
The Principles of Good Tax Administration

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This article focuses on the importance of good tax administration and what it takes to deliver good public administration within the context of the Australian tax system. As the Inspector-General of Taxation and Taxation Ombudsman (IGTO), I see many examples of where tax administration goes wrong. I am keen to start 2025 with a renewed focus on how we get tax administration right, and continuously improving. With cost of living pressures continuing to be front of mind for all taxpayers – be they individuals or businesses – and debt collection being front of mind for the Australian Tax Office, then I propose that we need heightened attention on getting the administration right, on behalf of the community. Good administration will result in more taxpayers perceiving the system to be fair and reasonable, which will build community confidence, drive higher compliance and minimise the cost to both taxpayers and government.

WHY IS GOOD TAX ADMINISTRATION IMPORTANT?

Check the contents of this journal, or similar publications or websites. A lot of close attention is paid to the principles of good tax policy design. However, comparatively less attention is paid to the principles of good tax administration, particularly at system level. And yet, getting the administration of the current legislation right can be easier and far more effective than trying to change the law. In fact, getting the administration right (or better) has the greatest impact on taxpayers and practitioners and can either build or erode community trust in the tax system.

The tax system exists to enable the government to fund and provide vital public services, which the community demands and needs. A taxpayer's willingness to fulfil their tax obligations is significantly affected by their trust in the proportionate administration of the law and their perceptions of being treated fairly. These perceptions are mostly shaped by their experience in interacting with the tax administration system.

The everyday experience of most Australians (including tax practitioners) is in the processes and practices of tax administration – record keeping, reporting, lodgment, payment, claiming refunds – or simply making sense of their obligations. Getting administration right smooths the wheels of the system and the wider economy. Getting it wrong can be painful and frustrating, and sometimes costly.

So, creating the right administrative framework for taxpayers to comply builds confidence, trust and keeps the cost to Government (and therefore, the taxpayer) down.

IGTO – A REMINDER

The purpose of the Inspector-General of Taxation and Taxation Ombudsman (IGTO) is to improve the fairness and integrity of taxation and superannuation administration in Australia. We play a critical part in the overall oversight and scrutiny of the Australian Tax Office (ATO) and the Tax Practitioners Board (TPB). We were established as an independent, Commonwealth statutory authority in 2003 and later expanded in 2015 to include the role of Taxation Ombudsman. The two functions are separate but complementary, enabling us to use data and trends from complaints received to identify opportunities to recommend systemic improvements in the administration of the tax and superannuation systems.

In delivering against our purpose, our key activities are to:

- investigate and help resolve complaints from taxpayers or tax practitioners on the administration of the ATO or TPB in a timely and efficient way,

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- review and make recommendations on systemic issues relevant to improving tax administration,
- provide independent advice to the Government and Parliament on tax administration, and
- raise awareness of the role of the IGTO and promote the integrity of the tax system.

OVERSIGHT AND SCRUTINY BUILDS TRUST

At a time when community trust in most public institutions is low and the ethics of our public service have been challenged, our tax and superannuation systems need to build the confidence of those they serve. This is particularly so when many individual and small business taxpayers are facing a strengthened debt recovery posture from the ATO and corporate insolvencies are increasing by more than 50% year on year. While most taxpayers would recognise the importance of the role of the ATO to collect the tax that is legally due (in order to fund our valued public services), they need the checks and balances built into the system to assure them that the Tax Office is acting fairly, with integrity and within its legislated powers. In his foreword to the ATO Annual Report 2024–2025, the Commissioner of Taxation sets the aim “to deliver on our responsibilities in a way that meets community expectations and is in accordance with the law”.

The Commissioner has some of the strongest powers over Australians in government, outside of the national security and criminal justice systems. Used within reason, they drive voluntary compliance, prevent and detect improper or egregious tax behaviour and disrupt fraudulent and criminal activity. The community needs to see them applied fairly and reasonably and be assured that those who seek to evade paying their fair share do not avoid the law. The community also needs assurance those powers are not applied inappropriately or beyond the intent of Parliament (and community expectation).

In addition, the Commissioner collects and stores significant commercial and personal data on every Australian taxpayer and business and has access to a growing data set to match against and test compliance. There are equal expectations that the Tax Office holds that data securely and uses it appropriately.

For these reasons, the public needs assurance that there are scrutiny and integrity agencies able to give effect to the system’s checks and balances and to hold the ATO to account on its administration, use of powers and protection of data.

IGTO is one such agency. However, the full suite of checks and balances in the system includes the Australian National Audit Office, the Australian Information Commissioner, the National Anti-Corruption Commission and of course Parliament itself.

