



INSTITUTE OF  
**PUBLIC  
ACCOUNTANTS®**

**Submission to  
ATO: Consultation  
paper – Transition  
to strengthening  
client verification**

**June 2021**

10 June 2021

Australian Taxation Office

By email: [TaxPractitionerConsultations@ato.gov.au](mailto:TaxPractitionerConsultations@ato.gov.au)

Dear Sir / Madam

### **Consultation paper – Transition to strengthening client verification**

The Institute of Public Accountants (IPA) welcomes the opportunity to make a submission in relation to the Consultation paper – Transition to strengthening client verification.

The IPA is one of the three professional accounting bodies in Australia, representing over 40,000 accountants, business advisers, academics and students throughout Australia and internationally. Three-quarters of the IPA's members work in or are advisers to small business and SMEs.

The *Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF) Act 2006* does not cover second-tier professions, such as accountants, lawyers and real estate agents. This is despite a recommendation by the Australian Government's Joint Committee on Law Enforcement back in October 2015, recommending this expansion. The United Kingdom and New Zealand have already included accountants as part of their AML laws. If accountants were included as part of the AML/CTF regime there would already be statutory obligations for things such as, ongoing customer due diligence and suspicious matter reporting.

It is not unexpected that The Australian Taxation Office (ATO) and the Tax Practitioners Board (TPB) are upgrading and implementing their own guidance on client verification. The draft guidance focuses on measures to intercept attempted identity fraud targeted at registered tax practitioners and their clients. The primary objective for the new guidelines is to strengthen and modernise the practices and controls that registered tax practitioners follow when verifying the identity of their clients. The IPA supports the overall purpose for which these measures are intended. The only caveat is that it does not overburden tax practitioners and fits within the firm's natural businesses processes. There have been many recent examples where tax practitioners have been used by fraudsters to illegally obtain a financial advantage by stealing another person's identity. The Tax profession as guardians of our tax system need to play their role in minimising this increasing risk, particularly in an environment that now relies on technology and remote work practices.

The main points we wish to make in response to the consultation paper are:

- The IPA supports the underlying intent of the guidelines. The guidelines are broadly aligned with the draft TPB guidance on client verification. The purpose is to establish a minimum standard to be applied across the tax profession to ensure due diligence is taking place when engaging new clients, or where you suspect an existing client may have had their identity compromised.
- The consultation paper does not make it clear at the outset that it is a responsibility of the TPB to ensure that tax practitioners should apply reasonable care when it comes to client verification. All tax practitioners are

governed by Tax Agent Services Act (TASA). While there are no specific proof of identity requirements under the TASA, there are a number of provisions that a registered tax practitioner may be found to have breached, if the registered tax practitioner fails to take appropriate proof of identity steps to verify a new or ongoing client's identity, as well as confirming the identity in relation to any representative of new or ongoing clients, and the representative's authority to represent the client (if applicable). The ATO guidance should acknowledge in its introduction that the TPB is the regulator for ensuring that tax practitioners exercise reasonable care in undertaking appropriate proof of identity checks.

- Tax practitioners may be undertaking work referred to them from another intermediary, such as a legal practitioner. There are no examples in the guidance showing what changes if any are required to verify client's identity when these common day-to-day referrals occur. Can the tax practitioner rely on the originating referrer to undertake the appropriate identity checks or is the tax practitioner required to perform their own checks?
- The transitional approach is welcomed. Practitioners will be expected to voluntarily adopt the new standards, with the aim to make it compulsory after an initial transition period. Tax practitioners are not expected to revisit and verify the identity of their entire client base as part of the transitional approach.
- Given the ramifications for the tax profession in adopting the client verification guidelines, we would anticipate that the TPB and the ATO need to engage in an education program to highlight to practitioners what will become compulsory business practices after the initial transition period ends. The Accounting bodies will do their bit in promoting good business processes for onboarding new clients, but the regulators need to promote updated expectations before new standards become mandatory.
- The scenario 5 example may require some amendment. A tax practitioner cannot onboard a new client without generally having access to either a TFN or ABN details. Some clarification is required to avoid any confusion that this example may cause.

Some further discussion points in relation to the consultation questions:

### **What impact will this new client verification method have on your existing processes**

Most practitioners undertake client identity checks as part of their normal business practices. Whether these processes are considered adequate in light of updated guidance, will be the more pertinent issue. Many practices already have good identity verification controls in place and would be pleased that they do not need to re-identify their entire client base if they are not up to the minimum standard outlined in the new standards.

### **What could the ATO do to assist in this (preparing new clients for this process)?**

If there is an expectation that tax practitioners compare a clients details on government issued identity documents against details held by a Document Verification Service (DVS) then to use this method you need an arrangement

appropriate provider and it comes at a cost. We believe smaller practitioners are not aware of this facility or are not willing to pay an external provider to utilise this service. If there is an expectation that all practitioners use this verification method, then this facility should be provided by the ATO at no cost to the user.

### **What are the challenges in relation to client Relationship verification?**

When it comes to relationship verification, sighting documents that prove an individual is acting on behalf of another individual is required. Unless the document specifies the time period the authority is valid for, it becomes problematic for the tax practitioner as to whether the authorisation is still valid. Tax practitioners will need to consider the currency of the documents being used, relative to the task being performed.

If you have any queries or require further information, please don't hesitate to contact Tony Greco, General Manager, Technical Policy, either at [tony.greco@publicaccountants.org.au](mailto:tony.greco@publicaccountants.org.au) or mobile: 0419 369 038

Yours sincerely



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