THROUGH THE EYES OF THE ADVISERS: A FRESH LOOK AT TAX COMPLIANCE OF HIGH WEALTH INDIVIDUALS

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Series Editor:
Tina Murphy
Abstract

This paper develops a different kind of analysis of the compliance policy of the High Wealth Individuals (HWI) Taskforce of the Australian Taxation Office (Tax Office). It takes as its starting point the perceptions of HWI advisers who report that they have a considerable capacity to secure compliance with the law simply by pointing out to clients that something is illegal. Hence, working with advisers is important. Most advisers say they want more face-to-face communication with analysts. It is concluded that there is a set of good policy reasons for the Tax Office to respond to this concern. When advisers did have contact with HWI Taskforce staff, they overwhelmingly found them fair and professional. There was only one case of a specific complaint of non-compliance with the Taxpayers’ Charter from the 27 advisers interviewed.

The majority of advisers are also quite concerned about compliance costs from completing expanded returns. While abandoning the expanded return program would be a major mistake, there are a variety of ways the Tax Office can respond to these concerns. There was a lot of angst among advisers over the atmosphere of political ‘witch hunt’ that they felt permeated the initial establishment of the Taskforce.

A number of more specific perceptions, future evaluation research ideas and recommendations are listed at the back of this report. The key elements of the Australian Taxation Office Compliance Model (ATO Compliance Model) - understanding taxpayer behaviour, building community partnerships, increasing flexibility of Tax Office operations, and more and escalating regulatory options to enforce compliance - seem to be working to bring about some improvement in HWI compliance.
A. FRAMEWORK FOR THE STUDY

I. The problem

Australians have become more sensitive to the issue of high wealth individuals paying their fair share of tax. It grabbed public attention most recently with the disclosure of the tax affairs of Australia’s reputedly wealthiest citizen, Kerry Packer, as a result of his 1998 court case.

Before then, the Tax Office was well aware of the seriousness of this problem. A June 1998 survey of 1000 Australians found that only 32% believe ‘tax laws are effective in making sure large companies pay their share of tax’ declining to 27% for ‘very wealthy people’. Only 20% believed ‘the Tax Office does a good job of stopping tax avoidance by large companies’, falling to 15% who believed that ‘the Tax Office does a good job stopping tax avoidance by very wealthy people’. It was this kind of evidence that caused the Keating government to make high wealth taxpayers an election issue in 1995 and that caused the Howard government to set up the High Wealth Individuals Taskforce after its election victory.

The problem cannot be dismissed as a creation of political imagination, politicians playing to the propensity of Australians to cut down their tall poppies, though this is undoubtedly part of the story. One adviser in this study said he had a wealthy client who had not paid any tax since 1987.

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1 The Tax Office acknowledges the comments made in this paper and notes that they relate to past practices employed by the HWI Taskforce. The processes employed by the HWI Taskforce have significantly changed and the taskforce has implemented recommendations outlined in the report.

2 My gratitude to the HWI advisers, officers of professional associations and Tax Office staff who contributed to this research. I must say I was impressed by their professionalism. I especially want to thank Alice Dobes who participated in almost all the interviews conducted for the research and was a constant source of sound advice as were Andrew Stout and Kevin Fitzpatrick.
Certain sophisticated tax planning strategies appear to have been widespread. These include:

- redefining income as capital by using multiple trust structures that conceal a common controlling mind;

- creating artificial losses, for example by acquiring companies or trusts with accumulated losses;

- disguising distributions to HWIs and family members as loans and other non-taxable benefits;

- using offshore trusts;

- converting activities undertaken for private pleasure into tax losses (for example pleasure craft, horse breeding and racing); and

- using charitable trusts to disguise benefits to HWIs and their families.

The Commissioner of Taxation’s Annual Report to the Parliament in 1999 makes further reference to the use of these techniques.

**II. Method**

A useful model was presented with Roman Tomasic and Brendan Pentony’s 1990 study, ‘Defining Acceptable Tax Conduct: The Role of Professional Advisers in Tax Compliance’. It was decided to undertake a more focused investigation of advisers of high wealth individuals and to limit the range of policy issues discussed with them. To define the topics, the author, together with Alice Dobes (a Tax Office evaluator from outside the Taskforce), conducted interviews with most senior managers of the HWI Taskforce in Canberra, Sydney and Melbourne, mostly meeting them one or two at a time. This led to a decision to pursue fairly unstructured interviews with advisers organised loosely around a set of questions prepared in advance.
The objectives were twofold:

- to seek advisers’ criticisms of the taskforce; and
- to harness their creativity in considering new and better ways of improving compliance and in identifying deficiencies in the law.

The objective then was to test their criticisms and ideas against the policy thinking we had secured from the taskforce managers, focus groups that Alice Dobes conducted with taskforce fieldwork staff subsequent to the adviser interviews, and against what we know from the research literature on compliance (not a lot for this market segment).

Quotes in inverted commas in this report are from the HWI adviser interviews unless otherwise indicated. The interviews with both the advisers and the HWI staff were therefore used as a source of policy concerns and preliminary policy ideas, which would need to be further explored by more rigorous analysis and wider debate if they were thought worthy of development.

**III. The sample**

The sample was strategic rather than random. We interviewed 27 HWI advisers, mostly alone, in an interview that ranged from one to two hours. All interviews were conducted face-to-face with the exception of one which was conducted as a tele-conference.

The strategic sample included:

- individuals who senior taskforce management regarded as key HWI advisers;
- advisers whose policy thinking might be sharper because they have a larger number of HWIs and/or many more contacts with the taskforce due to audit and information gathering activities resulting from higher risk ratings of their HWI clients; and
- HWI advisers who were selected by professional bodies which were interviewed to represent the views of their membership.
This sample ensured we secured interviews with advisers from all the Big Five accounting firms, some non-charter firms, some distinctive boutique firms and certain prominent lawyer-advisers. In addition to the advisers we also conducted interviews at the Taxation Institute of Australia, the Australian Society of Certified Practicing Accountants, the Institute of Chartered Accountants in Australia, and the Law Council of Australia. Each of these bodies had informally canvassed their members to elicit specific concerns and suggestions.

To secure interviews, initial contact was made by letter which offered prospective participants the opportunity to speak with either myself as the author of this paper, or to both Alice Dobes from the Tax Office and myself. Confidentiality was guaranteed and respondents were informed that while what was said would be used, it would not be attributed to them as individuals or to their firm. They were also assured that they were not required to divulge the names or details of their clients.

While one adviser was overseas for the period of the study, no advisers refused to be interviewed, and in only one case did an adviser opt for a complete absence of the Tax Office during the interview.

**IV. The high wealth individuals taskforce**

The HWI Taskforce was established in 1996. It had a $9.7 million budget allocation for 1996-97 and has continued at a similar funding level since. Its objective was to enhance compliance management strategy for HWIs. In the first year of operation, 180 HWIs received a questionnaire about the groups of entities they control or from which they receive income. These were formalised in subsequent years into expanded returns, called Current Year Data Collection (CYDC) returns or expanded returns. In 1997 and 1998, 142 and 143 HWIs respectively completed expanded returns for 2371 and 2599 associated companies, trusts, partnerships or individuals respectively.

An important recent innovation in Tax Office large case practice was the writing of position papers on major issues in dispute as the auditor, after seeking appropriate advice, comes to a view on how those issues should be treated. The taxpayer then has time to reply to the
position paper and to contest it. This seems to have been a positive innovation in improving the quality of auditing judgments measured against the standards in the law.

The taskforce has also provided advice to government on options for legislative reform to address minimisation techniques used by some HWIs, as well as evidence to the Ralph Review of business taxation on the exploitation by some HWIs of structural deficiencies in the tax system.

Since the taskforce was established, the Government has introduced legislative measures that may impact on HWIs including:

- abolition of research and development syndication arrangements;
- trust losses;
- private company dividends disguised as loans;
- misuse of charitable trusts;
- franking credit trading and dividend streaming;
- taxation of foreign source income; and
- denial of artificially created capital losses.

B. THE RESEARCH

V. Cost of compliance

All but one adviser we interviewed found the cost of compliance to be high, and higher than they believed it needed to be. The cost estimate for the professional fees associated with completing the expanded tax return required by the program was in most cases in the range $20,000 to $40,000 per HWI. At least this was the estimate for the first expanded returns: views varied on how much costs fell with subsequent returns. Adviser fees to assist with HWI audits were also reported to be as high as more than $1 million. In addition, the program was reported to impose substantial costs on the time of the HWIs themselves and their staff. It was a distraction when 'they want to keep their eye on the main game which is creating
wealth for the benefit of Australia’. Other advisers suggested that the high costs of doing
expanded returns for the first time were considerably reduced on subsequent returns and
could be reduced further by electronic lodgment.

The main suggestions for reducing costs related to the expanded returns. A HWI who controls
sixty entities has to complete sixty special returns which demand a considerable amount of
information. The professional associations wanted input into a process to consider the
following suggestions which were frequent in our interviews:

- reducing the amount of information requested in expanded returns;

- reducing repetition of information from year to year and form to form (for example
  allowing an ‘unchanged since last year’ response);

- greater discernment (possibly based on something like a Tax Strategy Review) in
  assessing which individuals should complete expanded returns in the first place.
  Those who are required to lodge expanded returns should be given a clearer path for
  exit from the expanded return program; and

- further work to facilitate electronic returns.

Cost burdens can apply to notices issued to banks, for example, as well as to taxpayers.

Some advisers said that such burdens on HWIs created business for them, but more were of
the view that it was a kind of business they did not want - ‘drudgery’ as one put it. Others
said they would prefer to be helping clients build their business rather than put their energy
into compliance administration. Some said that they were not well geared with the kind of
staff needed to fill out hundreds of pages of returns by hand.