We are the main oversight agency whose sole focus is the integrity of the tax system (focusing only on ATO and TPB). My role in oversight looks to ensure the ATO and TPB operate within their legislated powers and equally importantly that their administration is delivered fairly and effectively to meet community expectations. I also have a role in driving systemic improvement in administration, even where the system is working as designed.

We are unique in having direct access to ATO records to scrutinise individual taxpayer records (on behalf of a complainant) and powers to access ATO and TPB files in the course of system level investigations or reviews. Parliament is currently considering bolstering those powers in the light of the experience in the Robodebt scheme, where the Royal Commission highlighted the behaviour of agencies in withholding key information from the Commonwealth Ombudsman.

I have an objective to ensure that taxpayers are aware of our role, how we can resolve individual complaints and how we are continuously scrutinising the actions of the tax office, highlighting areas of concern or opportunities for improvement. That visibility (which is still too low) needs to build confidence that the tax office is being held to account and that, even if people do not enjoy paying tax, they can pay their fair share while being sure the system operates fairly and with integrity, and where errors or breaches occur they are acted upon.

Since taking on my role in July 2024, I have refreshed the IGTO principles of good tax administration and we are using them in how we approach our role in driving improvements at system level as well as how we highlight failings or (at worst) maladministration or integrity issues in the system through our complaints work and systemic reviews.

WHAT DOES GOOD ADMINISTRATION LOOK LIKE?

You know it when you see it, or experience it and, indeed, when you deliver it. We also all recognise its absence. But how do we define good tax administration? My principles are:

- ease of access;
- clarity in communications;
- certainty;
- consistency (alongside prescribed discretion);
- simplicity and low cost of compliance;
- getting it right;
- putting it right;
- transparency;
- humanity, empathy and respect.

Ease of Access

The first step in good administration is the ease by which taxpayers and their representatives can access the system. This means they know how, where (and preferably why) to go and get registered, to transact and pay and where to go for more information or help. Access points should be clear and available for all (at no or low cost). Access should be without undue delay or unreasonable barriers, which might include language needs or adjustments for people with disabilities.

Access should also be multi channel. Even in 2025, we cannot assume everyone is online or has a MyGov account or has reliable connectivity. In Australia, we need to secure geographic equity of access. So taxpayers in rural or remote areas have an equal opportunity to access the information and support to help them to get their tax right.

Clarity in Communications

The tax system in Australia is not straightforward but taxpayers are expected to fulfil their obligations correctly and voluntarily. Plenty of taxpayers need a means by which the complexity can be explained, to enable their compliance. This relies on complex information being written or conveyed in a way that everyday Australians can engage with and understand, to ensure they have a clear understanding of what their obligations are and how to fulfil them.

It is essential that these communications are properly understood by the taxpayer. It's not reasonable to expect them to willingly comply if they are uncertain about what those communications mean or what action is required of them and by when.

Every taxpayer receives communications from the tax office either online or in the post. Many of us struggle to decipher them. Good administration relies on communications conveying information with clarity, written in language and formatted in a style to enable understanding and to drive the right response.

Creating clarity from complex content requires specialist writing skills and needs to avoid legalistic drafting and jargon. Communications need to be written with the end user in mind and tested with sample groups in advance, to see if the message received is the one intended to be conveyed. The best judge of whether a piece of communication is clear and understandable is the recipient and not the sender.

The tax office can be surprised by how taxpayers interpret their communications. From the inside, it is possible to underestimate the emotional response and the level of fear and intimidation caused in some taxpayers by even their most straightforward official communications. Taxpayers read the communications in the implicit knowledge of the powers of the Commissioner and the consequences of getting things wrong. Clear, authoritative communications enable taxpayers to understand and fulfil what is required of them. Poor communications can lead to misunderstandings and (unintended) mistakes or create fear, driving disengagement due to anxiety of what might happen next.

My office is undertaking a review of some of the ATO's written communications and testing them against these principles, including the process by which they were developed and tested. I expect to find some opportunities for improvement and some insights that might drive enhanced clarity.

Certainty

Surprises in the tax system are, generally, unwelcome.

Knowing your tax obligations and when they are due enables effective, voluntary compliance and sensible planning. When money (or cash flow) is tight, that degree of certainty can be crucial for family or business' finances. Financial planning (or simply budgeting to cover the bills) at all levels of the economy relies on certainty, whether that be a low income family depending on their tax refund to pay the rent or a multinational corporation knowing its obligations from a major acquisition. Good administration creates certainty for all taxpayers in knowing their obligations, being able to plan on paying or receiving what they understand is due, at the time they expect it. The consequences of those expectations not being met can be severe.

