Inland Revenue
Te Tari Taake

Programme Business Case Addendum

Business Transformation

Implementing New Zealand's future revenue system

October 2019

Version: Final

New Zealand Government

IN CONFIDENCE

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Part A

Updates to the Programme Business Case

This section summarises material changes since the last addendum to the Programme Business Case was prepared in October 2018. The most significant update is to the economic case. The commercial and management cases have also been updated. No changes have been made to either the strategic or financial cases.

Executive Summary

Fundamental changes to the revenue system over the last three years have delivered significant value to New Zealanders. The successful implementation of Release 3 on 26 April 2019 marks a significant milestone in the transformation of the revenue system.

Policy and legislative settings have changed. Customers and partners interact with Inland Revenue in a completely different way. Inland Revenue's organisation design and capabilities are organised around customers. Supporting all of this are new systems and processes. All taxes and Working for Families are now on the new system, as is all customer information such as contact details.

While these significant changes have at times put pressure on participants in the revenue system, their value is now evident.

It is much less effort for customers

The way customers interact with Inland Revenue and the revenue system has now fundamentally changed. Changes to the collection and use of employment and investment income information have enabled more far-reaching changes to be made, including the introduction of a new year-end process for individuals.

The combination of these changes means that for most individuals, tax will be correctly withheld and assistance provided at the time it is needed. As a result, customers no longer have to rely on a year-end process to be certain they have paid and received about the right amounts. Customers receiving social policy entitlements can be more confident they are doing the right thing, as, in the main, these rely on accurate income information.

Inland Revenue has supported the approximately 200,000 employers to move to payday filing, and approximately 2.9 million individual customers to adapt to a new year-end process.

Online services are now available for all taxes. Customers can provide information, set up payment arrangements, and keep track of everything online. More and more customers are using them, with 89% of returns filed electronically for the year ending 30 June 2019.

Individuals can see their personal details and all the income Inland Revenue pre-populates for them in their online account (myIR).

Businesses can interact with Inland Revenue through their software and all their information is in one place in myIR. As at 30 September 2019, the majority of employers (98%) are filing digitally, with around 48% of payday returns filed through software.

A wider range of intermediaries can act on their clients' behalf, see the same information as their clients, and do everything online their clients can do.

These changes make it easy for customers to do what they need to do, with 80% saying they find it easy to comply for the year ending 30 June 2019.

Small-to-medium sized businesses say they are spending nine fewer hours a year meeting their tax obligations and say new digital services are making a real difference. Since the first changes were made in early 2017, the value of the time saved by these business owners is $280 million.

It is simpler to pay and receive the right amounts

Employers are providing employment income information more regularly. Payers of investment income are able to provide information about recipients more regularly, along with some new information where they have it. They will have to do so from 1 April 2020.

This information is now stored in one place by Inland Revenue so it can be quickly collated to identify inconsistencies and errors. This means Inland Revenue can work with customers to help them get things right before the amounts involved get too big.

Salary and wage earners now automatically get a refund or bill for tax to pay at the end of the year. For the year ending 31 March 2019, 1.3 million people received refunds worth $572 million and 271,000 people have $95 million to pay.

It is easier for customers to comply and harder not to

Improved analytical capabilities are enhancing the integrity of the revenue system by providing a real-time view of issues customers are struggling with and areas that might require closer investigation. All returns are now automatically risk-profiled.

Inland Revenue now has more tools at its disposal to make smarter decisions about where to focus its resources. As a result, compliance activity can be better targeted through cost-effective interventions ranging from advice and education where needed to enforcement where necessary.

Errors and non-compliance, both inadvertent and deliberate, are being better detected and detected earlier through rules, created by Inland Revenue's compliance experts. These are constantly adjusted as customer behaviour changes.

Inland Revenue can now act more quickly to provide support where customers need it and also when obligations are being deliberately avoided.

Inland Revenue is working more efficiently to collect and distribute money

Broader, capability-based roles with more decision-making abilities mean that, increasingly, customers only have to talk to one person to get a query resolved.

New workplace tools and internal systems and processes are enabling Inland Revenue's people to do more for themselves and work more flexibly and efficiently.

Since transformation began, Inland Revenue has made savings of $60 million from improved administration. Further efficiencies will follow as a result of increased automation and as the legislative changes implemented as part of Release 3 are embedded.

The revenue system is more agile and resilient

It is easier for Inland Revenue to make changes and deliver the outcomes policy-makers are looking for as new systems are configurable. Involving customers and third parties earlier has enhanced the policy development process.

New infrastructure is more robust and secure, with customer-facing online services available 99.4% of the time for the year ending 30 June 2019. More solutions are being provided as-a-service or off-the-shelf meaning Inland Revenue can scale up quickly when needed.

The addition of the research and development tax incentive and collection of hours paid information to scope are further evidence of increasing agility.

Independent, external reviews confirm the good progress being made

Regular, independent assurance reviews provide confidence that transformation is well managed and governed and that benefits are being progressively realised.

Programme costs and benefits

Transformation continues to track well within the funding envelope approved by Cabinet in 2015, Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.

Progress against monetary and non-monetary benefits is also tracking well as demonstrated by the results for the year ending 30 June 2019 for the lead and lag indicators.

Inland Revenue recognises there is no room for complacency

While transformation is now well advanced and has been successful to date, there are still two big releases ahead.

Student loans and KiwiSaver will migrate to new systems and processes in April 2020, followed by Child Support in April 2021. In addition, a range of policy changes will be introduced, subject to legislation. These are complex products with many different stakeholders and for Child Support in particular, affect some customers with complex personal circumstances.

THE ECONOMIC CASE

Delivering the preferred way forward

This section provides an update on progress in delivering transformation and realising the agreed benefits and outcomes. The preferred way forward, programme roadmap, and release plan are unchanged.

Modernisation of the revenue system is progressing well

Transformation continues to be implemented as planned:

- Cabinet has agreed to policy changes to improve the administration of KiwiSaver and Student Loans as part of Release 4 in April 2020.
- A new data and intelligence platform has been implemented.
- Changes to Inland Revenue's capabilities and organisation design continue.
- Release 3 (the third of five planned releases) was successfully implemented on 26 April 2019, completing the migration of tax products to START.[1]

The benefits of the changes being made are becoming increasingly evident.

Because employment and investment income information are reported to Inland Revenue more often, people who only earn this type of income now have their end-of-year refund or tax to pay worked out for them. This information is now stored in one place and means Inland Revenue can associate more of a person's income with them and identify things that aren't right.

New analytical capabilities are enabling Inland Revenue to look at any errors and separate potentially fraudulent behaviour from inadvertent mistakes and respond accordingly. Some transactions are stopped and referred to a person for review. In other cases, areas of complexity and confusion have been highlighted where customers and third parties need help to get things right. The prescribed investor rate is a good example.

New systems and processes mean more and more customers are using online services as they are quick and convenient. As at 30 June 2019, 89% of returns were filed electronically and 98% of employers provided employment income information electronically.

Together, these changes are making it simpler and easier for customers to meet their obligations and pay and receive the right amounts. The revenue system is working as designed – to be simple, open and certain.

Delivering the future revenue system

Delivering the future revenue system requires changes to policy, data, processes, people, and technology.

❶ Simplifying policy and legislative settings

A review of policy and legislative settings to support, enable, and optimise the benefits from business transformation is nearly complete.

A number of significant legislative changes were implemented as part of Release 3 in April 2019.

From 1 April 2019, employers have been required to provide employment income information to Inland Revenue on a payday basis.

