

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Government Administration and Expenditure Review Committee

Inland Revenue's July 2019 Transformation Update

Proposal

- 1 This paper provides an update regarding Inland Revenue's progress in modernising the revenue system. I am asking Cabinet to note the progress made to date, the challenges still ahead, and the preparations underway for the next set of changes in April 2020.

Executive Summary

- 2 The changes introduced in April 2019 represent a significant milestone in the transformation of the revenue system. As a result of the changes made, more than 1.3 million New Zealanders had automatically been issued with their tax refunds totalling \$572 million as at 25 July 2019. Some 271,000 have received a bill and have until 7 February 2020 to pay it. It is now much easier for them to do so, as customers can now file and pay all their taxes online, including setting up instalment arrangements. Working for Families customers can also do a lot more for themselves online.
- 3 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. While a significant number of people have been identified as being on the wrong prescribed investor rate (PIR) for their portfolio investment entity income, Inland Revenue's new system, START,¹ is working as designed. This includes a large number of KiwiSaver members. Inland Revenue is now able to see all a person's income information in one place and help them to get things right during the year, rather than waiting until the end of the year.
- 4 While there have been some issues, for example tax agents have requested a number of changes, by and large the new systems and processes are working well. People are filing their returns and payments are being made as they should. Tax professional bodies and Inland Revenue have worked together to identify and agree the top priorities to address for tax agents.
- 5 Supporting customers as they experience the new year-end process is continuing to require significant effort from Inland Revenue. Demand from customers for Inland Revenue's services, whether in person, over the phone, or online, has been unprecedented. This traditionally busy time of year, known as peak season, has been compounded by the biggest changes to the revenue system in almost 20 years. Since go-live on 26 April until 30 June 2019, Inland Revenue received approximately 1.1 million calls. There were 16.9 million logins to myIR, Inland Revenue's secure online service, approximately 90% higher than last year. myIR, has performed well during this period of

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

high demand. However, as with all peak seasons, there has been some customer frustration with phone wait times.

- 6 A lot of change has been introduced to the revenue system over the last three years. It will take time for customers to adapt. Encouraging customers to rely primarily on online services and not call Inland Revenue unless necessary will be a key focus. However some customers will always need more personal support, such as those with complex circumstances. This support will continue to be available.
- 7 There are more big changes to come for New Zealanders. Tax itself will continue to transform until 2021 as the benefits of the changes to employment and investment income reporting become evident. Increasingly, people will pay and receive the right amounts during the year as tax will be withheld correctly, and entitlements paid accurately at the time they are needed. KiwiSaver and Student Loans will migrate to new systems and processes in April 2020, followed by Child Support in 2021 as shown in the diagram below. These changes will affect 2.9 million KiwiSaver members, 720,000 student loan borrowers, and the approximately 300,000 people who either pay or receive Child Support through Inland Revenue.



- 8 Inland Revenue will continue to make changes to its organisation design as it both embeds and leverages the new capabilities delivered and becomes more efficient.
- 9 Transformation remains high-risk and will remain so until the programme is completed in 2021. Keeping both the new and legacy systems running and working in tandem, while maintaining services for customers and implementing more change, will continue to be challenging.

April 2019 changes (Release 3) went live as planned

- 10 On 26 April 2019, Inland Revenue implemented the third release in its transformation programme. This release included migrating income tax and Working for Families to new systems and processes and introducing a new year-end process for individuals. In addition, employers must provide income information to Inland Revenue every payday, and payers of investment income can provide more detailed recipient information more frequently if they choose to (this becomes mandatory from 1 April 2020).
- 11 The most visible change is for individual customers. Between mid-May to mid-July, approximately 2.5 million wage and salary earners will have their year-end tax position automatically assessed for them. This process is well underway for the 2018/19 tax year. From 20 May to 25 July 2019, Inland Revenue (all numbers approximate):

