risk assessment
- analytics calculation
- Siri-type interface for business finance
- automated invoice categorization, and
- bank reconciliations.

Developments in machine learning mean that machines can now process more data, larger data, faster data and a wider variety of data.

But machines only process the data by recognising patterns in it that they have been taught to recognise.

They may have superior data recognition capabilities but they don't yet have (and possibly never will have) the ability to interpret the data.

They cannot UNDERSTAND the data in the way that a human can.

They can't understand cause and effect.

They can't think outside the box.

They also cannot understand their clients – who they are, what the requirements of their business are, what their goals are.

So, despite some fears to the contrary, ROBOTS are NOT going to replace all human accountants and bookkeepers.

The same thinking can be applied to tax advisory services.

Some of you may be aware of software programs such as Ailira – a major Australian daily newspaper ran a piece about it about 11 months ago describing it as 'It's Siri for lawyers and accountants. Ask "Ailira" a question about Australian tax law and she will scan through millions of uploaded documents and use her artificial intelligence nous to deliver an answer.

Ailira, or "Artificially Intelligent Legal Information Resource Assistant" is so clever at tax that her creator believes she could help prompt the end of human tax agents. And within two months, she will answer questions in other areas of Australian law.

… The story goes on – 'that with no professional tax background, the creator's girlfriend Sarah, a speech pathology student, scored 73 per cent on a first-year university tax exam with just 30 minutes' training and Ailira at her side.

"Your tax agents will probably be gone within five years," said the software developer, who added that their demise was already happening…

Only time will tell if this is the outcome or not. Rather than replacing tax agents and tax professionals, tools such as Ailira may, in fact, assist them in providing better services to clients.

With these advances in technology, however, the margins on compliance work – including certain tax compliance work – are likely to fall, and this will challenge the viability of smaller practices that have compliance work at the centre of their business model. This change is not a new one – it has been the evolution of compliance work for the last 15-20 years in one form or another.

But compliance is not going away just yet.

Technological developments are giving the opportunity to commoditise – or further commoditise – compliance work.

But shifting from a compliance practice to an advisory practice is easier said than done.

It requires a different skill set – not just the knowledge and registrations to provide such advice – but also the soft skills to convince clients of the value of paying for advice.

We acknowledge that such a shift won't be for everyone.

Those practices with compliance at their core may like to consider merging their business with advice-based practices.

There's also a challenge for tax agents is to get their business clients using technology and using it in the right way.

The ability of tax practitioners to exploit technology is partially limited by the technology capability - and access - of their clients.

Blockchain

Another technological development that is changing the way tax professionals operate is blockchain.

See video: (https://www.intheblack.com/articles/2017/11/09/blockchain-how-does-it-work)

How does blockchain work?)

A blockchain is a single ledger that records transactions between organisations, their suppliers and customers.

An audit trail is created as data is added in linked "blocks" and as more information is added, a chain of blocks is built.

Everybody with permission to join the blockchain can see the same information in real time.

You can see who added each block, and at what time. Blocks can't be removed or changed.

All the users – rather than just one controller – own the blockchain, and they are all responsible for maintaining it.

In a private blockchain, the users decide who can join the ledger and their level of access. Some information can be encrypted to protect commercial confidentiality.

A company could have a blockchain with a supplier, with a client, with its bank and with the tax office.

Blockchain and AI – along with other technological developments – have the potential to fundamentally change the relationship between the tax accountant and their client.

For many in the profession, this is an exciting opportunity. For some, however, it is a significant challenge – not only for the tax and accounting profession, but for agencies such as the ATO and AUSTRAC, amongst many others.

The challenges for accounting education

Perhaps the biggest challenge that this new technology presents is in the **education space**.

CPA Australia members have reported that tax technical skills remain their primary focus.

But with technology reducing the need for such work, how do universities prepare **graduates** for entry level tax accountant positions when the basic tasks that they might have once performed at the beginning of their careers have been taken over by machines?

Are universities producing job-ready graduates?

Is that indeed their job? Or should it be?

Is the curriculum providing all it could to prepare graduates for a career where they will be working in tandem with machine technology?

How do accounting bodies such as CPA Australia further prepare accountants and tax professionals for a future with machines as their colleagues?

What is the best way to introduce young accountants and aspiring tax professionals to a career as a tax professional in the digital economy?

These are questions for us all – and I'm not sure any of us have the answers yet. This is an evolutionary process in itself – and one we need to work on collaboratively.

However, our research indicates that some tax accounting firms are figuring it out.