Since 1 April 2018, when payday filing was introduced on an optional basis, Inland Revenue has been supporting the approximately 200,000 employers to ensure they meet their new obligations.

As at 30 September 2019, approximately 191,000 employers had filed approximately 3.4 million payday returns since 1 April 2019. A small portion of employers have not yet filed a payday return. Inland Revenue has been proactively contacting them to understand if they require any assistance.

More businesses are now required to file electronically. From 1 April 2019, businesses that withheld more than $50,000 of PAYE and employer superannuation contribution tax (ESCT) in the previous tax year have been required to file online.

From 1 April 2019, payers of investment income have been able to provide more detailed recipient information more frequently if they choose to. This becomes mandatory from 1 April 2020. Also from 1 April 2020, companies and Māori Authorities will be required to provide information about the recipients of investment income.

Changes to the collection and use of employment and investment income information have enabled more far-reaching changes to be made, including the introduction of a new year-end process for individuals. The combination of these changes means that, for most

[1] START stands for simplified tax and revenue technology and is the name Inland Revenue has chosen for the GenTax software provided by FAST Enterprises LLC

individuals, tax will be correctly withheld and assistance provided at the time it is needed.

Inland Revenue will proactively engage with Working for Families customers to ensure their entitlements are correct. Over time, more income information will be used to calculate Child Support payments.

The biggest changes for individuals in 20 years are making it easier for customers to pay and receive the right amounts.

A new year-end process for individuals was introduced. This represents a fundamental change to how individual customers with salary and wage and/or investment income interact with Inland Revenue. It reduces effort for them and provides them with greater certainty. The revenue system is now operating in close to real-time which means customers have greater visibility of their taxes and entitlements and can be more confident they are about right.

The changes made to the collection and use of employment and investment income information, together with the new year-end process, have laid the foundation for on-going improvements for individual customers. Over time, more customers will pay and receive about the right amounts during the year, further reducing the need for them to interact with Inland Revenue.

For the year ended 31 March 2019, approximately 2.9 million people who only earned income that had tax deducted from it received an automatic income tax assessment (all numbers approximate):

- More than 1.3 million people were automatically issued with refunds totalling $572 million.
- Just over 354,000 small refunds under $1 were not issued and will be held until such time as the amount reaches $1.
- Around 271,000 people were automatically issued with a bill to pay, at an average of $353 each. People have until 7 February 2020 to pay the amount they owe.
- A further 529,000 people had a bill written off as the amount owing was less than $50. The average amount written off was just under $7 per person.
- 95,000 people paid exactly the right amount.
- Around 320,000 people were asked to provide more information.

Customers with debt may not have received a refund or received part of it, as refunds are used to offset any debts customers owe.

As new systems and processes have been designed to do, opportunities to ensure tax is withheld correctly and entitlements are paid accurately when needed are now being identified. As a result of the changes delivered in Release 3, Inland Revenue is now seeing data flows at a level it has not previously experienced and, in some cases, receiving data that could not previously be processed in the old system. The combination of new systems and processes and receiving more detailed data more often means that Inland Revenue is now able to see issues that have not previously been visible. This was expected to be the case and means Inland Revenue can now act more quickly to help customers get things right.

This has highlighted some areas where errors are being made, for example people being on incorrect prescribed investor rates (PIR). For more details, refer to page 13.

More legislative changes will be introduced in Release 4 further simplifying things for customers.

Cabinet has agreed to policy changes (CAB–19-MIN-0085 refers) which will improve the administration of Student Loans. These changes will make it easier for borrowers to meet their obligations and reduce complexity for Inland Revenue in administering Student Loans:

- Limiting student loan scheme rules relating to the 2013 and prior years with some exceptions. This will reduce compliance costs for borrowers and administration costs for Inland Revenue.
- Renaming the student loan repayment holiday to repayment obligation suspension. This will make it clearer to borrowers heading overseas that their repayments are only temporarily on hold and must resume once the suspension ends or they return to New Zealand.
- Writing off student loans in cases where borrowers have been able to prove they did not take out the loan. This will be fairer for the small number of people in this situation.
- Giving Inland Revenue the ability to notify employers when borrowers' loans are close to being repaid. This will reduce the likelihood of overpayments and borrowers having to contact Inland Revenue to get a refund.
- Treating overseas based borrowers in exceptional circumstances (suffering from a serious illness or disability) as New Zealand based. This means these

borrowers will not be charged interest and repayment obligations will be based on their income.

Cabinet has agreed to policy changes (CAB-19-MIN-0109 refers) which will enhance Inland Revenue's administration of KiwiSaver. The amendments aim to ensure that KiwiSaver members receive the correct contribution amounts and facilitate the faster transfer of contributions to KiwiSaver scheme providers. These changes may have a positive impact on people's KiwiSaver balances.

These changes are included in the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill that was introduced to Parliament on 27 June 2019 and had its first reading on 23 July 2019. It has been referred to the Finance and Expenditure Select Committee.

2 Making more intelligent use of information

Improved analytical capabilities are enhancing the integrity of the revenue system and helping to ensure that the changes made as part of transformation will be enduring. These new capabilities mean Inland Revenue can more easily identify areas that require attention and better prioritise its efforts. This is enabling Inland Revenue to be more responsive in providing support where customers need it and to act more quickly when obligations are being deliberately avoided.

Improved analytical capabilities in START are making it easier for customers to comply and harder not to.

Inland Revenue's new system, START, has two main types of analytical activity - Discovery Manager and Integrity Manager.

Discovery Manager enables Inland Revenue to look at returns received and the information the department holds and "discover" errors and issues requiring investigation earlier. Following are some examples of how this new capability is being used:

- Customers registering for GST are separated into different groups and provided with tailored education. For example, customers registering for the first time.
- Employer Information files are analysed to identify and address inaccurate information earlier.
- People on incorrect tax codes are identified and helped to ensure they pay and receive the right amounts.

Integrity Manager enables Inland Revenue to develop rules, created by its compliance experts, to stop assessments and refunds from being issued where there is a high likelihood they are wrong or fraudulent. Inland Revenue may call the customer to clarify something, decide it is all ok and release the return or the refund, or decide to investigate further.

Rules are constantly monitored and adjusted in real time, and by customer group, as Inland Revenue observes changes in customer behaviour.

Inland Revenue can now more easily identify issues that require review, for example:

- Donations as a percentage of income.
- Returns filed from high-risk overseas countries.
- Claims for non-business expenses.
- Searches for IP addresses and the use of anonymisers or proxies to identify returns all completed at the same IP address.

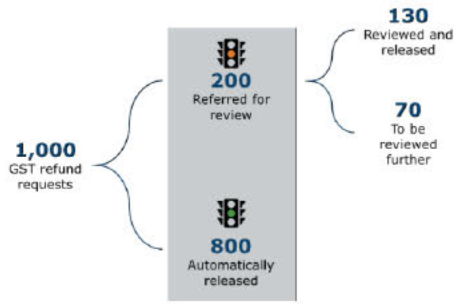
All returns are now automatically risk-profiled, whereas previously only GST returns were automatically assessed for risk.

Together with a new data and intelligence platform, Inland Revenue is better targeting its compliance activity.

In early 2019, Inland Revenue implemented a new data and intelligence platform (DIP). As it is further developed, the DIP will enable the vast and varied data Inland Revenue collects to be quickly collated and made sense of and made easily available to respond to emerging trends and inform decisions for customers.

Inland Revenue is just beginning to work with this new capability, which complements the analytical capabilities available in START. It is already enabling errors and non-compliance, both inadvertent and deliberate, to be better detected and detected earlier.