11.1 Issued 1,330,000 refunds totalling \$572 million.

- 11.1.1 A further 354,000 refunds of less than \$1, totalling \$70,000, have been held by Inland Revenue to be paid out once the refund amount reaches \$1.
- 11.2 Issued 271,000 bills for tax to pay totalling \$96 million. Customers with a bill to pay have until 7 February 2020 to do so.
 - 11.2.1 A further 529,000 bills totalling \$3.6 million were written off as the tax owing was less than \$50. The average write-off is \$7 which is uneconomic for Inland Revenue to collect.
- 12 As at 25 July 2019, approximately 184,000 employers had filed approximately 2.1 million payday returns since 1 April 2019. A small portion of customers have not yet completed a payday return. Inland Revenue is proactively contacting them to understand if they require any assistance. Micro businesses are a particular area of focus as they adjust to the new requirements.
- 13 Customers now have online services for all tax products. They can file returns, set up payment plans, lodge their donations receipts, and include attachments online. Inland Revenue is using the employment and investment income information it receives more frequently to pre-populate individual customers' online accounts.
- 14 Online services for Working for Families customers have also been significantly enhanced. For example, Inland Revenue now pre-populates as much information as possible for customers, including income and employment details for both them and their partner.
- 15 Depending on the scope, changes to tax policy can now be implemented more quickly and cost-effectively. Until all products are migrated to new systems and processes, policy changes that require Inland Revenue to develop new capabilities or which have flow on effects to social policy entitlements will still be challenging.
- 16 Government can now have greater confidence in the accuracy of reporting for income tax revenue following the migration of income tax to START. START creates monthly revenue estimates for each tax payer based on the latest available information, such as returns and payments received. This will result in a smoother allocation of income during the year and earlier recognition of revenue and refunds within the year. FIRST, Inland Revenue's old system, did not have this capability.
- 17 There have been some challenges and, as expected, not everything has worked exactly as intended. For example, there have been some display issues in myIR, with Student Loan and Child Support balances displayed in a way that confused some customers. Some letters have been sent in error, for example to children, and Inland Revenue accepts that some of its messaging may have been confusing for customers, for example super-annuitants. However these issues did not affect people's obligations or entitlements. On-going monitoring is ensuring that any issues identified are resolved as quickly as possible.
- 18 Inland Revenue is working closely with the tax agent community to address the things agents have identified that are making it more difficult or time consuming for them. Tax professional bodies and Inland Revenue have worked together to identify and agree the top priorities so the right mix of support can be provided to tax agents. The top 20 issues have been identified and Inland Revenue has set up a dedicated team to resolve them.

The scale of the changes is significant and Inland Revenue has responded commensurately

- 19 This has been a significant undertaking for Inland Revenue and is a significant milestone in the transformation of the revenue system. Before go-live, to ensure everything worked as smoothly as possible, just over 94,000 tests were conducted. Approximately 20 million customer accounts, 100 million transactions, and 8 million web logins were moved to START. Inland Revenue contacted approximately 2 million customers directly, most more than once, to let them know what the changes would mean for them. More than 350 seminars were run by Inland Revenue for businesses and tax agents.
- 20 Supporting customers as they experience new ways of doing things and use new services for the first time is continuing to require significant effort from Inland Revenue.
- 21 Millions of wage and salary earners and people who earn investment income have had a new experience with Inland Revenue this year, some potentially for the first time in a long time or ever. As a result, the department has experienced exceptionally high volumes of customer interactions (across phones, in its offices, and online services). At times, this has stretched Inland Revenue's systems and its people.
- 22 There has been unprecedented demand for myIR, Inland Revenue's secure online service. From go-live on 26 April until 30 June 2019, there were 16.9 million logins to myIR. This is an increase of approximately 90% on the 8.9 million logins recorded during the same period in 2018. Customers heeded the call to ensure their details were up to date and to use myIR to check the status of their refund or tax to pay. It is likely that customer use of myIR is also partly a response to more information being presented to them more clearly.
- 23 Inland Revenue invested substantial time and effort in ensuring that myIR would be available when people wanted to use it. myIR has performed well during this period of unprecedented high demand. While there have been some short periods when login times have been longer than acceptable or the service has been unavailable, these have been resolved very quickly.
- 24 Despite customers' use of digital services, call volumes have still been high. From 26 April to 30 June 2019, 1.1 million calls were made to Inland Revenue. February to September is Inland Revenue's traditionally busy time and the 2019 peak season was always expected to be challenging given the fundamental changes made. Inland Revenue brought on board an additional 325 people from its temporary labour force to help manage demand. They will remain with the department until September 2019. In addition, Inland Revenue is redeploying up to 900 of its existing staff to respond to demand in particular areas as needed.
- 25 Despite these efforts, Inland Revenue has, at times, been unable to answer all the calls it receives or provide the level of service customers expect and deserve. As with previous years, there has been some customer frustration with phone wait times. On 13 June 2019, Inland Revenue had to close its Palmerston North office as the building was found to be earthquake prone. This has reduced the number of people Inland Revenue has available to answer calls. The department is working on a range of options so services for customers can continue to be delivered until the new Palmerston North office is opened later this year.

