Inland Revenue
Te Tari Taake

July 2017 Transformation Update

Implementing Stage 2 of the future revenue system

July 2017

Version: FINAL

New Zealand Government

IN CONFIDENCE

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Executive Summary

A modern revenue system will ensure tax is correctly withheld and assistance provided at the time it is needed.

It's now easier for customers to file and pay their GST on time.

Inland Revenue migrated GST to new systems and processes on 7 February 2017, ahead of schedule.

Better digital services have given customers more control. They can choose from more filing and paying options, can set up reminders for due dates and change their previous returns, all without needing to contact Inland Revenue.

Shifts in behaviour are already evident. More than 625,000 returns had been filed through the new web service as at 31 May 2017, and an additional 66,000 returns were filed through customers' accounting software.

Customers with simple and straight-forward GST transactions now have a much improved service experience. However there have been some negative impacts for customers with more complex circumstances. Tax agents in particular have experienced some challenges as a result of having to work in two systems.

Work is underway to deliver targeted improvements and valuable insights have been provided on issues such as customer readiness that are informing preparations for Stage 2.

Three months on from go-live, work is beginning to stabilise. Inland Revenue has experienced some service impacts as both customers and staff get used to working with the new system and to managing work across two systems. These impacts will be reflected in the department's annual performance results.

Inland Revenue remains on track to realise the benefits committed from the implementation of Stage 1.

Stage 2 will further simplify customers' tax affairs.

Once Stage 2 has been implemented the effort required by businesses to keep on top of their tax obligations will be significantly reduced. There will be fewer errors and interactions with Inland Revenue, less chance of getting into debt, and less need for compliance checks. Businesses will have greater certainty that they've done the right thing.

Making individuals' income tax obligations simpler and more certain are proposed during Stage 2. A discussion document proposing that most individuals would not have to provide information to Inland Revenue has recently been released for consultation.

The proposals mean that most individuals will pay what they need to and get what they're entitled to during the year without having to do anything. Earlier, more complete and more accurate information will be provided to Inland Revenue on their behalf. Digital accounts will be pre-populated and individuals will only need to confirm that the information in their account is correct. Inland Revenue will calculate any tax owed or refund due.

By April 2019 customers will have:

- More online services for all tax products;
- Integrated tax and business processes;
- Faster, more accurate tax information, providing near real-time visibility of tax;
- Faster tax refunds; and
- Less likelihood of tax debt and more payment options.

Inland Revenue intends to improve customer experiences throughout Stage 2 through frequent releases of solutions and enhancements that make compliance easier, simpler and more efficient for both customers and Inland Revenue.

The costs and benefits of Stage 2 are consistent with the estimates made in the 2015 business case, and within the funding approved by Cabinet. The benefits to customers using eServices or software to meet their obligations will become more apparent during Stage 2.

New Zealand businesses have secured 74% of transformation work from 1 July 2014 to 31 May 2017.

Changes will be progressively introduced.

Changes to how PAYE and investment income are collected and used will be introduced progressively. Customers will be able to voluntarily meet the new reporting requirements from 1 April 2018 for PAYE and 1 April 2019 for investment income, before these requirements become mandatory a year later.

Once fully implemented, Inland Revenue will receive income information from employers and payers of investment income more quickly. This will mean Inland Revenue can react more quickly when people's circumstances change to ensure they pay and receive the right amounts.

Stage 2 will be implemented in a series of releases beginning from 1 April 2018. Together these changes will simplify customers' tax affairs.

All income tax products, the first release of Stage 3 – Working for Families, and gaming machine duty will be migrated to new systems and processes.

Working for Families will be migrated to START at the same time as income tax begins to be processed in START on 1 April 2019. This will minimise the impacts of co-existence on both customers and Inland Revenue, and ensure that customers continue to receive timely payments. Income and provisional tax information will be collected in START from 1 April 2018 to enable pre-population to begin.

The Accounting Income Method (AIM) option for calculating provisional tax, the Automatic Exchange of Information (AEOI) and legislative changes will be implemented from 1 April 2018.

AIM will enable smaller businesses to calculate provisional tax to pay based on more real-time information so that payments better reflect cash flows. Tax payments will be smaller and more frequent. AIM will make filing and paying tax easier, reduce errors and provide greater confidence to customers that they've done the right thing.

Student Loans, Child Support and KiwiSaver will migrate to START in Stage 3 as planned.

Stage 2 is more complex and affects a wider range of customers over a more extended period.

A preliminary assessment of the effect of these changes on customers has been completed and will be updated in advance of each release. The implications for customers vary, and business customers, tax agents and service providers are the most critical groups for adapting their systems and processes so they can continue to meet their obligations and/or their customers' needs.

Additional resourcing and support will be required in some areas to support customers during the transition period and Inland Revenue will prioritise meeting customer demand.

Recognising the complexity and breadth of Stage 2, Inland Revenue has made a considerable investment in early stakeholder engagement using an account management approach. Active engagement with customers and industry groups is on-going, and will step up over the remainder of 2017 and into 2018.

To complement the implementation of Stage 2, Inland Revenue is putting a new organisation design in place.

Inland Revenue intends to be an agile, intelligence-led organisation built around the needs of its customers. Those designing customer services will be as close to the customer as possible and people working with customers will be empowered to make more decisions and resolve customers' issues more quickly.

As a first step towards new ways of working, three new organisation groups will be established in January 2018. Staff were consulted on the proposal during May 2017 and final decisions will be communicated in mid-July 2017. Further organisational change will occur in 2019.

Transformation will improve New Zealanders' interaction with the revenue system and wider government.

Transformation is a key vehicle for delivering Better Public Services and wider government outcomes.

Inland Revenue is currently tracking slightly behind schedule with solution design and build for Stage 2 and is working to get back on plan. The department is confident this will be achieved without disrupting future implementation dates.

Introduction

This update outlines the progress being made by Inland Revenue in preparing for the implementation of Stage 2 of transformation. It has been reviewed by the corporate centre.

Business transformation is a long-term programme to modernise New Zealand's revenue system.

A modern, digital, revenue system will serve the needs of all New Zealanders. It will help customers to get their tax and social policy payments right first time, avoid errors and give them a clearer view of what they've paid and what they owe during the year.

The revenue system will be simple to comply with and responsive to customers' changing circumstances. Customers will spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements, as tax will be correctly withheld and assistance provided at the time it is needed.

Government will be able to make policy changes more quickly and cost effectively and there will be more opportunities to provide broader access to the information Inland Revenue holds.

Customers' interactions with government and Inland Revenue will fundamentally change.

In the future, most customers will not need to interact with Inland Revenue as their information will be provided to Inland Revenue on their behalf. Those with less complex needs will only need to confirm their details using automated, straight-through digital services. Customers who do have to provide information will use their own systems and processes to do so as part of their everyday business activities. Information will be checked when it is received and errors fixed wherever possible.

Earlier, more complete information will be available to Inland Revenue which will lead to greater accuracy and mean fewer under or over payments for customers.

Inland Revenue recognises that paper will need to continue to be an option for some customers.

Although digital channels will be designed with customers in mind - easy to use, intuitive and interactive - and their use strongly encouraged, some customers will be unable or unwilling to use them. For example, customers without access to internet services or computers, and those who would incur disproportionate compliance costs, e.g. the smallest employers. This need has been recognised in the legislative changes being made to streamline the collection of PAYE information from employers.

Through transformation Inland Revenue will make a significant contribution to wider government outcomes.

Modernising the revenue system will significantly contribute to improving digital interactions with government, the Business Growth Agenda and a growing, healthy economy, and achieving Better Public Services Results 9 and 10.

GST has been migrated to new systems and processes

Inland Revenue migrated GST on 7 February 2017, ahead of schedule.