People across Inland Revenue are working together to ensure the DIP is used to help Inland Revenue to be more intelligence-led and better target its compliance activities from education through to enforcement. For example, a dashboard is being created to provide insights into compliance risk. During GST peak filing, Inland Revenue receives as many as 250,000 returns. The DIP is helping Inland Revenue to make smarter decisions about where to focus its limited time and resources to maximise benefits as shown in the diagram below (all numbers are illustrative).



This is enabling GST refunds that don't need to be focused on to be released to customers so they can get on with their business.

The DIP is also providing a real-time view of issues customers are struggling with. This helped Inland Revenue to be more responsive to customer feedback following go-live of Release 3 on 26 April 2019. DIP analysed the notes contact centre people put in START when talking to customers which enabled communications to be adjusted, for example creating new social media posts or revising website content to address the issues raised.

New analytical capabilities will enable Inland Revenue to work more efficiently.

Over time, the capabilities in START and DIP will improve voluntary compliance and enable non-compliance to be more readily detected. Inland Revenue's compliance activities will adapt as these new capabilities become embedded and as customer behaviour changes.

Improved analytical capabilities are contributing to the commitments made to increase assessed Crown revenue and reduce administrative costs for Inland Revenue.

A new website is making it easier for customers to do what they need to do.

In April 2019, Child Support, Working for Families, and income tax went live on Inland Revenue's new website. A new home page, with improved layout and design and improved navigation, is making it easier for customers to find what they need. The new website automatically sizes to whatever device customers use to view it on.

3 Fitting revenue processes seamlessly into people's lives

Integrating processes into people's lives and businesses' natural systems and removing effort for them remains a key focus.

The new automatic assessment process for individuals is a good example of the value being delivered by transformation. People who only earn income from employment or investments no longer need to do anything at the end of the tax year to work out if they have a refund or tax to pay. Inland Revenue does it for them.

In previous years, as people had to work out if they were due to get a refund and then apply for it, Inland Revenue's best estimates are that only approximately 55% of people who were entitled to a refund did so.

As at 30 September 2019, approximately 114,000 customers were using accounting software, provided by Xero or MYOB for example, to file their GST returns. This represents around 15% of total GST customers. From 1 April 2019, customers have been able to opt into the accounting income method (AIM) option for provisional tax anytime during the year.

As at 30 September 2019, the majority of employers (98%) are filing digitally, with around 48% of payday returns filed using commercial software through gateway services.

Small-to-medium sized businesses (SMEs) say using digital services makes it easier to comply. In Inland Revenue's 2018 study on the time and cost of doing business taxes, SMEs were asked what was making it easier or harder for them to meet their tax responsibilities. The approximately 20% who said it was getting easier credited new online services, the ability to file from their software and Inland Revenue's improved website as key drivers.

"The IR online system has made everything so much easier ..."

"The IRD systems are getting better and better and more user friendlier"

4 Creating an organisation that works together better to improve outcomes for customers

Inland Revenue is building on the changes begun in 2018, supporting its people in a range of ways and providing them with choices where it can.

Consultation on a new organisation design for Inland Revenue is continuing.

During 2019, Inland Revenue consulted with its information technology team on changes that reflect the shift to the new operating model.

Inland Revenue is moving to a new operating model for technology, using commercial off-the-shelf products and cloud-based services aligned to the way customers consume technology services. This impacts the way that the information technology function currently operates and the mix of skills, capabilities, and resources required. Some changes were made ahead of Release 3 and further changes were announced in September 2019 and are scheduled to be implemented in early December 2019.

This is a significant change for Inland Revenue's information technology team and will result in more than 80 people leaving Inland Revenue by December 2019. The new structure has six positions reporting to the Chief Technology Officer, including two temporary positions which will end over the next two to three years once transformation is complete. Over this same timeframe as heritage services are retired, the information technology team will reduce by a further approximately 100 people. This will leave around 90 people remaining in the information technology team, compared to approximately 330 prior to transformation.

During June 2019, consultation on the future capabilities required for the policy function was completed. A new organisation structure and roles was implemented in September 2019 to ensure that development of policy is:

- more outcome-focused and achieves the results intended
- responsive and shapes the future revenue system so it continues to be fit for purpose, and
- improves overall outcomes across government.

Consultation on changes to Inland Revenue's tax technical functions began in July 2019. Changes are proposed to structures and roles to ensure they can meet the future needs of Inland Revenue and its customers while still delivering high quality customer service and technical excellence. It is intended that the new structure and roles, which will ensure Inland Revenue's tax technical capabilities are fit-for-the-future, will be in place from February 2020.

Consultation on changes to Inland Revenue's other back-office functions will get underway in 2019/20.

Change for Inland Revenue's people will continue into 2021 as the department continues to transform the way it works.

There is ongoing investment in skills and capabilities.

Inland Revenue's new organisational design supports people through change by creating capability-based roles. The new roles are focused on transferable skills such as customer service or compliance, as well as new capabilities such as digital literacy and data analytics. This means that as work changes, people can increase their capabilities within their role.

Significant training programmes are completed as part of each release. For Release 3 for example, some 8,000 classroom training days were completed for around 3,500 people from January to April 2019 as well as significant self-study through eLearning modules.

A large number of Inland Revenue people are also being developed by directly working on the transformation programme. After every release, a number of people are developed as super users, able to support their colleagues and triage issues for any remedial work required.

New performance, recognition and pay approaches support new ways of working and drive the behaviours and ways of working that are expected in the future. These new approaches will continue to be embedded during 2019 and into 2020.

A new enterprise support services platform will support new, more efficient ways of working.

Inland Revenue is replacing its enterprise support services platform (the internal processes and systems that support the day-to-day running of Inland Revenue's corporate functions) to provide for modern ways of working.

The new system is called Ātea. Functions are moving to Ātea in a series of releases that will progressively streamline, simplify and, where possible, automate systems and processes. Ātea releases are independent of the major, customer-facing releases in April each year.

Budgeting and forecasting functions went live in Ātea on 7 February 2019. This was timed to be well-ahead of go-live for Release 3. Finance, procurement, and some human resource functions went live on 1 October 2019.

Inland Revenue is working with the Ministry of Business, Innovation and Employment, Oracle and accounting system providers, such as Xero and MYOB, to support the implementation of the Pan European Public Procurement Online (PEPPOL) inter-operability framework. PEPPOL will enable businesses to easily deal electronically with the public sector in a procurement process.