- 26 Once customers become comfortable with myIR being their first and best port of call, Inland Revenue expects call volumes to decrease. Realistically, it is likely to take another couple of end-of-year cycles, i.e. until 2021, for this to occur. Inland Revenue's research shows that customers who are using the new online services report it is clear what their tax position is and what they need to do next. They report that myIR is clearly laid out and the content is easy to read.
- 27 The most significant changes to the tax system in almost 20 years, and the resulting demand from customers, has meant that Inland Revenue will not achieve some of its performance measures for the year ended 30 June 2019. While this is not ideal, I am comfortable the department has done all it reasonably could to provide the best level of service possible through what has been an extraordinarily busy period.

There are still many challenges ahead to fully embed these changes

- 28 Implementing new processes and technology is just the start. Inland Revenue is very experienced at implementing releases of new technology and processes and is now focusing on embedding these changes.
- 29 A lot of change has been introduced over the last three years. It will take customers time to adapt and for Inland Revenue to leverage all the new capabilities it has delivered. Customer and people change is in some ways more complex than the admittedly complex technical changes. Fully realising the benefits of the changes that have been made and establishing a "new normal" for both customers and Inland Revenue will take time and effort.
- 30 For example, although all taxes are now administered in START, income tax itself will continue to transform until 2021:
- 30.1 Employers have been providing employment income information to Inland Revenue every payday since 1 April 2019. The year ending 31 March 2020 will be the first full year that Inland Revenue receives employment income information every payday. There remains a small portion of employers who may be required to file a payday return but, as yet, have not done so. Inland Revenue is sending reminder e-mails and is proactively phoning selected employers to understand if they require any assistance to file.
- 30.2 For the year ending 31 March 2020, Inland Revenue will receive information about recipients of investment income more often from payers of investment income who choose to provide it.
- 30.3 For the year ending 31 March 2021, Inland Revenue will receive more detailed and timely investment income information from all payers.
- 31 This more detailed and timely data will mean Inland Revenue can proactively contact customers during the year to ensure they are paying and receiving the right amounts. For example, Inland Revenue can suggest a tailored tax code to those it sees might benefit from one such as people using secondary tax codes, and suggest people correct their PIR where it identifies this isn't right.