‘It’s not the business we want to be in. We want to add value. We don’t
want to be putting numbers in boxes. It’s not satisfying. And our clients
don’t want to pay big dollars for that.’
The Australian Society of Certified Practicing Accountants expressed concern that the HWI program might be forcing HWIs to go to larger firms, although there is no evidence that this is the case. The Society could confirm that advisers from smaller firms sometimes had to seek help from larger firms on issues concerning the completion of the expanded returns.

Because compliance costs are such a big issue, they are also a lever. Getting off the program is seen by advisers as a major benefit they would love to be able to secure for their HWI. The opportunity is to take them off the program only when certain compliance outcomes have been delivered.

Many HWI staff have a different perspective from the majority analysis of the advisers, while accepting the need for change in the direction of points 1-4 above. One common view is that abandoning self-assessment in the 1980s may have gone too far in respect of companies and trusts. It is now impossible to do a risk assessment on these returns without seeking additional information. The HWI expanded returns are seen as a remedy for this error of the 80s. This was also a minority view among advisers:

‘I admired Trevor Boucher, but one of the worst things Boucher did was simplify the tax return, especially for corporates. You need a complex return for complex taxpayers...The expanded return questions are pretty good questions...Wealthy people should never be off that cycle. Once you’ve done the first year, the costs are not high.’

This adviser then went on to suggest, contrary to point 1 above, that he would put more rather than fewer questions on the expanded return.

Conservatively, compliance costs of the HWI Taskforce, on the basis of the estimates provided in our interviews, would seem to be well over $10 million a year - that is, a more significant economic issue than the funding of the program (which costs less than $10 million). This conservative estimate is based on multiplying the number of expanded returns by the modal compliance cost estimate for completing expanded returns, and adding just the estimated audit costs in cases we were told about.
We found that some HWIs accepted these compliance costs as reasonable; others interpreted them as persecution. However the Tax Office resolves the policy issues here, it needs to communicate more clearly the reasons why HWIs do and do not stay on the expanded returns. Otherwise ‘the client gets a feeling of persecution for being who they are’. Failure to communicate reasons for seeking expanded returns risks the reaction of one HWI described by his adviser as someone who had rejected perfectly conservative kinds of tax planning advice on grounds that he wanted to pay his fair share of tax. His reaction to being kept on expanded returns for another year was:

‘If the ATO thinks I’m ripping the system off, maybe I should start doing it.’

**Recommendation 1.** That after a risk assessment has been undertaken on each expanded return, HWIs be advised that the assessment has been completed and given a general reason if they will be required to complete an expanded return in the following year.

If they are not advised, our interviews suggest that HWIs and advisers assume that the Tax Office is not doing its job and has simply not got around to completing the risk assessment. While the recommendation of this consultancy will be that the expanded returns be maintained as a routine requirement for HWIs assessed as having a high or medium risk profile, there is a case for continuous improvement in simplifying the process.

**Recommendation 2.** That continuous reduction in compliance costs be considered each year by examining four paths to lower costs:

- reducing the amount of information requested in expanded returns;
- reducing repetition of information from year to year and form to form (for example allowing an ‘unchanged since last year’ response);
- greater discernment (possibly based on something like a Tax Strategy Review) in assessing which individuals should complete expanded returns in the first place. Those who are required to lodge expanded returns should be given a clearer path for exit from the expanded return program; and
- further work to facilitate electronic returns.
VI. Overall effectiveness

We can divide advisers into three groups:

- a group of more than a dozen advisers who accepted the HWI Taskforce, while feeling it was conceived in such a political way that its targeting was ineffective;
- a group of six who aggressively rejected the very idea of the taskforce; and
- another group of six who felt strongly that the taskforce was a sound initiative: ‘There should have been a program targeting high wealth individuals long ago’.

Only a few advisers thought the activities of the taskforce had made any difference to their clients. However, a minority did say that they felt the existence of the taskforce was making HWIs generally more cautious because they are ‘under the microscope’:

‘It’s the constant surveillance of being on the program that causes compliance...Part IVA is of indeterminate width. It might be applied more aggressively in future. So I advise clients to be careful’.

‘Asking the question and getting them to focus their mind on where everything is had an impact.’

In some cases this impact was bringing into the system business that was offshore, sometimes openly in a way that would be brought to the attention of the Tax Office, sometimes indirectly, in a way intended to make it difficult for the Tax Office to notice. Several advisers mentioned instances of voluntary disclosure of large amounts of income prompted not by audit, but simply by the fact of having to fill out the expanded returns.

One adviser was of the view that this aspect of effectiveness would be severely compromised if the expanded return was not universal for wealthy people with complex affairs:

‘Corporate Australia would say you really should go at it hell for leather as soon as they are dropped off. That’s what happened with the Large
Case Program. The Large Case Program should never have been stopped. Corporate Australia learned the lessons from it; the ATO walked away from those lessons.

For this adviser, an even more important point was:

‘The more information he’s [the Commissioner’s] got, the less aggressive they will be in their tax planning’.

What this adviser was saying here was that notifying X in 1998 reduces the taxpayer’s degrees of freedom to reconfigure his 1999 affairs in such a way that not-X appears to be the case in 1998. ‘Changes each year will be noticed.’ So HWIs must keep their affairs consistent with the underlying truths of earlier declarations.

Universally, advisers scoffed at the prospects for the original Ralph Willis claim that $800 million a year could be extracted from HWIs. Generally, they doubted the effectiveness of the taskforce because they believed that if the Tax Office had collected hundreds of millions of extra dollars as a result of audits of HWIs, the Tax Office would have announced this publicly. There was also cynicism that when HWI assessments were made for substantial increases in tax, the Tax Office rarely made them stick. Any appearance of large gains in revenue initially quickly melted during settlement processes.

Most thought it would return more revenue for the Tax Office to shift its resources to the cash economy; some favoured targeting corporations in high-risk industries rather than targeting individuals simply because they are wealthy. One argued very forcefully that the best returns would be achieved with low HWIs or sub-HWIs rather than high HWIs.

‘Forget Kerry Packer and Rupert Murdoch. They are far too big. Their advice is too good. Go after some middle HWIs or lower. Their accountants are small fry, many of them.’
A widely held view was that a life course of HWIs could be defined. HWIs were most aggressive when they were making their first million, before they became HWIs. They continue to be aggressive while they are building their empires. Then they often want to avoid trouble and to pay their fair share once they have made it. Unfortunately, the HWI program is seen as targeting a lot of people who are in this latter quiescent stage, while the real returns are among the younger wealth-builders. One adviser classified HWIs as ‘the meek, the bold and the normal’. The meek, on this analysis, would be found disproportionately among older HWIs, the bold among wealth-builders and the normal among mid-career HWIs.

Another view was that the very wealthy, and very aggressive, are hard targets. The more realistic policy objective than working from the top down is over time to push up the level of wealth where tax planning can succeed in eliminating the need to pay tax.

The strongest and most widely held basis for doubt about the effectiveness of the taskforce was the belief that it collected a lot of information and then did little or nothing with it. Doubts were widespread that anyone had even looked at the information in the returns they had put in, let alone subjected it to a rigorous risk assessment and followed up with audit where appropriate.

‘It’s a fishing expedition. They don’t know what they’re looking for.’

This reaffirms the importance of our first recommendation. More generally, it is surprising that none of the HWI advisers indicated any awareness of the data the Commissioner has released to the media on the overall effectiveness of the program, which also showed that private companies controlled by individuals in the HWI program paid 17% less tax than non-HWI companies in 1994, 12% less in 1995, 23% more in 1996 and 20% more in 1997.

*Recommendation 3: That the Tax Office publicises more the fact that since the HWI Taskforce was established, HWI companies have changed from being substantially below average to substantially above-average taxpayers.*
VII. Risk assessment

Another virtually universal reaction in the interviews was that the politicised beginning of the taskforce was a source of resentment. Former Treasurer Ralph Willis’s claims about a missing $800 million a year in unpaid taxes during the 1995 election campaign were a frequently cited focus of resentment. In some cases, the Commissioner was seen as a co-conspirator with the government in whipping up a ‘witch-hunt’ against HWIs. This then led to an attack on the way the initial targets were selected. Business Review Weekly’s list of the wealthiest 200 Australians was widely seen as the basis of the initial targeting, and as a markedly inaccurate source. Some HWI advisers claimed they had other clients who were wealthier than the clients who were targeted.

Beyond the complaint about the initial basis for risk assessment, there was little complaint about the way subsequent risk assessment was tackled. In many cases, HWI advisers seemed to have very little knowledge of how risk assessment was done. But nor was the fact that risk assessment was a black box a source of complaint. Many advisers were of the view that the shift away from full audits to risk assessment followed by a suite of audit products was a sound move by the Tax Office. Others were cynical, believing that compliance was falling because the risk of audit had fallen and that this fact was widely recognised in the marketplace. There was general agreement however, that the Tax Office was doing a more competent job of risk assessment:

‘The general view in the accounting profession is that the ATO is better geared than it ever was to detect where the leakage is. Therefore it should be possible for the ATO to keep a clamp on the most aggressive activity. But it audits less, making that more difficult’.

Recommendation 4: That the Tax Office continues to improve risk assessment using a suite of audit products.
VIII. Fairness and professionalism

While there were many concerns about the fairness of the program, views about the fairness and professionalism of the Tax Office staff with whom advisers had dealt were overwhelmingly positive. A number of advisers complained that they had little or no contact, but for those who did, only seven were critical of the experience. The strongest criticism was lack of technical competence. Only a handful of incidents were described where Tax Office staff was seen as less than fair or professional. One repeated complaint was the recording of a ‘jaundiced view of taxpayers’, their honesty or their lifestyle, in internal memoranda obtained under Freedom of Information and even in position papers. Given the frequency with which this kind of taxpayer will use Freedom of Information to gain more insight into the Tax Office analysis of their case, especially in the context of settlement negotiations, more consideration may be needed in expressing opinions about taxpayers.