New systems and processes were available for GST customers to use from 7 February 2017, nearly three months ahead of schedule. This represents a very significant and public step forward in the journey to bring New Zealand's revenue system into the modern world. Customers can now:

- file and pay their GST at the same time;
- make GST payments by direct debit, or credit or debit card;
- set up email and text message reminders of when GST returns and payments are due to avoid penalties;
- set up GST instalment payment plans and, in most cases, receive immediate confirmation and approval; and
- request a change to an already filed GST return.

In addition to migrating GST to START, Inland Revenue replaced some elements of its foundational technology as part of Stage 1. This included new data centres and the workflow management system for contact centres.

These are the first of many changes Inland Revenue will make over the next few years to make tax and social policy payments simpler for New Zealanders.

Customers with simple and straight-forward GST transactions are working well with new systems and processes.

Customer awareness of the GST changes being introduced was 79%, with awareness amongst myIR users at 90%. Amongst those who knew about the changes, 75% felt confident about using the new services. Tax agent awareness was 79%.[1]

As at 31 May 2017:

- there had been more than 1.4 million logins to myGST;
- more than 625,000 returns had been filed using the new web service and an additional 66,000 returns were filed through customers' accounting software;
- more than 100,000 direct debits had been made, meaning customers were able to file and pay their GST at the same time;
- more than 8,500 instalment arrangements had been set up online to pay off debt; and
- more than 9,400 new migrants, visa holders and organisations had registered for IRD numbers through the new digital registration service.

Customers can identify themselves to Inland Revenue through their New Zealand Business Number (NZBN). Approximately 780,000 of Inland Revenue's customer records have NZBNs.

As part of Stage 1, Inland Revenue enabled customers to call free (0800) from their mobile phones. This not only provided an improved experience for customers who required support to adapt to the changes to GST,

Withheld under s18(c)(i) of the OIA

[1] Colmar Brunton Customer Readiness research February 2017 and BT Readiness and Communications Effectiveness Research March 2017

Inland Revenue and the Department of Internal Affairs (DIA) are working together on the future roadmap for RealMe.

However there have been some negative impacts for customers with more complex circumstances.

Some customers, including tax agents, experienced challenges with initial set-up tasks, navigating the new system and working in a digital environment for the first time. An on-going challenge for agents is working in two systems. An active programme of communications and site visits including 1:1 sessions where needed has been put in place to resolve issues.

Three months on from go-live, work is beginning to stabilise. Inland Revenue has experienced some service impacts as both customers and staff get used to working with the new system and to managing work across two systems, These impacts will be reflected in the department's annual performance results.

Phone calls are taking approximately 30% longer on average than planned. Some activities, such as manual instalment arrangements, write-offs and submissions, are taking longer to complete. To address these performance issues, targeted improvements have been introduced. For example, a new phone queue for tax agents to deal with any GST-related matters they have in a more timely way.

Inland Revenue has worked with agents and their representative groups to identify the top five issues with the new GST system. They are notifications, client maintenance, bank account maintenance, reports and printouts, and transaction management.

Inland Revenue is currently exploring which of these can be fixed before Stage 2. Tax agent focus groups will be set up by July 2017 to discuss both Stage 1 and Stage 2 functionality.

Inland Revenue and FAST are working to address usability issues for GST based on customer feedback. The changes being made do not affect core code. Customer validation took place at the end of May 2017, and the lessons learned about usability are being taken on board in planning for Stage 2.

Within Inland Revenue, the plans and activities put in place to mitigate the impacts of co-existence (tasks or activities that have a portion of work in both START and FIRST) have been effective. Co-existence will remain an issue for tax agents until Stage 2 is fully implemented, notwithstanding the work underway to mitigate some of the issues being experienced.

Valuable insights have been provided on issues such as customer readiness that are informing preparations for Stage 2. These include, for example, a very considerable investment in early stakeholder engagement using an account management approach.

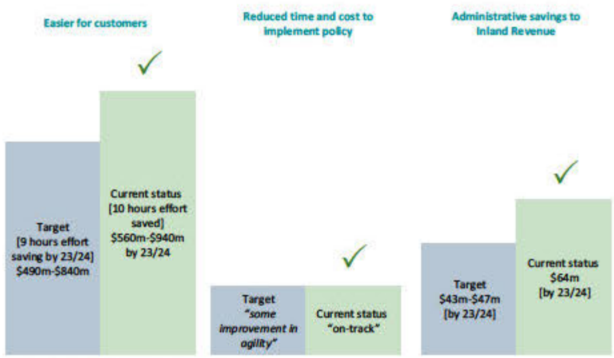
Inland Revenue remains on track to realise the benefits committed from the implementation of Stage 1.

These are improved experiences for customers, compliance cost reductions for small–medium sized businesses and administrative savings for Inland Revenue:

- Customers using their accounting software to manage their GST obligations are providing positive feedback on their experience and on other enhancements to Inland Revenue's services.
- Customers perceive that the level of effort in meeting their GST obligations has reduced since 2013.
- Administrative savings are being achieved as customers increasingly self-manage and use digital channels.

The diagram below shows Inland Revenue's progress in realising the benefits committed from Stage 1.

Stage 1 benefit realisation



effo t educt on based on 2016 SME tax compl ance su vey

The lessons learned from Stage 1 are being taken into account in preparing for Stage 2.

Inland Revenue is putting considerable effort into applying lessons from Stage 1 to Stage 2 design and delivery planning. This has included:

- proactively gathering staff and customer feedback;
- reviewing the critical points in design timelines where external feedback will improve outcomes; and
- addressing tax agent feedback, such as notifying them of changes earlier and improving the usability of the new system.

The insights gained are shaping the approach to implementation of Stage 2 in three key areas in particular – co-existence, stakeholder engagement and customer user experience.

Co-existence

While Inland Revenue is dealing with the co-existence challenges of working in two systems, it has become apparent that it is more difficult for customers to do so. The release plan for Stage 2 recognises the need to minimise the impacts of co-existence and the volume of change being introduced for customers as well as Inland Revenue

Working for Families will be migrated to START at the same time as income tax on 1 April 2019. This will minimise the need for customers to interact with two systems.

Stakeholder engagement

During Stage 2 Inland Revenue will engage with stakeholders more and engage earlier. An account management function has been established with dedicated resources and a clear mandate to ensure all stakeholders understand and are ready to adopt the changes being introduced in Stage 2. Please refer to page 16 for more details.

Customer experience

Active engagement with key stakeholders and industry groups is continuing and will step up over the latter half of 2017 and into early 2018. Please refer to page 17 for more details.

Customer user experience will increasingly focus on end-to-end services. Dedicated roles have been established to focus on customer experiences, including digital. A wider representative group of customers, including businesses, individuals and tax agents, will be provided with the opportunity to try new services before go-live. Software developers will be able to work with end-to-end services before release to ensure they meet the needs of their customers.

Although transformation is about creating a modern, digital, revenue system, the focus is not solely on designing digital services.

Customer contact today is very heavily reliant on the voice channel and Inland Revenue consistently receives feedback that customers like the experiences they have with the contact centres. Through transformation, Inland Revenue will ensure that contact centres continue to be able to support customers as well as investing in digital channels. Notwithstanding, Inland Revenue is looking to increase customers' use of digital channels, in particular myIR.

Changing policy and legislative settings

Work on policy and legislative settings continues on a broad range of fronts.

The law changes needed to streamline the collection of PAYE are before parliament.

Information about individual employees' income and associated deductions will be required more regularly from their employers from the 2019/20 tax year. Receiving this information more regularly will help Inland Revenue to ensure that the right amounts are deducted from individuals to meet their obligations and to more accurately determine their social policy entitlements.

Employers and payroll intermediaries will be required to file PAYE information on a payday basis from 1 April 2019. This will include information about new and departing staff, and employees' dates of birth and contact details. They will be able to voluntarily file PAYE information on a payday basis from 1 April 2018 if they choose to.

