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Use of Artificial Intelligence by the Australian Taxation Office: Impact on Voluntary Compliance

MICHAEL CROFT*

Abstract

This article analyses the development of artificial intelligence ('AI') by the Australian Taxation Office ('ATO') which has, to date, focused on increasing the likelihood of detecting taxpayer non-compliance. It finds that higher rates of detection should reduce tax crime and hence the tax gap. However, detection does not distinguish fraud and evasion from mistakes and errors. Combined with high complexity in the Australian tax system and low tax literacy and morale among Australian taxpayers, this is likely to reinforce a culture of fear. Fear-based systems undermine voluntary compliance, which is the cornerstone of an equitable, efficient and fiscally adequate tax system. This article therefore argues that, without parallel investment in AI models targeted at improving simplicity, literacy and morale, the ATO's detection models risk deteriorating voluntary compliance. This article suggests several new AI-driven solutions which the ATO could implement to address these issues. This analysis also provides useful insights for other public departments and global tax administrators implementing AI into their systems and services.

I Introduction

The scope of tasks artificial intelligence ('AI') can undertake and the speed and accuracy at which it can complete them are developing at an astounding rate. Meanwhile, the pace of global AI uptake also continues to accelerate. While other public departments have been slow to integrate AI into their services,¹ tax administration is an area which

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¹ Australian Government, Digital Transformation Agency, *Pilot Implementation Report: Australian Government Artificial Intelligence (AI) Assurance Framework – Findings and Recommendations* (Report, Australian Government, 13 January 2026) <<https://www.digital.gov.au/policy/ai/ai-assurance-framework-pilot-report/findings-recommendations>>.

development of AI has been particularly remarkable.² By late 2024, the Australian Taxation Office ('ATO') had 43 bespoke AI models in production linked to a total of 93 machine learning algorithms, as well as eight publicly available generative AI tools approved for use.³ These numbers are likely to be higher today, with the scaling and embedding of AI being one of the ATO's current core priorities.⁴ The ATO's vision is that 'by 2030 the ATO is a leader in developing and industrialising ethical, impactful and scalable [automation and AI] solutions, creating immense economic and social benefit for our nation and citizens'.⁵

Information privacy and data security concerns, irresponsible and unethical AI use, insufficient oversight and integrity, unreliability and low trustworthiness, bias and discrimination, reduced decision-making transparency and procedural fairness, and the undermining of taxpayer rights have dominated government, academic and stakeholder discussion surrounding AI use in tax administration.⁶ The ATO and Australian Government have thus been working to understand and mitigate these risks.⁷ However, the effectiveness of tax administrator applications of AI in enhancing taxpayer voluntary compliance, taxpayer challenges in navigating an increasingly digital and AI-driven fiscal environment, and the determinants shaping the relationship

² OECD, *Governing with Artificial Intelligence: The State of Play and Way Forward in Core Government Functions* (Report, OECD Publishing, September 2025) 15–31, 167–184; Capgemini Research Centre, *Data Foundations for Government: From AI Ambition to Execution* (Report, May 2025) 6–11.

³ Australian National Audit Office, *Governance of Artificial Intelligence at the Australian Taxation Office* (Report, 24 February 2025) [1.3].

⁴ Australian Taxation Office, 'Delivering on Our Strategy: Our Priorities for 2026–27' (Webpage, 15 July 2026) <<https://www.ato.gov.au/about-ato/managing-the-tax-and-super-system/corporate-plan/ato-corporate-plan-2026-27/1-australian-taxation-office/delivering-on-our-strategy-our-priorities-for-2026-27>>.

⁵ Australian National Audit Office (n 3) [2.10]–[2.28], [4.6]–[4.9]; Australian Taxation Office, *ATO AI Transparency Statement* (Webpage, 27 July 2026) <<https://www.ato.gov.au/about-ato/commitments-and-reporting/information-and-privacy/ato-ai-transparency-statement>>.

⁶ See, eg, Joint Committee of Public Accounts and Audit, Parliament of Australia, *Inquiry into the Use and Governance of Artificial Intelligence Systems by Public Sector Entities – 'Proceed with Caution'* (Report No 510, February 2025) [2.23]–[2.68]; Evgeny Guglyuvatyy, 'Balancing Innovation and Integrity: AI in Tax Administration and Taxpayer Rights' (2025) 12(1) *Humanities and Social Sciences Communications* 1818; HM Sembiring, Rendinta Delasnov Tarigan and Malvin K Satria, 'From IRL to URL: the Australian Taxation Office's AI Overhaul and What It Means for Western Australia's SMEs' (2026) 1 *eJournal of Tax Research* 63; Stephen Daly, 'Artificial Intelligence, the Rule of Law and Public Administration: the Case of Taxation' (2024) 83(3) *Cambridge Law Journal* 437, 437–64.

⁷ Australian National Audit Office, *Governance of Artificial Intelligence at the Australian Taxation Office* (Report, February 2025); Digital Transformation Agency, 'Policy for the Responsible Use of AI in Government' (Policy, Version 2, 15 December 2025); Australian Government, Digital Transformation Agency, 'Technical Standard for Government's Use of Artificial Intelligence' (Technical Standard, Version 1, 22 August 2025).

between tax authorities and taxpayers in this evolving digital landscape remain critically under-researched areas.⁸

This article seeks to address the above gaps in the knowledge base through four parts. This Part I has identified the relevant gap in the knowledge base. Part II details the AI models the ATO currently has in production – which are principally focused on increasing the detection of taxpayer non-compliance and enforcement capabilities – before highlighting the issues which their focus may present.⁹ Part III analyses current trends in tax morale, simplicity and literacy in Australia, before outlining related conclusions and a procedure for implementing AI-driven solutions. Part IV contains recommendations on how AI could be better utilised by the ATO to increase tax morale, simplicity and literacy and hence voluntary compliance. A summary of the findings and recommendations of this article is then contained in Part V.

II AI in Tax Administration

A *AI Development at the ATO*

The wide-scale conversion of physical and analogue information into digital formats and the rapid growth in devices connected to and exchanging data over the Internet is allowing the ATO to collect far greater volumes of more timely and precise taxpayer information.¹⁰ These developments have been supported by efforts from the ATO and Australian Government to:¹¹ (1) mandate digital taxpayer identities, including by having most forms of income subject to electronic verification, monitoring and scrutiny;¹² (2) increase automatic receipt of real-time data, including from taxpayer business systems and third parties; and (3) implement other forms of process automation and data

⁸ Rida Belahouaoui and El Houssain Attak, 'Digital Taxation, Artificial Intelligence and Tax Administration 3.0: Improving Tax Compliance Behavior – A Systematic Literature Review Using Textometry (2016–2023)' (2024) 37(2) *Accounting Research Journal* 172, 172–191.

⁹ The focus of this article is on the administration of Federal income tax. AI is, however, also being utilised by the ATO in relation to goods and services tax and other Federal taxes, as well as by State and Territory revenue authorities in relation to payroll and land taxes, stamp, transfer and landholder duties, as well as other levies.

¹⁰ Sharifur Rahman et al, 'An Exploration of Artificial Intelligence Techniques for Optimizing Tax Compliance, Fraud Detection, and Revenue Collection in Modern Tax Administrations' (2024) 7(3) *International Journal of Business Intelligence and Big Data Analytics* 56, 57–60.

¹¹ See generally OECD, *Tax Administration Digitalisation and Digital Transformation Initiatives* (Report, June 2025) 13–34.

¹² James Alm, 'Tax Compliance, Technology, Trust, and Inequality in a Post-Pandemic World' (2023) 21(2) *eJournal of Tax Research* 153, 155–7.

collection, including single-touch payroll.¹³ The resulting increase in data has vastly improved the ATO's ability to track and attribute taxable activities and transactions that leave some kind of electronic trail. However, the volume of digitised information, the speed at which it is exchanged and the variety of formats it takes has also made the data collected increasingly challenging to analyse without more powerful and predictive tools.¹⁴ Of the ATO's new analytical tools, AI is one of the most transformative.

As noted in the introduction, the ATO has a large number of AI models in use and development.¹⁵ The ATO directs some of these bespoke models to improving internal efficiencies and service delivery, such as those used to summarise and draft taxpayer communications and improve call centre services through transcription and analytics. It directs others towards assisting taxpayers with queries, such as powering the ATO's online virtual assistant, 'Alex'. Further bespoke models, alongside the eight publicly available generative AI tools approved for use, assist tax officers in making administrative decisions by interpreting data and the application of relevant tax laws, or by assisting them in drafting correspondence.¹⁶ The ATO promotes each of these particular measures as being developed and implemented to improve the quality of its services; an important ambition given the ATO has failed to achieve its target of 80% 'client satisfaction with their recent interaction with the ATO' for at least the past three income years.¹⁷ This is despite two of the three survey response options (unacceptable, acceptable and excellent) being objectively positive. In other words, at least 20% of taxpayer and tax agent interactions with the ATO (including via telephone and ATO online services for individuals, agents and businesses) have been wholly unacceptable.¹⁸

In reality, however, the ATO directs most of its AI models to producing cost-savings and/or increasing tax revenue. After all, a downward trend in the cost-of-collection-ratio (which measures the cost of collecting every \$100 of tax) is an indicator of efficient and effective tax administration.¹⁹ Australia is strong in this metric when compared

¹³ David Gruen, 'The Rise of Big Data and Integrated Data Assets' (Speech, 'What Not to Ignore in '24', EY Conferences, 23 February 2024) <<https://www.abs.gov.au/about/our-organisation/australian-statistician/speeches/rise-big-data-and-integrated-data-assets>>.

¹⁴ Alm (n 12) 153-7.

¹⁵ Australian National Audit Office (n 3) [2.11].

¹⁶ Ibid [2.10]–[2.18]; Australian Taxation Office (n 5); OECD (n 2) 169-175; OECD, *Tax Administration Digitalisation and Digital Transformation Initiatives* (Report, June 2025) 39–40.

¹⁷ Australian Taxation Office, *Audit Report of the 2024-25 Annual Performance Statements* (Report, October 2025) Table 3.21.

¹⁸ Ibid Table 3.21.

¹⁹ Ibid Table 3.19.

to other OECD countries, frequently remaining around 0.5% while the OECD average remains around 0.64%.²⁰ Nevertheless, the ATO considers that this metric could be further improved by using AI to both: (1) source and review increasingly large quantities of increasingly unstructured data for intelligence purposes; and (2) power risk models designed to identify potential non-compliance for human review.²¹

More specifically, the ATO employs AI to run large-scale data-matching programs which, unlike former algorithms, are not limited to automated cross-checks of singular data points; for instance, a mismatch between bank records and a tax return where a tax agent forgets to include interest paid from a business savings account. By the ATO training an AI model on millions of tax returns (and other structured and unstructured data) over many years, the tool may learn the typical income and expense patterns (and other more complex trends) for different professions, businesses and industries. From there, it may build detailed benchmarks for almost every classification of taxpayer, activity and transaction. So, rather than only comparing a taxpayer's income tax return against other sources of the same information about that same taxpayer, AI may also compare a taxpayer's return against its self-developed benchmarks – something no realistic amount of human effort could hope to develop, use and maintain.²²

By way of example, the ATO currently has AI models in use which: (1) generate predictions on the likelihood and consequence of omitted income in the small business market; (2) assess interactions and ratios between rental incomes and expenses to find patterns of non-compliance based on past audit outcomes; (3) predict the likelihood that a property sold was the taxpayer's main residence and therefore eligible for various legislative exemptions from capital gains tax ('CGT'); and (4) identify, and assign a predictive likelihood and consequence value to, taxpayers at risk of having misclassified their disposal of real property as capital rather than revenue (usually to allow access to CGT-specific discounts and concessions).²³

In addition to the taxpayer and transaction benchmarks, the ATO has also developed benchmarks at the tax agent level. This allows the ATO to compare the tax reported by one tax agent for each of their clients to the amounts reported by other tax agents. These tax agent risk models

²⁰ OECD, *Tax Administration 2025* (Report, October 2025) 127.