One thing we've heard from members is that firms are pairing their graduates with a more senior accountant, and spending more time developing their hard skills – and soft skills – in a kind of apprenticeship, which is a throwback to how things used to be done.

They're also finding a space for the human accountant within the robo-advice model.

For example, the machine does the work to identify clients who need push notifications, then the human does the work to build those relationships.

Our research also shows that many CPA Australia members are of the view that exposing young accountants to simple salary and wage returns, journal entries and bank reconciliations are important to building their base technical knowledge, which is fundamental to their ability to advise clients.

Changing client expectations

So, just as technology is changing the way tax practices work and interact with the ATO and clients – it is also changing client expectations.

Our research indicates that businesses want to provide – and individuals want to receive – services that go beyond a BAS or annual tax return.

Data from the ATO suggests 60 per cent of registered tax agents control 6 per cent of tax returns.

There are large numbers of micro-agents doing a very small number of returns.

Since 2013, these agents have lost 60 per cent of their clients.

We know that these clients are taking their business to large firms like H & R Block and other big firms who can be more competitive on price.

Notwithstanding the search for lower priced services, we also know that clients value a qualified, knowledgeable, and trustworthy accountant.

And that 65 per cent of clients who leave their accountant do so because they don’t feel valued.

The marketplace is changing and accountants – like so many other professionals – need to be aware of these changes and adapt accordingly.

Tax professionals who can provide deeper insights – using their analytical skills – will be in high demand.

Soft skills

The reality is that employers are looking for a combination of technical skills and soft skills.

And as tax professionals expand more into advisory and other services, training of tax accountants will need to reflect such a shift, if it is not already doing so.

As well as all the technical skills that one would expect a graduate to have, employers are looking for graduates who display soft skills – and these skills are harder to acquire.

This includes things like active listening, interpretation, the ability to sequence or order information, the ability to assess value, and to communicate effectively to clients and colleagues.

Machines do not yet have the emotional intelligence to do these things that are such an important part of the work that tax professionals do.

So, while AI will change the kind of work that accountants do, they won’t make accountants or tax professionals redundant.

How are CPA Australia members meeting the challenges?

Our research indicates that CPA Australia members are finding that the best way to meet the challenges posed by technological advances is to concentrate more on providing **value-added services**.

For some, making advice the core part of their business – with compliance work ancillary to advice work – will be the best business strategy to deal with developments in technology.

This requires firms to invest more in technology, more in building the capability of their practice to exploit such technology and invest more in strategies to reduce the risks associated with technology, such as cyber risk.

Many are investing in building the soft and technical skills necessary to provide a broader range of advisory services.

Some are seeking like-minded firms for mergers or acquisitions.

Others are seeking to specialise in particular industries or areas of tax law. However, members stated that both of these strategies can take considerable time to succeed.

Some of our members are expanding their range of services beyond tax and advice work – they are acting as intermediaries with government agencies such as Centrelink and the NDIS, and advising clients on aged care.

Taxation staff recruitment and retention

Some are taking different approaches to staff recruitment and retention.

Some firms now prefer recruiting older staff (particularly accountants returning to work from periods of leave, for example, having a family) over younger accountants, as they find older staff are typically better skilled to do advisory work and more willing to undertake compliance work.

Experience matters.

What practices are doing to retain staff also appears to be changing.

Not only did many focus group participants state that they are providing more workplace flexibility, some also reported opening satellite offices in locations that suited their employees.

Another significant change is the apparent lack of interest or unwillingness of young accountants to become partners – in other words, the promise of a partnership to encourage good staff to stay may not be as successful in promoting retention as it once was.

Technology & the ATO

In relation to social, policy and regulatory developments, some of our members have expressed concern that increasing complexity in the tax system is discouraging people from seeking a career in tax – and those already working in tax are being dissuaded from remaining in the profession.

We know our members recognise that to capitalise on the benefits technology offers, they must build their capability to implement and leverage it.

They need to have policies and procedures in place that remove or limit risks – such as cyber theft and reliance on third party providers.

System reliability is critical.

It's therefore important for the ATO and digital service providers to continue to invest in the stability and reliability of their systems.

Members are facing the dual challenge of keeping up to date with rapid technology changes and constant changes in tax law.

With statistics showing the profession is ageing, these challenges may encourage some to leave the profession.

Many members remain concerned about the competition MyTax represents for their practice – despite ATO statistics showing that such concerns are unfounded (to date).

This worry stems from both a concern over a loss of clients to MyTax, and the referral and other work such clients may bring them.