The dates PAYE and related deductions have to be paid to Inland Revenue won't change. However employers will be able to make these payments on payday if they want to.

Employers using payroll software will be able to file their information directly from their payroll system. The smallest employers will still be able to file on paper.

The threshold above which electronic filing of PAYE information is required will reduce from $100,000 a year of PAYE and Employer Superannuation Contribution Tax (ESCT) deductions to $50,000 a year.

Improvements to the collection and use of investment income information are also before parliament.

Information about the investment income earned by individuals will be required more regularly from payers. Changes will be introduced progressively over the next three tax years. They will help Inland Revenue to ensure that the right amounts are withheld from individuals to meet their obligations.

From 1 April 2018 portfolio investment entities (PIEs) will be required to obtain the IRD number of new investors or alternatively a self-certification that they are non-resident and do not have an IRD number. The due date for filing detailed interest and income information (excluding "locked in" schemes) will be 15 May 2019 for the 2018/19 tax year.

From 1 April 2019 investment income payers will be able to submit investment income information on a monthly basis if they choose to.

From 1 April 2020 investment income payers (other than PIEs) will be required to provide detailed recipient information on a monthly basis, or the month in which payments are made if that is less often than monthly. This will include date of birth information (if held) and joint ownership information.

Ministers are considering submissions to the Tax Administration Act discussion document.

Submitters were generally in support of the proposals. The next step is for the Ministers of Finance and Revenue to consider policy recommendations.

Making individuals' income tax obligations simpler and more certain are proposed to be implemented during Stage 2.

A discussion document in the *Making tax simpler* series was released in June 2017. The proposals in the discussion document mean that most individuals would not have to provide information to Inland Revenue.

The main proposal is that people who only receive income which is reported to Inland Revenue and has tax withheld by third parties (like salary and wages or interest and dividends) would no longer have to provide year-end income information or file returns. Inland Revenue would automatically calculate and issue refunds or request payment of tax owed. It would also be easier for people to correct the information Inland Revenue holds about them, or for them to provide additional information.

Other proposals would make the administration of income tax simpler and more efficient. These include helping people to use the most appropriate tax code during the year, and allowing people to provide details during the year about donations they have made and to claim any credits through their tax returns.

More proactive actions by Inland Revenue during the year would ensure the right amount of tax is paid and minimise the number of people with tax to pay or due a refund at the end of the year.

Improvements to the administration and delivery of Working for Families, Child Support and Student Loans are also proposed.

A discussion document in the *Making tax simpler* series is awaiting Cabinet consideration. Any resulting reforms will be implemented as part of Stage 3.

Other changes underway mean that Inland Revenue will more quickly receive income information from people's employers and information about any interest they have earned on investments. With more up-to-date information, Inland Revenue will be able to react more quickly when people's incomes change to ensure they pay and receive the right amounts.

The Working for Families and Child Support proposals are intended to improve the certainty, accuracy and timeliness of payments, minimise and manage debt, align and update key definitions, and cater for people with exceptional circumstances.

The main proposal for Working for Families is that Inland Revenue would use information about actual income, instead of an estimate, to determine payments. Self-employed or business people would be able to provide information during the year about their recent income.

The main proposal for Child Support is to use more up-to-date information about salary and wages to calculate payments.

The Government is also proposing that, in future, Child Support assessments will include all the income of both parents, whether earned in a parent's own name or through a company or trust. Child Support is proposed to be deducted from people's pay, whether they are a contractor or an employee.

There are two main proposals which affect Student Loans:

- extending the requirement for employers to deduct repayments to include people who do contract and casual agricultural work; and
- self-employed people or those with income that doesn't have repayments deducted from it would have to make regular payments during the year.

These proposals would help borrowers to stay on top of their loans by making regular payments throughout the year, rather than a big payment at the end of the year.

A second phase of business tax is being scoped for discussion with Ministers.

Since the business tax package was announced as part of Budget 2016, consultation with the private sector has been on-going to identify the next most important tax reforms for business.

Following direction from the Ministers of Finance and Revenue, proposals that could further simplify the tax system, make getting tax right easier, and make it harder for businesses to get into debt and easier to get out are being further explored. Withheld under s18(c)(i) of the OIA:

- Withheld under s18(c)(i) of the OIA
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On-going consultation will further test the proposals. Inland Revenue will adopt a flexible approach to fit around other transformation consultation and will engage with a wider group of businesses, including representatives of small businesses.

Withheld under s18(c)(i) of the OIA

This recognises the amount of consultation already planned for 2017 for both transformation and the government's tax policy work programme.

Final proposals agreed with Ministers will need to be balanced against the remaining stages of transformation and Inland Revenue's other commitments. Withheld under s18(c)(i) of the OIA

Simplifying customers' tax affairs and making it easier for them to meet their obligations

Stage 2 will build on and extend the new services delivered to customers in Stage 1.

Once Stage 2 has been implemented the effort required by businesses to keep on top of their tax obligations will be significantly reduced, enabling them to spend more time running their businesses.

The likelihood of errors will be much reduced, resulting in greater certainty, fewer interactions, less debt, and less need for compliance checks. Businesses will have a clearer view of their tax position during the year and will be able to meet their tax obligations at minimum cost and minimum disruption.

Proposals recently released for consultation mean that most individuals will pay what they need to and get what they're entitled to during the year without having to do anything. Increasingly, earlier, more complete and more accurate information will be provided to Inland Revenue on their behalf.

Digital accounts will be populated with the information Inland Revenue holds about individuals and progressively with information provided to Inland Revenue by others. For example, the investment income they earn from financial institutions.

For the minority of individual customers who still need to interact with Inland Revenue, it will be quicker and lower effort for them to do what they need to do.

Once Stage 2 has been fully implemented customers will have:

- More on-line services for all tax products;
- Integrated tax and business processes;
- Faster, more accurate tax information, providing near real-time visibility of tax;
- Faster tax refunds; and
- Less likelihood of tax debt and more payment options.

Stage 2 is exponentially larger and more complex than Stage 1.

In comparison to Stage 1 which focused on a single tax product and involved little legislative change, Stage 2 will see multiple products migrated to new systems and processes and legislative changes introduced. The changes being made will impact a wider group of customers over a longer period of time compared to implementing GST.

All income tax products, the first release for Stage 3 - Working for Families, and gaming machine duty will be migrated to new systems and processes. The AIM option for calculating provisional tax and AEOI will be implemented from 1 April 2018.

AIM will enable smaller businesses to calculate provisional tax to pay based on more real-time information so that payments better reflect cash flows. Tax payments will be smaller and more frequent. AIM will make filing and paying tax easier so customers can focus on running their businesses with tax as a secondary consideration. Software will help with correctly classifying transactions to ensure tax is right from the start, which will reduce errors and provide greater confidence in calculations of tax to pay.

Together, new systems, processes and services and legislative changes, will simplify customers' tax affairs and make it easier for them to meet their obligations.

Transformation is moving to a model of a series of releases within stages.

Changes will be implemented in a series of releases over 2018 and 2019. This reduces risk, and business and customer impacts.

Some of the releases will be technical only, i.e. not visible to customers and staff, some will be legislative only, some will implement new systems and processes, and some will be a combination.

Improvements to how PAYE and investment income information are collected, and the implementation of AEOI will be made progressively. The legislative release schedule is.

- From 1 April 2018 AIM will be introduced, employers will be able to voluntarily file PAYE information on a payday basis, and financial institutions will be able to voluntarily report non-residents' information for AEOI.
- From 30 June 2018 financial institutions will be required to report non-residents' information for AEOI.
- From 1 April 2019 employers will be required to file PAYE information on a payday basis, the electronic filing threshold will be reduced, and payers of investment income will be able to voluntarily file

- detailed information about recipients each month or the months in which payments are made.
- From 1 April 2020 payers of investment income will be required to file detailed information about recipients each month or the months in which payments are made

The 2020/21 year will be the first full year of pre-populated monthly information for PAYE and investment income.