- 32 A large number of KiwiSaver members have been on incorrect prescribed investor rate (PIR). Every year, portfolio investment entity (PIE) providers,² including KiwiSaver scheme providers, ask investors to check that they are on the correct PIR. PIE providers cannot check PIRs as they do not have information about investors' other income. From mid-July 2019, Inland Revenue will begin proactively contacting customers who are on an incorrect PIR to let them know they need to change it to avoid paying too little or too much tax in the future. People will need to contact their PIE provider to change their rate. Subject to legislation, from 1 April 2020 Inland Revenue will go directly to PIE providers to get them to change PIRs for people defaulted on to the top rate of 28% if this is too high.
- 33 As a result, over the next two years, there will be fewer customers with end-of-year balances and their balances will be smaller. It will take time for Inland Revenue to develop the capabilities needed to achieve this and help customers, for example building its expertise in data analysis.
- 34 Inland Revenue also has a much greater ability to identify people who deliberately try not to comply with their obligations. The improved analytical capabilities available to Inland Revenue means people's movements can be tracked throughout myIR and there are alerts built in to let the department know when anyone is attempting to do anything untoward. For example, in early June 2019, Inland Revenue was able to move quickly to shut down a scam where bank accounts appeared to have been misused to generate fraudulent transactions.
- 35 While most customers are now filing online (92% as at April 2019), it will take time to build their understanding of and trust in new processes and services. Customers now have far more online services for tax, for example they can now amend returns, pay their tax and set up instalment arrangements themselves, as well as file returns. The more customers can easily do for themselves online, and feel confident doing it, the more Inland Revenue's administrative effort will reduce. If customer behaviour does not shift quickly enough, Inland Revenue is likely to continue to experience pressure on its performance.

Overall, customers' perceptions of Inland Revenue's service and the ease of making sure they pay and receive the right amounts have not shifted significantly yet

- 36 While satisfaction with service delivery (88% as at 31 March 2019) and perceptions that Inland Revenue makes it easy for people to get it right (80% as at 31 March 2019) remain relatively high, they have not shifted significantly in recent years. While this is not unexpected given the amount of change customers have had to adapt to, it is not where Inland Revenue wants to be.
- 37 These measures should increase over the next couple of years, as peak season will change fundamentally and will not exist in the same way it does today. 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. However, some customers will always need to contact Inland Revenue, for example social policy customers with complex circumstances.
- 38 For those who do need to interact with Inland Revenue, new services should make it much easier to do so. By 2023/24, the target is that 90% of people will find it easy to comply with their obligations.

² A portfolio investment entity (PIE) is a type of entity (such as a managed fund) that invests the contributions from investors in different types of investments.

- 39 Inland Revenue regularly surveys small-to-medium sized businesses about the time, money and effort they spend meeting their tax obligations.³ Reducing compliance costs is one of the benefits of transformation Inland Revenue has committed to delivering. In 2018, small-to-medium sized businesses estimated they spent 27 hours each year meeting their tax obligations. This is unchanged since 2016 and is 9 hours fewer than the estimate these businesses made in 2013, which is the baseline for measuring progress against.
- 40 This result is largely as expected as, during 2018, businesses had to get used to some new ways of doing things and may have experienced some frustrations in not being able to use Inland Revenue's online services at times. However, new digital services are making a difference. Those who use them report that it is making it easier for them to meet their obligations. As at 31 March 2019, approximately 105,000 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.
- 41 These views are supported by customers in general. Inland Revenue has regularly surveyed customers in the lead up to and after go-live of the April 2019 changes. Customer comments included *"There were no problems at all, it was quick and easy"* and *"Able to complete my task quickly and efficiently – no complaints"*.

The next set of changes will be implemented in April 2020 (Release 4)

- 42 There are more big changes to come for New Zealanders. Some complex social policy products are scheduled to be migrated to new systems and processes over the next two years.
- 43 While government now has greater agility for tax products, the complex inter-relationships between income and social policy products (which are still on FIRST) do place some limits on agility. Full policy agility will be provided once the programme is complete in 2021.
- 44 In April 2020, KiwiSaver and Student Loans will migrate to new systems and processes and some legislative changes will be introduced (CAB-19-MIN-0109 and CAB-19-MIN-0085 refer). The changes mean that information will be processed more quickly, and new online services will make it easier for people to do even more for themselves online.
- 45 Approximately 3 million New Zealanders and a number of external stakeholders will be affected by these changes:
- 45.1 There are approximately 2.9 million people enrolled in KiwiSaver and more than 25 KiwiSaver scheme providers.
 - 45.2 There are approximately 720,000 Student Loan customers. Inland Revenue jointly administers Student Loans with the Ministry of Education and the Ministry of Social Development.
- 46 Inland Revenue will also make further enhancements to the administration of income tax and Working for Families and its digital services. For example, customers will be able to offset their current Working for Families entitlement against a prior year's overpayment or debt. They will be able to do this for themselves, through myIR.