The tax profession, tax change and tax reform

If time permitted, there are many other things that we could discuss in the context of the future of the tax profession and the changing economic, and social landscape – from GST revenue erosion arising from changing consumer consumption patterns and an ageing population, to BEPS, the MAAL, the taxation of professional practices, the NDB, the proposed review of fuel excise and other taxes with the rise of electric cars, perhaps even superannuation, including the sole purpose test and 'fractional property investing.'

These are but a few of the many other important issues that impact the future of the tax profession.

But today I have singled out individual work-related expenses – given it was the subject of a parliamentary review in 2017, it regularly features in the daily tabloids and changes have the potential for widespread implications for Australian individual taxpayers – and indeed elements of the tax profession.

In Tax Commissioner Jordan's address to the National Press Club late last year he said, "In 2014–15, more than $22 billion was claimed for work-related expenses.

"While each of the individual amounts over-claimed is relatively small, the sum and overall revenue impact for the population involved could be significant – in the vicinity of, or even higher than the large market tax gap of $2.5 billion – and that's just for this category of deductions, work-related expenses.

"We are concerned about the large number of incorrect claims being made where record keeping requirements have been simplified (for example $150 for clothing and laundry expenses and cents per kilometre method for car expenses).

"In 2014–15, around 6.3 million people made claims against clothing expenses totalling almost $1.8 billion. That would mean that almost half of the individual taxpayer population was required to wear a uniform or protective clothing or had some special requirements for things like sunglasses and hats.

“While many of these claims would be legitimate, I wonder how many people have assumed that they can just claim $150 regardless of whether or not they have spent that amount on the required items?

“Similarly, we are seeing claims being made by individuals for car expenses where their employer informs us there is no requirement to use their car for work; or where their claims are excessive and made with the assumption that ‘no explanation’ is required.

“Even though we have not concluded our tax gap research, I want to indicate to you this is well and truly in our sights and we will be lifting our education, our support, our attention, our scrutiny and enforcement in this area. We will also work with Treasury and government if we feel there needs to be policy change.”

CPA Australia has been the leading advocate – and more often than not we are the **only** advocate – for protecting individual’s rights regarding the retention of work related expenses, principally on equity grounds.

If fact, we have been pretty much a lone voice in this regard until an inquiry into tax deductibility by the House of Representatives Standing Committee on Economics rejected proposals to abolish WRE tax deductions, concluding claims for valid expenses were “an entirely appropriate part of our taxation system”.

It went on to also say “WRE deductions represent only 4 per cent of individual and other withholding tax revenue. This means that even the complete abolition of WRE deductions would only cover the cost of a very modest reduction in personal income tax rates,” says its report.

So while WREs are “an entirely appropriate part of our taxation system” and given the ATO’s recent smoke signal re WREs that does not mean there isn’t any room to improve the integrity of the system if necessary – without removing worker’s rights to claim a tax deduction for legitimate WREs.

The Hon. P. Keating's 1985 statement regarding motor vehicles and the 5,000km rule, 'Reform of the Australian Taxation System', said, "These rules will provide some limited scope for claiming deductions without substantiation but are designed so as not to open up an avenue for abuse."

So, if the ATO can demonstrate that there is a strong business case for changing the laws regarding WREs as a consequence of taxpayer abuse, then what could this look like?

- Perhaps the elimination of all WREs completely?
- The elimination of the MV 5,000km rule and the $150 laundry rule completely?
- The government could take guidance from the recent US tax reforms, where they've moved the standard deduction to $12,000 for single filers

As you can see there are many options.

I want to propose two options to you today for your consideration. First, if motor vehicle expenses are being significantly illegitimately overclaimed under the cents per km method (up to 5,000km), would one possible option to reduce rorting be to reduce the cap – not to zero but, say, 2,000km per annum instead (without full log book substantiation)?

The second example of a possible improvement in the integrity of the rules – but again not interfering with the worker's rights to claim legitimate WRES – is regarding the $150 laundry expenses cap. Could (or should) it be wound back – to say $50 per annum without full substantiation?

In both these scenarios, the worker's right to claim has not been removed – but the bar is raised re substantiation.

These are of course policy matters for the government.

As a related issue in these 'enlightened times' of AI and machine learning, it also raises the question of how the tax system may have got to this point? Consider the ATO's pre-population of tax returns. Are software packages now pre-populating the WRE side of a tax return for tax agents based on an individual's occupation codes? Is this the 'other side' of the digital economy revolution?

Whatever the reason, expect more in this space in 2018.

Thank you.

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