Working for Families will be migrated to START at the same time as income tax begins to be processed in START on 1 April 2019. This will maintain customer experiences and minimise the impacts of co-existence for both customers and Inland Revenue.

Income and provisional tax information for the 2018/19 year will be collected in START from 1 April 2018. This will include the AIM option for calculating provisional tax and PAYE information from employers voluntarily filing on payday. From 1 April 2018, Inland Revenue will begin pre-populating income information. FIRST will process income tax returns for the 2017/18 tax year and process all prior period returns until 31 March 2019. Any challenges with historical income tax and related data will be resolved in FIRST before being migrated to START on 1 April 2019.

Calculating Working for Families tax credits is highly dependent on information about family circumstances and family income information. Administering Working for Families across two systems would not only require a complex set of connections to be built, processing times would be slower as data moved between the systems. During the transition period, the end result would be less timely payments and a lesser experience than customers receive today.

The challenges experienced in Stage 1 by customers with more complex circumstances show that while Inland Revenue may be able to deal with co-existence issues, it is far more difficult for customers to do so. GST is a far simpler product than Working for Families, which is one of the more complex products that Inland Revenue administers.

There are not the same issues with Student Loans, Child Support and KiwiSaver. These payment calculations are based on the incomes of individuals, rather than a combined family income. Student Loans, Child Support and KiwiSaver will be migrated to START as part of Stage 3 as planned.

Improving customer experiences, particularly digital, is a key focus.

Inland Revenue intends to improve customer experiences throughout Stage 2 through frequent releases of solutions and enhancements that make compliance easier, simpler and more efficient for both customers and Inland Revenue.

Customer insights are being used to shape new approaches for specific customer segments. The initial focus is on start-up businesses to help them survive and thrive, and on tertiary students to reduce debt and improve outcomes.

A young business digital welcome pack has been developed and is being tested with customers during June and July 2017. A prototype solution for personalised messaging will be developed and piloted for students moving overseas. Inland Revenue and the Tertiary Education Commission are working together to develop a calculator to help students with their borrowing choices by showing the true cost of a loan.

To ensure customer feedback/input influences the design and delivery of services in Stage 2 Inland Revenue intends to set up customer labs. Tax agents will be included in this approach.

In addition, work is underway on a future view of Inland Revenue's website based around customer life events.

Work continues on building Inland Revenue's analytical and knowledge management capabilities.

Inland Revenue has established an open panel for providers of advanced analytics products and services (please refer to page 20 for more details). Improved analytical capabilities will enable Inland Revenue to better use the information and data it has about customers to deliver more timely and targeted services. For example, providing proactive assistance at key events such as starting a business or employing someone for the first time.

In June 2017 Inland Revenue began work with the panel on a proof of concept to:

- Assess the technologies and operating model for an advanced analytics platform to answer the question "can an intelligent insight be created?"
- Provide further assurance that implementing an advance analytics platform will deliver tangible value

to answer the question “can the intelligent insight be actioned?”

Two different analytics platforms will be provisioned. Similar operations and service delivery type trials will be executed on both and the results compared before next steps are determined.

The proof of concept will run for four months. This approach will better inform and de-risk any future investment in an advanced analytics platform.

An enterprise content management solution will be piloted in September 2017 with Inland Revenue’s legal functions. This will enable information about complex legal cases to be more readily accessible.

Inland Revenue is exploring options for modernising its enterprise support systems (ESS). The department is looking at the experiences of other agencies, including the NSW state government, in determining the optimal approach. Transformation of Inland Revenue’s corporate functions will begin in Stage 3.

Transformation is the key vehicle for delivering Inland Revenue’s contribution to Better Public Services and wider government outcomes.

Initiatives being considered as part of Stage 2 that will enable improved outcomes for customers include:

- A more automated solution, integrated with START, to support the approved information sharing agreement (AISA) between Inland Revenue and the Ministry of Social Development (MSD).
- Inland Revenue will recognise all business customers by their NZBN once the Ministry of Business, Innovation and Employment (MBIE) has extended it to non-incorporated entities. This requires Inland Revenue to enhance the NZBN capabilities delivered as part of Stage 1.
- Inland Revenue and DIA are exploring enabling digital registration and maintenance of customer information for individuals, including birth data.

In addition, work continues with a range of agencies to ensure that existing information sharing arrangements will continue to work effectively following go-live of Stage 2. Inland Revenue is working with nine other agencies to ensure that 32 information sharing arrangements continue to operate after go-live. These include MSD, the Ministry of Justice, Land Information New Zealand, Statistics New Zealand, Treasury, DIA and the Accident Compensation Corporation (ACC).

Inland Revenue continues to work with other government agencies to share Information that will unlock the value of data held by the public sector.

In March 2017, Inland Revenue and the Registrar of Companies signed a MoU following the passage of a Bill amending the Tax Administration Act 1994 (TAA). The MoU enables Inland Revenue to share information that will assist the Registrar of Companies to detect and enforce serious offences under the Companies Act 1993 and assist with prosecution.

Also in March amendments to the TAA were passed to enable Inland Revenue to extend the existing sharing of information with the NZ Police in cases of serious crime to include non-individuals and deceased persons, under an AISA.

In May 2017, Cabinet approved an AISA between Inland Revenue and MSD. The agreement consolidates and expands information sharing with MSD.

Inland Revenue has also continued to work on providing simplified information to Govt.nz and worked with DIA, the Ministry of Health, and MSD on the successful delivery of Smartstart for new and expectant parents. A similar product for preparing for, and managing, bereavement is being developed.

In April 2017, Inland Revenue and a credit reporting agency signed a MoU following amendments to the TAA. This MoU enables Inland Revenue to disclose taxpayers with significant tax debt to the agency, subject to certain criteria being met. This will enable businesses contemplating providing credit to make more informed decisions. In May 2017 Inland Revenue signed an agreement to disclose the same information to a second agency and expects to sign an agreement with a third later in 2017.

In May 2017, an Order-in-Council was made setting the threshold above which tax debt information will be able to be shared with credit reporting agencies.

Similarly to Stage 1, readiness assessments will be regularly completed in the lead up to go-live.

The readiness of customers, business partners and Inland Revenue itself for changes will be assessed through a series of check-points. Readiness will be assessed across four major areas:

- Customer readiness – are customers ready to use the service changes?
- Service providers – are service providers ready to use and support the service changes?
- Inland Revenue's readiness – is the business ready to receive and deliver the service changes?
- Programme readiness:
    - Does the solution meet the required levels of quality?
    - Can cutover be achieved within the agreed timeframe and at an acceptable level?
    - Can the changes be supported once implemented?

The addition of service providers is a change from Stage 1 and recognises the critical role they will play in the successful implementation of Stage 2.

Similarly to Stage 1, there will be 6 readiness checkpoints, with two key checkpoints during the cutover period. Inland Revenue's Portfolio Governance Committee (PGC) will approve entry to and exit from the checkpoints. The results of readiness checkpoints will be included in the future updates if available.

The costs and benefits of Stage 2 are consistent with the estimates made in the 2015 business case.

Stage 2 will deliver both non-financial and financial benefits, summarised in the table below.

Stage 2 non-financial benefits	
Easier for customers	✓
Agility to implement policy	Improved agility for tax products
Revenue system resilience	Improved resilience of technology infrastructure
Stage 2 financial benefits for the period 2015/16 to 2023/24	
Additional assessed Crown revenue	$2,880m
Compliance effort savings	$635m - $1,060m (8 – 14 hours per annum)
Administrative savings from IR	$260m - $300m

The government will have much greater policy agility for tax products. The complex inter-relationship between income and social policy may however place some limits on this until Stage 3 is completed. Full policy agility will be provided once transformation is complete.