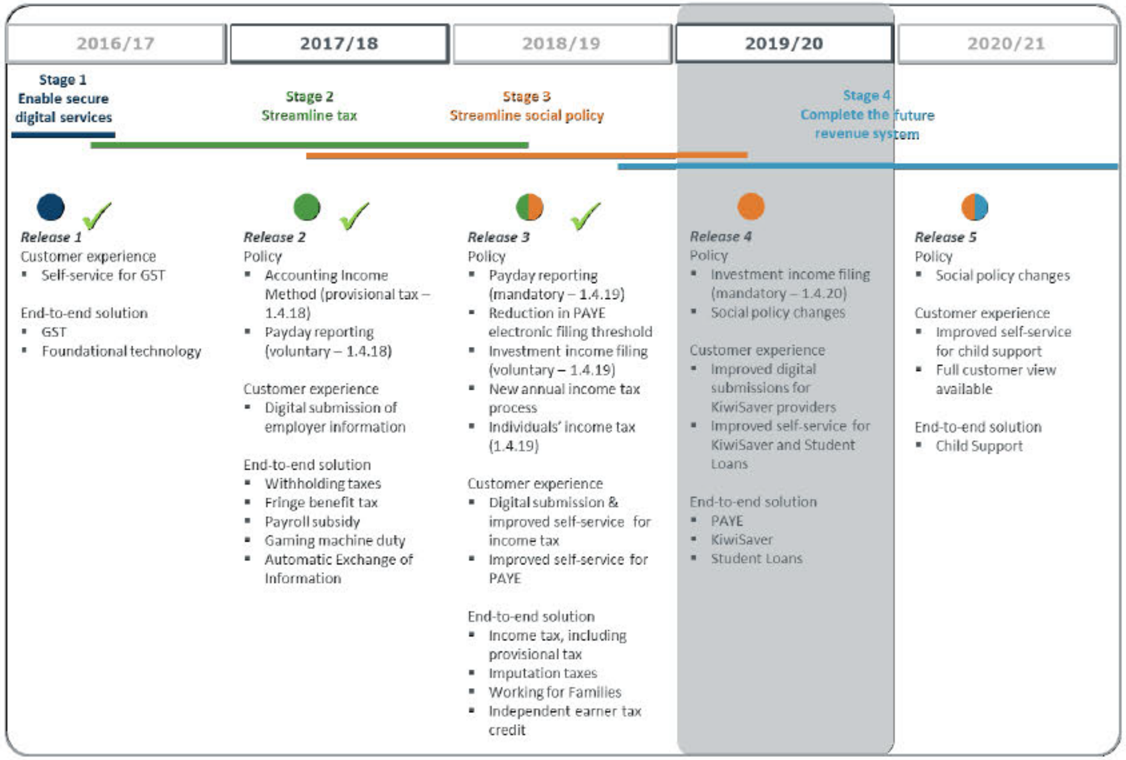
To support the PEPPOL framework, Inland Revenue is working with Oracle to develop an e-invoicing access point that can be used by all Oracle Cloud customers in New Zealand and Australia.

❺ Implementing a modern technology platform (START)

Three of five major releases have now been implemented successfully as planned as shown in the diagram on the right. All releases to date have been implemented on time and on budget. Inland Revenue has kept providing services to customers while fundamentally changing almost every aspect of the way it operates. Changes have been made to policy settings, processes, technology, and Inland Revenue's organisation design. This has been transformational change, not simply a technology replacement.

Although there have been challenges along the way and not everything has worked as expected, implementation has been successful particularly given the scale and complexity of the changes made. Overall while there have been some frustrations for some customer groups, these have been quickly addressed. For each release a number of enhancements were made in the days and weeks following go-live to improve things that were not working as well as they should.

Throughout, customers have continued to file their returns, pay their tax, and receive the payments they are entitled to.



Release 3 was implemented on 26 April 2019.

This release has fundamentally changed the way the revenue system operates. It builds on previous releases, policy changes, and changes to Inland Revenue's organisational design.

Customers now have a fit-for-purpose revenue system that operates in close to real-time. The majority of individuals no longer need to anything at the end of the tax year as Inland Revenue works out for them whether they have a refund or bill to pay. More importantly, over time customers will increasingly pay and receive the right amounts during the year so they will have fewer interactions with Inland Revenue overall.

Customers now have:

- on-line services for all tax products and Working for Families - for example customers can file returns, set up payment plans, lodge their donations receipts and include attachments on-line
- integrated tax and business processes
- faster, more accurate tax information, providing near real-time visibility of tax
- faster tax refunds
- less likelihood of tax debt and more payment options.

This release was a significant milestone.

- Income tax and Working for Families were migrated to new systems and processes.
- The government now has much greater agility for taxes.
- All customer information is now held in START.
- Inland Revenue has a clear understanding of the effort required to migrate social policies. FAST are building requirements into their core product so Inland Revenue does not end up with a bespoke solution for New Zealand. This enables Inland Revenue to benefit from the improvements FAST make to their software, rather than having to build these itself.

Release 3 was on a significantly larger scale than the previous two releases, as can be seen in the table on the next page.

Experiences after go-live have largely been positive.

For most customers, Release 3 has gone smoothly. Notwithstanding, there were a number of teething issues affecting groups of customers which are being steadily resolved.

Tax agents in particular signalled concern about the compound effect of a number of small issues. Inland Revenue established a dedicated team to work with Chartered Accountants Australia and New Zealand to identify and address the top priority issues.

Not all the issues raised by tax agents require changes to systems and processes. Some were addressed by agents using the material available to them, such as training material or webinars, or by Inland Revenue providing further education and guidance about how new processes work.

As expected, Inland Revenue is uncovering areas of inconsistency and complexity resulting in errors. For example, a significant number of individuals have been on incorrect PIRs. This has been identified as, following Release 3, Inland Revenue can now associate more of an individual's income with them. Prior to Release 3, it was not clear that a significant number of people were on an incorrect PIR.

Inland Revenue is proactively contacting people on the wrong rate to suggest they correct it. Planned legislative changes will further reduce the number of people on the wrong rate.

One of the objectives of transformation is to make it simpler and easier for people to be certain they are paying and receiving the right amounts.

Changes to reporting requirements for employers and payers of investment income, a new year-end process for individuals, and new systems and processes for income tax mean more of an individual's income can now be associated with them and any inconsistencies or errors more easily identified as a result. Inland Revenue has not previously had some information at the level of detail required to enable this. Nor were old systems and processes designed in a way that enabled data from different sources to be brought together all in one place.

Inland Revenue is now able to proactively contact third parties and customers during the year where things are not right. Over time, this will mean fewer people will end up with a refund or tax to pay at the end of the year and the average amounts will be less.

The approach to early life support for Release 3 was informed by lessons learned from the first two releases

The sheer size and scale of Release 3 meant the approach to providing support after go-live needed to change, building on what was learned through previous releases. An extended support period, known as Pou Whirinaki (meaning support you can depend on), delivered additional support over and above the tried and trusted early life support (ELS) approach.

A dedicated extended support team was established to provide support across four broad areas:

- Technical — Are systems and channels working for our customers and Inland Revenue's people?
- Operations — Are Inland Revenue's people able to complete tax and social policy processes?
- Customer and stakeholders — Are customers able to complete their business? Is their feedback being listened to and acted on? Do customers feel supported?
- People – Are Inland Revenue's people staying safe and well?

Compared to the first two releases, ELS started earlier and ran for a longer period of time to support go-live and the traditional peak period. ELS was in place from early March 2019 to support cutover and payday filing from 1 April 2019. In previous releases, ELS began immediately after go-live.

The initial period of heightened support (known as hyper-care) ran for approximately 10 weeks instead of the 3 weeks in place during Releases 1 and 2. Hyper-care ended as planned on 30 June 2019. On-going ELS support arrangements remained in place for 13 weeks. This compares to 8 weeks for Release 2. On-going support included staff dedicated to providing desk-side support and key users, albeit in reduced numbers. ELS ended as planned on 27 September 2019, a period of nearly 23 weeks compared to 11 weeks for Release 2. This extended period recognised the scale and scope of the changes being introduced compared to earlier releases.

The lessons learned from Release 3 have helped to refine Inland Revenue's approach and have been considered in planning for Releases 4 and 5.