Some of the assessments were very positive:

‘He was very good, commercial, understood the realities of going offshore...Compared to other audits I’ve experienced, its been very professional’.

In response to the question ‘can you think of any instances where the ATO has not honoured the Taxpayers’ Charter in its dealings with your HWI clients?’ there was only one specific complaint. In 26 out of 27 cases, the answer was no, though in some cases this was qualified by the concern that the general lack of communication in the program or aggressive assessments to bring the taxpayer to the negotiating table may be Charter issues. Generally, the Charter did not seem to mean a lot to these advisers. One was brutal about it: ‘The Taxpayers’ Charter is a motherhood document that is really bullshit in the marketplace’.

The generally positive results on fairness and professionalism are important because the literature of the social psychology of procedural justice shows that when people believe they are treated fairly, they are more likely to comply with the law (Tyler, 1990, 1998; Tyler & Dawes, 1993; Makkai & Braithwaite, 1996; Lind & Tyler, 1998). The fact that HWIs often
have a sense of fairness that contributes to compliance, and therefore must be sustained, is illustrated by the following kind of request that advisers said they commonly received: ‘I want a tax plan that will get my tax down to X per cent, say twenty. I want to pay my fair share. But not that much. Then others will say I want a total tax wipe-out and even pay a ridiculous amount of money to get it’.

Some advisers were critical of a failure of taskforce staff to work with other sections of the Tax Office (for example Transfer Pricing, Small Business, an industry segment of Large Business & International) to avoid turning over the same issues with different sets of Tax Office people.

On the technical questions, one suggestion was that audit staff be more willing to call in more senior technical people when the issues get thorny, and in such cases, for the Tax Office technical expert to have sign-off on position papers. There are already three levels of sign-off on HWI risk assessments (analyst, team leader, manager/director), which are often applied to position papers.

On the other hand, sign-off rules may be too formal an approach to something that is fundamentally a cultural challenge for the taskforce. On all aspects of audit, communication is needed to improve quality. Getting position papers technically correct is just a small part of this. The taskforce must be careful in its quality control not to end up with such a focus on avoiding errors in its written communications that it neglects quality assurance of bigger strategic issues that would remove the need for a written communication in the first place. One HWI manager for example, said that one of the most valuable pieces of advice he regularly gives auditors is: ‘I’ve seen this stuff before and I can tell you following it is not productive’. His view was that the essence of professionalism was not getting bogged down in pointless pursuits.

Training is important here as well. But perhaps formal training is the more important path to keeping technical skills up to date (training the mind), while informal discussion between masters and apprentices is the more important path to improving the wisdom of strategic audit judgment (training the nose). One HWI adviser argued that it takes 20 years for auditors
in complex cases to acquire a nose for the right lead. In light of this, he was critical of Tax Office early retirement packages that were disproportionately taken up by precisely such experienced people. Balance, an ability to extrapolate, the gift of getting an inkling on what a transaction means, and where it might lead, without the full information, are virtues that might be nurtured more by a retention program than by early retirement packages for the people with these rare gifts. It perhaps can also be facilitated by the old and the wise conducting best practice workshops for the young who do not yet know how to read the commercial signs.

Recommendation 5: That when position papers involve difficult technical issues, the level of authority for sign off must be increased.

Recommendation 6: That the taskforce set expectations for hours of formal technical training that are realistic in relation to workloads, but well in excess of what is expected of Tax Office fieldworkers in less complex areas.

Recommendation 7: That the taskforce prepare a retention strategy for its most experienced and competent staff.

Recommendation 8: That the taskforce establish an ongoing identity that fosters a storytelling culture about how to find fertile leads and how to avoid infertile ones. Such a culture is one where apprentices are constantly asking masters to relate stories of their experience on strategic decisions they are making. It is also a culture where masters do not tell apprentices what to do so much as volunteer stories from their experience when they see their apprentices about to repeat mistakes they have made in the past.

Recommendation 9: That best practice workshops be implemented nationally to assist with the development of such a storytelling culture that nurtures strategic wisdom.
Recommendation 10: That a research program be considered to foster such learning by retrospectively asking staff after each audit:

- what short-cuts they might have taken that would have increased the efficiency of their audit;
- what short-cuts they took that worked out; and
- what short cuts they took that backfired.

IX. Communication

‘A bit of frank discussion goes a long way.’

‘Auditors need to understand that it is natural for me to talk to their head. That is a cultural change needed.’

‘Why can’t we have a relationship of trust, a process which starts with me saying “here’s my analysis of how things have changed since last year”.’

‘What about the Asian and English model of tax inspectors building relationships. Almost a personal thing in paying your tax. A more personal approach that seems to work. Then it’s hard to avoid a big issue that arises on either side’ (professional association interview).

Since most encounters with HWI staff were seen in a positive light by HWI advisers, it is not surprising that most of them wanted more communication. They particularly wanted communication about where their client was up to in the program: ‘Had he received a clean bill of health?’; ‘When would she get off the program?’ Many HWIs were reported by the advisers as philosophical, that it was reasonable that people of their wealth might be targeted in this way. But there was also a widely reported view that their clients felt victimised by the program. In the view of the advisers, here was where more communication from the Tax Office would help. Some older HWIs worried about their tax affairs and were concerned to
do what was necessary to get a clean bill of health quickly: ‘They say its only money and its better to sleep at night’. There is an opportunity lost for both the Tax Office and the taxpayers to reach accommodation quickly when this is the situation.

Many advisers wanted agreed timelines for expanded returns to be assessed, decisions made whether to take the case further or to drop their client off the program. And they wanted communication on how this was progressing.

A majority of the advisers specifically requested that there be a taskforce representative assigned to their case and that they meet them in advance of the expanded return being requested. What was most commonly favoured was a preliminary risk assessment by an analyst based on information provided by the HWI at an initial interview. This information would include how the structure of the entities controlled by the HWI had changed since the last assessment, financials, extraordinary transactions, a mud-map of the group structures and the tax reconciliation (from accounting to taxable income).

Advisers repeatedly argued that in many cases advisers were in a position to convince an analyst why their client paid little tax even though they were very wealthy.

One adviser suggested that meetings of Tax Office staff with HWI advisers would assist the professional development of both. It would improve the understanding and clear up misunderstandings about how the Tax Office works, and discussions on technical issues would expose Tax Office people to the technical insights of advisers and vice versa.

An adviser who had a low opinion of the technical competence of HWI audit staff and a high opinion of the Tax Counsel Network (TCN) gave an example. There had been enormous conflict over a disagreement in interpretation of the law. This disagreement was fuelled by the belief on the part of the adviser that the Tax Office auditor was technically incompetent. In the wash-up, the adviser admitted that it had been his technical analysis that had been less sophisticated. The TCN had been giving sophisticated advice to the auditor:
'They were ahead of us and we didn’t know. We just assumed this was another case of this auditor getting settled law wrong. Probably, we should have been communicating directly with the TCN. Certainly if there had been some communication, even from the auditor, on where he was coming from, unnecessary confrontation would have been avoided.'

Communication, advisers argued, would help working relationships in other ways as well:

‘If an auditor reviews something and gives it a tick, it is good to communicate that back. We learn from that. It also stops us from wondering: Did they miss the issue or did they mull over it? If they did give it a tick, they missed the opportunity to tell us they have noticed this and decided to let it through, the opportunity to have us say: These guys have been pretty fair. Rather than saying they have not been on the ball as they missed it.’

Given the propensity in this game for the players to be uncharitable toward their adversary, it is likely that in the absence of communication, the assumption that the Tax Office is incompetent is exactly what the adviser will take away from the encounter.

Similarly, however the Tax Office resolves the big policy question of whether it should be normal or exceptional for HWIs to stay on expanded returns year in year out, there is virtue in taking seriously the following suggestion of an adviser:

‘Why not a letter of commendation on clearance. Thanks for your cooperation. You’ve got a clear bill of tax health.’

Even if the HWI is to stay on expanded returns, presumably such a letter might say: ‘Thank you for your cooperation. A risk assessment on your return this year has resulted in a decision not to include you in our current round of audits. However, you will be required to complete an expanded return again next year as our risk assessment also showed that you are likely to continue to have a high-risk tax profile. If you have any questions about this, feel free to get in touch with your case contact person, Mary Smith’. Again this analysis supports our Recommendation 1.
Another adviser implied that competent Tax Office staff picked up useful risk assessment signals from communication with advisers. This was an adviser who said he dropped HWIs when they lied to him. He felt that through this kind of act, the ethical adviser gives a signal that the competent Tax Office staff member knows how to detect.

Communication between advisers and Tax Office staff can help keep the Tax Office up to speed with the latest arrangements in a world where ‘the better an idea, the shorter its shelf life’. Several advisers confessed to us that they had dobbed in tax planning arrangements used by their competitors, combined with their opinion on what its technical weaknesses were. Others explained this was widespread because there is ‘a lot of jealousy’ or ‘a degree of bitchiness out there’. In one example, firm A developed a product with some bugs in it. Clients of firm B were approached about buying into the scheme. Firm B then reverse-engineered the scheme into an improved version and ‘made noises to our contacts in the Tax Office’ about the bugs in firm A’s version.