Resilience will be enhanced. However, Inland Revenue's technology risk profile will remain high until the completion of transformation due to the need for old and new systems to co-exist.

Additional, cumulative Crown revenue of approximately $2,900 million[2] is expected over the period until 2023/24. Inland Revenue will have improved analytical capabilities which will enable better and earlier detection of non-compliance. Opportunities for non-compliance will reduce as core transactions will be provided through accounting software.

The effort required by customers to meet their obligations will further reduce. Inland Revenue estimates that SMEs will spend between 8 and 14 fewer hours a year on compliance by 2023/24. This will further contribute to Better Public Services Result 9.

Savings of $260 million - $300 million are expected to be realised over the period to 2023/24. Inland Revenue will apply these savings to transformation as part of its funding contribution as agreed by Cabinet.

Inland Revenue has estimated the costs of implementing transformation from 1 March 2017 to 30 June 2018. These costs, along with the associated depreciation and capital charge, are within the funding approved by Cabinet for transformation.

[2] Includes inflation

Supporting customers to adapt to change

An early assessment indicates that the breadth of the changes will cover many customer and external groups over an extended period.

The changes being introduced in Stage 2 will affect a larger number and wider range of customers than Stage 1.

Many customers and tax agents will have gained some experience with new online services for GST, so will have some familiarity when other tax products are moved to START.

During Stage 2, the benefits to customers using eServices or software to meet their obligations will become more apparent. However with the increased filing requirements for payday and investment income reporting, compliance costs are likely to increase for business customers who don't use e-channels.

A preliminary assessment indicates that implications for customers vary. Once detailed design for the new systems and processes in START has been completed, a reassessment will be completed to inform the development of detailed customer and service provider change management plans. An overview of these more detailed plans will be included in the next transformation update.

It will be critical for Inland Revenue to support business customers, tax agents and service providers to adapt their systems and processes.

Business customers, tax agents, and service providers, including software developers and personal tax summary intermediaries (PTSIs), will need to adapt their systems and processes to continue to meet their obligations and/or their customers' needs. The key changes are:

- Businesses choosing to use the AIM option for paying provisional tax will need internet connected accounting software.
- Employers will file payroll details on a pay period basis.
- More employers will be required to file electronically.
- Software developers will need to build AIM (if they provide internet connected accounting software) and PAYE changes into their software.
- Tax Agents will need to provide advice and support to their clients regarding the changes.

Tax agents will also need to continue to evolve their business model from a traditional transactional role to more advisory and quality control checking of their clients' systems and processes.

Small and medium enterprises (SMEs) and not-for-profit organisations were surveyed in May 2017 to enable Inland Revenue to better understand their change capacity. The findings will be a key input into the detailed customer change management plans.

It will be important for bookkeepers, payroll intermediaries, other government agencies and individual customers to adapt to the changes.

These customer groups would be disrupted if they do not adapt their systems and processes. The key changes are:

- Bookkeepers will need to adapt to the changes their business customers make.
- Payroll intermediaries will need to make changes to their systems and processes to reflect the PAYE changes.
- Government agencies will respond to changes across a number of areas – information sharing, legislative changes, payroll systems, and system interfaces.
- Telephony suppliers/partners will help ensure SPK2IR (Inland Revenue's voice recognition software) and START are connected. Only minimal change is expected for other suppliers/partners.

Individuals with a myIR account will experience a new look and feel. People receiving some social policy entitlements from Inland Revenue will need to use two systems. Following consultation, proposals to make individuals' tax obligations simpler and more certain will be finalised.

Other groups need to be aware of the changes being made.

For example industry groups are a key source for consultation and engagement for their members on policy and operational issues and provide communications directly to their members.

Inland Revenue is planning for some 'hotspots' where additional resourcing and support will be required for Stage 2 to meet customer demand.

Particular areas of focus are:

- Increased reporting requirements such as payday filing and investment income are expected to increase customer contacts and the need for proactive follow-up.
- Campaigns informing and educating customers about new services and new requirements may lead to increased contacts.
- Transitional dates – for example employers can elect to report PAYE information on a payday basis from 1 April 2018 and must do so from 1 April 2019 - may cause customer confusion. Customers may therefore require increased support from Inland Revenue.
- Support for customers will be increased through the transition period, with a focus on education through community compliance and contact centres.
- Inland Revenue expects that front-line staff will handle an increased number of queries from customers as the impacts from co-existence are greater than in Stage 1. For example, data to determine social policy assessments and entitlements will move between FIRST and START.
- Inland Revenue is expecting to provide more hands on support for tax agents and other groups.
- Direct engagement with software developers will be required to ensure they understand the new reporting requirements.

An account management capability has been established to ensure a co-ordinated approach to stakeholder engagement.

The scale and nature of the changes being introduced during Stage 2 mean that stakeholder engagement will be critical. Unlike Stage 1 where the changes were mainly GST-related, there are a number of areas where change is occurring in Stage 2 that affect a larger number of stakeholders.

The diagram below shows the five broad segments which capture the differing relationships stakeholders have with Inland Revenue.

Many stakeholders are part of more than one segment. For example, banks are customers in their own right, are service providers in their role as employers and work with Inland Revenue as an industry group to encourage their customers to get it right from the start.

A government agency such as MSD is a customer, a service provider in their role as employer and a key part of information sharing arrangements across government.

Recognising that relationships with stakeholders are multi-faceted, a centrally coordinated approach to engagements is essential.

Stakeholders will have a single view of all changes they need to be aware of including migration of products and services to START, the implementation of AEOI, and changes to the collection of PAYE and investment income information. Consistent and co-ordinated relationship management will make it easy for stakeholders to understand what changes they may need to make to benefit from modernised information sharing processes and greater integration with Inland Revenue's systems, and to know who in Inland Revenue to contact.

Account Managers will supplement existing relationship management roles in Inland Revenue including:

- Community Compliance Officers based around the country who provide education, enhance compliance and build relationships;
- the Software Developers Liaison Unit who work on a day-to-day basis with software developers; and
- the Large Enterprises team who provide specialist support to ensure corporate tax obligations are met.

There are many more stakeholders to reach, requiring a much greater communications and engagement effort.

The focus during mid-late 2017 will be on building awareness and understanding of the changes being introduced in Stage 2. Targeted audiences, including service providers, software developers and tax agent professional bodies, will need to understand the scope and impact of Stage 2.

Customers will be provided with information about changes, including clear identification of any action they need to take, in sufficient time ahead of each release.

Existing channels will need to be supplemented with new ways to engage new or hard-to-reach audiences. Inland Revenue will focus on:

- Face-to-face engagement through Inland Revenue-led external events such as forums, seminars and visits, and leveraging external business partners' conferences and road-shows.
- Increased use of video and multi-media to proactively show stakeholders what the changes will mean.
- Expanding digital engagement through greater use of social media, webinars, and apps.

New channels for Stage 2 include the account management team and greater customer involvement in user experience service design. This will mean more opportunities being provided for tax agents and businesses to validate new eServices and provide feedback before go-live.

Inland Revenue's community compliance team will run seminars with tax agents in the lead up to Stage 2 go-live to reinforce their knowledge of what the changes will mean for them and what they need to do on day 1. The community compliance team will also be more active with the SME/not for profit groups.

The next transformation update will provide more detailed information about the communications and engagement activity planned for Stage 2.

Inland Revenue continues to actively engage with key stakeholders and industry groups.

Tax agent professional bodies

Since December 2016, Inland Revenue has built on existing relationships with tax professional bodies including Chartered Accountants Australia and New Zealand (CA ANZ), the Accountants and Tax Agents Institute of New Zealand (ATAINZ) and the New Zealand Bookkeepers' Association.

