



INFORMATION SHEET

Supervisory arrangements and supervision and control

DISCLAIMER: Please note that this document is intended as information only. While it seeks to provide practical assistance and explanation, it does not exhaust, prescribe or limit the scope of the Board's powers provided in the *Tax Agent Services Act 2009*.

ISSUE DATE: 14 April 2010

Legislative framework

1. The notion of 'supervisory arrangements' is introduced into the *Tax Agent Services Act 2009* (TASA) in the context of the registration contained in section 20-5 of the TASA.
2. The concept of 'supervision and control' is introduced into the TASA in the context of both the civil penalty provisions in section 50-30 of the TASA and relevant experience in Schedule 2 to the *Tax Agent Services Regulations 2009* (TASR).
3. Section 20-5 of the TASA relevantly provides:

(2) A partnership is eligible for registration as a registered tax agent or BAS agent if the Board is satisfied that:

...

(c) the partnership has:

*(i) in the case of registration as a registered tax agent – a sufficient number of individuals, being registered tax agents, to provide tax agent services to a competent standard, and to carry out **supervisory arrangements**; or*

*(ii) in the case of registration as a registered BAS agent – a sufficient number of individuals, being registered tax agents or BAS agents, to provide BAS services to a competent standard, and to carry out **supervisory arrangements**. (emphasis added)*



INFORMATION SHEET

(3) A company is eligible for registration as a registered tax agent or BAS agent if the Board is satisfied that:

...

(d) the company has:

(i) in the case of registration as a registered tax agent – a sufficient number of individuals, being registered tax agents, to provide tax agent services to a competent standard, and to carry out **supervisory arrangements**; or

(ii) in the case of registration as a registered BAS agent – a sufficient number of individuals, being registered tax agents or BAS agents, to provide BAS services to a competent standard, and to carry out **supervisory arrangements**. (emphasis added)

4. Section 50-30 of the TASA relevantly provides:

(1) You contravene this subsection if:

(a) you are a registered tax agent and an individual; and

(b) you sign a declaration or other statement in relation to a taxpayer that is required or permitted by a taxation law (other than a BAS provision); and

(c) the document in relation to which the declaration or other statement is being made was prepared by an entity other than:

...

(iii) another individual who is working under your **supervision and control** or the **supervision or control** of another registered tax agent who is an individual. (emphasis added)

(2) You contravene this subsection if:

(a) you are a registered tax agent or BAS agent who is an individual; and

(b) you sign a declaration or other statement in relation to a taxpayer that is required or permitted by a BAS provision; and

(c) the document in relation to which the declaration or other statement is being made was prepared by an entity other than:

...

(iii) another individual who is working under your **supervision and control** or the **supervision or control** of another registered tax agent or BAS agent who is an individual. (emphasis added)

(3) You contravene this subsection if:

(a) you are a partnership or company that is a registered tax agent; and

(b) you sign a declaration or other statement in relation to a taxpayer that is required or permitted by a taxation law (other than a BAS provision); and



INFORMATION SHEET

(c) *the document in relation to which the declaration or other statement is being made was prepared by an entity other than:*

...

(ii) *an individual who is working under the **supervision and control** of a registered tax agent who is an individual. (emphasis added)*

(4) *You contravene this subsection if:*

(d) *you are a partnership of company that is a registered tax agent or BAS agent; and*

(e) *you sign a declaration or other statement in relation to a taxpayer that is required or permitted by a BAS provision; and*

(f) *the document in relation to which the declaration or other statement is being made was prepared by an entity other than:*

...

(ii) *an individual who is working under the **supervision and control** of a registered tax agent or BAS agent who is an individual. (emphasis added)*

5. The penalty imposed for contravening these provisions is up to 250 penalty units for an individual tax agent or BAS agent and up to 1,250 penalty units for a partnership or company tax agent or BAS agent. Currently 1 penalty unit equates to \$110.

6. In the context of relevant experience for BAS agent registration, Item 103 of Part 1 of Schedule 2 to the TASR relevantly provides;

103 For Division 1, relevant experience means work by an individual:

...

(c) *under the supervision and control of a tax agent registered under the Act; or*

(d) *under the supervision and control of a tax agent registered under the previous regulatory regime contained in contained in Part VIIA of the Income Tax Assessment Act 1936;*

7. In the context of relevant experience for BAS agent registration, Item 207 of Part 2 of Schedule 2 to the TASR relevantly provides;

207 For Division 1, relevant experience means work by an individual:

...