Certainty can also mean stability in the implementation of new or changing legislation. Providing appropriate notice of changes enables taxpayers and their representatives to anticipate obligations and plan to meet them. Equally, sufficient notice to utilise time based concessions is required – for example, announcements on Instant Asset Write Offs at the end of June are not helpful!

On the same basis, retrospection is always best avoided. Australia's tax system places the onus on the taxpayer to correctly apply the tax law to their affairs and to meet key deadlines. So, taxpayers need to apply the law as they understand it or as it is commonly interpreted at that time. Where taxpayers are doing their best to fulfil their obligations and the interpretation of the law changes or is clarified and then applied retrospectively, they feel aggrieved and perceive injustice and lose confidence that the system is being administered fairly.

Consistency ...

Alongside certainty comes consistency. Taxpayers need to be certain of their tax obligations but they also want to be sure that the legislation is being applied consistently to others in similar circumstances. That is most taxpayers' view of fairness. Inconsistency can quickly lead to a lack of confidence in the system and a growth in non-compliance. That particularly applies to small business, where the playing field can feel very uneven if your competition are not meeting their obligations.

Consistency is a regular issue raised by tax agents, who can see across multiple clients' experience and how the tax law is administered for each. Their perception is that there is a growing degree of inconsistency in the decisions of the tax office. On the other hand, it is not uncommon for agents to "opinion shop" with the tax office to exploit the lack of consistency in decisions made by individual officers. Good administration can minimise those risks and opportunities through standardised procedures, effective training and decision support tools for frontline staff.

... With Prescribed Discretion

Expecting the tax law to be applied consistently across the community does have blunt edges and harsh consequences. In reality, there are circumstances in which there are good reasons why a taxpayer (individual or business) should be treated differently to their comparators or competitors, for example hardship or incentives for certain sectors. The key to good administration is that the degree of discretion to be applied is transparent, proportionate and broadly understood.

Tax administrations cannot operate effectively or efficiently without a degree of discretion. The prescription of the discretion is therefore the essential ingredient to enable everyone to understand the boundaries and guardrails.

Publication of (de-identified) discretionary decisions made can also give transparency to the application of the discretion in particular circumstances. Where enough of these decisions are published, they help the public (and their agents) reasonably predict what sort of decision would be made in what sort of circumstances, which enables better planning and creates confidence in the system.

Simplicity and Low Cost of Compliance

It's probably too late to be seeking simplicity in our tax law - but never give up! Simplicity creates confidence through understanding and ease of transacting but can be at the expense of equity. Complexity caters for a greater range of circumstances but will tend to drive (unintended) error in the system and create cost for the taxpayer and tax office.

Good tax administration can bring a degree of simplicity to the taxpayer experience, particularly in the digital world. Good policies, processes, procedures and use of data can streamline or mask the complexity for those who want to spend as little time as possible engaging with their tax matters in order to meet their obligations. A great example is the pre population of the tax return. For many taxpayers, pre population enables them to complete their tax return without too many hours of searching for relevant bank statements, private health receipts or employment payslips. Pre population (and appropriate nudges) also reduces non-compliance, making it easier, quicker and cheaper to comply. Similarly adoption of new and improved commercial software (eg by small businesses) can streamline their reporting obligations and improve (or even automate) their compliance.

Good tax administration should minimise the cost to comply by making it easy to understand, transact and fulfil obligations. This principle should also apply to tax practitioners for whom time is money and engaging with the unnecessary parts of tax administration is not always chargeable to clients.

Getting It Right ... and Putting It Right

It seems a reasonable expectation that good tax administration delivers correct assessments and application of the law. Good administration translates the law into processes and practices alongside human and automated capabilities to enable all taxpayers to pay the tax that is legally due, when it is due and exemptions are applied appropriately. Increasing digitisation and automation will reduce the room for errors, if well developed, tested and maintained. There is plenty more to see (and watch out for) as the application of artificial intelligence applies greater automated decision-making and judgment by algorithm. For good reason, the Australian Government is treading carefully down this path, including the introduction of the Government policy for Responsible Use of AI in Government, including automated decision-making.

Given the scale and complexity of the Australian tax system, it is a credit to the ATO that the vast majority of taxpayers' tax accounts are correctly administered and are uncontested. However, it is noteworthy how many of those taxpayers rely on an agent or third party to ensure (or assure them of) that. Latest figures suggest over 60% of individual taxpayer tax returns are submitted by agents and over 55% of Business Activity Statements are submitted by agents/third parties. That means the tax administration has a much wider set of actors than just the tax office and taxpayers, and a need to recognise the respective roles within the system.