	Release 1 Feb 2017	Release 2 April 2018	Release 3 April 2019
Products migrated to START	GST	• Withholding taxes • Fringe benefit tax • Payroll subsidy • Gaming machine duty	• Income tax • Working for Families
Customer readiness			
Seminars for customers	0	250	350
Webinars for customers	3	15	15
Customers contacted	630,000	368,000	2,000,000
Programme readiness			
Accounts migrated	880,000	1 million	19.7 million
Returns migrated	8.1 million	13 million	18.1 million
Transactions migrated	23.6 million	2 million	100 million
Web logons updated	0	0	8.3 million
Time to load data into START	17 hours	8 hours	30 hours
Time to remove data from FIRST	13 hours	11 hours	30 hours
Number of cut-over tasks	More than 350	More than 540	More than 1,150
Hours to cut-over	113 hours	93 hours	185 hours
Total tests completed	15,462	46,304	94,204
Business readiness			
Staff trained (classroom)	2,700	2,700	3,600
Classroom sessions (before go-live)	142	More than 260	More than 370
Items of data corrected	N/A	N/A	138 million

Release 4 is scheduled to go live in April 2020.

Release 4 in April 2020 will enable end-to-end processing of employer information, KiwiSaver and Student Loans in START. This means all products, except Child Support and paid parental leave, will be in START which will enable Inland Revenue to further simplify requirements, reduce effort, and improve services for customers.

New digital services will provide customers, borrowers, members, employers and scheme providers with better self-management services.

For Student Loans, there will be more automated processes, more self-service and payment options. These changes will make it easier for borrowers to manage their loans.

KiwiSaver members will have greater visibility of their deductions and contributions and more self-service options. It will be easier for employers as KiwiSaver information will be incorporated into the 'new employee' process, so employers will not need to complete separate forms.

Working for Families customers will have improved services to reduce the chance of being over or under paid during the year. For example, if a change in the circumstances of customers receiving weekly or fortnightly payments results in an increased entitlement, this could be paid throughout the year rather than waiting until the end of the year.

The back-end processing of PAYE will move into START, enabling a single employer account and consolidation of the notifications Inland Revenue sends to employers.

As Inland Revenue increasingly works with its new analytical capabilities, interactions and interventions will be better targeted to customers' needs.

Business system testing (making sure START works as expected) for Release 4 began on 18 July 2019. The various phases of testing will continue right up until go-live.

Release 5 is scheduled to go live in April 2021.

Release 5 in April 2021 will enable end-to-end processing of Child Support in START, and complete delivery of any remaining products.

Heritage systems and any supporting infrastructure that has been built to support co-existence will be decommissioned.

The transformation programme will be formally closed in 2021 and all new services and processes transitioned to business-as-usual operations.

Inland Revenue recognises there is no room for complacency.

Student loans, KiwiSaver and Child Support are complex products with many different stakeholders. For Child Support in particular, some customers have complex personal circumstances. Continued focus is required to ensure changes are implemented successfully.

Programme costs and benefits

Overall programme costs and benefits remain unchanged. Inland Revenue remains within the funding envelope approved by Cabinet (CAB-15-MIN-0249 refers) and is confident this will be the case at the conclusion of the transformation programme.

Inland Revenue is on track to achieve the benefits committed to as shown on pages 16 to 19.

There is an agreed basis for monitoring Inland Revenue's progress in realising its commitments. This was agreed, along with a series of lead and lag indicators (refer to page 20), with the then Ministers of Finance and Revenue in July 2017.

Programme costs – progress update

Inland Revenue is tracking within the forecast costs to complete transformation.

Between 1 July 2014 and 30 June 2019, the programme spent $583.5m in operating and $278.4m in capital. Inland Revenue is tracking within budget and expects to complete transformation within the funding envelope approved by the government.

When the Programme Business Case was completed in 2013, Inland Revenue estimated it would fund between 15% to 30% of the programme's costs. In November 2015 when implementation was approved, Inland Revenue committed to funding between 40% and 50% of the programme's costs. Inland Revenue re-directed the majority of its existing capital reserves and discretionary asset improvement funding to transformation, enabling a funding contribution of between $685 million and $700 million.

Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.

Realisation of non-monetary benefits – progress update

Non-monetary benefits are making the revenue system easier for customers, improving system resilience and providing decision-makers with greater policy agility.

Progress against these benefits was self-assessed in a series of stocktakes in mid-2019. This process will be repeated in 2020 and 2021 as the remaining two releases are implemented.

Benefit area 1: easier for customers

Target state

By 2023/24, 90% of customers will find it easy to comply.

Progress to date – 2018/2019 results

Inland Revenue estimates it is about 50% of the way towards achieving this objective.

How progress is measured/monitored

The agreed basis for monitoring progress is through a series of case studies. Four have been completed to date.

In July 2019, a mid-transformation self-assessment was completed and found good progress has been made including:

- Inland Revenue can now act earlier to help customers. Receiving employment and investment income information more frequently means issues can be identified earlier and corrected more quickly.
- It is simpler for customers to do what they need to do. Customers can file, set up payment plans and include attachments online. Income information is pre-populated in customers' myIR accounts.
- More online services are available so customers can do more for themselves. A wider range of intermediaries can act on behalf of their clients.
- Better integration between customers' and Inland Revenue's systems means more seamless services. More tax types can be filed through software and all customers now can now digitally register for an IRD number.

Benefit area 2: the revenue system is more resilient

Target state

By 2023/24, Inland Revenue will have modern technology with improved risk and service management maturity that:

- is architecturally simpler and well documented;
- recovers from any technology failure quickly and predictably; and
- is more robust and secure.

Progress to date – 2018/19 results

Inland Revenue estimates it is about 60% to 65% of the way towards achieving this objective.

How progress is measured/monitored

The agreed basis for monitoring progress is through a series of case studies. One has been completed to date. In July 2019, a mid-transformation self-assessment was completed. The results are shown in the table below.

Risk profile	Risk rating			
	Current 2015	During co-existence	Target 2023/24	2019
Infrastructure failure	High	High	Low	High
People/process failure	High	High	Low	Medium-High
Architectural complexity	High	Extreme	Low	High
Information security	Extreme	Extreme	Medium	High
Change	High	Extreme	Low	Medium

The assessment found that good progress has been made including:

- The implementation of new infrastructure such as data centres is providing greater flexibility and scalability.
- Shifting to higher maturity services from the cloud, e.g. Software-as-a-Service has enabled the technology landscape to be simplified.
- All taxes have been migrated to new systems and processes. Co-existence means there is still some

complexity, however not as much as there was prior to Release 3. It is easier to make changes given the configurable nature of START.

- An increasing number of core services, for example online services, are running on START. As a result, they are significantly more robust than previously. This is borne out by the high number of logins seen during the automatic assessment process for 2019. The number of logins to myIR from 26 April (when Release 3 went live) to 30 September 2019 was 32.1 million, an increase of 88% on the 17.1 million logins recorded during the same period in 2018. The old myIR service did not have the capacity to support this volume.
- A reduced reliance on a small number of key people with expertise in heritage systems. One of the advantages of working with FAST Enterprises LLC is easy access to a wider pool of developers, providing flexibility and the ability to scale up quickly when needed.
- The evergreen nature of new workplace technology means that Inland Revenue is always up to date with the latest innovations in security.

Benefit area 3: Government has greater agility to implement policy

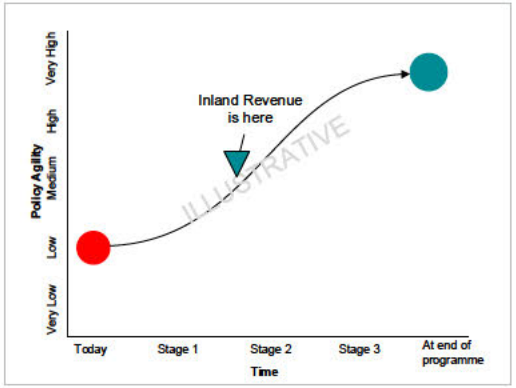
Target state

By 2023/24:

- Government will be able to consider a fuller range of options for achieving its desired policy outcomes.
- The time and cost for Inland Revenue to implement policy changes will be reduced.