(c) *under the supervision and control of a tax agent registered under the Act or a BAS agent registered under the Act; or*

(d) *under the supervision and control of a tax agent registered under the previous regulatory regime contained in contained in Part VIIA of the Income Tax Assessment Act 1936;*



INFORMATION SHEET

'Supervisory arrangements' and 'supervision and control' - overview

8. The phrases 'supervisory arrangements' and 'supervision and control' are not defined in the TASA . As a result these phrases must take on their ordinary meaning.

9. The Macquarie Dictionary¹ provides the following definitions:

'Supervise

1. *to oversee (a process, work, workers, etc.) during execution or performance; superintend; have the oversight and direction of.'*

'Supervision

1. *the act or function of supervising; oversight; superintendence.'*

'Control

1. *to exercise restraint or direction over; dominate; command.*
- ...
4. *the act or power of controlling; regulation; domination or command.*
5. *check or restraint.'*

10. Section 20-5 of the TASA requires that a partnership or company tax agent or BAS agent have a sufficient number of registered individuals to provide tax agent services or BAS services to a competent standard and to carry out supervisory arrangements. The purpose of this provision is to ensure that a partnership or a company tax agent or BAS agent has sufficient organisational qualifications and experience to provide tax agent services or BAS services competently.²

11. Considering the ordinary meaning of the words and the purpose of the requirement for a sufficient number of individuals registered as a tax agent or BAS agent, supervisory arrangements may be broadly considered to be arrangements aimed at directing, overseeing and checking the services performed on behalf of the agent to ensure that those services are provided competently.

12. Section 50-30 of the TASA requires that a registered tax agent or BAS agent does not sign a declaration or other statement, in the circumstances set out in the section, where the document, in relation to which the declaration or other statement is being made was prepared by an entity other

¹ *The Macquarie Dictionary*, [Multimedia], version 5.0.0.

² Paragraph 2.56 of the Explanatory Memorandum to the Tax Agent Services Bill 2008.



INFORMATION SHEET

than a registered tax agent or BAS agent who is an individual or an individual who is working under the supervision and control of a registered tax agent or BAS agent who is an individual.

13. Item 103 of Part 1 and Item 207 of Part 2 of Schedule 2 to the TASR, provides that relevant experience under paragraphs (c) and (d) of the respective items must have been undertaken under the supervision and control of a registered tax agent. Each of these provisions refers to something being done under the supervision and control of a registered tax agent.
14. Considering the ordinary meaning of the words in these items and the context in which they are used, being that a thing is done under the supervision and control of a registered tax agent, supervision and control may be broadly understood as requiring a tax agent or BAS agent to have exercised some level of direction and oversight over what is being done.

What constitutes adequate 'supervisory arrangements' or 'supervision and control'?

15. As there is no precise definition of what constitutes adequate supervisory arrangements or supervision and control, when these are present will be a question of fact to be determined on the basis of the specific facts of a particular case. Determining whether appropriate supervision and control has been exercised or if there are appropriate supervisory arrangements in place, will require an assessment of the measure taken by a tax agent or BAS agent to supervise and control relevant activities in the context of the circumstances of a particular agent. However, guidance can be taken from case law considering these concepts and balancing these considerations.
16. Tribunal cases decided under the *Income Tax Assessment Act 1936* (ITAA 1936) establish a number of principles concerning what constitutes a sufficient degree of supervision and control in the context of the requirement that an agent have some relevant employment prior to being registered as a tax agent and the prohibition on tax agents allowing other non-tax agent entities, not under the agent's supervision and control, to prepare income tax returns on behalf of the agent and to conduct business on the tax agents behalf in relation to any income tax return or income tax matters.
17. As the Board must consider the meaning of supervision and control under the TASA in relation to relevant experience and the prohibition on agents allowing other entities to sign declarations on an agent's behalf, these principles will be equally pertinent to the Board's under the TASA
18. Some key examples of these cases have been provided in **Appendix 1** of this information sheet.



INFORMATION SHEET

19. The following considerations may be relevant in determining whether sufficient supervision and control has been, or is being, exercised:

The level and depth of personal physical oversight undertaken over the provision of tax agent services on the agents' behalf.³

- Merely checking a document prepared by an unskilled employee to determine whether the contents of the document seem reasonable does not demonstrate a sufficient degree of supervision and control. There must be substantial supervision.⁴
- The relevant supervision and control must be exercised over the business transacted relating to any income tax return.⁵
- Supervision and control, at the least, requires periodic and 'spot' checks of material prepared by staff and supervision of office work.⁶
- the physical proximity to the person carrying out the work on the agent's behalf may be indicative of whether adequate supervision and control is being exercised.⁷
- It is not necessary for there to be an employer/employee relationship in relation to the person performing or doing a particular thing for there to be adequate supervision and control.⁸
- The degree of control over the way in which a person carries out their work will be indicative of the level of control.⁹

³ *Re S & T Income Tax Aid Specialists Pty Ltd and Christopher Forward and Tax Agents' Board of New South Wales* 87 ATC 2001 at 2006; *Scott v Tax Agent's Board of Queensland* 2001 ATC 2218 at 2254.