If getting your tax right seems a basic requirement of tax administration, then for the small minority whose tax goes wrong, we require the administration to be even better at putting it right, be that by self service or from the tax office. Dealing with objections or complaints is a critical element of tax administration, referred to as "moments that matter".

Good administration in "putting it right" builds on most of the other principles. It requires easy to access (multiple) channels to provide taxpayers with a simple means by which to correct errors or raise a challenge or complaint. It requires swift acknowledgment of errors, an apology (where appropriate) and a quick and proactive means of remedy. Taxpayers can be fearful of challenging the tax office, so the barriers to making a complaint need to be minimal and taxpayers need confidence that there will be no consequences if they do lodge a complaint.

Given complaints is my everyday business, I see the broad range of experience of Australian taxpayers making complaints. They range from empathetic and swift resolution through to defensiveness and steadfast refusal to accept a mistake has been made right to the steps of the court. In driving better administration, starting with complaints can often be the right place to set the benchmark. Improving the complainant experience does drive up taxpayer engagement and community confidence. We recognise

that a complaint handled well can often create an advocate but a complaint handled badly can go viral (in the wrong way!)

The additional benefit from administering complaints well is the learning opportunity. Data from complaints, objections or reviews provide invaluable intelligence on what is not working well and can drive systemic improvements upstream. Building in internal feedback loops can drive a virtuous cycle of continuous improvement in administration.

Transparency

In public administration, transparency generates trust. The greater the visibility of how the tax administration operates, the greater the confidence of the community in the administration. This includes how assessments are made, how decisions are reached, how data is used and how discretionary powers are applied.

Good tax administration also requires open publication of data, so that the community can understand how the system operates and dispel myths. A good example is the Corporate Tax Transparency Report, which is used to improve awareness about corporate tax, increase community confidence that corporate entities are paying the right amount of tax and encourages voluntary compliance in the corporate sector.

From within my own agency's administration, I believe the community needs to know the impact of our independent scrutiny. So in the year ahead IGTO will start to publish more data on our own insights and intelligence, including complaints and also making transparent where ATO has chosen not to agree our recommendations.

Humanity, Empathy and Respect

And finally, if all the above eight principles of good tax administration are applied, there remains a golden rule that applies now in 2025 more than ever (in the post-Robodebt era). While the tax system operates on policy, process and data it revolves around individual human beings. Each and everyone with unique circumstances, backgrounds and experience. We need the tax system to see them in that way. That requires empathy, humanity and respect.

Good tax administration will see the person behind the number. Every interaction with the tax office requires humanity, to recognise the individual circumstances of each taxpayer. This is particularly so for taxpayers doing it tough and struggling to meet their obligations. That's not to argue that they do not need to pay what is due but without that humanity and empathy, most struggling taxpayers will disengage with the system and it becomes very hard for the tax office to differentiate fear and disengagement from non-compliance and evasion.

The power imbalance between tax office and taxpayer is huge and requires the administration to create a respectful and empathetic tone of engagement for those trying to do the right thing. Those taxpayers deliberately choosing to cheat the system do not deserve the same tone or approach.

It's a big ask but an essential one for a large, complex and partially automated system to bring humanity into its engagement with taxpayers. The ask is one of culture, set from the top down, supported by training and guidance and enabling frontline staff to engage empathetically with taxpayers.

Bringing humanity to the fore in tax administration is also why the Tax Clinic program across Australia (recently expanded) is such a great addition to the channels by which taxpayers can seek help with their obligations. While the clinics differ in approach, they exist to support low income taxpayers to engage with and seek support in getting their tax right. Quite frequently the clinics are supporting taxpayers with multiple years of outstanding returns, significant debts, spiralling interest charges and (tragically) victim survivors of financial abuse or coercive control effected through the tax system. The clinics fulfil an essential part of the system, addressing unmet demand in those cohorts who can not afford representation.

So, at a time when most everyday Australians are feeling the pinch of rising costs of living and doing business, 2025 is the year in which we need to bring humanity front of mind in our search for better tax administration.

CONCLUSION

In our analysis of the Australian tax system, we should increase our focus on administration and how good tax administration can drive compliance, lower government costs, build public trust and community confidence. Using our nine principles of good tax administration, we can identify multiple ways of enhancing the overall system to work better for the taxpayer, their representative, the tax office and the public purse.

I welcome engagement from all taxpayers and practitioners in the shared pursuit of good administration. Contact me at: ruth.owen@igt.gov.au.