Progress to date – 2018/2019 results

Inland Revenue estimates it is about a third of the way towards achieving the policy agility investment objective as shown in the graph below.



Government now has significantly improved agility for tax products. However, the complex inter-relationships between income and social policy products (some of which are still on Inland Revenue's old system, FIRST) do place some limits on agility. Full policy agility will be provided once the programme is complete in 2021 and all products have been migrated from FIRST to START.

How progress is measured/monitored

The agreed basis for monitoring progress is through a series of case studies. Two have been completed to date.

In June 2019, a mid-transformation self-assessment found that Inland Revenue is beginning to take a different approach to developing and implementing policy changes:

- Greater collaboration, with all parts of the department working together, means design and delivery perspectives are actively considered from the start of policy development. Customers are also being involved much earlier.
- Working more closely with third parties has greatly enhanced Inland Revenue's ability to get things right at the time of original transactions. The development cycles and timelines of third parties is now one of the key considerations for design and implementation timeframes.
- There is greater flexibility with START meaning changes can be made much later than has previously been the case.
- Better integration between activities and customers means Inland Revenue can now better understand the relationships between customers.
- Customer insights and data are being increasingly used to support policy problem definition and design to deliver better outcomes.

Realisation of monetary benefits – progress update

Monetary benefits are reducing compliance effort, additional Crown revenue and administrative savings for Inland Revenue.

Benefit area 4: compliance effort has reduced for small-to-medium sized businesses.

Target state

While the aim is to reduce compliance effort for all customers, smaller businesses are expected to benefit to a greater degree. Approximately 90% of businesses have five or fewer employees and, typically, compliance tasks are performed by the owner/operator.

By 2023/24, SMEs will spend 18 to 26 hours fewer hours a year meeting their compliance obligations.

This benefit has been monetised on the basis of the value to the owners of these businesses of the time saved. By 2023/24, the cumulative value of the time saved will be $1,330 million.

Progress to date – 2018/2019 results

SMEs reported they are spending 27 hours a year on meeting their tax obligations, 9 fewer hours in 2018 compared to 2013. This exceeds the target of 8 hours for the 2018/19 financial year.

The cumulative value of the time saved by SMEs up until the 2018/19 year is $280 million, above the target of $160 million.

Maintaining the gains made since 2016 is a positive result given the changes being progressively introduced by transformation and payday filing becoming mandatory from 1 April 2019.

In their *Compliance issues* report published in June 2019, the New Zealand Institute of Economic Research (NZIER) highlighted tax compliance as one of the areas that is working well.

In the Ministry of Business, Innovation and Employment's *Customer Experience Index* (January 2019 to June 2019) the changes most commonly mentioned were payday filing, AIM and GST. Overall, 50% of respondents felt these changes made things easier and 50% felt they made things more difficult. Customers say it is easier once they get used to new ways of doing things.

How progress is measured/monitored

The agreed basis for monitoring progress is a regular survey of owners of SMEs to understand how much time and effort they spend meeting their tax obligations.

The 2013 survey is the baseline for measuring compliance effort reductions for SMEs. At that time, the median time SMEs spent on meeting their tax obligations was 36 hours a year.

The new year-end process for individual customers is less effort and is saving customers money.

Although not quantified, the compliance effort for individual customers has also reduced. Inland Revenue now works out for them whether they have a refund or tax to pay at the end of the year.

Customers who previously used refund companies had some of their refund deducted by the company to pay fees. There is no longer any need for customers to use these companies. For the year ending 31 March 2018, customers paid fees of just under $34 million to refund companies.

Benefit area 5: additional Crown revenue.

Target state

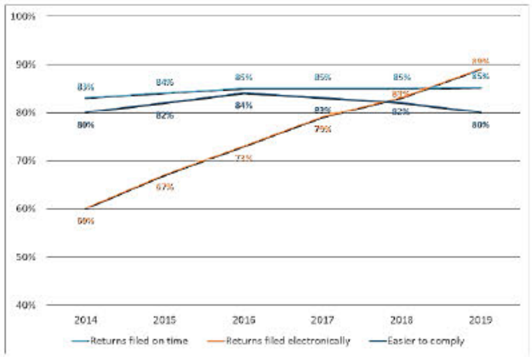
By 2023/24, the cumulative increase in assessed Crown revenue will be $2,880 million driven by:

- improved voluntary compliance through a pro-active, simple and open revenue system;
- proactively ensuring compliance by helping customers get it right from the start; and
- identification of non-compliance driven by use of information and data, customer analytics and insights.

Progress to date – 2018/2019 results

Most people actively try to comply and the majority say they find it easy. As at 30 June 2019, 80% of customers said they found it easy to comply. This is down from 85% at 31 March 2019, suggesting customers are taking time to get used to new ways of doing things and new requirements following Release 3.

Measures such as the continued, relatively high percentage of people who file on time and an increase in electronic filing are positive given the significant changes introduced over the last three years. The graph below shows trends since 2014.



New services, such as online services for all taxes and the ability to set up instalment arrangements, are making it easier for customers to comply. Customers who set up their own instalment arrangements are more likely to meet their obligations compared to those for whom Inland Revenue sets up arrangements.

New capabilities within START (refer to page 9), including being able to view customers' online sessions, are making it easier to detect potential, fraudulent activity. In addition, new functionality enables Inland Revenue to more accurately identify if someone is who they claim to be when filing or amending a return or identify when a return is being manipulated to reduce tax or increase refunds. Associated persons are easier to identify so a customer's relationships and networks are better understood.

START has provided the opportunity to improve the income tax revenue estimation model.

How progress is measured/monitored

The agreed basis for monitoring progress is proxy measures and case studies given the difficulty of direct attribution.

Benefit area 6: Inland Revenue is more efficient

Target state

By 2023/24, Inland Revenue will deliver cumulative administrative savings of $495 million. All things being equal, Inland Revenue will be 25-30% smaller than it was at the start of transformation, with reductions across all business groups.

Progress to date – 2018/2019 results

Inland Revenue has exceeded the 2018/19 target of $10 million, achieving $48 million in savings. As Inland Revenue also exceeded the 2017/18 target, on a cumulative basis administrative savings are $60 million, well above the cumulative target of $15 million.

The administrative savings required to contribute towards the funding of transformation have already been removed from Inland Revenue's baseline. The timeframe for realising savings takes the release plan into account and recognises that it will take customers time to get used to new ways of doing things.

Work is ongoing to support customers to become more confident with new processes and in using online services. The more customers can easily do for themselves online, and feel confident doing it, the more Inland Revenue's administrative effort will reduce.

It will take time for legislative changes such as the new year-end process for individuals to be fully embedded and the traditional peak filing period to become more manageable. Customers will increasingly not need to do anything at the end of the year and more people will pay and receive the right amounts during the year.

In parallel with customer-facing work changing, Inland Revenue is right-sizing its corporate functions. The combination of all these changes is contributing to the realisation of administrative savings.

How progress is measured/monitored

Digital uptake is a lead indicator for the achievement of administrative savings, as this indicates that work effort is reducing. Digital uptake is ahead of where Inland Revenue expected it to be. As at 30 June 2019, digital uptake was at 89%, an increase of 6% since 30 June 2018.