²¹ Australian National Audit Office (n 3) [1.17].

²² For a technical explanation of how AI achieves this, see, Sharifur Rahman et al, 'An Exploration of Artificial Intelligence Techniques for Optimizing Tax Compliance, Fraud Detection, and Revenue Collection in Modern Tax Administrations' (2024) 7(3) *International Journal of Business Intelligence and Big Data Analytics* 56.

²³ Australian National Audit Office (n 3) Appendix 3.

have been an apparent focus of the ATO since the 2024 income year. They include models which: (1) identify a tax agent's lodgement performance to predict and classify whether their clients will lodge income tax returns on time; (2) examine whether total business income is understated or total deductible expenses are overstated across the tax agent's clients; (3) analyse the incidence and amount of their clients' household lifestyle income to detect unexplained wealth; and (4) identify other patterns in tax agent behaviour relating to general reporting behaviour.²⁴

A more detailed use-case example is the ATO's work-related expenses ('WRE') AI models. In the 2022 income year, the ATO estimated that 'individuals not in business' accounted for \$10.2 billion in uncollected tax revenue and that \$3.6 billion (35%) was related to incorrect claims for WRE. The ATO was, however, limiting the number of audits of WRE claims it conducted per year due to the cost and unavailability of human resources to conduct manual reviews and audits. To address non-compliant WRE claims, the ATO therefore developed three new AI models seeking to increase the accuracy of WRE risk assessments, improve audit case selection, increase risk detection, and reduce staff and resourcing costs. As of February 2025, only one had been deployed, being the 'substantiation risk model'.²⁵

The substantiation risk model assesses the risk (likelihood, severity and consequence) that the individual taxpayer's WRE claims are non-compliant holistically (case selection) and the risk that each WRE claim is non-compliant (claim selection). Risk scores are assigned by the model using variations of nearest neighbour analysis, comparing the WRE claims to both benchmark claims the ATO expects similar taxpayers to make and benchmark claims actually made by similar taxpayers.²⁶ This model is highly accurate, with 97.9% of the cases selected leading to one or more claims being adjusted by the ATO after review.²⁷ This has led to meaningful increases in human resource efficiency, with a 19% increase in the number of cases selected containing non-compliance when compared to baselines set before the WRE substantiation model was implemented.²⁸

To ensure integrity of the AI models, the ATO notes that it 'has human oversight over all uses of AI, [with] decision-making that impacts clients... always made by a human'.²⁹ These human tax officers also play a critical role in improving the AI model, with the

²⁴ Ibid.

²⁵ Ibid [3.15] and Appendix 4.

²⁶ Ibid Appendix 4.

²⁷ Ibid [4.9].

²⁸ Ibid [3.15].

²⁹ Ibid [1.17].

above processes and benchmarks constantly evolving through what the ATO calls an ‘enterprise learning loop’.³⁰ When a model flags a return or particular matter within a return, it escalates it to human review. The officer investigates the return, checks the evidence and makes a final call. To this end, each model implemented by the ATO remains a ‘human-in-the-loop’ system.³¹ If the human agrees that the return was incorrect and that the model was correct, the result is fed back into the AI program via positive feedback, encouraging the model to strengthen its pattern recognition for that type of anomaly. Otherwise, where the human officer confirms that the return is legitimate and that the model was wrong, the result is fed back in as corrective feedback to encourage the AI program to tweak its rules to reduce the chances of similar valid returns being flagged in the future. This human-in-the-loop pipeline serves as a critical counterpart to automated AI feedback mechanisms with no human involvement.³²

Embedding human expertise into monitoring, annotation and evaluation notably increases the reliability and contextual accuracy of AI deployments. It also offers a safeguard to ensure AI systems are operating as intended and upholding ethical principles, managing risks throughout their lifecycle. This is particularly important in high-stakes domains where model errors can lead to significant consequences, such as when administering tax.³³ To this end, many readers would recall the controversial former Robodebt Scheme. This was a human-*out-of*-the-loop system which, due to the algorithm being flawed, issued hundreds of millions of dollars in false debt notices to social security payment recipients on behalf of Services Australia. The Government ultimately admitted the Robodebt Scheme was ‘illegal and immoral’, agreed to a \$475 million settlement (the largest class action settlement in Australian history),³⁴ retired the Robodebt Scheme and established a Royal Commission.³⁵ The threats to perceived government integrity caused by the Robodebt Scheme continue to be felt today.³⁶

It can be seen above that AI has clear utility to the ATO. However, automation (including via AI) also has clear risks. As mentioned in the

³⁰ Ibid, describing the ‘enterprise learning feedback loop’ as one of the ATO’s five strategies in the ATO’s internal automation and AI strategy.

³¹ Australian Taxation Office (n 5).

³² Aaditya Shukla et al, ‘Adaptive Data Flywheel: Applying MAPE Control Loops to AI Agent Improvement’ (2025) *arXiv Preprint* 2510.27051, 1-2.

³³ Ibid.

³⁴ Michelle Rowland, ‘Robodebt Class Action Appeal Settlement’, (Media Release, 4 September 2025) <<https://ministers.ag.gov.au/media-centre/robodebt-class-action-appeal-settlement-04-09-2025>>.

³⁵ *Royal Commission into the Robodebt Scheme* (Report, 7 July 2023).

³⁶ Valerie Braithwaite, ‘Beyond the Bubble That is Robodebt: How Governments That Lose Integrity Threaten Democracy’ (2020) 55(3) *Australian Journal of Social Issues* 242, 242–59.

introduction, the ATO and Australian Government have been working to understand and mitigate the risks which have been dominating government, academic and stakeholder discussion.³⁷ However, the effectiveness of tax administrator applications of AI in enhancing taxpayer voluntary compliance, taxpayer challenges in navigating an increasingly digital and AI-driven fiscal environment, and the determinants shaping the relationship between tax authorities and taxpayers in this evolving digital landscape have remained critically under-researched areas.³⁸ This raises questions around the effects of the ATO's surveillance-focused AI models.

B *Effects of AI Use by the ATO*

As outlined, the principal effect of the ATO's uptake and development of AI has been to produce tax savings and/or to increase tax revenue. This focus might be attributed to the significant difference between actual revenue collected and the revenue expected to be collected under full compliance – a concept known as the 'tax gap' – and the costly nature of reducing it. The tax gap includes not only deliberate fraud and evasion, but also: (1) mistakes and errors leading to under-reporting, such as undeclared income and incorrectly claimed deductions, concessions, exemptions or offsets; (2) personal and commercial hardship leading to late filing, non-filing, overdue payment or non-payment;³⁹ and (3) other forms of inadvertent non-compliance. According to the ATO, the net tax gap for the 2023 income year was estimated at \$58.2 billion, about 9.1% of the total tax that would have been due under full compliance.⁴⁰ The real tax gap, however, could be much higher.⁴¹ This tax gap has continually grown over the past decade as a proportion of tax expected to be collected.⁴²

A good tax system achieves the goals of equity, efficiency and fiscal adequacy. When taxpayers are non-compliant, not paying their legally due tax liabilities in a timely manner, this compromises all these goals.

³⁷ Australian National Audit Office, *Governance of Artificial Intelligence at the Australian Taxation Office* (Report, February 2025); Digital Transformation Agency, 'Policy for the Responsible Use of AI in Government' (Plan, Version 2, 15 December 2025); Digital Transformation Agency, 'Technical Standard for Government's Use of Artificial Intelligence' (Technical Standard, Version 1, 22 August 2025).

³⁸ Belahouaoui and Attak (n 8) 172–91.

³⁹ See, eg, Sylvia Villios, 'Tax Collection, Recovery and Enforcement Issues for Insolvent Entities' (2016) 31(3) *Australian Tax Forum* 425.

⁴⁰ Australian Taxation Office, 'Tax Gap Program Summary Findings' (Webpage, 3 November 2025) <<https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/australian-tax-gaps-overview/tax-gap-program-summary-findings>>.

⁴¹ Rita de la Feria, 'Tax Fraud and Selective Law Enforcement' (2020) 47(2) *Journal of Law and Society* 240, 240–2.

⁴² Australian Taxation Office (n 17) Table 3.15; Australian Taxation Office (n 40).

Ultimately, a significant tax gap means that either other taxpayers must pay higher taxes, federal spending must be reduced, or federal borrowing must increase. In each case, others must bear the burden of the revenue shortfall.⁴³ Governments therefore devote many resources in attempts to combat non-compliance, even while taxpayers devote many resources to minimising their tax liabilities.

There has thus been a significant intensification of anti-fraud and anti-evasion policy and an upsurge in both legislative and administrative measures targeting organised tax crime over the past decade. However, while many of these should be regarded as positive developments, analysis of the measures unveils a fundamental lack of understanding of the phenomenon and its costs. Revenue loss is often taken as a proxy for fraud and evasion, with anti-fraud and anti-evasion measures not primarily designed to deter fraud and evasion, but rather to facilitate the recovery of (or, failing that, to allow compensation for) the revenue that has been lost. While revenue loss is a certain cost of tax fraud and evasion, the following are often overlooked: (1) compliance and administrative costs; (2) distortions to competition; (3) subsidies to organised crime; (4) violations of vertical equity, as higher-income earners are more capable of tax crime; and (5) violations of horizontal equity, by allowing similarly situated taxpayers to obtain dissimilar/lesser tax burdens.⁴⁴ As in many other areas of the criminal justice system, tax fraud and evasion have therefore become crimes whose effects are to be managed, rather than crimes to be suppressed.⁴⁵ There are many theories as to how best to suppress rather than manage tax crime, the accuracy and utility of which are likely to change during this digital era.⁴⁶ A merely compensatory rather than deterrent approach, however, does not most effectively suppress tax crime.

There has been a significant toughening of penalty severity imposed on tax evaders and fraudsters in pursuit of the flawed compensatory approach to tax crime, the traditional understanding being that the higher the penalty, the stronger the deterrent.⁴⁷ There is now empirical evidence, however, that indicates that such effectiveness is far from guaranteed. Research instead suggests that the risk of audit is a much stronger incentive to comply than penalties.⁴⁸ This aligns with the general perspective that the effectiveness of crime deterrence is more-or-less a multiple of the severity of the maximum penalty capable of

⁴³ Rahman et al (n 10) 61; Alm (n 12) 153.