Some advisers and some HWI staff did not see the need for the Tax Office to initiate communication. These advisers said their experience was that they could telephone the taskforce and discuss any question that was concerning them. A number of other advisers had not had this experience, however. They found great difficulty in securing the communication they felt they needed, and in some cases, any communication at all.

Another option for improving communication is suggested by the so-called Canadian Audit Protocols (Revenue Canada, 1996). The Canadian Audit Protocols are not just about a move to real time audits; they are also about rewarding cooperative relationships between the Tax Office and its clients with negotiated audit protocols that reduce compliance costs for business and increase compliance effectiveness for the Tax Office. For example, scheduling visits by different areas of the Tax Office so that disruption to business is minimised, conducting concurrent audits, and assisting business with knowing in advance the form in which financial records might be kept to avoid double handling of them. The idea is that Revenue Canada and participating corporations jointly produce a written framework that establishes guidelines for the relationship and the audit process. When a HWI is targeted for an audit, it seems quite possible and sensible to give their adviser an audit plan, with the
proviso that they might be advised at any stage that the plan has been modified. Indeed, we were told this is generally done with HWIs, though not always in a timely fashion.

Recommendation 11: That every HWI completing an expanded return be advised of the name of a contact person. That contact person should be in a position to answer queries and should communicate the decision made about the future of the case once the risk assessment is completed. Advisers should be encouraged to raise concerns with their contact person. The contact person should get in touch with advisers when it will build goodwill to give reasons for decisions.

X. Leadership

While many (though not all) advisers had concerns about the technical competence of some HWI audit staff, they felt that the more senior Tax Office staff they consulted on technical issues, both within the taskforce and the Tax Counsel Network, were of a high standard. They wanted greater empowerment of these Tax Office technical experts when the going got tough - in particular, sign-off by them when position papers contained testing technical challenges. Advisers also commended increased Tax Office expenditure on technical experts, for example, in the Tax Counsel Network.

A number of HWIs spoke specifically of the competence and trustworthiness of Kevin Fitzpatrick in saving difficult situations.

‘What you should do is clone Kevin several times. He is one of the fairest, most professional people I have met.’

‘The Taskforce started as a witch-hunt, but was saved by Kevin Fitzpatrick. He is quite a remarkable man. He can deal with particular cases of great complexity...in a way that not a single other person is in the same category...I feel I can talk with him off the record.’
No doubt it is embarrassing to Kevin Fitzpatrick for these personal comments to appear in this report. And it is embarrassing to the author to risk being seen to be pandering to him by repeating them. But my job is to report impartially the variables found to be the most important threats and assets in the future of the HWI program. What we were told was clear: that a number of (otherwise critical) advisers spontaneously mentioned exemplary leadership as the saving grace of the program.

**XI. Complexity**

‘Half the advice I see people give is wrong...McKinsey and Co showed some years back that the Tax Office’s advice on the basic matters dealt with at the enquiry counter was right only thirty per cent of the time; thirty per cent of the time it was wrong; and forty per cent of the time it was useless and beside the point.’

‘I know twenty per cent of it by working twelve hours a day, six days a week for twenty years.’

‘The Commissioner would have to take two weeks off to get up to speed in what he is talking about in that trust stuff. And he should not have to. The Act should not be so complex that only those below him have the understanding of the law to run and control agendas.’

There was consensus among advisers that the complexity of the law was keeping compliance costs high for HWIs and making effective enforcement difficult for the Tax Office. There was general support for the direction the Ralph enquiry was taking business taxation, particularly the idea of discerning general principles in the law and disciplining specific elements of the law to be consistent with these general principles. The idea is that all components of business tax law should be derived from, and consistent with, a smallish set of general principles. There was also general cynicism that the wash-up to the Ralph reforms would be any more simplifying than the results from two decades of pronouncements about such efforts.
XII. Offshore investment

Advisers said that clients came to them requesting that they help set-up offshore investments, accounts and credit cards. But only two said they got into assisting HWIs with this. Two others said this was a reason why clients went elsewhere. A number of advisers felt that few HWIs avoided taxes by using offshore strategies such as tax havens. However three advisers felt offshore tax avoidance was the main risk to the revenue by HWIs and some others saw it as a significant risk. One of these made the point that a higher proportion of Australia’s most wealthy people are immigrants compared with most other countries, making offshore trusts a bigger issue for us.

Three advisers also felt that a strategy of the aggressive HWI was to have conservative domestic tax planning arrangements managed by a reputable adviser from a Big Five or second-tier firm, and then to have another set of investments offshore which are not disclosed to their conservative adviser. This strategy implies securing a favourable risk assessment by the Tax Office on the basis of the conservative side of their dual strategy, thereby protecting the offshore side of the strategy from scrutiny.

Even those who thought offshore tax avoidance was a major problem emphasised that not all HWIs could exploit it. Offshore strategies would be foolish for a HWI who was a resident of Australia and who ran no actual businesses offshore. In these circumstances, it is difficult to conceal the movement of funds as they leave the country. For HWIs who are non-residents or who have non-resident family members, funds can be passed to them and then shifted offshore to a destination unknown. The Tax Office only has direct access to the domestic tax affairs of non-residents. An Australian resident who is wealthy enough to actually run a business overseas also has a formidable capability for ‘bleeding some funds out’ into personal accounts protected by a tax haven.

No adviser recommended targeting offshore investments as a sensible shift in enforcement strategy for the taskforce. For some, this was because they did not believe HWIs were using offshore accounts to avoid tax on any large scale. For others who believed HWIs were doing so in a massive way, the belief was that these arrangements would be impregnable or very hard to find: ‘You’d end up chasing a British Virgin Islands company where you can’t find out who their directors are under their law’.
However, three advisers recommended an amnesty on bringing home or paying tax on offshore investments. One felt that, particularly with older HWIs who wanted peace of mind and a capacity to pass wealth on to their children without undue complication, an amnesty based on agreement to pay back tax and interest (but no penalty) would bring a lot of offshore income into the system. A second adviser felt this would not generate enough incentive to bring in the huge offshore investments which he said he knew were out there. His policy suggestion was that as long as offshore funds were actually brought back for investment in Australia and future taxing on-shore, all back taxes and penalties should be waived. Only the removal of the threat of back taxes, he believed, would see the repatriation of worthwhile amounts of tax and capital: ‘Half a dozen merchant bankers who were my clients would have been happy to bring money back into Australia if they did not have to pay back taxes...If you didn’t ask any questions, a huge amount of money would come’.

The third adviser who recommended an amnesty commended the experience of the Tax Office’s overseas controlled trusts amnesty of more than a decade ago. He said most of his clients with overseas controlled trusts came clean about them (on his advice) as a result of this amnesty. In practice, he negotiated on behalf of his clients for more than waiving of penalties - that is, for considerable waiving of back taxes as well: ‘My experience is that if the Commissioner will not negotiate, do deals, he will get less tax’. One of them suggested the Tax Office might also have to bluff HWIs into believing that there would be a major enforcement crackdown on offshore investments after the amnesty and that this was the once in a lifetime opportunity to avoid its fury.

In summary, in this project we have found evidence of some movement of multi-million dollar offshore investments into the system, some known and some unknown to the Tax Office, simply as a result of the questions that have been asked about them in the HWI expanded tax returns. We suspect this movement has been modest, though more than sufficient on its own to pay the costs of the taskforce. We have found little basis for optimism that a crackdown on offshore strategies would generate a lot more revenue. However, an amnesty of say twelve months to encourage both bringing offshore tax into the system and capital back to Australia is a policy option, albeit one with risks and substantial administrative costs. It would need to be combined with a public commitment to enforcement
for those who failed to avail themselves of this opportunity, even though the enforcement would not be very effective. In the world of tax motivation described by advisers, where both ‘inertia’ and ‘peace of mind’ are important, an amnesty might overcome the inertia of leaving tax-protected offshore investments be, by offering the taxpayer the peace of mind of a clean slate. This motivational account might be particularly appealing to older HWIs who want to leave their affairs in a tidier state for their children. The amnesty need not be a discriminatory benefit made available only to HWIs; it could apply to any taxpayer with offshore funds. There are, for example, academics who receive payments for teaching while they are on study leave which they put in foreign banks.

Recommendation 12: That a twelve-month amnesty on returning offshore investments to Australia free of penalty be considered, followed by a vigorous enforcement campaign in this area and an evaluation of the benefits and costs.

XIII. The power of advice to secure compliance

‘If I tell them [HWIs] it’s not legal, they don’t do it.’

The large majority of HWIs, according to their advisers, want to avoid anything illegal, any litigation, anything that will make them a test case for the Commissioner. Consequently, advice by the adviser that a claim is illegal is enough to stop it, a finding Tomasic and Pentony also reported. This fact reinforces the need for good communication between the Tax Office and advisers, who are the agents of much of their voluntary compliance work.

For the same reason, we were repeatedly told of the power of a simple media release by the Commissioner to stop schemes in their tracks:

‘The moment taxpayers see a negative statement [by the Commissioner] on a scheme, it doesn’t happen. The Commissioner can close them overnight’.
A number of advisers pointed out that the Tax Office should be responsible enough not to issue such releases unless they were accompanied by or followed promptly with a supporting technical paper. Others were critical of the under use of this effective tool of compliance:

‘The Tax Office sits on things it could kill off’.

Sometimes this is because the Tax Office is slow to complete its technical analysis, sometimes because it does not yet have the resources or political will to attack or test a scheme (and it wants to maintain a reputation for keeping its promises). Sometimes it is slow to detect new schemes, though most advisers felt the Tax Office had become much more effective in this regard, often pointing to the potency of the strategy of Strategic Intelligence Analysis. Most felt it was possible to keep abreast of the new schemes through a combination of maintaining good lines of communication with advisers (which Strategic Intelligence Analysis is doing), simply ‘knowing what is being said from the rostrum of Taxation Institute conferences, which covers nine schemes out of ten’ and following up the advertisements in the *Australian Financial Review* and *Business Review Weekly*. Some advisers saw a lot of advantage in Strategic Intelligence Analysis employing more senior people with commercial experience as tax advisers.

