Reducing barriers to business dynamism

Xero Submission

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Overview

Xero is a global small business platform with almost 5 million subscribers worldwide, including 2.1 million in Australia, bringing together accounting, payroll and payments in one platform. We work with small businesses directly and through the accountants and bookkeepers who advise them.

Business dynamism is not only about how businesses form and exit. **It is also about the day-to-day experience of running one.** Where small businesses face unnecessary compliance friction, manual toil, or administrative burden that software could reduce, that is a dynamism problem as well.

It shapes whether a business owner has the time and headspace to take risks, invest in new tools, and grow. **Reducing that friction is what Xero's platform is designed to do, and the things we are trying to solve for** — automating routine tasks, surfacing timely information, helping small businesses and their advisors focus on decisions that matter — **are directly relevant to this inquiry.**

This submission raises one specific area where our ability to deliver that for Australian small businesses is constrained by a definition that was not designed for the current era. The Tax Agent Services Act 2009 (TASA) governs what constitutes a tax agent service, and the breadth of that definition — developed long before AI and automation became central to how practitioners and small businesses manage compliance — creates real uncertainty about what software can do. The productivity gains that better automation would deliver to small businesses are not fully flowing through as a result.

The activities involved in running a small business are also changing rapidly. AI is reshaping how businesses hire, market, manage cash flow, and meet their obligations. How a business operates five years from now will look very different from today, and the regulatory settings being built now will shape whether that shift works for small businesses or creates new friction. **Australia has an opportunity to make sure the frameworks governing digital tools keep pace.**

1. The TASA definition and small business automation

The definition of a "tax agent service" under Section 90-5 of the Tax Agent Services Act 2009 — any service relating to "ascertaining liabilities, obligations or entitlements" under a taxation law — was developed in a different operating context.

As AI becomes more deeply embedded in the tools practitioners use, the small businesses they serve, and the ATO itself, the breadth of that definition creates genuine uncertainty about how AI-supported and automated software functionality is interpreted.

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That uncertainty does not prevent adoption, but it does affect how confidently automation can be embedded in practice and how far the productivity benefits flow through to small businesses and their advisors.

1.1. What this looks like in practice

Some routine and rules-based functions that fall within the definition have evolved with technology to be well-suited to automation, without requiring the specialist tax knowledge the definition was designed to regulate. The following examples illustrate the kinds of features that sit in this space:

- **Threshold alerts and nudges:** A notification that a business is approaching the GST registration turnover limit, or moving towards PAYG instalment obligations, applies a defined rule to a known number. It is not an interpretation of law or a recommendation of a position — it is a calculation based on publicly available thresholds. Whether building this into software constitutes providing a tax agent service is not clear under the current definition.
- **Prompts surfacing authoritative information:** Pulling in whether a supplier is GST-registered via ABN lookup, or flagging that a particular expense category is commonly GST-free, involves surfacing information the ATO has itself published. The user decides what to do with that information. But the act of surfacing it may fall within the definition.
- **Transaction classification suggestions:** Automated suggestions for how to code a transaction — which account, which GST rate, which payroll category — reduce manual work and improve accuracy. The final selection always remains with the user or their advisor. Whether the suggestion itself constitutes a tax agent service depends on how it is generated, and the answer is not settled.

None of these features involves interpreting tax law in light of a client's specific circumstances, recommending a position, or representing a client before the ATO. They are the kinds of routine, rules-based tasks that software is well-placed to handle — and that, if handled well, free practitioners to focus their expertise where it genuinely matters.

That is not to suggest specialist tax knowledge and professional judgment are becoming less important — if anything, the reverse is true. It is to recognise that the definition was not designed to account for a world in which software handles an increasing range of routine tasks while practitioners focus on higher-value work.

This sits at the centre of Xero's organisational philosophy, which we describe as **Accountable Intelligence**. Our commitment is to manage the mechanics — the routine, rules-based tasks that consume time without requiring judgment — so that business owners and their advisors can focus on understanding their numbers and acting on them. We are building software that elevates human expertise rather than replacing it, because the most critical intelligence in any business is not artificial. It is the judgment of the person running it.

1.2. How the definition should evolve

How the definition of a tax agent service should be drawn in an era of AI and agentic workflows is a question that warrants serious consideration across regulators, policymakers, software providers, and the profession. Guidance from the Tax Practitioners Board (TPB) on how existing obligations apply when using AI tools has real value — affirming that practitioners can adopt AI with confidence while professional responsibility and the obligation to verify outputs remains with them. But guidance alone cannot resolve the underlying definitional question.

Xero raises this as a practical constraint on what software can deliver to small businesses today — and therefore relevant to any serious consideration of the barriers to small business dynamism and productivity. The definition of a tax agent service is one of a number of frameworks that were not designed for the current era and that deserve attention as the Government considers how to support small businesses to adopt and benefit from digital tools.