⁴ *Re S & T Income Tax Aid Specialists Pty Ltd and Tax Agents' Board of New South Wales* 87 ATC 2001 at 2006; *Re Cafferty and Tax Agents' Board of NSW* [2004] AATA 560.

⁵ As above.

⁶ As above; *Re Scott and Tax Agents' Board of Queensland* 2001 ATC 2218 at 2254.

⁷ *Re McGowan and Tax Agents' Board of Queensland* 96 ATC 2056 at [5]; *Scott v Tax Agent's Board of Queensland* 2001 ATC 2218 at 2254; *Re S & T Income Tax Aid Specialists Pty Ltd and Christopher Forward and Tax Agents' Board of New South Wales* 87 ATC 2001.

⁸ Explanatory Statement to the *Tax Agent Services Regulations 2009*, at 13.

⁹ *City Motors Pty Ltd v Commissioner of State Taxation (WA)* 93 ATC 4742; *Roy Morgan Research Centre Pty Ltd v The Commissioner of State Revenue* 97 ATC 5070 (these cases were decided in the context of determining whether there was an employer/employee relationship between entities. The comments in relation to what constitutes 'control' are still, however, instructive in interpreting the requirements for supervision and control under the TASA and the meaning of supervisory arrangements.



INFORMATION SHEET

20. In addition to the above commentary on the interpretation of supervision and control advice previously provided to the State Tax Agents' Boards¹⁰ in relation to the meaning of supervision and control in both the ITAA 1936 and the then *Tax Laws Amendment (Tax Agent Services) Bill 2007* advises that the following steps would be required to ensure that such supervision and control was in fact exercised:

- the supervisor must ensure the workers engaged to provide the services possess an adequate level of education and understanding of the relevant ITAA concepts to undertake the tasks for which they are responsible. This requirement is more onerous in the case of more complex returns;
- appropriate initial and on-going training must be provided;
- workers must be trained to raise issues with supervisors that are beyond their knowledge or experience or any specifically raised concerns of taxpayers. Documented procedures must be implemented (e.g. computerised software) to ensure that these processes can occur;
- the supervisor must conduct regular audits of work undertaken;
- each tax return or objection prepared by a worker must be checked to ensure accuracy;
- spot checks must be undertaken of the source documents and questions asked by workers to justify income and deductions declared; and

the supervisor must physically inspect, advise and direct how the workers undertake their tasks (Scott indicates that mere availability by phone will be insufficient). Whilst it is not necessary that all work or interviews be monitored, a "substantial degree of physical oversight of the workers and what they do" is necessary and this "will vary according to the skills and experience of the Worker and the complexity of the tax matters involved."¹¹

Need more information?

Further information is available on the Board's website at www.tpb.gov.au

¹⁰ Damien O'Brien, *Memorandum of Advice Re: Tax Laws Amendment (Tax Agents' Services) Bill 2007 Ex parte; Tax Agents' Board of Queensland* at 7-9.

¹¹ See Damien O'Brien, *Memorandum of Advice Re: Tax Laws Amendment (Tax Agents' Services) Bill 2007 Ex parte: Tax Agents' Board of Queensland* at 8.



INFORMATION SHEET

Appendix – Case Examples

Re S & T Income Tax Aid Specialists Pty Ltd and Christopher Forward and Tax Agents' Board of New South Wales 87 ATC 2001

As a result of information received, the Board cancelled the registration of S & T as it was satisfied the company was guilty of misconduct and was not fit and proper to remain a registered tax agent. Furthermore, the Board was satisfied that the nominees of the company were not exercising the necessary supervision and control required by section 251N. The company applied for a review of the Board's decision cancelling its registration.

At issue before the Tribunal (Deputy President Bannon QC, Members Stevens & Taylor) were the actions of the company through its managing director in allowing certain actions to take place and whether this created sufficient grounds for the company's registration to be cancelled. Two of the actions alleged against were:

- (a) permitting a person who was not an employee of the company to prepare returns which were then lodged in the name of the company as registered tax agent; and
- (b) failing to ensure the necessary supervision and control of nominees of the company.

The Tribunal found that the evidence justified a positive finding in relation to the first matter. The company allowed a person who was not an employee to prepare tax returns which were lodged in the name of the company. The managing director of the company checked the returns, but the Tribunal was satisfied that the supervision required by the ITAA36 did not exist. The Tribunal noted that in the case of a company, the ITAA36 requires that returns be prepared and supervised by employees of the registered agent. This had not occurred.