Progress tracking for all benefit areas

Achievement of the investment objectives is measured against a number of lead and lag indicators as shown on the next page.

Lead and lag indicators

Outcome	Investment objective	Indicator	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
			Target	Actual	Target	Actual					
Easier for customers 	• Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies • Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services • Increasing the secure sharing of intelligence and information to improve delivery of services to New Zealanders and improve public sector performance	*Lead indicators*									
		Digital uptake by customers[2]	26%	83%	54%	89%	72%	75%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	88%	89%	90%	90%
		Reduction in compliance time for SME customers (hours per annum)	3 hours	10 hours	8 hours	9 hours	13 hours	15 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.4%	99.4%	99.5%	99.5%
		Lag indicators									
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies								
		Cumulative reduction in compliance costs for SMEs	$30m	$80m	$160m	$280m	$370m	$590m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government[3]			$90m	Achieved	$280m	$570m	$1,110m	$1,860m	$2,880m
Reduced time and cost to implement policy	• Improving agility so that policy changes can be made in a timely and cost-effective manner • Minimising the risk of protracted system outages and intermittent systems failure	*Lead indicator*									
		Reduction in the time and cost to implement policy 	Measured through a series of case studies								
		Lag indicator									
		Increased revenue system resilience as assessed by Inland Revenue 	Low	Partial	Low	Partial	Partial	Partial	High	High	High
Inland Revenue is more efficient	• Improving productivity and reducing the cost of providing IR's services	*Lead indicator*									
		Digital uptake by customers	26%	83%	54%	89%	72%	75%	78%	82%	85%
		Lag indicators									
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m[4]	$10m	$48m	$80m	$100m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs	$5m	$12m	$15m	$60m	$95m	$195m	$295m	$395m	$495m

[2] The 26% target used in the 2015 business case related to the percentage of customers using cloud-based software. Inland Revenue is reporting on the overall percentage digital uptake measured in returns filed electronically, given the wider range of digital channels and functionality now available.
[3] Already included in Government's revenue forecasts
[4] Error in figure for 2017/18 year corrected in May 2019.

THE COMMERCIAL CASE

Sourcing the services and products required for delivery

This section outlines the suppliers Inland Revenue is working with to implement the future revenue system.

Commercial arrangements support all-of-Government principles

The major procurement activity required to successfully implement transformation has largely been completed.

All procurement is consistent with the principles of the Government Rules of Sourcing.

Key suppliers

Since the last addendum to the Programme Business Case was completed in October 2018, Inland Revenue has completed contract negotiations with a number of suppliers of products and services. These include:

- Sitecore and AKQA for a web-content management solution.
- Oracle for the technology solution that underpins Ātea.
- Accenture and PrimeQ for services to implement Ātea.
- Deloitte for ongoing support for identity and access management services.
- FAST for ongoing support arrangements for START.
- Assurity for testing services (pending completion of negotiations).
- Unisys for the Mainframe-as-a-Service and data centre housing extensions to enable completion of Release 5 and successful disengagement and decommissioning. Efforts are now focused on agreeing the contract with Unisys to facilitate the decommissioning.

All-of-government/shared services capabilities

Inland Revenue continues to consume common capabilities and ICT capabilities where they exist, meet the department's business needs and are cost-effective.

Inland Revenue is working with other agencies to determine how the underlying business process model for Ātea can be shared across agencies.

New Zealand businesses

Inland Revenue seeks a wide range of providers for transformation and will continue to do so. Opportunities are actively promoted to the market place, including New Zealand businesses – for example, advertising on GETS and communications with vendors.

Vendors are not chosen based on where they come from. The Government Rules of Sourcing are very clear that this is not allowed.

To increase transparency, each year Inland Revenue publishes a list of the New Zealand tax resident suppliers it has spent over $500,000 with. For the year ending 30 June 2019, the total percentage spend on New Zealand companies was 35%.

Following decisions made by Cabinet (CAB-19-MIN-0213.02 refers), Inland Revenue has adjusted its definition of a New Zealand company to align with amendments to the Government Rules of Sourcing.

For the purposes of procurement, the definition of a New Zealand business from 1 October 2019 is *A business that originated in New Zealand (not being a New Zealand subsidiary of an off-shore business), is majority owned or controlled by New Zealanders, and has its principal place of business in New Zealand*.

The definition of a New Zealand company Inland Revenue previously used was based on whether the company is considered a New Zealand resident for tax purposes. A company is considered a tax resident if it is incorporated in New Zealand, or if control by company directors is exercised in New Zealand, or if it has its centre of management in New Zealand, or if It has its head office in New Zealand.

Both delivery partners, FAST and Accenture, have recruited New Zealand staff. FAST has employed 35 New Zealanders and Accenture have employed over 40.

THE MANAGEMENT CASE

Ensuring successful delivery

This section outlines updated management arrangements for the programme, including assurance, benefits and risk management.

Transformation continues to be well managed and governed

Since the last addendum to the Programme Business Case was prepared in October 2018, Inland Revenue has:

- updated programme management arrangements
- completed independent assurance reviews, and
- regularly reviewed and updated risks.

Governance arrangements remain unchanged. Programme methodologies and approaches and Inland Revenue's change management approach also remain unchanged.

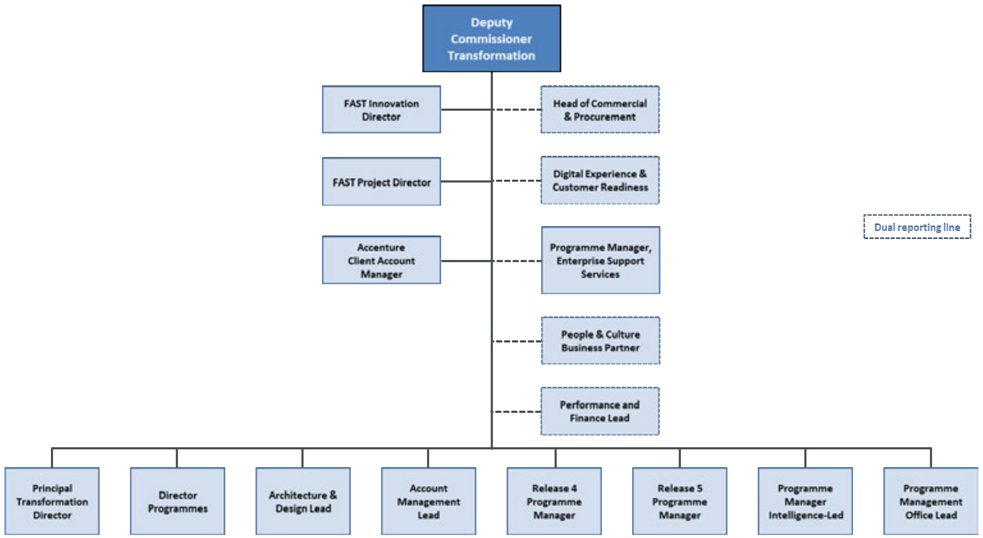
Programme management arrangements

Following Release 3 go-live in April 2019 and the completion of initiatives such as the deployment of work place technology, the structure and resource model for transformation was reviewed to ensure it is right-sized for the remainder of the programme, out to 2021.

The high-level organisational structure for transformation as at July 2019 is shown below.