⁴⁴ de la Feria (n 41).

⁴⁵ Ibid.

⁴⁶ Jawad Harb, 'Taxpayers' Non-Compliance in the Digital Era' (PhD Thesis, RMIT University, 2025) 84-113.

⁴⁷ de la Feria (n 41) 254-7; Ibid 155-212.

⁴⁸ Ibid.

being imposed at law, the certainty of the offender being caught by the relevant regulator, and the probability of the maximum penalty being imposed by administrative or judicial institutions upon the offender once caught.⁴⁹

Despite attracting significant academic attention, there has been a sense that further investment from tax administrators in increasing the likelihood of fraud and evasion detection may be inefficient, as the difficulties and human resources costs involved in adopting a stricter approach outweighed the potential revenue benefits.⁵⁰ However, the technology shock following the COVID-19 pandemic, and particularly the rapid uptake and development of AI, has significantly improved the ability of tax administrators to detect fraud and evasion. As James Alm describes:

The basic issue in tax administration has always been getting information on taxpayers and their activities, and for much of history tax administrations did not have full, complete, and timely information. Even during much of the 20th century information has been limited, due to several factors. Many transactions were in cash, so that there was no 'paper trail' that could be used to verify the accuracy of any reports. Many types of transactions were not reported via third-party information, so again there was no paper trail of transactions. Many types of income were also not subject to source withholding, which also decreased the flow of information to the tax authorities. Many types of tax shelters were shrouded in secrecy. Many individuals (and firms) hid income and assets in offshore accounts (e.g. tax havens). Many multinational enterprises were able to shift profits to low-tax jurisdictions via transfer prices that were largely hidden and, even when reported, could not be independently verified.⁵¹

The aforementioned explosion in data availability, digitisation of the tax system and the ATO's implementation of AI is decreasing the ability of individuals and firms to transact in such discrete fashions. Gone are the days of 'bottom of the harbour' schemes, which relied on paper trails being the only source of truth.⁵² Indeed, the use of AI to combat fraud and evasion has also been the primary focus of other

⁴⁹ Michael Croft and Mark Giancaspro, 'Challenges and Successes in Detecting and Enforcing Offences of Water Theft in Australia's Murray-Darling Basin: Lessons for Transboundary Water System Regulators' (forthcoming) 34.

⁵⁰ de la Feria (n 41) 253–4.

⁵¹ Alm (n 12) 154.

⁵² Michael West, 'Tax Avoidance as Bad as Bottom of the Harbour Schemes', *The Sydney Morning Herald* (Webpage, 10 February 2015) <<https://www.smh.com.au/business/tax-avoidance-as-bad-as-bottom-of-the-harbour-schemes-20150210-13adf3.html>>.

global tax administrators.⁵³ While other uses (such as AI virtual assistants) are noted in academia, discussions concerning the effective use of AI in tax administration have generally been focused on the promise of AI to better detect fraud and evasion and reduce the tax gap.⁵⁴ The rhetoric surrounding, and focus on, the development of AI models by the ATO to reduce fraud and evasion (as opposed to other uses) may also support this conclusion.

Of course, these same technological innovations for information retrieval, transmission and analysis are not confined to the government but are also available to taxpayers. In fact, although electronic trails are more difficult to avoid, the ability to hide income and assets from government tax administrators may be enhanced by the ways in which technology makes for easier profit shifting via transfer pricing, the locating of intangible assets in low-tax jurisdictions, intra-group debt shifting, treaty shopping, corporate inversions and tax deferrals. Overall, however, it appears that the dominant technological trend will be toward the ability of the ATO to identify and combat fraud and evasion by increasing certainty of detection.⁵⁵ In fact, one study shows that AI has the potential of raising compliance rates by up to 10% and decreasing tax evasion by up to 20%,⁵⁶ supported by case studies in Australia and abroad.⁵⁷ Others give even higher figures, with theoretical testing showing a rise in detected tax evasion of as much as 39% and evaded taxes that are actually paid back by 29%.⁵⁸ These are meaningful improvements.

The AI models employed by the ATO do not, however, distinguish deliberate fraud or evasion from genuine mistakes or errors. While increasing the detection of fraud and evasion should reduce those phenomena, increasing the detection of mistakes and errors may not

⁵³ OECD (n 11) 39; for examples of ‘successes’, see, Antonio Martinez, ‘Democratizing Tax Law with AI: Enhancing Accessibility for Citizens and Efficiency for Tax Administrations’ (2025) 52 *Tax Administration Review* 160.

⁵⁴ See, eg, Rahman et al (n 10); Arfah Saragih, ‘The Potential of an Artificial Intelligence (AI) Application for the Tax Administration System’s Modernization: The Case of Indonesia’ (2023) 31 *Artificial Intelligence and the Law* 491; Martinez (n 53).

⁵⁵ Alm (n 12) 156–8.

⁵⁶ Shalini Aggarwal, ‘The Role of Artificial Intelligence in Tax Administration and Compliance: A New Era of Digital Taxation’ (2024) 30(1) *Educational Administration: Theory and Practice* 3831, 3834–5.

⁵⁷ Tess Bennett, ‘ATO Captures Billions of Dollars from Tax Cheats With AI’, *Financial Review* (Media Release, 1 August 2023) <<https://www.afr.com/technology/ato-captures-billions-of-dollars-from-tax-cheats-with-ai-20230727-p5drnf>>; PWC Latvia, ‘Role of AI in Transforming How Tax Authorities Work’ (Webpage, 22 December 2025) <<https://www.pwc.com/lv/en/about/services/IT-services/related-articles/Role-of-AI-in-transforming-how-tax-authorities-work.html>>, citing Polish Government, Ministerstwo Finansow, ‘Raport KE: Polska Redukuje Luke VAT’ (Webpage, 9 December 2022) <<https://www.gov.pl/web/finanse/raport-ke-polska-redukuje-luke-vat>>.

⁵⁸ Marco Battaglini, ‘Refining Public Policies with Machine Learning: The Case of Tax Auditing’ (2025) 249 *Journal of Econometrics* 105847.

have the same effect. Ultimately, increased detection is likely to be paired with increased penalisation through the imposition of interest charges, shortfall penalties and late-lodgement or failure-to-lodge fees, noting that a genuine mistake or error without fault does not automatically entitle the taxpayer to a remission of these charges, penalties or fees.⁵⁹

Increased fear of detection and penalisation is necessary to encourage deliberately non-compliant taxpayers to assume their obligations to report their tax liabilities correctly and pay their tax debts on time. However, a reliance on a culture of fear is likely to lead those who have inadvertently failed to comply with their tax obligations to resent the tax administrator and disengage from the tax system in the future.⁶⁰ Such resentment and disengagement undermines the willingness of taxpayers who would otherwise strive for compliance to fulfil their tax obligations without enforcement – a concept known as ‘voluntary compliance’. Voluntary compliance is ultimately the cornerstone of an equitable, efficient and fiscally adequate tax system;⁶¹ after all, enforcement actions impose both: (1) significant time and psychological costs on the specific taxpayer;⁶² and (2) significant financial costs on all taxpayers, as the specific taxpayer expends its own cash while the ATO expends public capital in its efforts.⁶³

This article therefore proposes that the ATO should consider both: (1) how it intends to respond to errors and mistakes identified by AI, and whether current practices may be detrimental to long-term voluntary compliance; and (2) how AI could be utilised to specifically promote voluntary compliance, rather than simply enabling enforced

⁵⁹ ATO practices around the charging and remission of the general interest charge, shortfall interest charge, penalties for false or misleading statements and fees for late or non-lodgement can be found at: Australian Taxation Office, ‘Practice Statement Law Administration PS LA 2006/8’ (Practice Statement Law Administration, 9 July 2026); Australian Taxation Office, ‘Practice Statement Law Administration PS LA 2001/12’ (Practice Statement Law Administration, 25 June 2026); Australian Taxation Office, ‘Practice Statement Law Administration PS LA 2012/5’ (Practice Statement Law Administration, 18 December 2025); Australian Taxation Office, ‘Practice Statement Law Administration PS LA 2011/19’ (Practice Statement Law Administration, 20 August 2025); Australian Taxation Office, ‘Miscellaneous Taxation Ruling MT 2008/1’ (Miscellaneous Taxation Ruling, 20 August 2025).

⁶⁰ Standing Committee on Tax and Revenue, *Inquiry into Taxpayer Engagement with the Tax System* (Parliamentary Inquiry Paper, August 2018) Ch 4.

⁶¹ Phyllis Alexander et al, ‘Further Improving Our Understanding of the Tax Awareness, Tax Literacy and Tax Morale of Young Adults’ (2023) 8(1) *Journal of Tax Administration* 193, 193.

⁶² Harry Waddell, ‘Perceptions of Tax Literacy of Small Business Owners in New Zealand: Views from Tax Practitioners’ (2025) 27(1) *Journal of Australian Taxation* 4, 4.

⁶³ Harb (n 46) 38–44. Note, the ATO does consider this when determining whether to settle via early or alternative dispute resolution or to proceed to tribunal or court: Inspector-General of Taxation, Australian Government, *Review into the Australian Taxation Office’s Use of Early and Alternative Dispute Resolution* (Report, May 2012) [5.5]–[5.6].

compliance through increased detection. In particular, the former should include considerations of the impact on ‘tax morale’, as voluntary compliance typically increases as a taxpayer’s intrinsic moral obligation to pay taxes increases,⁶⁴ while the latter should include considerations on how AI could be used to increase ‘tax simplicity’ and ‘tax literacy’, as voluntary compliance typically increases as the simplicity of the tax system and taxpayers’ awareness and knowledge of their obligations increases.⁶⁵

The next Part III is therefore committed to analysing the current trends in tax morale, simplicity and literacy in Australia, before outlining related conclusions and a procedure for implementing AI-driven solutions. Part IV contains recommendations on how AI could be better utilised by the ATO to increase tax morale, simplicity and literacy and hence voluntary compliance. A summary of the findings and recommendations of this article is then contained in Part V.

III AI and Voluntary Compliance

A *Tax Morale*

The ATO’s current organisational structure and compliance model came as part of a series of policy reforms in the 1990s. These reforms set the stage for a new proactive role in building ‘tax morale’ – a taxpayer’s intrinsic moral obligation to pay taxes.⁶⁶ This moral obligation is driven by a number of psychological factors such as trust and confidence in the tax administrator, perceptions of fairness and equity in the law, policies and procedures, and a shared sense of civic duty or belief that one should contribute to society by paying taxes.⁶⁷ However, due to the intangible nature of the factors, it is very difficult to measure tax morale empirically.⁶⁸

Despite this, it is generally known that tax morale was low in Australia in the early 1980s.⁶⁹ There were perceptions among the public that tax avoidance and evasion among large corporate taxpayers and

⁶⁴ Harb (n 46) 84-113, 230-8; Joshua Timothy and Yulianti Abbas, ‘Tax Morale, Perception of Justice, Trust in Public Authorities, Tax Knowledge, and Tax Compliance: A Study of Indonesian SMEs’ (2021) 19(1) *eJournal of Tax Research* 168.