*Recommendation 13: That the Tax Office continues to sharpen its strategic intelligence for promptly chilling new threats to the revenue with Public Rulings (or announcements by the Commissioner that he is minded to test them).*

**C. ANALYSIS**

**XIV. Changing lenses: The view from middle Australia, 1985-1999**

This research was undertaken in a different environment from Tomasic and Pentony’s (1990) report on the attitudes of advisers. That was a time when tax advising was seen as a much more cautious and responsible business than it had been a decade earlier. The widespread belief, effectively promoted to the public by Paul Keating, was that the paper schemes of the

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3 They love to chatter. People have big egos and love to brag. If this fellow doesn’t, the next fellow will.
70s and early 80s were dead, compliance had improved markedly, capital gains tax had collected more revenue than projected and the rich were paying a fairer share of the tax burden. As Margaret Levi’s (1988) research suggests, confidence in the tax system (and compliance itself) did seem to improve substantially after the reforms following the 1985 Tax Summit. 1992 OECD data suggests that at the time Australia was doing better than most developed economies in getting corporations to pay taxes; only Japan and Luxembourg were being markedly more successful (Slemrod, 1996).

That confidence has sagged again. And for the reasons Levi articulated, voluntary compliance of ordinary taxpayers is again at risk as a result. This seems to be a normal phase in an ongoing cycle of reform/honeymoon/decay/repair/collapse-of-confidence/reform. 1999-2000 will be years of renewed reform. The challenge before the government is to get it right so it engenders a longer and better honeymoon of improved voluntary tax compliance than it secured in the last reform cycle.

The aspects of the environment that are causing confidence in the fairness of the tax system to decay are the large increases in the income and wealth of high wealth individuals in a decade and a half when Pay As You Earn (PAYE) taxpayer compliance improved, but their income and wealth increased by a lesser amount than that of the rich. There is a belief, which has some foundation (Picotto, 1996), that the globalisation of commerce opens up new opportunities for the rich which are not available to low and middle income earners. There are other changes in the global environment which are beyond the comprehension of the average punter, such as the impact of the growth in derivatives: ‘The same minds that figured out how to split a security into a multitude of different cash flows and contingent returns are now engineering products in which the tax benefits are split off from the underlying economics of a deal’ (Novack & Saunders, 1998). In a way, the fact that the average person does not understand these things is the problem, and the reason they resort to a simple-minded analysis that the wealthy must be breaking the law and using their power to get away with it.

Moreover, some ordinary citizens are frightened by the implications for their share in the wealth of global competition for the capital of the rich. This particularly focuses on the liberalisation of trade, as evidenced by the populist coalition of the left and the right (One
Nation) against the Multilateral Agreement on Investment. Many Australians believe their government wants to attract capital to Australia by giving those who own a lot a better tax deal than them. They believe income tax and company tax rates have come down more than their rates. And they believe PAYE makes them more effective payers of those rates than the rich. While few remember 85% income tax rates on high wealth individuals under Menzies, they do remember the 60% rates of the early years of the Hawke government and the death duties that used to be a significant burden for the rich. In 1985 commentators readily accepted Treasurer Keating’s argument that compliance could be improved by cutting the top income tax rate to align it with the company tax rate. But a year after its introduction we saw the alignment collapse as the company tax rate was cut substantially to meet downward competitive pressure on company tax rates led by the Reagan and Thatcher governments and the newly industrialising economies of our region. Middle income earners contrast this reduced burden on corporates and high wealth individuals with the way bracket creep has pushed more of their income into tax rates which were supposed to be the preserve of the rich.

These perceptions, which have some basis in fact, are what leave some low and middle-income earners simmering, resentment ready to boil over when a Packer case occurs. For a majority of Labor voters, if not for a majority of Liberal-National voters, perceptions of unfairness are compounded by a belief that the Goods and Services Tax will impact low and middle-income earners more than the rich.

Australia is a society with an egalitarian ethos and for most of its history it has been objectively among the nations with the most egalitarian distributions of income. Unfortunately, one of the things that goes with this ethos is an uncharitable view of the rich. So if a wealthy person is revealed to be paying no income tax, most Australians tend to assume that he or she has cheated, probably broken the law and certainly bent it. The assumption is rarely the charitable one that the high wealth individual has claimed deductions or transferred losses that the law fully intends to be legitimate.

When something like the HWI Taskforce is set up in response to these perceptions in middle Australia, both sides may end up perceiving themselves as victims. While low and middle income earners may perceive themselves as mugs to be honest taxpayers, high wealth
individuals perceive themselves as victims of a witch-hunt grounded in unfair labelling of them as tax cheats. Both perceptions are unhealthy for tax compliance. The taxi driver can rationalise not paying tax by saying that Kerry Packer pays none; high wealth individuals can rationalise not paying tax by citing the non-compliance of people such as taxi drivers who are paid in cash.

It follows that a useful way of framing the compliance challenge before the government might be to ensure all participants in the economy pay a share of the tax burden that most participants would view as fairer than the present distribution, to enable all participants to have a realistic perception of that distribution and why it is that way, and thereby to eliminate inaccurate perceptions that some sectors are cheating more than they really are. Such a shift in perceptions might improve compliance in middle Australia, in the cash economy and among HWIs. If such improvements were strong enough, they might allow a reduction in tax rates for all, thereby further strengthening perceptions of fairness.

It is in the context of this framing of the compliance challenge that we might take seriously the suggestion of one HWI adviser that the HWI Taskforce disclose to the Parliament the aggregated accounting income of all entities controlled by HWIs, and then the aggregated adjustments listed for each reason for adjustment responsible for reducing the accounting income to the taxable income. His argument is that the top half dozen reasons would account for most of the reduced tax liability of HWIs. They would be reasons such as depreciation on property, research and development, franking credits and write down of stock to market value. Because the big-ticket items on this list would be small in number, they would be easy for Parliament to digest. Parliament and the people would then have a more realistic understanding of why HWIs pay the level of tax they do. It would be clear why law breaking does not need to be invoked as an explanation. The major reasons would be plain to see. Then governments could make their judgments about whether the economic and other benefits of each reason for the draining away of revenue justify the documented loss of tax receipts. Economic policy decision-making would become more transparent thanks to this redefined way of providing information by the Tax Office. Confidence in the integrity of government and of HWIs might thereby be enhanced. The adviser’s claim was that this would not be difficult for the taskforce to do: ‘You just list the reasons for adjustment on an Excel spreadsheet and add in the numbers for each taxpayer’.
Recommendation 14: That the Tax Office disclose to Parliament the aggregated accounting income of HWIs, what percentage of this they pay in tax, and the aggregated adjustments responsible for reducing the accounting income to the taxable income, listed in descending order of importance. This would render transparent the share HWIs are or are not paying and why.

The following analysis shows why this suggestion might be taken seriously. It is based on the cycle of principled tax reform, followed by a honeymoon when citizens perceive the system as decent, an inevitable creeping of unprincipled elements into the package as a result of global, technological and legal change, followed by rising taxpayer cynicism that ultimately makes the next cycle of reform necessary. One reason the unprincipled elements corrode the system is that legislators do not get feedback on the costs to the revenue of their legislative mistakes. They only become aware of them when the hole is so catastrophic that no one needs an Excel spreadsheet to notice it. But by then the interests entrenched to defend it, the scale of the investments entered into on the assumption that it would continue, may be so massive as to make repair extremely difficult politically. So the rationale for Recommendation 14 is that it might extend the honeymoon of confidence and trust in the tax system not only because it would be more transparent but because the transparency would put governments under pressure from Parliament and the people to nip in the bud unjustified corrosions of the tax system before they became gaping holes capable of destroying confidence in the system. By keeping middle Australia’s lens on the tax system clear, it will be slower to change focus from the confidence after reform to cynicism about a system seen as in decay.

XV. Using adviser opinion for hypothesis testing

We have seen that perhaps the strongest criticism of the HWI program from advisers was that it collected tons of information that the taskforce did not have the resources to use. Partly this needs to be addressed by a communication strategy to assure HWIs and their advisers that all expanded returns are subjected to risk assessment. But in addition, there needs to be more use
of the entire expanded return database for macro analysis of risk factors. Take, for example, the following hypothesis about risk patterns of one HWI adviser:

‘High wealth individuals under 45 are creating wealth and are aggressive in tax planning. Over 45, they become more conservative. Over 60, very conservative’.

This hypothesis can be tested very easily on the HWI system. The average risk assessment of all HWIs on the database under 45, 45-60 and 61 plus can be tabulated. Returns to audits from these three age groups can also be tabulated.

Testing this kind of hypothesis can be part of a process of building the best possible multivariate model to predict assessed risk and past tax receipts. Then the model for predicting risk and receipts can be used to predict audit results. Out of these analyses the variables which were the most important red flags of risk to the revenue for HWIs could be identified.

Another very simple form of data analysis would be a cluster analysis of risk factors. This would show which risks go together and may reveal systemic risk factors which underpin a variety of seemingly unrelated risks. Risk clusters might be particularly useful in targeting types of specific purpose audits. For example, risk cluster A should get audit product X; risk cluster B, product Y, etc.