Members have provided useful feedback on the new GST system at various conferences and working groups, some of which was strongly expressed. An increased level of engagement through these bodies is planned for the remainder of 2017 and there has been an enthusiastic response to the proposed focus groups to validate the Stage 2 user experience.

Inland Revenue is continuing to work with the industry on the draft AIM determination and with a group of progressive small business accountants who are keen to remain involved as AIM moves towards implementation. An overview of how AIM will work was included in the MYOB small business seminar series, as well as through the Reckon client workshops, and ATAINZ engagements.

Business and industry groups

Active involvement by Inland Revenue in Employers and Manufacturers Association (EMA) payroll conferences and on-going MBIE small business road-shows will be extended to other business and industry groups from the second half of 2017 onwards.

There will be significant focus will on opportunities to engage with micro businesses, small-medium enterprises (SMEs) and not-for-profit organisations to maximise awareness of income tax changes and new options such as the introduction of AIM. Engagements will include involvement in customer seminars delivered by software developers on these topics.

Work with software developers to help them prepare for Stage 2 is well underway. Inland Revenue is collaborating
Withheld under s18(c)(i) of the OIA
, particularly on the introduction of AIM and income tax changes.

In addition, payroll software developers are being reminded about the PAYE administration changes going through the legislative process. They have been invited to register their interest for working with Inland Revenue on payday reporting software and implementation.

Financial sector

The department continues to work with financial industry representatives to help ready them for the implementation of AEOI, proposed changes to reporting requirements for investment income information and opportunities to extend the digital border.

For AEOI, the first step for financial institutions is to begin identifying non-residents from July 2017. The first AEOI stakeholder reference group sessions were held towards the end of March 2017. A targeted public awareness campaign will be run from early June until mid-July 2017, and educational materials will be available on Inland Revenue's website from July 2017.

Government

Engagement with government agencies during May and June 2017 focused on information sharing and preparing their systems and processes for Stage 2.

During the second half of 2017, engagement will extend to exploring opportunities to align transformation programmes and working with local and regional public entities to deliver messaging about transformation.

Plans for readying staff to adopt new systems and processes as part of Stage 2 are well advanced.

The breadth of changes being introduced in Stage 2 spans many teams and groups within Inland Revenue. In comparison to Stage 1, a far greater proportion of people in Inland Revenue are in roles, teams and business units which are critical to go-live so they can continue to do their work and support customers.

Once Stage 2 is implemented START will be the new tool for all front-line staff to look up employer and income tax information and will co-exist with FIRST for social policy information. This includes Student Loans, KiwiSaver and Child Support teams to a degree not seen in Stage 1.

A far greater proportion of work will be done in START as more products will have been migrated. Where GST was a small proportion of most people's work, Stage 2 will move a larger portion of work into START. For most people at Inland Revenue, a much larger proportion of their work will be either in START or require co-existence with START.

The approach to training staff has been refined based on feedback from staff and lessons from Stage 1.

In contrast to Stage 1 when staff began using START for the first time, a significant number will already be familiar with and using it day-to-day for varying proportions of their work. Approximately 500-600 people will be using START for the first time.

An integrated approach to readying staff for change will continue, with refinements from Stage 1 including more time for informal and on-the-job learning, more tailored practice prior to go-live and smaller groups for classroom based training.

Training is expected to be delivered over a period of 4 to 6 months for approximately 4,700 staff. Similarly to Stage 1, training will consist of pre-learning, classroom training; and post go-live training. Not all 4,700 staff will need classroom training.

On day 1 the focus will be on the key things Inland Revenue people need to know well for the first week versus other information that can be provided on a just-in-time basis.

Four distinct groups require differing levels of change management to ready them for Stage 2 go-live:

- Individuals and groups who could not continue to work if they were not ready for go-live (group A) - a high level of training, communications and change preparation.
- Individuals whose work would be disrupted if they were not ready for go-live (group B) - a medium to high level of communications, and training and change management.
- Individuals whose work could be disrupted if they were not ready for go-live (group C) - a low to medium level of training, and some communications and change management.
- All other non-customer facing people (group D) – need awareness and communications.

The majority of people will be in groups A and B. From June 2017, a detailed training needs analysis for each group will be developed, shared and tested.

Implementing a new organisational design for Inland Revenue

A modern revenue system requires Inland Revenue to change the way it works and make more intelligent use of information. Inland Revenue is increasingly working more in partnerships across government and the private sector and is becoming more knowledge-based, supported by greater analytical capability.

Once transformation is complete, Inland Revenue will be a smaller and more efficient organisation. The department's overall workforce is expected to reduce by 25–30%, although total workforce numbers are not expected to change significantly until 2019/20.

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

Inland Revenue intends to be an agile, intelligence-led organisation built around the needs of its customers. Those designing customer services will be as close to the customer as possible and people working with customers will be empowered to make more decisions and resolve customers' issues more quickly.

A new organisation design will enable people at Inland Revenue to:

- apply their skills more broadly to a range of work;
- work together more closely;
- provide better services to customers; and
- make the most of a new and evolving working environment, supported by technology.

Five key shifts underpin the new organisation design.

1. Customer segments will create end-to-end customer experiences and accountability.
2. Teams will come together quickly from across Inland Revenue and be empowered to solve customer issues.
3. People with the right skills will be close to customers, providing capability when and where it's needed.
4. Fewer, broader roles will allow people to deliver end to end customer services.
5. There will be a greater emphasis on leading and coaching, new performance measures, new decision-making frameworks and delegations, and new workflows.

Inland Revenue has taken the first steps towards putting the future organisation in place.

Two key elements of working differently are structures and roles. Three new Executive Leadership roles have been established effective from July 2017 to lead three new organisation groups:

- Customer and Compliance Services – Individuals, Families and Micro Businesses (referred to as Customer and Compliance Services – Individuals);
- Customer and Compliance Services – Small, Medium and Significant Enterprises (referred to Customer and Compliance Services – Business); and
- Information and Intelligence Services.

These new groups will be established by January 2018 to support more customer-centred delivery of services and new ways of working.

From 9 to 29 May 2017 Inland Revenue consulted staff on the proposed design for three new groups and the proposed process for moving people into roles in them. The feedback received is currently being worked through. Final decisions are expected by mid-July 2017.

A large number of staff (approximately 4,500 frontline staff and leaders) will be impacted by the changes if the proposal proceeds. There will be some job losses (based on the proposal, approximately 130 roles) although Inland Revenue hopes to manage most reductions through attrition and flexible working arrangements.

The proposed timeframes for establishing the groups and moving people to new roles ensure Inland Revenue is well-positioned for the first release of Stage 2 on 1 April 2018.

The Minister of Revenue will be kept informed of final decisions and progress in implementing the new organisation design.

Further organisational change will occur in 2019.

Front-of-house services will remain in all current locations.

Inland Revenue will continue to have a presence in the communities it is represented in today and will continue to look for opportunities to co-locate with other government agencies.

Inland Revenue and unions will continue to work together.

Inland Revenue worked with the PSA and Taxpro to develop the new organisation design and appreciated their valuable contribution and input. There will continue to be on-going engagement with unions.

Procuring the products and services required for transformation

All procurement processes continue to be consistent with Government Rules of Sourcing.

Since the November 2016 update, Inland Revenue has completed further procurement activity to select the services and products required for future stages.

A Statement of Work (SoW) was signed with Accenture NZ Ltd in February 2017 for the work needed to ensure heritage systems can co-exist with START for Stage 2.

In March 2017 Inland Revenue established an open panel for providers of advanced analytics products and services. This has helped to ensure that Inland Revenue is attracting a range of businesses to transformation. More than 40 organisations are included on the panel, and smaller businesses are well represented.