⁶⁵ Timothy and Abbas (n 64).

⁶⁶ Valerie Braithwaite, ‘A New Approach to Tax Compliance’ in Valerie Braithwaite (ed), *Taxing Democracy Understanding Tax Avoidance and Evasion* (Routledge London, 2003) Ch 1.

⁶⁷ Harb (n 46) 84-113, 230-8; Sembiring, Tarigan and Satria (n 6) 64-71.

⁶⁸ Benno Torgler, ‘Tax Compliance and Data: What Is Available and What Is Needed’ (2016) 49(3) *Australian Economic Review* 352, 352-60.

⁶⁹ Benno Torgler and Kristina Murphy, ‘Tax Morale in Australia: What Shapes It and Has It Changed Over Time?’ (2004) 7(2) *Journal of Australian Taxation* 298, 324.

within the cash economy had become prevalent and was going unpunished, while salary and wage earners and small business taxpayers were being subjected to undue attention and punished in ways disproportionate to their comparatively lower culpability.⁷⁰ These perceptions aligned with findings of regulatory scholars at the time, who argued that compliance is more likely to occur through an appropriate mix of punishment and persuasion (rather than either alone) and that punishment should be used as a last resort when all persuasive attempts to achieve compliance have failed. This ‘last resort’ method acknowledges that formal sanctions are often too harsh for minor non-compliant actions and counterproductive to achieving compliance in either the short-term or long-term due to creating an ‘us versus them’ mentality between the tax administrator and the taxpayers.⁷¹

The ATO therefore adopted an organisational structure which ceased focusing so much on compliance management, risk control and enforcement actions and instead slowly became more focused on customers, service quality, process improvement and transparency. This included assigning staff to units focused on specific groups of customers (e.g. salary and wage earners, small business taxpayers and large business taxpayers).⁷² It also included the adoption of a *Taxpayers’ Charter*, which was designed to convey the ATO’s acknowledgement of its wide-ranging powers and the need to find a balance between the application of those powers and the rights of taxpayers.⁷³ The charter was given effect by the implementation of the ATO’s ‘cooperative compliance model’ (‘CCM’), requiring ATO officers to proceed on the assumption that taxpayers have the capacity to comply, but that many may ‘slip through the cracks’ and have difficulty complying for reasons beyond their control. The CCM then advocates for a response tailored to the taxpayer’s ‘motivational posture’, being their behaviour, stance or attitude towards complying. The taxpayer’s motivational posture is determined by considering the particular taxpayer’s business profile, psychological and sociological factors, as well as industry and economic factors prevalent at the time. The severity of the ATO’s response to the taxpayer’s non-compliance then escalates as the taxpayer becomes more disengaged, ranging from

⁷⁰ Ibid, 329–31; Robert Waite, ‘Exploring Innovations in Tax Administration: A Foucauldian Perspective on the History of the Australian Taxation Office’s Compliance Model’ (2014) 12(1) *eJournal of Tax Research* 130, 142–7.

⁷¹ Connie Vitale et al, ‘Slipping Through the Cracks: Deficiencies in the Australian Taxation Office’s Application of its Compliance Model’ (2024) 53(3) *Australian Tax Review* 184, 188–9.

⁷² Torgler and Murphy (n 69) 332–3.

⁷³ Waite (n 70) 144–5.

co-operative and persuasive interactions to deterrence strategies such as audits and penalties, and ending with prosecution.⁷⁴

It was thought that these new approaches would improve tax morale as: (1) taxpayers would feel that higher compliance levels were being achieved among other groups of taxpayers; and (2) the ATO could better match its compliance programmes to the patterns of different groups, and so taxpayers would feel that their needs were being considered in the regulatory and enforcement process.⁷⁵ Indeed there is evidence that this approach, combined with substantial tax reforms around that time aimed at improving fairness, did improve tax morale throughout the 1990s.⁷⁶ However, there now appears to be a disconnect between the ATO's proposed and actual behaviours, as public perceptions of the ATO as an organisation involved in co-production and alliance rather than coercion and repression currently appear weak.⁷⁷

Although difficult to show definite causal links due to a lack of data, anecdotal findings may show that weak tax morale may stem from: (1) the legislative interface and ATO policies not adequately protecting taxpayers against the impact of erroneous assessments⁷⁸ which, in light of the impact of technological progress on tax administration, has led many to ask whether tax authority powers (to assess, collect, request information and sanction) should be more tightly controlled;⁷⁹ (2) the ATO's increased adoption and maintenance of positions that may be seen as unreasonable, unsupported or revenue-biased,⁸⁰ with the ATO recently being warned of maladministration involving prejudice by the Tax Ombudsman;⁸¹ (3) despite the client-based organisational structure, the ATO seeking to administer the tax system through letters and forms in pursuit of administering the tax system at the least cost,

⁷⁴ Vitale et al (n 71) 184–7.

⁷⁵ Torgler and Murphy (n 69) 332–3.

⁷⁶ Ibid 324.

⁷⁷ Alexander et al (n 61) 193.

⁷⁸ Sylvia Villios, 'The Legislative Interface between the Creation of a Liability to Tax and the Right to Challenge that Liability' (2014) 29 *Australian Tax Forum* 551; A minimum right to judicial review ensures administrative decisionmakers act within their legal powers: *Australian Constitution* s 75(v).

⁷⁹ Daly (n 6) 437–64; Guglyuvaty (n 6).

⁸⁰ Joint Committee of Public Accounts and Audit, Parliament of Australia, *Tax Administration* (Report No 410, June 2008) [5.87]–[5.103]. Also see commentary surrounding the ATO's (mis)use of the fraud or evasion allegation and the rulings system, especially in the context of the controversial 2016 '*Indooroopilly Case*': Sunita Jogarajan, 'Regulating the Regulator: Assessing the Effectiveness of the ATO's External Scrutiny Arrangements' (2016) 8 *Journal of Australian Tax* 23, 28–38. The author expects similar commentary to arise following the ATO's recent loss in *Commissioner of Taxation v Bendel* [2026] HCA 18, where the ATO was found to have held an incorrect legal position for more than 15 years and for which taxpayers will be provided no relief for losses sustained in relying on the ATO's position.

⁸¹ Tax Ombudsman, *Bias Isn't Always Seen: A Review into the ATO's Controls for Bias in Decision-making and Disclosures* (Final Report, July 2026).

rather than seeking quality personal interactions with taxpayers;⁸² and (4) historical issues with acceptance of the *Taxpayers' Charter* and CCM among ATO staff,⁸³ with evidence showing that the policies continue to fail to constrain the ATO structurally⁸⁴ and that such failures are leading to inconsistent and often harsh penalty applications.⁸⁵

Again, while difficult to show definite causal links due to a lack of data, the above issues appear to be getting worse since the new Commissioner of Taxation, Rob Heferen, assumed office in 2024. Complaints made directly to the ATO nearly doubled from the 2021 income year to the 2024 income year,⁸⁶ while complaints to the Tax Ombudsman rose 127% year-on-year in the first ten months of the 2026 income year. The Tax Ombudsman, Ruth Owen, has attributed this to the ATO's increasingly stern approach to tax debts under Rob Heferen's leadership, finding that the ATO should have acted differently in 29% of penalty decisions brought to it.⁸⁷ Meanwhile, the proportion of complaints able to be resolved at first contact dropped from approximately 10.5% in the 2021 income year to 5.5% in the 2024 income year.⁸⁸ This could evidence one of two things: (1) the types of complaints are becoming more complex; or (2) the ATO is becoming more argumentative. Further, both the Australian National Audit Office and Australian Public Service Commission Capability Review have found that the ATO's relationship with tax practitioners has been eroding in recent years for many of the same reasons.⁸⁹ In all regards, these anecdotal findings may display serious deterioration of the relationship between the ATO and Australian taxpayers.

As noted above, the ATO's current uses of AI are principally targeted at increasing detection of non-compliance. Ultimately, increased detection is likely to be paired with increased penalisation through the imposition of interest charges, shortfall penalties and late-lodgement or failure-to-lodge fees, again noting that a genuine mistake

⁸² Vitale et al (n 71) 201.

⁸³ Waite (n 70) 144–7.

⁸⁴ John Bevacqua, 'Redressing the Imbalance – Challenging the Effectiveness of the Australian Taxpayers' Charter' (2013) 28 *Australian Tax Forum* 377, 377–400.

⁸⁵ Inspector-General of Taxation and Taxation Ombudsman, *In the Interest of Fairness: A Review into the ATO's Management of Remission of General Interest Charge* (Report, March 2026) 27–30.

⁸⁶ Australian National Audit Office, *Management of Complaints by the Australian Taxation Office* (Report, March 2025) [3]–[21].

⁸⁷ Tax Ombudsman, *Insights from Tax Ombudsman Complaints* (Report, May 2026).

⁸⁸ Australian National Audit Office (n 86) Figure 2.7.

⁸⁹ Australian National Audit Office, *Australian Taxation Office's Engagement with Tax Practitioners* (Auditor-General Report No 2, August 2022) 6; Australian Tax Ombudsman, *Review: ATO's Registered Agent Phone Line and Service Offer to Agents* (Final Report, October 2025).

or error without fault does not automatically entitle the taxpayer to a remission of these charges, penalties or fees.⁹⁰ If the ATO fails to consider the impacts of its current enforcement approaches, especially given the number of taxpayers affected is likely to increase due to AI surveillance, the ATO may weaken tax morale and foster long-term resentment and disengagement.

B *Tax Simplicity*

In addition to changing ATO postures, there have also been various changes to laws, policies and procedures which focus more on the individual's responsibility to engage with taxpaying obligations over past decades.⁹¹ Meanwhile, the complexity of being tax compliant has continually grown.⁹²

There are various sources of complexity in any tax system, including: (1) 'compliance complexity', being the difficulty faced in interacting with the tax system; (2) 'rule complexity', being the difficulty in understanding and interpreting the legislative and regulatory rules; and (3) 'transactional complexity', being the cost to those who change their everyday behaviour to reduce their tax liabilities.⁹³ There is also the challenge of how to define simplicity: is a rule simple if its scope is easily and accurately understood, if it is easy for taxpayers to comply without incurring excessive costs, or if it is easy for a tax authority to administer? Meanwhile, ensuring simplicity at one level may well cause complexity at other levels, or elsewhere at the same level.⁹⁴

The introduction of Australia's self-assessment system represented a substantial shift in 'compliance complexity'. Until the late 1980s, a taxpayer's primary obligation was to make full and true disclosure to the ATO. The ATO would then determine the relevant facts, apply the law and assess a taxpayer's liability to tax. In this way, much of the intensive assessment efforts were undertaken by the ATO. If the taxpayer disagreed with the ATO, they could object against the

⁹⁰ ATO practices around the charging and remission of the general interest charge, shortfall interest charge, penalties for false or misleading statements and fees for late or non-lodgement can be found at: Australian Taxation Office (n 59).

⁹¹ Alexander et al (61) 193.

⁹² Ibid; Vitale et al (n 71).

⁹³ John Snape, 'Tax Law: Complexity, Politics and Policymaking' (2015) 24(2) *Social & Legal Studies* 155, 155–6.