³ Small-to-medium sized businesses are expected to benefit most from the changes being made as tax compliance is typically the responsibility of the owner.

- 47 Hours paid 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. Collecting this information will help to improve the administration of Working for Families and Child Support as these payments are partly determined by the hours people are paid for. Once collected, Inland Revenue will share this information with Statistics NZ so that it can be used to support broader Government priorities such as pay equity, social wellbeing, and better understanding productivity.
- 48 In April 2021, Child Support will migrate to new systems and processes (Release 5). There are approximately 300,000 people who either pay or receive Child Support through Inland Revenue.

Preparation for delivery of the April 2020 (Release 4) changes is progressing well

- 49 The social policies remaining in FIRST are complex products in their own right and their payment calculations rely on income information. Therefore, the risks of co-existence with old and new systems operating in parallel will remain high until Child Support is migrated in 2021. At this point, FIRST will be able to be decommissioned. The best way to manage risk is to maintain momentum and complete transformation as quickly as possible.
- 50 Some country-specific code and configuration will be required to administer social policy products on START. For example, tracking KiwiSaver contributions end-to-end and tracking student loan obligations. FAST Enterprises LLC will build these requirements into their core product so that Inland Revenue does not end up with a bespoke solution just for New Zealand.
- 51 Inland Revenue's design and test teams are currently slightly behind schedule as the priority has been early life support for the April 2019 changes. Officials have assured me that, at this stage, there is no cause for concern and the go-live date of April 2020 is not at risk.
- 52 Inland Revenue and the Ministries of Education and Social Development are working closely together to ensure the changes to Student Loans are implemented successfully. Inland Revenue is also working closely with scheme providers to ensure KiwiSaver changes are also implemented smoothly.

Inland Revenue is continuing the move to its new organisation design and continuing to invest in building the skills and capabilities of its people

- 53 To embed the changes implemented to date and to leverage the new capabilities delivered, Inland Revenue is continuing to move to its new organisation design. 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 by focusing on capabilities, coaching, and recognition; learning and development; and supporting leaders and teams.
- 54 During 2019, Inland Revenue began consultation with its information technology team on changes that reflect the shift from technical skills in bespoke heritage solutions to working with trusted partners providing commercial-off-the-shelf (COTS) solutions. This shift requires fewer people, with different skills and capabilities than Inland Revenue has today.

- 55 Consultation on changes to Inland Revenue's other back-office functions will get underway later in 2019. This will include ensuring Inland Revenue is set up to deliver government policy priorities in an agile and cost-effective way.
- 56 In the past, the complex, inter-connected and inflexible nature of FIRST meant that successive governments were required to invest to achieve the policy outcomes they wanted. The configurable nature of START provides far more flexibility and greater speed when making changes. For example, Inland Revenue has made approximately 1,800 minor enhancements to the new systems and processes introduced on 26 April 2019 in response to customer feedback and feedback from its people.
- 57 This cycle of constant iteration has been enabled by transformation. To ensure future governments can achieve the policy outcomes they want without the need for on-going investment, Inland Revenue needs to embed this approach right across the organisation.
- 58 That is not to say that investment to achieve policy outcomes will never be required. It will depend on how significant the changes required to Inland Revenue's systems and process are, and whether any new capabilities are required.
- 59 Inland Revenue is replacing its enterprise support services platform⁴ to provide for modern ways of working. The department is working with other agencies to ensure that these services are able to be used across the public sector.
- 60 Change for Inland Revenue's people will continue into 2021 as a result of the transformation programme and beyond as the department continues to transform the way it works. Inland Revenue is already a smaller organisation and is building on the changes begun in 2018, supporting its people in a range of ways and providing them with choices where it can. The savings made are being reinvested in transformation as agreed by Cabinet (CAB-15-MIN-0249 refers). Fixed term employees now account for around 11% of Inland Revenue's work force. The conclusion of these arrangements will contribute to the overall reduction of 25% to 30% of its workforce, which the department is on track to achieve by 2021.