Potentially the most revealing research strategy would be risk-leveraging experiments. An example of an issue on which there are very different views among both advisers and managers within the Taskforce is the suggestion one manager put to us that full audits were the best investment of staff time because specific purpose audits cannot foresee the unexpected compliance problem that only emerges with the hard look of a full audit. A competing view put to us by other taskforce managers was that the best way to maximise compliance was to maximise contact with as wide an array of high and medium risk HWIs as possible. Let them know through frequent contact that they are being watched. The latter strategy implies shifting resources from full audits to many more momentary contacts including letters requesting information, visits, telephone calls, specific purpose audits, and tax strategy reviews.
Both these strategies are plausible and can be pitted against each other in a randomised experiment to see which has more value. One randomly selected group of HWIs would be exposed to a selective full audit strategy while a second group would be exposed to a non-selective maximum frequency contact strategy. A key outcome would be to see from which of the two groups the greatest increase in revenue is accomplished.

A second experiment suggested by several advisers would compare full audit with what could be called graduated audit - one that defines a number of pause points during the audit process. At each pause point a risk assessment is made on whether returns are likely to be higher from continuing with this audit or switching to the next HWI target on an audit priority list. This strategy would prevent what some advisers termed as too much forward momentum in current HWI audits - once audits are commenced, there is a presumption that it makes sense to finish them, even if during the early stages of the audit it becomes fairly clear that the auditor is drilling down into a dry well.

A third example of a risk-leveraging experiment might take-up the adviser advocacy of interviews. The contest could be between the impacts on compliance of risk assessment of expanded returns, with versus without an interview with the adviser.

Recommendation 15: That the HWI system be systematically mined to identify the top compliance risks.

Recommendation 16: That cluster analyses be conducted on the risk factors in the HWI system to develop a typology of HWI risks to the revenue to help target specific purpose audits.

Recommendation 17: That risk-leveraging experiments be conducted to test competing compliance approaches. For example, a full audit strategy versus a maximum frequency of contact strategy, full audit versus graduated audit or a risk assessment with and without adviser interviews.

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4 An example of a pause point currently in use is where a tax strategy review is completed before moving through to a full audit.
XVI. The limited relevance of deterrence to protecting the revenue

‘If you can stand by your interpretation of the law, then the prospect of audit does not deter.’

Most people think that compliance with regulatory laws is mainly secured by punishments imposed by the courts if the law is violated. Hence, their crude analysis of the HWI Taskforce would be that HWIs are almost never prosecuted criminally and are infrequently subject to tax penalties, so this is the reason why they pay such a low proportion of their wealth in tax. In most regulatory domains, this view is simple-minded or mistaken, but particularly so with tax compliance by HWIs.

The advisers told us that outright non-compliance is rarely a rational strategy even when detection risks are extremely low. Consider the following highly effective form of blatant evasion available to HWIs:

The HWI has a million dollars in profits. He gets a charitable deduction by donating it to a breast cancer research foundation he sets up in Geneva. The foundation then almost immediately lends it back to the HWI at an exorbitantly high interest rate. This interest rate enables the company that pays it to record a loss that the HWI can then write off against profits in another entity he controls. The HWI gets his million dollars back and two tax write-downs: a deduction on the way over to Geneva and a loss he can use to reduce taxes on the way back from Geneva. If he disguises the transactions effectively, it almost certainly won’t be detected. If it is, the HWI has reputable people organised to testify that he always fully intended to repay the loan. He can actually do so before the matter goes to trial. The Director of the Breast Cancer Research Foundation will testify that they wanted to use the money well, to wait until a research proposal came along that would really produce a medical breakthrough. But while they were waiting they wanted to put

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5 This is loosely based on a real case.
their money to work. They knew that their benefactor, the HWI, knew how to do that better than they. And he was generous enough to pay an above-market interest rate to ensure that all the profits from his investment would be passed back to the Foundation. The Tax Office decides it does not want a case where a judge might vilify it for persecuting a businessman dedicated to such a cause.

While this kind of case has happened, it is not a kind of scam that in the opinion of HWI staff is widespread, not one of the major risks to the revenue among HWIs with the level of resources needed to exploit it. Why? After all it is highly profitable, simple enough to execute and almost guaranteed never to land the HWI in jail. The perfect crime. The answer according to our interviews is twofold. First, the HWI has too much to lose to risk even the remote prospect of the perfect crime unravelling. Second, there are other perfectly legal ways he can arrange his affairs to avoid having to pay tax on his million dollars without losing any sleep at night. So he prefers to pay an adviser to help him execute one of these latter strategies. The level of tax benefit in respect of his million dollars will depend on how competent and aggressive his adviser is, both being attributes in an adviser he can pay a premium to get.

All the government should or can do about the HWI who goes to the extraordinarily competent, yet conservative, adviser is to close off the biggest legal opportunities they exploit. For these conservative HWIs who pay little tax, deterrence is utterly irrelevant as a strategy for protecting the revenue. There is no need to deter the Geneva charity scam because this kind of option is unthinkable to them. It would be improper to deter them from exploiting the services of an unusually competent but law-respecting practitioner.

We now consider whether there is a place for a strategy of deterring the use of an unusually aggressive adviser.


XVII. Global competition and the hustling of tax advice

‘The global tax situation is more of a risk than Australian schemes.’

Dear ___

As we discussed, set forth below are the details of our proposal to recommend and implement our tax strategy to eliminate the Federal and state Income taxes associated with [the company’s] income for up to five (5) years (‘the Strategy’).

This was how two letters sent by the Big Five accounting firm Deloitte & Touche in late-1998 opened (Novack & Saunders, 1998). They were sent to two medium-sized United States (US) corporations asking for a contingency fee of 30% of the tax savings from taking the tax liability to zero.

In Australia, our interviews suggest that the Big Five do not touch the marketing of schemes with anything like this kind of aggression and that they do not operate on such a contingency fee basis. The more aggressive shelters are marketed by non-charter firms, some by small law firms, others by financial advisers of a rather fly-by-night character (‘they get $10 000 each from 200 people for their scheme and then they don’t care what happens’). That may be, but there is a reality of the global market here. The fact is that in the US, the Big Five seem to have been able to increase their profits substantially through shifts toward such tactics. Individual staffers can secure bonuses up to US$400 000 for landing deals such as those pursued by the Deloitte & Touche letter. Ernst & Young and Deloitte & Touche reported a 29% jump in revenues from tax services in the US in 1997. Since 1993 tax revenues for the Big Five have grown at twice the pace of audit revenues (Novack & Saunders, 1998). American Express is contesting their market in a formidable way. Something is changing in the risk environment here and it is probably global.

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6 The main area of contingency fee usage seems to have been with firms that offer to apply for refunds of sales tax in return for a fee of, say, 20% of the refund.
If it is about global change in financial engineering, Australia cannot resist it. Novack and Saunders (1998) argue that in the US ‘it has taken a while for inhibitions to be shed and the most outlandish gimmicks to propagate’. But the inhibitions have shed under pressure from the aggressive marketisation of proactive as opposed to reactive advice. Today, as one adviser worried ‘if you pay enough you can find a lawyer to write an opinion supporting anything’. The advice market, in Australia as well, decreasingly operates through advisers just reacting with specific strategies to cope with the needs of clients as they arise. If you do not proactively market strategies to substantially reduce the tax liabilities of major clients, you can count on it that competitors will. Once the Big Five reach the conclusion, as they clearly have in the US, that they will lose business unless they match it with aggressively proactive promoters of shelters, a level of global sophistication in the engineering of proactive tax planning that is within the competence of the Big Five comes into play.

Moreover, as the Big Five increase their proactiveness, we can expect a change in business culture on tax matters. ‘Inertia’, as one HWI adviser explained to us, is a major cause of tax compliance. If no one is pushing aggressive tax planning at a client, they do not feel incompetent for failing to do it. In Australia, there is a business ethos, and an ethos of the elite tax advisers, that ‘if there is not an underlying business case for an investment, but only a tax case, don’t do it’. The gradually growing clout of the general anti-avoidance provision of Part IVA of the *Income Tax Assessment Act 1936* is perhaps one reason for this.

However, it would be naive to assume that global commercial pressures might not change it. Thanks to the GATS (General Agreement on the Trade in Services) agreement of the GATT (General Agreement of the Tariffs and Trade - for which American Express (a heavy buyer of tax lawyers and accountants) and PricewaterhouseCoopers were the leading advocates, along with Citibank), the financial services market is now globalising. The consequence will be that if the Australian tax advice culture is seen by aggressive foreign firms as excessively conservative, they may view it as a market they should attack through a sales force that systematically works a distribution network to all HWIs. Globalised merchant banks, with all

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7 In any case, within the Australian market, an adviser ‘looking at the ball from different angles, will often come up with an opportunity for one client. Then he applies it to a few more clients. Then the idea might get out and some financial planner or little accountant might market it widely’.
their aggression, networks, expertise and reputational capital, may be the biggest threats for ushering in this change. So even if it is the case that Australian business culture is more reactive than proactive on tax design, and that the tax department in large corporations is not typically seen as a profit centre all its own (as in American business culture it increasingly is), the capacity for Australian businesses to resist a globally-driven culture change must be in doubt. There is a kind of culture transformation and take-off with these things, as Australia saw with the schemes of the 1970s: ‘Once companies get a taste, they become more comfortable and continue to do it’ (Novack & Saunders, 1998). A critical litmus test of the culture change is a growing belief in the business community that paying any significant amount of tax is a sign of weakness that might be criticised by shareholders. There is certainly evidence of this in the Australian business community as shown by some of Kerry Packer’s public comments and more private comments.

So it may be that global financial services market pressures will progressively unsettle the inertia and conservatism that delivers a lot of HWI taxpaying at the moment. Moreover, the profits that the US accounting firms seem to be deriving from contingency arrangements at the top end of the market suggest that there is reason for promoters to move down the market until the level of wealth is reached where traditional reactive tax work becomes as profitable as proactive hustling of more engineering-intensive tax planning.