⁹⁴ Simon James, Adrian Sawyer and Ian Wallchutzky, 'Tax Simplification: A Review of Initiatives in Australia, New Zealand and the United Kingdom' (2015) 13(1) *eJournal of Tax Research* 280, 284–5.

assessment through a prescribed process.⁹⁵ In the 1984 income year, there were more than 236,000 objections. It was thought that if the number of disputed returns continued to grow at the prevailing rate, the ATO would ultimately use more staff in reviewing assessments than in processing them.⁹⁶ A new system of self-assessment was therefore rolled out from the 1987 income year, which remains in force today.

Under the new system, taxpayers are required to provide only basic information about certain income, deduction and tax offset items via the lodgement of an income tax return in the prescribed form.⁹⁷ Taxpayers must then keep sufficient contemporaneous records to substantiate the details of their return, including relevant facts, how they applied the law and how they calculated their taxable income.⁹⁸ To ensure that taxpayers have complied with the tax laws in producing their returns and been properly assessed, the ATO is armed with wide audit and investigative powers.⁹⁹ Where investigations indicate that a taxpayer's return contains an error of calculation, mistake of fact or misunderstanding of the law, the ATO may issue an amended assessment to the taxpayer – even after having already collected the tax payable or having paid a tax refund.¹⁰⁰ When the ATO issues an amended assessment to a taxpayer, 'conclusive evidence' provisions in the tax legislation have the effect of establishing conclusively that the amount and all the particulars in a notice of assessment produced by the ATO are correct.¹⁰¹ The taxpayer must then convince the ATO that the amended assessment is incorrect through internal review or, failing that, challenge the ATO's position through costly judicial action.¹⁰² Under the self-assessment system, the burden of understanding and substantiating the law therefore sits with the taxpayer, while much of the power sits with the ATO.

That burden becomes increasingly challenging to shoulder as 'rule complexity' continues to increase. The volume of income tax legislation and accompanying information – including explanatory memoranda, court and tribunal decisions, tax law commentary and publications released by the ATO – has grown dramatically over recent

⁹⁵ Treasury, *Report on Aspects of Income Tax Self Assessment* (Report, 16 December 2004) Ch 1.

⁹⁶ Sunita Jogarajan, 'Regulating the Regulator: Assessing the Effectiveness of the ATO's External Scrutiny Arrangements' (2016) 18 *Journal of Australian Tax* 23, 24.

⁹⁷ Paul Kenny et al, *Australian Tax 2024* (2023, LexisNexis) [21.2].

⁹⁸ *Income Tax Assessment Act 1997* (Cth) div 900.

⁹⁹ Kenny et al (n 97) [21.5].

¹⁰⁰ *Income Tax Assessment Act 1936* (Cth) s 170.

¹⁰¹ *Taxation Administration Act 1953* (Cth) ss 255-5(1) and 350-10 of sch 1.

¹⁰² *Ibid* pt IVC.

decades.¹⁰³ The content and application of these increasingly voluminous materials have also continued to become more technical.¹⁰⁴ Increasing volume and technicality are principally due to: (1) simple rules often being open to avoidance and evasion, with policy-makers and legislative drafters adding volume and technicality in attempts to predict and combat potential avoidance and evasion practices;¹⁰⁵ (2) the use of tax as an instrument to affect economic behavioural policy, with such aims having to be achieved in a byzantine and changing socioeconomic environment where issues such as fairness also have to be given appropriate consideration;¹⁰⁶ and (3) the increasing rates of socioeconomic change which technology, digitisation and e-commerce have invoked, driving up technicality and amendment frequency and inevitably adding further complexity.¹⁰⁷

Those who prepare their own income tax return (principally employees) are the group most affected by this complexity, with errors often resulting in an overstatement of their liability to tax. In addition, some taxpayers choose to be over-compliant as a means of dealing with complexity, causing self-lodging taxpayers to experience unnecessary compliance costs (e.g. by either overstating their assessable income or understating their claimable deductions). This compromises the integrity of the Australian tax system by imposing an unfair burden on personal taxpayers. However, since the primary issue is the overpayment of tax there is little to no financial incentive for the ATO to address the causes of complexity for personal taxpayers.¹⁰⁸

Those who prepare their own return are, however, in the minority. Approximately 70% of income tax returns in Australia are lodged by tax agents,¹⁰⁹ representing approximately 62% of individual taxpayers and 96% of other taxpayers.¹¹⁰ In particular, business taxpayers continue to prefer lodgement via tax agents over self-lodgement for numerous reasons, primarily including: (1) their lack of tax knowledge; (2) their aim to lodge an accurate tax return; (3) their fear of making mistakes when preparing their tax returns; and (4) their desire to minimise their tax liability.¹¹¹ Each of these reasons relates directly to

¹⁰³ Diana Scolaro, 'Tax Rulings: Opinion or Law? The Need for an Independent "Rule-Maker"' (2006) 16 *Revenue Law Journal* 109, 109; James, Sawyer and Wallschutzky (n 94) 281–92.

¹⁰⁴ See, eg, Tran-Nam et al, 'Managing Tax Complexity: The State of Play After Henry' (2016) 35(4) *Economic Papers* 347.

¹⁰⁵ Snape (n 93) 158–60.

¹⁰⁶ James, Sawyer and Wallschutzky (n 94) 281–90.

¹⁰⁷ *Ibid.*

¹⁰⁸ Margaret McKerchar, 'The Impact of Complexity Upon Unintentional Noncompliance for Australian Personal Income Taxpayers' (PhD Thesis, University of New South Wales, 2002).

¹⁰⁹ Australian National Audit Office (n 89) 6.

¹¹⁰ Australian Tax Ombudsman (n 89).

¹¹¹ Harb (n 46) 23–28, 67–82.

issues of complexity. Further, as ambiguity and rate of change increases, the amount which business taxpayers must spend on professional fees also increases in real terms each year.¹¹² In fact, most Australian tax practitioners cite complexity and frequent changes to the law as the main drivers of increasing costs of tax affairs management and advice.¹¹³ These costs are also regressive, which results in smaller businesses experiencing a larger burden in comparison with larger businesses; not just in monetary terms, but also in time and psychological costs. This has significant impacts on concepts of fairness.¹¹⁴

Despite such complexities being well-documented, efforts at legislative simplification by the Australian Government have historically been deficient.¹¹⁵ Meanwhile, the ATO's efforts at simplification through the use of technology are generally limited to the use of taxpayer data to pre-fill tax returns.¹¹⁶ The ATO has been providing this service to individuals since at least 2007.¹¹⁷ Since then, the ATO has made efforts to widen the scope of pre-filled data availability and broaden self-lodgement eligibility from being exclusively available to wage-earners to those with business income.¹¹⁸ However, the scope and results of pre-filling for business taxpayers have generally been poor.¹¹⁹ As such, any utility in this measure is generally limited to those taxpayers who are motivated to self-lodge online,¹²⁰ which represents only 38% of individual taxpayers and 4% of business taxpayers.¹²¹ Further, while 'individuals not in business' (e.g. employees) are the second-largest tax gap contributor in dollar terms (being the only class of taxpayers who self-lodge in large numbers),¹²² the 'small business' tax gap contribution eclipses it twofold.¹²³ Due to the limited number of users and their comparatively smaller

¹¹² McKerchar (n 108).

¹¹³ Binh Tran-Nam, Philip Lignier and Chris Evans, 'The Impact of Recent Tax Changes on Tax Complexity and Compliance Costs: The Tax Practitioners' Perspective' (2016) 31(3) *Australian Tax Forum* 455.

¹¹⁴ Waddell (n 62) 4.

¹¹⁵ James, Sawyer and Wallchutzky (n 94) 291–2.

¹¹⁶ Alexander et al (n 61) 193.

¹¹⁷ Harb (n 46) Figure 2.2.

¹¹⁸ Harb (n 46) 23–8, 67–82; Australian Taxation Office, 'New TPAR Pre-fill for Tax Time 2026' (Webpage, 2 July 2026) <<https://www.ato.gov.au/businesses-and-organisations/small-business-newsroom/new-tpar-pre-fill-for-tax-time-2026>>.

¹¹⁹ Harb (n 46) 23–28, 67–82.

¹²⁰ Alexander et al (n 61) 193.

¹²¹ Australian Tax Ombudsman (n 89).

¹²² Australian National Audit Office, *Identifying and Reducing the Tax Gap for Individuals Not in Business* (Auditor-General Report, No 20, April 2023).

¹²³ Australian Taxation Office, 'Tax Gap Program Summary Findings' (Webpage, 3 November 2025) <<https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/australian-tax-gaps-overview/tax-gap-program-summary-findings>>.

contribution to the tax gap, pre-filling is therefore likely to have a limited impact on reducing complexity. Further, there is also new academic debate on whether pre-filling is actually leading to improved levels of voluntary compliance for these users or not.¹²⁴

In terms of AI being utilised to improve tax simplicity, new initiatives have generally been limited to powering virtual assistants (i.e. the ATO's 'Alex').¹²⁵ The European Union defines 'virtual assistant' to mean 'software that can process demands, tasks or questions, including those based on audio, visual, written input, gestures or motions, and that, based on those demands, tasks or questions, provides access to other services or controls connected physical devices'.¹²⁶ The ATO's virtual assistant, 'Alex', is a much more limited form of digital assistant. It is essentially an AI-powered search engine which takes text inputs, interprets the technical or procedural tax question being asked, and directs the user to the most relevant page on the ATO website, a similar query which has been answered on the ATO's peer-to-peer 'ATO Community' forum, or to an ATO public ruling.¹²⁷

Alex forms part of the raft of digital self-help tools the ATO has implemented to reduce load on its telephony service. As ATO Chief Service Delivery Officer David Allen states, 'we get lots of calls from the community about topics that can be easily resolved through our digital self-help tools, so it may be better to not wait in a queue to speak to someone when you can do it yourself, at a time and place that suits you'.¹²⁸ To this end, the ATO has sought to introduce a self-assistance process for taxpayers which recommends the following ordered actions: (1) search the information through the user's own browser or the ATO's search bar; (2) ask 'Alex' to locate the information; (3) utilise the ATO's 'Live Chat' function (if the issue is during self-lodgement¹²⁹); (4) call the ATO through its telephony service; then (5) engage a tax professional.¹³⁰ It can therefore be seen that the utility of 'Alex' to the

¹²⁴ Harb (n 46) 38–44; Agustina Arumardi, 'The Cost of Convenience: Are Pre-Filled Returns a Shortcut to Tax Evasion?' (PhD Thesis, Monash University, forthcoming).

¹²⁵ Australian Taxation Office (n 5).

¹²⁶ Regulation (EU) 2022/1925 of the European Parliament and of the Council of 14 September 2022 on Contestable and Fair Markets in the Digital Sector and Amending Directives (EU) 2019/1937 and (EU) 2020/1828 (Digital Markets Act) [2022] OJ L 265/1, art 2(12).

¹²⁷ 'Alex' can be tested by selecting 'Ask Alex for help' on the ATO's website: Australian Taxation Office, 'Home' (Webpage, 30 July 2026) <<https://www.ato.gov.au/>>.