Costs and benefits remain on track

- 61 Inland Revenue is tracking within the funding approved by government for transformation (CAB-15-MIN-0249 refers). The three releases implemented to date have been delivered on time and under budget. Inland Revenue has not needed to call on the contingency funding held by the Ministers of Finance and Revenue.
- 62 Inland Revenue is on track to deliver the financial and non-financial benefits it has committed to. The administrative savings of \$495 million to be achieved by 2023/24 have already been realised as this funding was removed from Inland Revenue's outyear baseline funding in 2016. A progress update against the agreed indicators regarding benefit realisation will be included in the November 2019 update to Cabinet, once data for the year ending 30 June 2019 is available.

Transformation is a complex undertaking and remains inherently high risk

- 63 Transformation is inherently high-risk and will remain so until its completion in 2021. Inland Revenue's increased operational risk is the result of running new and legacy systems and

⁴ The internal processes and systems that support the day-to-day running of Inland Revenue, for example finance, procurement and human resources

keeping them working in tandem. As PAYE processing continues to be in FIRST, all payday filing information (between 550,000 to 580,000 employment information returns a month for April and May 2019) is received through START and then sent to FIRST. This will remain the case until the April 2020 changes are made.

64 The most significant external risks for the changes being made in April 2020 are:

64.1 *Maintaining services to customers.* Encouraging customers to change how they interact with Inland Revenue while ensuring their needs continue to be met will be challenging. Some customer groups will be slow adopters of digital channels and others may be reluctant or unable to do so. Inland Revenue recognises that customers with complex circumstances and those unable or unwilling to use digital services must continue to be supported. Encouraging customers who are able to manage their affairs online to do so will free Inland Revenue's people up to provide more personal support to those who need it.

64.2 *Change fatigue.* Customers have experienced a significant amount of change since Inland Revenue began implementing new systems and processes in 2017. Three of five planned releases have now been completed, with two further releases to come. While maintaining momentum is critical, Inland Revenue recognises that further changes may not always be welcomed by customers. Continuing to focus on the benefits of the changes will help to alleviate any customer concerns.

64.3 *Compliance costs for employers.* Inland Revenue will be collecting some new information from employers as part of the April 2020 changes. Student loan repayments will be deducted from more types of income, meaning employers who pay these types of income will have to provide information about the amounts deducted to Inland Revenue. In addition, as noted in paragraph 47 some employers will be providing information about hours paid. The employers affected are likely to perceive that their compliance costs have increased. Inland Revenue is designing new systems and processes to make it easier and simpler for employers to meet their obligations. In addition, the department's engagement and communications activity will mitigate this perception as much as possible.

Next steps

65 The next steps are to:

65.1 continue preparations for the implementation of Release 4 in April 2020;

65.2 support the passage of the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill which contains key transformation proposals;

65.3 continue with the on-going programme of independent quality assurance; and

65.4 provide a further progress update to Cabinet by November 2019.

Consultation

66 A copy of this paper has been provided to the Accident Compensation Corporation, the Department of Internal Affairs, the Department of Prime Minister and Cabinet, the Ministry of Business, Innovation, and Employment, the Ministry of Education, the Ministry of Social Development, the New Zealand Customs Service, and Statistics New Zealand.

Financial Implications

67 The proposals in this paper have no financial implications.

Human Rights

68 The proposals in this paper have no human rights implications.

Legislative Implications

69 The proposals in this paper do not require any changes to legislation.

Regulatory Impact Analysis

70 The proposals in this paper do not require a Regulatory Impact Statement.

Gender Implications

71 The proposals in this paper have no gender implications.

Disability Perspective

72 The proposals in this paper have no implications for people with disabilities.

Proactive Release

73 I propose to proactively release this Cabinet paper, and associated minutes in whole within 30 working days of Cabinet making final decisions.