An open panel allows Inland Revenue to make use of future thinking in this evolving area as it develops, given the dynamic market place for these types of products and services.

Options for the replacement of the department's workplace technology are being discussed with the appropriate governance bodies. A decision is expected in the latter half of 2017 regarding the preferred option. Current arrangements are supported until 2021.

Possible approaches to transforming Inland Revenue's enterprise support services (ESS) are being explored. The programme roadmap indicates that transformation of corporate functions will begin during Stage 3 (2018-2020) and completed during Stage 4 (2019-2021).

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

Examples to date are Infrastructure-as-a-Service (IaaS), Software Framework Agreements and Telecommunications-as-a-Service (TaaS).

The most recent example is making it easier for customers to contact Inland Revenue if necessary by enabling them to call free (0800) from their mobile phones. Withheld under s18(c)(i) of the OIA

New Zealand businesses have secured a considerable amount of transformation work.

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.

From 1 July 2014 to 31 May 2017, $211m has been spent on contractor and consultant services of which $155m (74%) has been spent on New Zealand resident businesses.

In February 2016 for example, New Zealand company Spark and its subsidiary Revera secured one of the biggest contracts to date at $45-60 million over 10 years. The contract is to provide IaaS datacentres and associated services. Tenderers were sought from the all-of-Government IaaS panel.

Inland Revenue expects that New Zealand businesses will continue to be actively involved in transformation. Other examples of New Zealand companies Inland Revenue has contracted include Assurity Consulting, Deloitte, Vodafone and Deloitte Asparona.

Both delivery partners, FAST and Accenture, have recruited New Zealand staff. FAST has employed 11 New Zealanders as START developers out of 55 total employees in New Zealand. More are likely to be employed. Accenture have employed in excess of 40.

Inland Revenue continues to share its commercial expertise with other agencies.

Lessons learned have been shared with the Ministry of Health. Inland Revenue also shared insights with the Ministry regarding improved vendor segmentation and vendor management processes.

Inland Revenue is working with DIA and MBIE to explore a single integrated solution for sourcing, contracts, purchasing and payments for vendor relationship management.

The Ministry of Education and Inland Revenue are working closely together to help the Ministry reduce the time it takes to pay vendor invoices.

Managing and governing transformation

Transformation is tracking slightly behind plan.

Transformation is currently tracking slightly behind schedule for Stage 2 and Inland Revenue is working to get back on plan. The department is confident that this will be achieved without disrupting future implementation dates. Expenses are tracking as expected.

Monitoring focuses on delivery progress and realisation of benefits.

Key performance indicators (KPIs) track delivery progress against scope, schedule, delivery partners, risks, issues, resources, financials, benefits, inter-dependences and stakeholder engagement. Progress against each of these areas is regularly reported to the Ministers of Finance and Revenue.

Outcome measures track achievement of the investment objectives and realisation of the agreed benefits. There are three main measures of success:

- easier for customers;
- reduced time and cost to implement policy (policy agility); and
- administrative savings to Inland Revenue.

Progress towards achieving these outcomes is reported to Cabinet as part of these updates (refer to page 7 for progress in realising Stage 1 benefits).

Transformation remains inherently high risk.

Transformation is recognised as a high risk initiative. Robust risk management approaches are in place, and the assurance programme forms an important part of management of risks.

The key risks facing transformation were identified and communicated to Ministers as part of the 2015 business case.

Although implementation risk for Stage 1 was successfully mitigated, Stage 2 is higher risk given the breadth and complexity of products to be migrated and the consequent impacts on customers, staff, other stakeholders and Inland Revenue itself.

The most significant risks and the risk profile for transformation are reported regularly to the PGC and to the Ministers of Finance and Revenue. At the end of June 2017, the risk profile for transformation was light amber. This means that risks have been generally identified and documented with appropriate mitigations; however some areas require additional focus.

Current risks reported to PGC relate to

- The need for legislative change that has not been anticipated, resulting in Inland Revenue being unable to meet legislated timing.
- Changes to scope, timescales and funding.
- The scale of change impacting revenue distribution and collection, Inland Revenue's ability to achieve performance targets, and source and retain people with the right skills.
- Inland Revenue not meeting expectations regarding the realisation of benefits, adoption and/or delivery of all-of-Government capabilities.
- Government losing confidence in Inland Revenue's ability to deliver.
- Co-existence.

Please refer to appendix 2 for a summary of the most significant risks for transformation as at June 2017.

While risks may become issues from time to time, this is not unexpected. Should any opportunities or issues arise that may impact timelines, costs, benefits or risk profile these will be highlighted for Ministers to consider.

To date none of the significant programme-level risks have materialised.

Inland Revenue has limited capacity to implement additional changes.

The updated tax policy work programme combined with the implementation of Stage 2 of transformation, means Inland Revenue has very limited capacity to implement additional policy changes. These would need to be assessed on a case by case basis.

Factors that will need to be taken into consideration when considering new opportunities are:

- capacity to deliver further reforms in FIRST;
- Inland Revenue's change capacity; and
- transformation costs and timelines assume that the implementation of policy changes is aligned with the roadmap.

Assurance reviews are on-going to provide confidence that transformation continues to be well managed and governed.

Inland Revenue undertakes regular independent quality assurance (IQA) and technical quality assurance (TQA) reviews. The outcomes of previous assurance reviews are included in earlier business cases and transformation updates.

The two most recent external assurance reviews were completed towards the end of 2016.

A Gateway 4 (readiness for service) review in November 2016 rated delivery confidence as amber. The review found that *"...Stage 1 go-live appears feasible. Management issues, if addressed promptly, should enable successful delivery . . . and would maintain a strong position in readiness for Stage 2."*

In December 2016 KPMG completed a fifth IQA and fourth TQA. This review focused on readiness for go-live of Stage 1. Prior to finalising the report, KPMG presented their key findings to Inland Revenue's PGC. As a result additional measures were put in place which reduced the risks identified in the review, and helped ensure a successful go-live on 7 February 2017.

The review team found that *"...the complexity & scale of the solution mean that the 'go-live decision' will require a carefully considered judgement call, balancing the needs of the programme to maintain progress with the demands of the stakeholder community."*

The team also noted that *"... planning for Stage 2 deployment has been initiated in parallel with Stage 1. This is encouraging, as is the feedback that this planning is leveraging the lessons-learned from Stage 1."*

For each review, the Ministers of Finance and Revenue are offered the opportunity to meet with reviewers and to be briefed by Inland Revenue on the findings once the review is complete. In addition, copies of all assurance reviews and Inland Revenue's response to any action points raised are provided to the Ministers of Finance and Revenue.

An assurance plan for 2017 has been agreed with the corporate centre. Three external reviews are currently underway or have recently been completed and the findings will be reported in the next transformation update:

- An IQA6 and TQA5 review undertaken by KPMG;
- A Gateway 0 (strategic assessment); and
- An Office of the Auditor General (OAG)/Audit NZ performance review of procurement and contract management.

Two further external assurance reviews are scheduled for early 2018:

- An IQA7 and TQA6 review undertaken by KPMG; and
- A Gateway 0 (strategic assessment) focusing on Stage 3 progress and a Gateway 4 (readiness for service) review focusing on Stage 2 deployment.

Sharing experiences with other change programmes

There continues to be good engagement between Inland Revenue other government change programmes.

On-going meetings are underway with MSD and ACC to align changes where possible. Specific discussions have begun to assess the implications of the change to payday reporting for their new and current systems, and to assess the readiness of these agencies for change.

Inland Revenue and ACC met in May 2017 to explore aligning online services for tax agents and intermediaries. A follow up meeting has been scheduled for July 2017.

In May 2017, Inland Revenue and the Government Chief Information Officer (GCIO) hosted a session with Chief Information Officers (CIOs) from across the government sector. Inland Revenue shared the background to transformation, why a service aggregation model for managing suppliers was adopted, the reasons for selecting a commercial-off-the-shelf (COTS) solution, and why implementation started with GST.