¹²⁸ David Allen, 'Digital Self-help Tools the Quickest Way to Get Answers This Tax Time', *Australian Taxation Office* (Blog Post, 30 June 2023) <<https://www.ato.gov.au/media-centre/digital-self-help-tools-the-quickest-way-to-get-answers-this-tax-time>>.

¹²⁹ Australian Taxation Office, 'Live Chat' (Webpage, 15 December 2025) <<https://www.ato.gov.au/about-ato/contact-us/live-chat>>.

¹³⁰ Allen (n 128).

taxpayer is, in reality, relatively limited and unlikely to have any significant impact on how simple it is for them to voluntarily comply.

C *Tax Literacy*

Ultimately, simplification will be of little use if the taxpayer is not aware of fundamental taxation concepts and/or does not have the ability or confidence to apply that knowledge in their employment, business and everyday lives – a concept known as ‘tax literacy’.¹³¹ The OECD identifies tax literacy as one of the most effective tools to improve voluntary compliance.¹³² Well-designed education strategies – through both high-level engagement with taxpayers to raise tax awareness and in-depth long-term engagement with taxpayers to increase tax knowledge – increase people’s willingness and ability to understand their obligations and pay tax.¹³³

In Australia, employed individuals generally have low levels of tax literacy. Tax literacy among individuals is also unfairly spread, with education, wealth, age and gender studies evidencing a concentration of higher tax literacy among those that are more educated, affluent, older and male.¹³⁴ Meanwhile, a large-scale survey showed that over half of small business owners had a tax literacy score of ‘low’ or ‘poor’, just over a quarter had a score of ‘medium’ or ‘high’, and the remainder had a ‘basic’ level of tax literacy.¹³⁵ In fact, the majority of non-compliance by businesses in Australia is due to a failure to realise the gap in their tax knowledge, causing accidental delinquency and surprise on audit.¹³⁶ Further, like compliance costs, tax literacy levels among businesses are regressive, with larger businesses displaying greater tax literacy than smaller businesses, impacting on concepts of fairness.¹³⁷

Despite the above, programs directed at improving tax literacy are limited in Australia. Taxpayer education is piecemeal and reactive, rather than systematic or continuous, with education efforts insufficiently embedded across the taxpayer lifecycle. In particular, the ATO has an over-reliance on ad hoc guidance and school-based initiatives that do little to assist adult taxpayers confronting real-world

¹³¹ Waddell (n 62) 5–6.

¹³² Alexander et al (n 61) 193.

¹³³ OECD, *Building Tax Culture, Compliance and Citizenship: A Global Source Book on Taxpayer Education* (Report No 2, November 2021, Ed 2, OECD Publishing) 13–39, 60–84.

¹³⁴ Waddell (n 62) 10–1.

¹³⁵ Ibid.

¹³⁶ McKerchar (n 108) 283–91.

¹³⁷ Waddell (n 62) 10–1.

tax complexity.¹³⁸ Enduring deficiencies in taxpayer understanding of basic tax concepts undermine confidence, engagement and perceptions of fairness within the tax system, fostering disengagement and resentment rather than voluntary compliance.¹³⁹ Australia's approach is also underdeveloped when compared to OECD benchmarks¹⁴⁰ and other similar nations such as the United Kingdom and New Zealand.¹⁴¹ This casts doubt on whether existing ATO strategies are capable of supporting the posture the ATO outwardly endorses.

There have also been no real AI initiatives targeted at improving tax literacy; however, the generation of real-time prompts to taxpayers during online tax return lodgement and nudging them if values look anomalous does have some impact.¹⁴² Prompting and nudging actions have been projected by the OECD to increase levels of self-lodging taxpayers' voluntary compliance.¹⁴³ They are being increasingly used by tax administrators because of their perceived cost-effectiveness in raising tax revenue; that is, relative to the negligible direct cost of nudging (e.g. sending a letter or prompting during online lodgement), the potential payoffs involved are perceived to be high. Academic economists, on the other hand, have come to recognise that a large behavioural response to a simple nudge is not overly consistent with expected utility theories of human behaviour where tax compliance is primarily driven by economic incentives and tax morale.¹⁴⁴ In contrast to the recent excitement over nudges, then, the behavioural content introduced in the communication between the tax administrator and the taxpayer is not as effective as often thought. This can, however, vary depending on the form and format of the nudge.¹⁴⁵

Tax practitioners have also raised concerns around prompts and nudging. In particular, the use of real-time analytics could be leading taxpayers to repeatedly test or game the system, for example, by starting with a high false WRE claim and simply reducing it until the system no longer generates a warning nudge. This could indicate to the taxpayer that they are within the WRE benchmarks set by the ATO's AI models

¹³⁸ See, eg, Australian Taxation Office, 'School Education Program' (Webpage, 24 February 2025) <<https://www.ato.gov.au/about-ato/learn-about-tax-and-the-ato/education-zone/school-education-program>>.

¹³⁹ Australian Government, Standing Committee on Tax and Revenue (n 60) Ch 4.

¹⁴⁰ OECD (n 133) 27–58.

¹⁴¹ Australian Government, Standing Committee on Tax and Revenue (n 60) Ch 4.

¹⁴² Australian Taxation Office (n 5).

¹⁴³ OECD, *Tax Administration 3.0: The Digital Transformation of Tax Administration* (Report, December 2020).

¹⁴⁴ Armenak Antinyan and Zareh Asatryan, 'Nudging for Tax Compliance: A Meta-Analysis' (CESifo Working Paper No 8500, August 2020) 1–5.

¹⁴⁵ Nicholas Biddle, Katja Fels and Mathias Sinning, 'Behavioral Insights on Business Taxation: Evidence From Two Natural Field Experiments' (2018) 18 *Journal of Behavioral and Experimental Finance* 30.

for that taxpayer and so the taxpayer believes they will not be audited. Secondly, the nudge concept comes with the risk that disengaged individuals who have no or limited understanding of the tax system – and have had no cause over their adult life to engage with it – are suddenly nudged into it, driving them to make poor tax-driven decisions. On this premise, there have been calls that nudge systems be balanced with greater taxpayer education about the basic concepts of tax and superannuation that need to be understood in order to prevent taxpayers from making poor decisions when self-lodging.¹⁴⁶ In this way, prompting and nudging currently appear to be ways to manage low literacy levels rather than to address the real underlying issue.

D Findings and Solutions

It can be seen above that the trends in tax morale, simplicity and literacy are worrying and that the ATO appear to be doing little about it. Ultimately, however, successful tax reform through AI adoption will require alignment with the community. If the ATO do not increase public awareness and engagement surrounding its use and development of AI, the ATO may invest significant funds to integrate existing systems with AI with negative results.¹⁴⁷

As noted prior, the ATO's vision is that 'by 2030 the ATO is a leader in developing and industrialising ethical, impactful and scalable [automation and AI] solutions, creating immense economic and social benefit for our nation and citizens'.¹⁴⁸ However, the ATO neglects to provide precise details of the AI models it has in use, the 'immense economic and social benefit' it foresees in its uses, and how said benefit will be practically achieved using AI.¹⁴⁹ This may be a product of cautions against making predictions about the future potential of AI technologies given their rapid pace of change,¹⁵⁰ or concerns that such disclosure may reinvigorate concerns surrounding service automation (including those caused by the Robodebt Scheme).¹⁵¹ Ultimately, however, the lack of transparency is a likely contributor to low public

¹⁴⁶ Australian Government, Standing Committee on Tax and Revenue (n 60) [4.14]–[4.29].

¹⁴⁷ Saragih (n 54) 499, citing Ankit Rathi et al, 'A Study on Application of Artificial Intelligence and Machine Learning in Indian Taxation System' (2021) 58(2) *Psychology and Education Journal* 1226.

¹⁴⁸ Australian National Audit Office (n 3) [2.10]–[2.28], [4.6]–[4.9]; Australian Taxation Office (n 5).

¹⁴⁹ Australian National Audit Office (n 3) [2.10]–[2.18].

¹⁵⁰ See, eg, Genevieve Bell et al, 'Generative AI – Language Models (LLMs) and Multimodal Foundation Models (MFMs)', *Australian Government, National Science and Technology Council* (Rapid Response Information Report, March 2023).

¹⁵¹ Braithwaite (n 36) 242–59.

confidence in the ATO's use of AI,¹⁵² as tax morale tends to erode when taxpayers are confronted with new settings and limited information.¹⁵³

In the author's experience, many tax practitioners also query the legitimacy of the ATO's human reviews of AI generated content; in particular, whether tax officers are truly engaging with and scrutinising AI-generated correspondence before it is sent to the taxpayer. This may be supported by findings of the Australian National Audit Office ('ANAO') that the ATO's governance arrangements are only 'partly effective', leaving risk that oversight may be inadequately implemented.¹⁵⁴ It may also be supported by findings of the Tax Ombudsman of widespread taxpayer confusion and poor clarity in correspondence linked to increased automation and templated outputs from the ATO.¹⁵⁵ Promotion of the ATO's processes and safeguards beyond merely noting that it 'has human oversight over all uses of AI, [with] decision-making that impacts clients... always made by a human'¹⁵⁶ (the current extent of the ATO's publicity) may improve trust among the Australian tax community in both the ATO and its use of AI.¹⁵⁷

Indeed other global tax regulators, including the Commissioner and Chief Executive of Inland Revenue of New Zealand, have recently taken steps to promote and explain the tax administrator's precise use of AI.¹⁵⁸ Like New Zealand's tax regulator, the ATO may also consider promoting their use of AI with a view to improving taxpayer understanding of the compliance system in which they must participate, levels of trust and confidence in the tax administrator and its tools, and taxpayer opinions of the ATO as an ally rather than an adversary.¹⁵⁹ Not only this, but there is also evidence that a lack of public awareness of the ATO's compliance tools weakens their deterrent effect.¹⁶⁰

However, while transparency is an important contributor to tax morale,¹⁶¹ it is difficult to determine whether improved transparency around the ATO's current use of AI would be positive for tax morale at the present time. In particular, due to the surveillance nature of the AI

¹⁵² Australian Public Service Commission, *State of the Service Report 2023-24* (Report, October 2024) 183; Department of the Prime Minister and Cabinet, 'How Might Artificial Intelligence Affect the Trustworthiness of Public Service Delivery?' (Long-term Insights Briefing, October 2023) 15-20.

¹⁵³ Sembiring, Tarigan and Satria (n 6) 87.

¹⁵⁴ Australian National Audit Office (n 3) 6.

¹⁵⁵ Australian Tax Ombudsman, *Letters from the ATO* (Report, July 2025).

¹⁵⁶ Australian National Audit Office (n 3) [1.17].

¹⁵⁷ Sembiring, Tarigan and Satria (n 6).

¹⁵⁸ Peter Mersi, '37th ATTA Annual Conference' (Speech, 'Annual Conference', Australasian Tax Teachers Association, 16 January 2026).

¹⁵⁹ Saragih (n 54) 499.

¹⁶⁰ Harb (n 46) 183.