This seems a risk to the revenue that would run down from HWIs and large corporates to players of more intermediate levels of wealth. In addition, it would put at risk the culture of tax compliance at lower levels of the economy which has been reasonably strong in Australia by international standards. The worry is that if ordinary Australians become as cynical as Italians about the tax morality of the rich, we will be at risk of Italian levels of voluntary compliance, or even Colombian levels. As difficult as the Commissioner’s job is, we should never assume it is incapable of getting a lot more difficult.

For these reasons, it seems necessary to guard against the risks from global competition in tax hustling by deterring aggression in tax advice. How can that be achieved? It is not against the law to give aggressive tax advice and nor should it be. Advice to break the law is sufficient

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8 The ‘credibility and respectability’ of merchant banks with HWIs, as one adviser put it in our interview.
reason to withdraw a licence to offer tax advice. But we have seen that this is not the real problem. Deterrence is largely beside the point at the moment because taxpayers who breach the law on the basis of a reasonably argued position supplied by a licensed adviser will not be subjected to any penalty tax; they simply pay the back taxes plus interest. This means that it can be rational to go to advisers who push their advice to the limits of what could conceivably be accepted as a reasonably argued position.

In the US context, Novack and Saunders (1998) express this rationality as follows: ‘The IRS misses nine out of ten shelters. On the tenth, the company pays back taxes and the government agrees to no penalties.’ We suspect that there are two highly rational strategies: one is to go to a conservative adviser respected by the Tax Office who will put you only into tax planning arrangements which have been approved by the Commissioner in a Private Binding or Public Ruling, and who will do that with maximum transparency to the taskforce. The taskforce is therefore likely to assess you as a low risk. But the other rational strategy may be to conceal a highly aggressive tax planning activity so it is most difficult for the Tax Office to find and then cover it with a (weak) reasonably argued position. If you are unlucky enough to be audited and have it detected, you roll over and pay up quickly so long as there is no penalty in the settlement, or a minimal one. An in-between strategy of a highly visible reasonably argued position which would have a strong chance of success in the courts (but is rejected by the Tax Office) is not attractive because you risk the uncertainty, costs and notoriety from fighting the Tax Office on a test case.

The policy objective we wish to explore is deterring the second strategy so as to encourage the first. This cannot be accomplished through penalties because the probability of a serious penalty is too low when there is some sort of reasonably argued position in relation to a low visibility activity that is unlikely to be scrutinised by an auditor. It can be accomplished, however, by targeting audits and other forms of surveillance on HWIs who use the services of aggressive advisers or promoters. Among other things, these would be advisers and promoters whose clients are frequently found to have activities tucked away which are defended by a weak reasonably argued position supplied by the adviser. They would have a track record of promoting arrangements that have been disallowed by the Commissioner or struck down by the courts. The idea of this strategy is that compliance would be improved by
clients who wish to avoid the risks and direct costs of an audit steering their business away from aggressive advisers and promoters. This strategy is associated with the work of Strategic Intelligence Analysis, though the taskforce has also used it in the past. There are limitations to the strategy. The best tax planning is specifically designed for a HWI and will not be noticed as a problem.

*Recommendation 18:* That tax professional bodies consider adopting self-regulatory standards to control contingency fees on reduced tax liabilities.

*Recommendation 19:* That audit targeting be used to deter HWIs from using the services of less ethical and/or more aggressive tax planning advisers and promoters. A number of advisers agreed that the work of Strategic Intelligence Analysis in this direction is indeed strategic.

**XVIII. Litigation strategy**

A credible litigation strategy shows HWIs that it is not an option to bankroll the government out of enforcement action and that the Tax Office keeps its promises, even if this requires high litigation expense. Using test cases to develop a strategic case law around Part IVA seems particularly important.

*Recommendation 20:* That performance indicators for the taskforce include:

- willingness to resource major litigation teams when a test case is the most strategic compliance weapon; and
- success rate in such large case litigation.

**XIX. Raising the bar and lowering the costs**

For the critics, the expanded return at the heart of the taskforce risk assessment strategy amounts to saying: ‘Give us the haystack and we’ll find the needle’. Some advisers argue that what the taskforce should be doing is ‘getting their rifle out, not their shot-gun’. Advisers generally do not realise that a systematic risk assessment is completed, on the information in
the expanded return, and this assessment is checked with sign-off by a team leader and manager. To improve communication, when this sign-off is completed we have argued that a letter should go out to the adviser.

One adviser made the point that the Tax Office could not do the job of targeting audits for HWIs in a sensible way before the expanded returns were introduced. Audits, as a result, were ‘a lottery’. He therefore saw a rationale for continuing the expanded returns on an even wider front than their current coverage:

‘The average innocent Australian would have less chance of being audited for the wrong reason’.

‘The questions in the HWI returns are pretty compelling. If everyone, other than PAYE returns, had to declare these things, there would be more compliance’.

He illustrated with being forced to declare offshore income. He said it was one thing to be in a situation where you can defend a failure to declare something as an oversight. It was another to answer ‘No’ to that expanded return question on overseas trusts from which you might benefit, when it can be shown later that you knew the answer to be ‘Yes’.

‘Theoretically, that’s go to jail stuff and people want to sleep at night.’

Some other advisers made similar points: ‘If you have been doing the wrong thing, some of those questions must be difficult to answer’. On this view, the genius of the expanded return is that it puts HWIs in the position where they have to lie outright rather than ‘overlook’ something. It forces into black and white what had previously been grey. Both conscience and fear of deterrence work better in the realm of black and white than in the realm of grey. This point applies to both HWIs themselves and to their advisers.

In our assessment, the expanded returns also have preventive value. Completing an expanded return reduces the degrees of freedom for redefining income and deductions for the purposes of a subsequent return or audit. We agree with the adviser who argued that this has preventive value in itself.
At the same time, we should take seriously the concerns of advisers about the costs of completing the expanded returns and consider the options for reducing those costs in Recommendation 2. Because HWIs do see the personal and financial costs of being on the expanded return program as something they want to avoid, there is also an opportunity for risk management by setting the standards the taxpayer has to meet to get off the program. One option would be to follow the risk assessment on an expanded return with an interview with the adviser. At that interview it could be common for the analyst to say to the adviser: ‘On the basis of our risk assessment we are expecting your client to continue on the expanded return program next year unless her circumstances change so that these compliance risks no longer apply’. Another variant of this approach is the recommendation in Alice Dobes’ 1999 report of a Compliance Management Individual Plan. This would mean that so long as a lower risk HWI was honouring their Compliance Management Individual Plan they would avoid the expanded return.

Recommendation 21: That each HWI risk assessment include a judgment of which compliance risks would have to be removed for the risk assessment to be changed to ‘low’ (and therefore no expanded return). There could then be some strategic conversations with the HWI adviser about these risks that are keeping the HWI on expanded returns. In some cases agreement could be reached on a Compliance Management Individual Plan for getting off expanded returns.

XX. Conclusion

The HWI Taskforce is tolerated as reasonable by many HWIs, resented by many, loved by none. It imposes considerable costs on taxpayers, which can be somewhat reduced. Overwhelmingly, in the view of advisers, it does its work in a way that complies with the Taxpayers’ Charter. Its officers are mostly perceived as fair and professional, though sometimes lacking in tax technical skills compared to their opposite numbers.

The taskforce has a daunting job, because non-payment of tax occurs on a wide scale among HWIs and the Australian community and their political leaders are sensitive to this fact. A globalisation of tax hustling by aggressive promoters may unsettle a lot of the inertia that
delivered voluntary compliance in the past. At the top of the market, their entrepreneurship with new financial products can be technically dazzling.

The fact of life is that if you are rich enough and aggressive enough, it is not necessary to pay much tax. Legal penalties are important and lower than they should be. But even if they were dramatically increased, legal penalties could never on their own make it rational to pay the level of tax that Parliament and the people expect the rich to pay. If revenue is escaping out of four open windows, closing three of them might simply see more flowing out the fourth, or a fifth window being prized open. This is not to say that it is impossible to achieve improved levels of taxpaying through a combination of measures.

If the Commissioner works tirelessly at closing every window through which the revenue escapes as soon as he sees it, the returns to tax planning will fall. Combine this with inertia, the threat of expanded return oversight, audits, penalties, the desire of many for the quiet life free of governmental hassles, and the desire of many others to pay their fair share, to eschew a self-image as a cheat, to sleep well at night and compliance can be improved, especially if all these levers are used in a way that is perceived as fair. Indeed, the taskforce does seem to have succeeded in incrementally improving compliance among those subject to its work, as evidenced by the jump in the tax paid by HWI-controlled private companies from substantially below to substantially above that of non-HWI private companies.

There is evidence from many areas of compliance with law of a tipping point phenomenon. Failure to meet the law’s obligations becomes so widespread that enforcement authorities effectively give up, and have little choice but to do so, given the enormity of the task. Mark Kleiman (1993) calls it enforcement swamping, a phenomenon widely observed with drug-selling hot-spots in the US. Where the capacity for the police to enforce the law is fixed, a rise in crime in the neighbourhood reduces the punishment per offence. This lower level of punishment attracts new offenders. Enforcement swamping arises where enforcement capabilities fall too low to prevent this positive feedback cycle. Arguably the Tax Office had an enforcement swamping crisis with HWIs in the 1970s and early 1980s and is at some risk of descending into that situation today because of the global pressures we have discussed. Equally, there is encouraging evidence of the HWI Taskforce tipping the balance somewhat.
toward compliance. This perspective means that the nihilism of saying that the closing of three windows will simply see revenue rush out a fourth is quite misguided. The eternal vigilance of pushing windows shut as quickly as possible is critical to fending off enforcement swamping in an environment where this is an emergent risk.