The technology scope was shared with the group and highlighted that transformation is about far more than implementing START. Inland Revenue shared the lessons from the success of the JCAPS to Oracle Fusion Middleware (known as J2FM) project, and the approach to the design and implementation of an intelligent workplace. Inland Revenue emphasised that both these initiatives focus on delivering critical business outcomes; technology is the means to the end rather than the end in itself.

Engagement with other revenue authorities who have implemented START is on-going and enables Inland Revenue to learn from their experiences.

In April and May 2017 members of Inland Revenue's executive leadership team along with senior business managers visited FAST and FAST clients.

The purpose of the trip was to better understand:

- the customer service improvements that FAST and agencies expect to introduce in the next 5-7 years;
- how others manage systems and performance; and
- go-live experiences.

The purpose of the visit to FAST was to build Inland Revenue's understanding of the roadmap for GenTax (the proprietary name for START). Inland Revenue will work with FAST to further develop the core GenTax solution to provide a solid platform that will support the department's needs including eServices, analytics, and social policy. There is a range of services FAST offer remotely, such as security and quality reviews, that Inland Revenue will explore further.

The Employment Development Division (EDD) in California runs the unemployment insurance scheme on behalf of the state government. They have been using Gentax for five years. The purpose of this visit was to share ideas and experiences of working with FAST and their GenTax solution.

Discussions centred on the model EDD has deployed for support and change, and how they've handled change in the business-as-usual state. Inland Revenue will look at adopting aspects of EDD's approach, for example identifying a formal and explicit role for subject matter experts in business groups. This role will be the go to person for any issues with START following go-live. This is a natural extension of the role performed by the desk side support team in Stage 1, making it a more enduring role within the business.

EDD have invested in Gentax analytics and have derived significant value from this investment. They are in the middle of a usability study which they have agreed to share with Inland Revenue once it is complete.

Discussions with the Finnish Tax Administration (FTA) included their approach to testing and resolving incidents following roll out.

Inland Revenue is currently reviewing its approach to testing for Stage 2, and is incorporating the lessons learned from the FTA.

Benchmarking was also a topic of discussion and Inland Revenue and the FTA agreed that it would be valuable to explore this further. The next step is to identify one or two areas to work on together. By way of example, benchmarking could include the correlation between the number of test scenarios and defects.

Overall, there were some good insights for Inland Revenue from these visits – particularly around getting better at reducing the number of defects. If the design is right, there will be fewer defects, and a smoother transition to production support.

Appendix 1 – Transformation roadmap

2016-2017 Stage 1 Enable secure digital services

Key outcomes for customers:
- The majority of customers self-manage and use digital services
- Businesses' compliance burden to fulfil GST obligations will be reduced
- Customers will have confidence that their personal information is secure

Key outcomes for the Crown:
- Confidence in Inland Revenue's ability to deliver
- GST compliance improves

Key outcomes for Inland Revenue:
- Fewer processing and customer contacts for GST
- Digital border established

Products transitioned
- GST

2017-2019 Stage 2 Streamline tax

Key outcomes for customers:
- Compliance burden to fulfil tax obligations will be further reduced
- More accurate and timely calculation of obligations
- Customers will have confidence and certainty that they have met their obligations

Key outcomes for the Crown:
- Increased reliability and flexibility (including policy agility) for taxes
- More revenue will be collected more quickly

Key outcomes for Inland Revenue:
- Fewer processing and customer contacts for income and business taxes
- Compliance assurance activities will be intelligence –led

Products transitioned
- Income tax – businesses, (including provisional tax) and individuals (including personal tax summaries)
- Company imputation
- Pay-as-you-earn (PAYE) information collection
- Employer superannuation contribution tax
- Fringe benefit tax
- Resident withholding tax
- Non-resident withholding tax
- Dividend withholding tax
- Portfolio investment entity tax
- Approved issuer levy
- Donations tax credit
- Resident land withholding tax
- Gaming machine duty

Additions to scope
- Automatic Exchange of Information
- Accounting Income Method for calculating provisional tax

2018-2020 Stage 3 Streamline social policy

Key outcomes for customers:
- Social policy processes will be digital and streamlined
- Accurate and timely social policy payments
- Customers will have confidence and certainty they are receiving the correct entitlements

Key outcomes for the Crown:
- Current operational risk will be predominantly mitigated
- Full policy agility

Key outcomes for Inland Revenue:
- Fewer processing and customer contacts for social policy
- Enforcement activities are more focused and require fewer resources

Products transitioned
- PAYE processing
- Working for Families
- Child Support
- Student Loans
- KiwiSaver

2019-2021 Stage 4 Complete the future revenue system

Key outcomes of programme:
- Revenue system will be flexible, resilient and cost-effective
- Government has policy agility
- Compliance will be higher
- Increased integration with other parties

Products transitioned
- Paid Parental Leave
- Duties and Reserve schemes
- Unclaimed monies
- All other taxes and duties

2016 2017 2018 2019 2020 2021

Inland Revenue is here

Appendix 2 – Key transformation risks

Type of Risk	Risk Name	Current risk	Residual risk
Organisational Compliance	There is a risk that the detailed design phase and subsequent phases identifies legislative changes that are or may be required for a Stage, which were not signalled during high level design.	Very high	High
Stakeholders	There is a risk that Inland Revenue cannot meet the date new legal requirements take effect from – relating to transformation (e.g. law passed but Inland Revenue is not ready to go-live.)	High	High
Stakeholders	There is a risk of misalignment between the programme's agreed scope, roadmap and delivery timeframes, and expectations on the programme to deliver all-of-government (AoG) capabilities, irrespective of whether they meet Inland Revenue's requirements and are sufficiently mature.	High	High
External Environment	There is a risk that external decision-making takes longer than planned and timescales are extended.	High	High
Financial	There is a risk that the contingency agreed by Cabinet as part of the business case funding approval is applied to fund other competing priorities/pressures, creating a risk of insufficient funding to complete delivery of transformation.	High	High
Organisational Compliance	There is a risk that the large amount of time BT requires from business groups significantly disrupts Inland Revenue's business-as-usual activities, or that business groups don't participate in BT in order to maintain business-as-usual activities.	High	High
Stakeholders	There is a risk that the benefits to the Crown, customers and Inland Revenue that were committed to Cabinet in the 2015 business case are not realised and/or are not realised within required timeframes.	High	Medium
Financial	There is a risk that the size, scale and nature of changes being brought about by transformation could impact the timing and quantum of collection and distribution of government revenue.	High	Medium
External Environment	There is a risk that the scope, timing and priorities of transformation may change.	High	Medium
Interdependencies	There is a risk that the disaster recovery plans in place for heritage components that are required for co-existence are not robust.	High	Medium
Organisational Compliance	There is a risk that previously unknown anomalies may be identified within the existing systems during the transformation design phases which show the legislation has been applied incorrectly.	High	Medium
People	There is a risk that Inland Revenue will be unable to attract, source and retain the right people with the right skills at the right time.	High	Medium
People	There is a risk of disruption to transition processes caused by not having union support for decisions involving transformation-related job losses and significant changes to jobs through the Stages and organisation deployment.	High	Medium
Interdependencies	There is a risk that an increase to the time, effort and complexity in completing operational business-as-usual tasks, manually, during co-existence, (as a result of the heritage development scope being reduced to enable committed timelines to be met), will put at risk Inland Revenue's ability to meet its agreed performance targets throughout the duration of transformation.	High	Low
Stakeholders	There is a risk that government loses confidence in Inland Revenue's ability to deliver transformation.	Medium	Medium
Business Process	There is a risk that transformation becomes a technology replacement rather than a true business transformation.	Medium	Low