In relation to the issue concerning supervision and control, the Tribunal said:

Section 251N requires much more than that the nominee supervise the preparation of a tax return in the sense of checking a document prepared by an unskilled employee in order to see if the figures appear reasonable. The evidence established that unqualified employees (termed consultants) interviewed the client, examined the client's expenditure receipts and vouchers and entered the particulars in a tax return form, generally a salaried employee's return. The client's receipts and vouchers were then returned to the person concerned. The next step was for the completed document to be perused and checked by another consultant who was provided with a tape check on the figures therein. If these matched and the return appeared reasonable, it was passed to a manager for further checking before being passed to a nominee for his perusal and checking prior to signing or, if any doubt arose as to its correctness, for the taking of appropriate action. Evidence was given that the nominee would take one to three minutes to deal with an "S" return. Section 251N calls for much more than this. It requires supervision and control of the preparation of the returns and of the business transacted by S. & T. relating to any income tax return or income tax matter. This involves, in our opinion,



INFORMATION SHEET

at least making spot checks on the accuracy of the initial material from which the returns are prepared and supervising the office work. *S. & T.'s nominees have in many cases done no more than a few hours work in moonlighting jobs over and above their normal employment, making a rough appraisal of the completed work of unqualified employees of S. & T. **When the Act speaks of the nominee being an employee and supervising the work it is really calling for substantial supervision and employment while the agent's office is open to transact tax business. [emphasis added]***

Despite finding that the business of the company lacked the requisite degree of supervision and control, the Tribunal nonetheless exercised the discretion conferred by section 251K and set aside the Board's decision to cancel the registration of the company.

Re McGowan and Tax Agents' Board of Queensland 96 ATC 2056

The applicant sought review of a decision of the Board to reject his application for registration as a tax agent. Before the Tribunal (Senior Member Muller (as he then was)), one of the issues was whether or not the applicant had been adequately supervised during his employment.

The Tribunal found that the applicant was supervised by a registered tax agent for 7 years and that for nine months of each year, the applicant physically shared the same office as the tax agent. For the remaining three months, the applicant and the tax agent were based in the same building. In addition, for three of these years, the applicant was supervised by a tax agent – they were in contact with each other virtually on a daily basis in busy times and about twice per week during less hectic periods. Approximately 15 per cent of returns prepared by the applicant were spot-checked by the tax agent.

On the basis of these findings, the Tribunal concluded that the supervision of the applicant by the tax agents was sufficient in the circumstances to constitute proper supervision in accordance with the Act and regulations. The Tribunal could find no point in embarking on a detailed analysis of cases cited to it in argument, as each case was decided on its own facts; in each case, the applicant was either not sufficiently experienced or was not properly supervised.

Scott and Tax Agents' Board of Queensland [2001] AATA 435; 2001 ATC 2218

The applicant applied for a review of the Board's decision to cancel her registration as a tax agent. There were a number of matters in issue before the Tribunal (Deputy President Forgie, Members Way & Horrigan), one of which concerned whether or not the applicant had breached subsections 251N(1) and (2A).

The applicant's husband and one of her sons prepared client income tax returns on behalf of the applicant. The applicant claimed that she supervised them in this.



INFORMATION SHEET

The applicant was found to be in breach of subsection 251N(2A), in that she failed to exercise supervision and control over her husband and son and an employee. In relation to income tax returns prepared by these people, the applicant checked that returns had been completed and looked at a checklist. However, she did not go further and conduct spot checks of particular income tax returns to see whether they were correct and that claims made were justified.

The Tribunal affirmed the Board's decision to cancel the applicant's registration as a tax agent

Re Cafferty and Tax Agents' Board of New South Wales [2004] AATA 560

This case related to a refusal to grant original registration on the basis that the applicant had failed to satisfy the "relevant employment" requirement under Reg 156 of the *Income Tax Regulations 1936*. Here the applicant relied on a period of work performed for an accounting firm during which he prepared tax returns individually and referred these returns to his supervisor (a public accountant) for final checking. Whilst the supervision model involved a general lack of supervision of the applicant in his day to day work, the supervisor cleared all matters that were to leave the office.

Senior Member M J Sassella, in citing *Re Underwood v Tax Agents' Board of Queensland* ("*Underwood*"), emphasised that an employee must be adequately supervised in order to have engaged in "relevant employment" under Reg 156. In such a case involving the demonstration of employment, the level of supervision was inadequate as it was carried out only at the end of the process, and therefore more closely reflected the position of a self-employed accountant.