The taskforce seems well designed to meet this formidable challenge. Purists might say enforcement should be targeted on individual and corporate taxpayers. We would say, in contrast, that enforcement should be focused on strategic foci of decision making. HWIs that control many entities, the tax managers of large corporations, influential advisers and promoters are all examples of priority foci of enforcement effort. In establishing the HWI Taskforce, the government has sensibly abandoned a simplistic purism in favour of targeting nodes of control over decisions of major import for tax compliance. It would be a policy error to take this pressure off.

Viewing compliance through the eyes of the advisers has enabled us to see that the taskforce is applying the ATO Compliance Model in a sophisticated way. We have seen that the understanding taxpayer behaviour part of the ATO Compliance Model does require more sophisticated micro-macro analysis based on the HWI system. Building community partnerships can be strengthened by various improved communication strategies with advisers. The whole idea of the taskforce is a paragon of flexibility in Tax Office operations to encourage and support compliance. And finally we have sought to develop some ideas for more and escalating regulatory options to enforce compliance though perhaps the most important suggestion here amounts to the de-escalation of getting off the expanded return program. All of these issues are more fully explored in Alice Dobes’ (1999) overarching issues paper.
D. SUMMARY FINDINGS

Costs

1. Compliance costs of the work of the High Wealth Individuals Taskforce are certainly over $10 million a year.

2. Professional fees alone for completing expanded tax returns for one HWI are mostly in the range $20 000 to $40 000 in the first instance.

3. HWI advisers mostly want to see the compliance cost of the expanded return program reduced.

4. Some advisers, however, feel that it is common sense to have more complex returns for more complex taxpayers.

5. Some advisers report that their HWIs feel persecuted by the program, others that it is reasonable.

Effectiveness

6. Only a few of the HWI advisers felt that the program had made a difference to the compliance of their clients.

7. Advisers felt the HWI Taskforce was set up in too politicised a fashion.

8. Most advisers did not feel the taskforce had done much to improve compliance in general, though a minority felt it had contributed substantially to improved compliance.

9. Multi-million dollar amounts have been brought back into Australia (sometimes surreptitiously) in preference to answering the expanded returns untruthfully about offshore trusts.
10. While most advisers wanted a path to be cleared for routine exit from the expanded return program, they also warned that after large corporations were taken off the Large Case Program, some of them took a compliance holiday.

11. The point was also made that the more information the Commissioner has, the more difficult it is for HWIs to be aggressive in their tax planning. This is a major advantage of the expanded returns.

12. Many advisers believe that HWIs become less aggressive as they move through the life course. Often they are bold when they are building their wealth, moderate when they are consolidating it and meek when they are living off it in retirement.

13. Very wealthy and very aggressive HWIs are seen as difficult targets for effective Tax Office enforcement.

14. Most advisers believe that the taskforce is on a fishing expedition, collecting vast amounts of information that it does not have the resources to analyse.

15. Advisers were extremely critical of the way initial targeting of HWIs was done, but had little knowledge of subsequent risk assessment and not much criticism of it.

16. Most advisers believed that the risks of audit had fallen. Some reported as a result that their clients were often willing to operate on the fringe of the law, taking the odds against being audited.

17. HWI advisers were divided on whether the move away from full audits to risk management connected to a suite of audit products was a desirable or undesirable policy shift. There was consensus, however, that the Tax Office was now doing a better job of risk assessment.

18. Advisers saw the complexity of the law as a fundamental issue but were cynical about the prospects for anything being done about it.
19. Most advisers did not see offshore investments as a major risk to the revenue, but some saw it as THE major risk and advocated an amnesty.

20. Advisers seemed to have considerable capacity to secure compliance simply by pointing out to clients that something was illegal.

21. Advisers believed there to be enormous power for securing voluntary compliance in the Commissioner making an announcement that he intended to test a particular practice or arrangement. Some were critical of the Commissioner being too slow to use this power.

**Fairness and professionalism**

22. Views about the fairness and professionalism of taskforce staff were overwhelmingly positive. There were some strong reservations about tax technical competence in some circumstances.

23. For only one of the 27 advisers was there an explicit complaint about non-compliance with the Taxpayers’ Charter by taskforce staff.

24. There was concern about the same issues being turned over by different parts of the Tax Office.

25. Many advisers wanted more willingness of auditors to call in senior technical people from areas such as the Tax Counsel Network, for which they had considerable respect.

26. Advisers mostly saw the leadership of the taskforce as outstanding.

**Communication**

27. Advisers tended to want a more frank and trusting relationship with taskforce staff and more face-to-face meetings.
28. Advisers felt opportunities were missed for building goodwill by communicating back when the HWI had been given the benefit of the doubt, let off on a close decision. This was better than leaving the adviser to assume the Tax Office had missed the issue.

29. Advisers believed Tax Office risk assessment would be better targeted if there was more communication between advisers and taskforce staff.

30. Advisers believed improved communication between them and Tax Office staff would improve Tax Office knowledge of the latest tax planning strategies.

31. Overall, advisers wanted an approach with less of a ‘witch-hunt’ quality, fairer communication with the public to enable a more honest public debate and more frank and more frequent communication between them and taskforce staff.

E. RECOMMENDATIONS TO BE CONSIDERED FROM A PRELIMINARY POLICY ANALYSIS OF THE ADVISERS’ IDEAS

Recommendation 1. That after a risk assessment has been undertaken on each expanded return, HWIs be advised that the risk assessment has been completed and given a general reason if they will be required to complete an expanded return in the following year.

Recommendation 2. That continuous reduction in compliance costs be considered each year by examining four paths to lower costs:

- reducing the amount of information requested in expanded returns;
- reducing repetition of information from year to year and form to form (for example allowing an ‘unchanged since last year’ response);
- greater discernment (possibly based on something like a Tax Strategy Review) in assessing which individuals should complete expanded returns in the first place. Those who are required to lodge expanded returns should be given a clearer path for exit from the expanded return program; and
- further work to facilitate electronic returns
Recommendation 3: That the Tax Office publicises more the fact that since the HWI Taskforce was established, HWI companies have changed from being substantially below-average to substantially above-average taxpayers.

Recommendation 4: That the Tax Office continues to improve risk assessment using a suite of audit products.

Recommendation 5: That when position papers involve difficult technical issues, the level of authority for sign off must be increased.

Recommendation 6: That the taskforce set expectations for hours of formal technical training that are realistic in relation to workloads, but well in excess of what is expected of Tax Office fieldworkers in less complex areas.

Recommendation 7: That the taskforce prepare a retention strategy for its most experienced and competent staff.

Recommendation 8: That the taskforce establish an ongoing identity that fosters a storytelling culture about how to find fertile leads and how to avoid infertile ones. Such a culture is one where apprentices are constantly asking masters to relate stories of their experience on strategic decisions they are making. It is also a culture where masters do not tell apprentices what to do so much as volunteer stories from their experience when they see their apprentices about to repeat mistakes they have made in the past.

Recommendation 9: That best practice workshops be implemented nationally to assist with the development of such a storytelling culture that nurtures strategic wisdom.

Recommendation 10: That a research program be considered to foster such learning by retrospectively asking staff after each audit:

- what short-cuts they might have taken that would have increased the efficiency of their audit;
- what initiatives they took that worked out; and
- what short cuts they took that backfired.
Recommendation 11: That every HWI completing an expanded return be advised of the name of a contact person. That contact person should be in a position to answer queries and should communicate the decision made about the future of the case once the risk assessment is completed. Advisers should be encouraged to raise concerns with their contact person. The contact person should get in touch with advisers when it will build goodwill to give reasons for decisions.

Recommendation 12: That a twelve-month amnesty on returning offshore investments to Australia free of penalty be considered, followed by a vigorous enforcement campaign in this area and an evaluation of the benefits and costs.

Recommendation 13: That the Tax Office continues to sharpen its strategic intelligence for promptly chilling new threats to the revenue with Public Rulings (or announcements by the Commissioner that he is minded to test them).

Recommendation 14: That the Tax Office discloses to Parliament the aggregated accounting income of HWIs, what percentage of this they pay in tax, and the aggregated adjustments responsible for reducing the accounting income to the taxable income, listed in descending order of importance. This would render transparent the share HWIs are or are not paying and why.

Recommendation 15: That the HWI system be systematically mined to identify the top compliance risks.

Recommendation 16: That cluster analyses be conducted on the risk factors in the HWI system to develop a typology of HWI risks to the revenue to help target specific purpose audits.

Recommendation 17: That risk-leveraging experiments be conducted to test competing compliance approaches. For example, a full audit strategy versus a maximum frequency of contact strategy, full audit versus graduated audit, or a risk assessment with and without adviser interviews.
Recommendation 18: That tax professional bodies consider self-regulatory standards to control contingency fees on reduced tax liabilities.

Recommendation 19: That audit targeting be used to deter HWIs from using the services of less ethical and/or more aggressive tax planning advisers and promoters. A number of advisers agreed that the work of Strategic Intelligence Analysis in this direction is indeed strategic.

Recommendation 20: That performance indicators for the taskforce include:

- willingness to resource major litigation teams when a test case is the most strategic compliance weapon; and
- success rate in such large case litigation.

Recommendation 21: That each HWI risk assessment include a judgment of which compliance risks would have to be removed for the risk assessment to be changed to 'low' (and therefore no expanded return). There could then be some strategic conversations with the HWI adviser about these risks that are keeping the HWI on the expanded returns. In some cases agreement could be reached on a Compliance Management Individual Plan for getting off expanded returns.
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