¹⁶¹ Sembiring, Tarigan and Satria (n 6).

models primarily developed by the ATO, promotion may be viewed by the public as a scare tactic and thereby damage perceptions of fairness.¹⁶² Promotion of such models may also unduly highlight technologies which could be perceived as targeting people with insufficient tax literacy to be certain when producing their own tax return and with insufficient funds to engage a tax professional to obtain the necessary certainty. It may also highlight entrenched inequity associated with AI use by the ATO. Take, for instance, the large number of rural businesses which face unique challenges in the digital landscape, such as inconsistent internet connection and digital literacy limitations, and will thus struggle in their interactions with AI. Small businesses also typically operate with constrained budgets and limited staffing, realities that can amplify the impact of the regulatory changes caused by the digitisation of the tax system.¹⁶³ Each of these issues may impact perceptions of fairness and hence tax morale.¹⁶⁴

The first recommendation of this article is therefore that the ATO consider promoting its current uses of AI to taxpayers and undertake studies and consultation to: (1) collect empirical evidence on tax morale, simplicity and literacy to set relevant baselines; (2) determine the likely impact of the ATO's current uses of AI in detecting non-compliance on the tax morale baseline; (3) identify how the public expects the ATO to respond to errors or mistakes identified by AI and adjust its enforcement posture accordingly; and (4) determine which other AI-driven initiatives taxpayers believe would improve tax morale, simplicity and literacy from their baselines.

Following this, the ATO should also consider the role and capacity of AI-driven improvements to systems, services, education, guidance and assistance in enhancing tax morale, simplicity and literacy. Short-term and long-term programs might be considered, some examples of which are outlined below.

IV RECOMMENDATIONS

A *Punishment and Persuasion*

In terms of AI as it relates to the ATO's enforcement activities, the ATO should principally consider the way it intends to deal with the increased number of errors and mistakes which are likely to be identified through its current uses of AI-driven surveillance activities (as outlined above). In addition to this, the ATO should also consider other ways which AI

¹⁶² See above n 80.

¹⁶³ Sembiring, Tarigan and Satria (n 6) 71–6.

¹⁶⁴ Ibid.

could be used to improve outcomes where punishment or persuasion is determined to be necessary.

A report released in July 2025 by the Tax Ombudsman noted that the way in which the ATO communicates with taxpayers has become problematic and does not align with the ATO's objective in being perceived by the taxpayer as an ally. In particular, it should reframe its language to be more empathetic. The language used by the ATO – such as 'you must' or 'you didn't report correctly' – is clear and direct, but it comes across as threatening or implying guilt. Further, the information these letters contain is often important, detailed and time sensitive, causing a high degree of anxiety for taxpayers. This tone may reflect the focus of ATO business lines on driving compliance outcomes rather than communicating with empathy.¹⁶⁵

The challenge arises in that the ATO holds nearly 3,000 active communications and limited capacity across business areas and delivery partners makes timely review difficult. Further, the ATO has not historically recorded sufficient information to make an evaluation on whether the letter is effective, making it harder for the ATO to know which letters worked well and which may need to be refreshed or retired. There is also no formal rule requiring regular reviews of outbound letter templates.¹⁶⁶ Further, while the ATO has a working group which reviews letters and provides feedback, there are a number of issues with this process. In particular: (1) the working group consists only of tax professionals and so does not reflect the views of everyday taxpayers; (2) not all letters are reviewed by the group; and (3) it often takes the ATO several years for feedback about the quality of communications to be considered and for changes based on that feedback to be implemented, leading to very slow improvements.¹⁶⁷

The ATO could undertake research to determine, using appropriate science, the type of language which is both: (1) desirable in terms of building tax morale and a perception of the ATO as an ally rather than an adversary; and (2) effective in encouraging taxpayers to comply with the contents of the letter. AI models could then be developed to: (1) create benchmarks for the content of letters; and (2) provide insights by identifying which communications are in need of review or retirement most urgently, allowing human resources to be utilised more efficiently.

Utilising AI to improve the ATO's debt collection processes could also be valuable. As with the self-developed benchmarks created by the ATO's WRE models, perhaps AI's greatest strength is its capability to automate classification schemes and implement real-time updates based

¹⁶⁵ Australian Tax Ombudsman (n 155) 17–8.

¹⁶⁶ Ibid 29–30.

¹⁶⁷ Ibid 4.

on dynamic economic activities, market trends, changes in regulations and changes in taxpayer circumstances.¹⁶⁸ Indeed there is evidence in other contexts that AI models are at least capable of predicting consumer credit¹⁶⁹ and institutional default¹⁷⁰ based on text and financial data with superior predictive accuracy and robustness. The ATO already uses AI to assist in service delivery, including deciding who receives certain messages or communications – like real-time prompts (nudges) and sending payment reminders – based on data patterns.¹⁷¹ However, the ATO might also consider developing AI models focused on identifying taxpayer characteristics using digital taxpayer identity data which the ATO already collects, estimates outcomes of different recovery approaches, and detects patterns and delays in arrear recovery across industries (as suggested by Rahman et al).¹⁷² This could also include AI models which determine the likelihood of delinquency for taxpayers suffering financial hardship who request payment plans or the impact which the exercise of the garnishee power may have on an insolvent business.¹⁷³ In each case, this could assist in overcoming the aforementioned issues with the ATO's unconstrained application of the *Taxpayers' Charter* and CCM,¹⁷⁴ allowing the ATO to exercise its discretionary powers and apply penalties more flexibly and consistently through better information.

B *Feedback Systems*

The ATO do not often have strong taxpayer feedback systems in place for the initiatives they implement. The ATO currently receives feedback, complaints and compliments through a variety of channels, with the process being largely managed through a centralised 'ATO Complaints' team. It is then distributed to the relevant business area for

¹⁶⁸ Rahman et al (n 10) 65–7.

¹⁶⁹ Zongxiao Wu et al, 'Unleashing the Power of Text for Credit Default Prediction: Comparing Human-generated and AI-generated Texts', *Credit Research Centre* (Working Paper, University of Edinburgh, March 2024).

¹⁷⁰ Alexandru Monahov, 'Harnessing the Power of AI to Enhance Risk Monitoring and Default Prediction in the Financial System' (Conference Paper, 'New Technology for Old Markets', Banque De France, 9 May 2025).

¹⁷¹ Australian Tax Ombudsman (n 155) 31.

¹⁷² The capacity of AI to estimate outcomes of different recovery approaches and detect patterns and delays in arrear recovery across industries has also been suggested by Rahman et al (n 10) Items 3 and 4 in Table 9.

¹⁷³ Wu et al (n 169); Sylvia Villios and David Brown, 'Getting the Priorities Right: ATO Garnishee Notices in Times of Corporate Distress' (2020) 35 *Australian Tax Forum* 368; *Corporations Act 2001* (Cth) ss 555–556.

¹⁷⁴ Waite (n 70) 144–147; Bevacqua (n 84) 377–400; Inspector-General of Taxation and Taxation Ombudsman (n 85) 27–30.

consideration and response based on the nature and severity of the issue.¹⁷⁵ While the framework is generally considered effective and well-designed, there remain ongoing challenges in root-cause analysis.¹⁷⁶

For instance, consider the ATO's use of automatic or pro-forma bulk letters, which are one of the main ways the ATO communicates with taxpayers.¹⁷⁷ The ATO's data-matching programs underlying the 'have you included all information in your tax return?' letter are regarded by the ATO as highly effective. This assessment is made on the premise that 96% of recipients accepted the data-matching results and had their returns automatically amended, while only 0.5% of taxpayers amended their returns in the control group that did not receive the letter.¹⁷⁸ However, while the ATO recorded what a taxpayer did, they did not record why they did it, whether they understood the message, or whether the letter helped. So, although the ATO was content with the results of the data-matching program, it is unclear whether these results were due to the letter's quality or other factors, such as: (1) accurate data-matching; (2) a simple compliance process (i.e. recipients who agreed with the ATO did not have to do anything); or (3) social norms to agree with the ATO on an assumption it knows best (i.e. fear).¹⁷⁹ As can be seen then, the attitude of the ATO continues to be that the effectiveness of its compliance measures is directly reflected by a reduction in the tax gap, rather than whether the measure addresses underlying deficiencies in tax simplicity and literacy.

In March 2025, the ANAO found that the ATO collects insufficient data regarding its complaints and recommended that the ATO improve documentation of its verbal and written discussions with complainants for better analysis.¹⁸⁰ This likely contributes to the above challenges. The majority of these complaints are received via inbound telephone.¹⁸¹ While the ATO already uses AI to 'improve call centre services' through transcription and analytics,¹⁸² it is unclear whether the data collected is comprehensive and how it is actually used to achieve improvement; the only obvious use being the production of a frequently asked questions page.¹⁸³ The remainder of complaints are primarily received from self-representing taxpayers via an online web form or

¹⁷⁵ Australian National Audit Office (n 86) Figure 2.1.

¹⁷⁶ Ibid [3]–[21].

¹⁷⁷ Australian Tax Ombudsman (n 155) 29.

¹⁷⁸ Ibid.

¹⁷⁹ Ibid 30.

¹⁸⁰ Australian National Audit Office (n 86) [2.1].

¹⁸¹ Ibid Figure 2.2.

¹⁸² Australian National Audit Office (n 3) [2.10]–[2.18]; Australian Taxation Office (n 5).

¹⁸³ Australian Taxation Office, 'Top Call Centre Questions' (Webpage, 12 November 2025) <<https://www.ato.gov.au/about-ato/contact-us/top-call-centre-questions>>.

from tax agents via the online services portal.¹⁸⁴ While the ATO also probably keeps records of these discussions, it is similarly unclear whether the data collected is comprehensive and the ATO make no note of how such records are used to improve its services.

The collection of unstructured data is one of the principal strengths of AI, with speech recognition and natural language processing capable of ensuring record-keeping is comprehensive. This could address the deficiencies highlighted by the ANAO. In addition to mere transcription, records of call centre enquiry spikes – for instance, following a bulk letter distribution – could also be collected. Further useful data could be collected by requiring frontline staff to ask callers which letter prompted their call¹⁸⁵ and by including a similar question in the online complaints form, allowing AI-driven analytics to link the complaint to the problematic correspondence. This data could then be analysed by AI models to determine where taxpayers and tax agents are facing the highest levels of complexity in ATO processes or the application of technical tax law. AI sentiment analysis could also be used to determine which messages or communications are confusing and leading to more low-value calls that are not related to compliance or payments based on the spikes recorded.¹⁸⁶ Targeted improvements to the problematic letters identified could then be made. Simplification efforts, further guidance or education programs could also be tailored to reduce complexity, increase general tax literacy and hence increase voluntary compliance in the areas identified by this intelligence. In the long-term, this could also reduce load on the ATO's telephony service, supporting the ATO's stated goal in creating their virtual assistant, 'Alex'.

C *Tax Education*

As aforementioned, improving tax literacy is critical to improving voluntary compliance. There have been some steps taken in this regard. In 2018, the ATO reported near-universal community support for the inclusion of tax and superannuation education in the Australian school curriculum, based on ATO-commissioned research into public attitudes toward tax education.¹⁸⁷ Following this, under the new curriculum approved April 2022, students learn about tax and super in content descriptors for Year 8 and 10 economics and business classes and

¹⁸⁴ Australian National Audit Office (n 86) Figure 2.2.