Central agencies' comment (The Treasury, State Services Commission and Government Chief Digital Officer)

74 The central agencies were consulted on this update. The Treasury's delivery confidence assessment of Inland Revenue's Business Transformation programme remains at Amber, due to the programme having significant work remaining in order to achieve Releases 4 and 5, and the continued risk that co-existence between the old and new systems creates. The risk created by co-existence, while lower after the implementation of Release 3, remains significant.

75 This assessment is based on past and current programme delivery, ongoing learning loops in place in the transformation programme, external delivery assurance, and Inland Revenue's own assessment. Central agencies also note the recent Gateway Review assessed 'delivery confidence' for Release 3 as Amber/Green and that the IQA/TQA review⁵ rated the BT programme as Amber. This is relatively consistent with the Treasury's own assessment of delivery confidence and that of Inland Revenue.

76 The central agencies continue to have good visibility of the delivery of the programme and are well informed by Inland Revenue of the risks as they arise and of the mitigations that are implemented. Central agencies also continue to receive reporting from Inland Revenue about how they are tracking towards achieving the benefits identified in the BT business case. Inland Revenue recently provided central agencies with the results of its compliance effort survey of small-to-medium sized businesses, which measures the time

⁵ KPMG undertake regular independent quality assurance (IQA) and technical quality assurance (TQA) reviews

and cost that these businesses face in meeting their tax obligations. This is one of the key performance indicators for how BT is making it easier for customers to comply with their tax obligations. The results from this survey show central agencies that Inland Revenue has achieved more reduction in the time and cost to comply with the tax system than expected at this time. However, the survey also shows central agencies that there does not appear to have been any significant reductions since the implementation of Stage 1 (GST) in 2017. Inland Revenue attributes this in part to customers getting used to new ways of complying with their tax obligations and service disruptions in mid-2018.

- 77 The central agencies are currently working with Inland Revenue to improve visibility of some output and operational metrics to provide greater assurance that administrative savings are on track to be sustainably realised. The central agencies are also working with Inland Revenue to test the assumptions underpinning the forecast revenue benefits from BT. The central agencies note that the size of these benefits are expected to increase substantially over the 2019/20 and 2020/21 fiscal years and that the cumulative administrative savings and additional Crown revenue identified in the Inland Revenue business case was \$495 million and \$2.88 billion respectively. It is important that there is a high degree of visibility of the business changes driving administrative savings to ensure they are being sustainably achieved. It is also important that forecast revenue impacts are as accurate as possible to minimize the fiscal risk to the Government. Central agencies will report back to Cabinet on the status of the visibility over benefits realisation at the next update in November 2019.
- 78 Since the October update, Inland Revenue has successfully implemented Release 3 and continues preparation for Release 4. The central agencies believe that Inland Revenue's processes and extensive testing around Release 3 were a major reason for this success. In particular, the use of mock "go-lives" were an effective way to identify issues early and amend processes and timelines appropriately.
- 79 The central agencies believe that, after Release 3, Inland Revenue is now in a better position to implement policy changes relating to income tax and GST that impact on the operation of the tax system. However, substantial changes may increase the risk and cost associated with the programme. In addition, changes to social policy products such as child support and KiwiSaver at this time could substantially increase risk and cost.
- 80 The central agencies note that Inland Revenue is continuing to engage with tax agents and customers after Release 3 in order to improve the system for these groups. While there have been some complaints about the way the new system operates, central agencies are confident that Inland Revenue can address these issues in an effective and timely manner.

Recommendations

- 81 I recommend that the Committee:
- 1 note that it will take until 2021 for the benefits of the changes introduced in April 2019 to be fully realised;
 - 2 note that the migration of income tax to START has enabled Inland Revenue to estimate income tax revenue more accurately;
 - 3 note that KiwiSaver and Student Loans will migrate to new systems and processes in April 2020;
 - 4 note that from April 2020 hours paid information will be collected from employers who file through software and who already record their payroll on this basis;
 - 5 note that Inland Revenue is continuing the move to a new organisation design during 2019 and 2020;
 - 6 note that the next progress update will be provided to Cabinet to consider by November 2019.

Authorised for lodgement

Hon Stuart Nash
Minister for Revenue