The changes made since November 2018 are:

- Some roles are no longer required. The Director Programme Management Office (PMO) role was put in place to set up the release plan and improve delivery processes. As the focus is now predominantly on the delivery of Releases 4 and 5, with two sub-programmes (intelligence-led and Ātea) being delivered in conjunction with business groups, this broad role is no longer needed. The Organisation Change Management and Training Lead role has not been replaced. Change support has been embedded in Releases 4 and 5 and in the intelligence-led and Ātea programmes.
- Some reporting lines have changed. The PMO Lead now reports to the Deputy Commissioner, Transformation. Communications now reports to the Principal Transformation Director. The Director New Service Platform now reports to the Chief Technology Officer.
- Some new roles have been established. Two dedicated senior leaders have been appointed to lead Releases 4 and 5. The Release 5 Lead will also lead the close out of the programme.



Progress tracking

Delivery progress is evaluated through:

- Independent quality assurance and Gateway reviews.
- Oversight by the Senior Responsible Owner and governance groups.
- Management and oversight from the Deputy Commissioner, Transformation and members of the programme leadership team (PLT).
- Monthly red amber green (RAG) status reporting against the 10 keys.[5]

Programme assurance

A programme of regular assurance reviews provides confidence that transformation continues to be well managed and governed. Since the Programme Business Case Addendum was completed in October 2018, two further independent assurance reviews have taken place.

- A Gateway 4 (Readiness for Service) review in March 2019.
- KPMG completed their IQA9/TQA8 review in May 2019.

Reviews continue to be positive, while noting transformation remains high risk.

In July 2019, the Office of the Auditor General (OAG) began a performance audit of benefits management for transformation. The OAG are looking at measures and measurement systems for assessing and reporting on the benefits (to customers, the Crown, the department, and others) derived from transformation. Inland Revenue understands the OAG expects to complete their review by the end of 2019 and report to Parliament in March 2020.

Benefits management

Progress in realising benefits is regularly tracked and reported. Since the Programme Business Case Addendum dated October 2018, the following reports have been delivered:

- In January 2019, a progress update on benefit realisation was included in a wider sustainability update provided to the Performance and Investment Committee (PIC).
- In March 2019, a paper to the Portfolio Governance Committee (PGC) and PIC provided visibility of the process for confirming Release 4 benefits and facilitating a stocktake of progress to date in realising the benefits and outcomes set out in the 2015 business case.
- Eleven case studies demonstrating realisation of benefits were provided to PGC and PIC to note between February 2019 and September 2019.
- In May 2019, the results of the 2018 survey of SMEs perceptions of the time and costs of meeting their tax obligations were provided to PGC and PIC and reported to the Minister of Revenue and Cabinet.
- A comprehensive update of progress across all non-monetary and monetary benefits was reported to the Strategic Governance Board in September 2019, and subsequently shared with central monitoring agencies, independent assurance reviewers and the Office of the Auditor-General.

Risk management

Identification and management of risks remains a strength of the programme.

As at September 2019, there were 55 risks for transformation managed by the programme leadership team, of which the most significant (13 as at September 2019) are reported each month to the Portfolio Governance Committee.

The top risks for transformation are support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people and the timing of benefit realisation. Mitigations are in place for all risks.

[5] Scope, risk, issues, inter-dependency, schedule, resource, stakeholder engagement, delivery partners, financials and benefits

Part B

Additions to the scope of transformation

This section summarises additions to scope since the last addendum to the Programme Business Case was prepared in October 2018.

Some additions to scope have been agreed

The additions to scope are the result of decisions taken by Government.

The Government's research and development tax incentive legislation and the collection of hours paid information initiative have been added to the scope of transformation since October 2018, demonstrating improved agility.

Research and Development Tax Incentive

The Research and Development (R&D) Tax Incentive is part of the Government's strategy to increase the amount of R&D done in New Zealand. The R&D Tax Incentive operates as a tax credit and features a 15% tax credit on up to $120 million of eligible expenditure. It is available to eligible businesses from the 2019/20 income year.

The benefits of the Incentive

The Government has announced a goal of raising New Zealand's total R&D spending to 2% of GDP by 2027.

The R&D Tax Incentive is aimed at encouraging more business investment in R&D. It will support businesses of all sizes to undertake R&D.

Who the Incentive will apply to

Businesses doing R&D in New Zealand can be eligible if they have a core R&D activity and satisfy the eligibility criteria, regardless of their legal structure.

An activity is a core activity if it is:

- undertaken in New Zealand using a systematic approach, and
- is intended to create new knowledge or things, and
- is intended to resolve scientific or technological uncertainty.

Businesses must own the results of their R&D activities or be able to use the results for no extra cost.

The Government estimates that 2,000 to 3,000 businesses will be able to benefit from the R&D Tax Incentive. This compares to the approximately 300 businesses receiving Growth Grants from Callaghan Innovation, which are being replaced by the Incentive.

Implementation approach

Inland Revenue will be the administering agency of the R&D Tax Incentive, supported by Callaghan Innovation.

In the first year of the Incentive (the 2019-20 income year), to claim the Incentive businesses will need to:

- Enrol online through myIR before they file their returns
- Submit an R&D supplementary return online through myIR, and
- Include their R&D tax credit claim amount in their income tax return.

In the second year of the Incentive (the 2020-21 income year), to claim the Incentive businesses will need to:

- Enrol online if they didn't enrol in year 1
- Obtain in-year approval (either by obtaining general approval or opting into the significant performer regime) – applications are made online through myIR
- Submit an R&D supplementary return online through myIR
- If they are in the significant performer regime, submit an R&D certificate alongside their supplementary return, and
- Include their R&D tax credit claim amount in their income tax return.

The R&D Tax Incentive is being delivered as part of Release 4.

Funding

Additional funding of $4.3 million over 4 years was provided as part of Budget 2018 for one-off implementation costs for the R&D tax incentive.

Legislation

The Taxation (Research and Development Tax Credits) Act 2019 was enacted on 7 May 2019. The R&D tax Incentive scheme commenced from 1 April 2019 for most businesses.[6]

[6] The R&D Tax Incentive applies from the beginning of the 2019/20 income year, which means the date from which it applies depends on the balance date of each claimant. For most standard balance date (31 March) claimants, the R&D Tax Incentive will apply from 1 April 2019.

Future development

From year two (the 2020/21 income year), most businesses will be required to get their R&D activities approved by Inland Revenue (supported by Callaghan Innovation) before they can claim the credit.

Businesses that spend more than $2m on eligible R&D in a given income year can choose to opt out of general approval into the significant performer regime (which includes an optional approval process called criteria and methodologies approval).

The Government intends to run a pilot approval process in the first year of the regime (the 2019/2020 income year). The aim of the pilot is to ensure the general approval and criteria and methodologies approval are ready to be rolled-out more broadly from year two.

Changes to the regime are proposed in the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill, which is currently before Select Committee. This includes proposals to enable more businesses to access refundable R&D tax credits, by removing the current refundability eligibility criteria completely and replacing the $255,000 cap on refundability with a new cap based on labour-related taxes.

Hours paid

The Government's decision to collect hours paid information is included in the scope of Release 4.

Who this will apply to

This information will be collected from employers who file through software and who already record their payroll on this basis. Not all employers will be required to provide this information. Inland Revenue expects more employers to do so as digital uptake increases over time.

The benefits of collecting this information

Collecting this information will help to improve the administration of Working for Families and Child Support. These payments are partly determined by the hours people are paid for.

Once collected, this information will be shared with Statistics NZ so that it can be used to support broader Government priorities such as pay equity, social wellbeing, and better understanding productivity.

Funding

This is being delivered as part of Release 4 and has not required additional funding.