¹⁸⁵ Australian Tax Ombudsman (n 155) 31.

¹⁸⁶ *Ibid.*

¹⁸⁷ Australian Taxation Office, 'Teaching Tax and Super to Youth' (Webpage, 23 October 2024) <<https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/research-for-individuals-and-families/teaching-tax-and-super-to-youth>>.

through elaborations in Year 8 and Year 10 mathematics.¹⁸⁸ The ATO also provide some further resources which primary and secondary teachers and students may access voluntarily.¹⁸⁹ As identified above, however, this is likely insufficient. More developed education programs are needed and not just in adolescence, with life-stage and adult education crucial to addressing tax literacy at critical points (e.g. starting work, investment portfolio diversification, commencing a business, etc) to assist taxpayers to make informed tax decisions.¹⁹⁰ Further, and as aforementioned, tax literacy is often concentrated among those that are more educated, wealthier, older and male.¹⁹¹ There is thus clear inequity in tax literacy.

Scientific approaches to teaching and communicating tax draw on behavioural economics to tailor communications to encourage positive responses.¹⁹² An attribute of AI is that it is anthropomorphic. Differently from a search engine or social media platform (which also have access to personal data), AI has the ability to identify a user's mental profile, cognitive biases and decision-making processes. It can then, by way of example, create text, images, sounds and interfaces which appeal specifically to that person. It can mirror the user's personality or create a persona of authority, trust, loyalty, companionship or intimacy, which are all sales and marketing methods which research has found lead people to be more likely to buy something. Some academics view this as a dangerous form of manipulation and deception of the user, as it may be used to push users into predetermined choices. Some even suggest that it might infringe either existing or new human rights, like a right to mental self-determination.¹⁹³ However, this characteristic also has positive implications.

Some academics have suggested that these characteristics of AI might be utilised in education to improve equity by adjusting for different learning styles.¹⁹⁴ Tax and financial education are notoriously

¹⁸⁸ Australian Taxation Office, 'The Australian Curriculum – Version 9.0' (Webpage, 1 January 2025) <<https://taxsuperandyou.gov.au/news-events/australian-curriculum-version-9>>.

¹⁸⁹ Australian Taxation Office, 'Education Zone' (Webpage, 26 January 2026) <<https://www.ato.gov.au/about-ato/learn-about-tax-and-the-ato/education-zone>>.

¹⁹⁰ OECD (n 133).

¹⁹¹ Waddell (n 62) 10–1.

¹⁹² OECD (n 133) 31, 76–7.

¹⁹³ Stefano Faraoni, 'Persuasive Technology and Computational Manipulation: Hypernudging Out of Mental Self-determination' (2023) 6 *Frontiers in Artificial Intelligence* 1216340; Stefano Faraoni, 'Why Generative AI Is Not Cyrano de Bergerac: A Computational Manipulation Perspective on Generative AI' in Mimi Zou et al (eds), *The Cambridge Handbook of Generative AI and the Law* (Cambridge University Press, 2025) 43.

¹⁹⁴ See, eg, Maryam Roshanaei, Hanna Olivares and Rafael Lopez, 'Harnessing AI to Foster Equity in Education: Opportunities, Challenges, and Emerging Strategies' (2023) 15(4) *Journal of Intelligent Learning Systems and Applications* 123, 123–43.

difficult areas to understand, which may be a product of its general complexity or other factors.¹⁹⁵ AI may be utilised by the ATO (or, if a more long-term education strategy was adopted, by educators) to assist in creating personalised content which is engaging for different learners and at different life-stages, increasing tax education accessibility and reducing inequity in tax literacy.

D *Reducing Rule Complexity*

The ATO notes that it uses AI to ‘inform policy development’, which might be read as a reference to considering legislative reform options.¹⁹⁶ However, this is uncertain. In any regard, its current primary focus is evidently on non-compliance detection and, to a limited extent, service delivery. However, valuable insights into unnecessary complexity or inefficiency in the tax legislation, along with insights into how it could be restructured to make it more user-friendly and efficient, could also be provided.¹⁹⁷ The ATO should, however, be mindful in utilising AI to identify areas where guidance is lacking and addressing this through an increase in the scope of existing guidance material. After all, merely increasing the scope of ATO guidance material available on complex areas of tax law has not been shown to decrease tax system complexity; rather, increasing the volume of explanatory material can have the opposite effect, especially for self-lodging taxpayers.¹⁹⁸ Further, caution should be applied in utilising AI to draft tax legislation or guidance material due to inherent unreliability and biases.¹⁹⁹ Instead, the data-driven capabilities of AI should be utilised to assist human legislators and guidance drafters in identifying complexities objectively, as outlined above.

¹⁹⁵ See, eg, Fatma Jaaffar and Nor Hafizah Adnan, ‘Exploring Challenges Faced by Secondary School Students in Understanding Taxation: An Expert Perspective Using the Nominal Group Technique’ (2024) 8(8) *International Journal of Research and Innovation in Social Science* 3760.

¹⁹⁶ Australian Taxation Office (n 5).

¹⁹⁷ Enuma Ezeife et al, ‘The Future of Tax Technology in the United States: A Conceptual Framework for AI-Driven Tax Transformation’ (2021) 2(6) *International Journal of Multidisciplinary Research and Growth Evaluation* 428, 431–2.

¹⁹⁸ McKerchar (n 108).

¹⁹⁹ See, eg, Mark Ryan, ‘In AI We Trust: Ethics, Artificial Intelligence, and Reliability’ (2020) 26 *Science and Engineering Ethics* 2749; Amira Al-Khulaidy Stine and Hamdi Kavak, ‘Bias, Fairness, and Assurance in AI: Overview and Synthesis’, in Feras Batarseh and Laura Freeman (eds), *AI Assurance: Towards Trustworthy, Explainable, Safe, and Ethical AI* (Academic Press, 2023) 125.

E *Taxpayer and Tax Agent Assistance*

The ATO has generally made improvements to its overall services provided to tax agents (e.g. online service for agents, practitioner lodgement service and registered agent phone line) and the delivery of these services has generally been assessed as fit for purpose.²⁰⁰ However, the level and methods of delivering technical and reliable tax guidance to tax agents has remained largely unchanged since the early 1990s.²⁰¹ Complaints regarding the ATO's guidance system are abundant among tax practitioners²⁰² and have been for decades.²⁰³ Critically, there have been no publicised developments in the accessibility, utility, quality or completeness of these guidance systems through the utilisation of AI by the ATO.

To address this, some academics have suggested that virtual assistants (like the ATO's 'Alex') could be provided to assist taxpayers and tax agents by distilling complex tax concepts, laws and guidance materials into understandable language.²⁰⁴ This would represent a considerable expansion to the current scope of 'Alex' (and other countries' virtual assistants, such as Singapore's 'Jamie'²⁰⁵), which is limited to directing the user to existing pages created and maintained by the tax administrator. The author queries whether such a suggestion would be realistic, given the need to balance simplicity with technical correctness and potential liabilities the ATO may face if such a virtual assistant gave the agent or taxpayer incorrect advice. This may lead, for instance, to the ATO being bound by mistakes of law made by the virtual assistant, similar to how Air Canada was held liable for negligent misrepresentation after its customer service AI chatbot gave a passenger false information about bereavement travel discounts.²⁰⁶

If the above occurred, the costs of the legal error made by 'Alex' would be borne by the community as a whole – the amount essentially equating to lost revenue which would have otherwise formed part of the

²⁰⁰ Australian National Audit Office (n 89); Australian Tax Ombudsman (n 89).

²⁰¹ See *Taxation Laws Amendment (Self Assessment) Act 1992* (Cth), which introduced: (1) the current system for binding public rulings; (2) the current system for binding private rulings; (3) an extension from two to four years of the period within which a taxpayer could object against an assessment; (4) the current system for penalties for understatements of income tax liability, based on the requirement that taxpayers exercise reasonable care; and (5) the current system for underpayments or late payments of income tax, based on commercial principles and market interest rates.

²⁰² See, especially, David Marks and Matthew Paterson, 'Tax Law, Public Trust and Confidence in the Australian Tax System' (2023) 109 *AIAL Forum* 61.

²⁰³ See, eg, Treasury (n 95) Ch 2.

²⁰⁴ Martinez (n 53) 161–4.

²⁰⁵ *Ibid* 163.

²⁰⁶ *Moffatt v Air Canada* 2024 BCCRT 149.

federal government's budget.²⁰⁷ This could be seen as an irresponsible use of AI. Allowing the taxpayer to rely upon the output of an AI-powered agent would also infringe the ATO's principle that all decisions impacting a taxpayer must be made by a human. In any regard, various free generative AI tools and a number of subscription-based tax-specific AI tools are already capable of doing this. For these reasons, expanding the scope of virtual assistants such as 'Alex' is likely unrealistic.

V CONCLUSION

Through analysis of the ATO's current uses of AI, it is clear that its efforts have largely focused on increasing detection rates of non-compliance. Increased detection rates are effective in discouraging fraud and evasion practices among tax criminals and allow the ATO to direct its resources more efficiently towards reducing the resulting tax gap. The ATO's current AI models do not, however, distinguish fraud and evasion from mistakes and errors. This is likely to reinforce a culture of fear among taxpayers who inadvertently fail to comply, undermining the ATO's desire to be seen as taxpayers' ally rather than their adversary. This is likely to be amplified by: (1) persistent deficiencies in tax simplicity and literacy, which lead taxpayers to feel as though voluntary compliance is not possible; and (2) the ATO's current enforcement practices, which have become increasingly harsh and unforgiving. Increased detection rates and strict enforcement may assist in the recovery of uncollected revenue from mistakes and errors in the short term. However, mistakes and errors are likely to continue unless complexity and illiteracy are addressed, while a fear-based administrative system is likely to have a negative impact on voluntary compliance among these taxpayers in the long term. Ultimately, voluntary compliance is the cornerstone of an equitable, efficient and fiscally adequate tax system and should be the core focus of the ATO.

To address the above, the ATO should consider adjusting its enforcement approach towards inadvertent non-compliance. This is especially critical given projected increases in the detection of mistakes and errors through the ATO's current uses of AI. The ATO should also consider increasing public awareness and engagement around its development of AI with a view to: (1) increase taxpayers' trust in the ATO's use of AI; and (2) identify other AI-driven initiatives which could be implemented to improve tax simplicity and literacy in Australia. To this end, this article has recommended a number of new

²⁰⁷ As was the case before the self-assessment system was introduced: see Treasury (n 95) Ch 1.

AI models the ATO could develop, including models which: (1) assist the ATO to improve the quality of its correspondence; (2) assist the ATO to better understand taxpayers' circumstances when applying penalties and discretions; (3) improve feedback systems to better identify where complexity arises in the tax system and the ATO's administration of it; and (4) expand and improve taxpayer education regimes to improve tax literacy. It is suggested that if the recommendations made in this article are adopted, tax morale, simplicity and literacy will be improved in Australia, leading to higher rates of voluntary compliance.