

Cabinet Committee on State Sector Reform and Expenditure Control

DELIVERING STAGE 1 OF NEW ZEALAND'S FUTURE REVENUE SYSTEM

Proposal

1. This paper provides an interim update regarding Inland Revenue's progress in preparing for implementation of Stage 1 of New Zealand's future revenue system, as directed by Cabinet (CAB-15-MIN-0249 refers). I am asking Cabinet to note the progress being made, as outlined in the attached Interim Programme Update dated June 2016.

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

2. Cabinet has already agreed (SEC Min (13) 4/4 and CAB Min (13) 10/4 refer) to change the revenue system through business process and technology change, and to invest in the implementation of New Zealand's future revenue system (CAB-15-MIN-0249 refers).

3. This investment will deliver a modern, digital revenue system that will serve the needs of all New Zealanders, improve government's ability to make policy changes faster and more cost-effectively, contribute to a healthy, growing economy, and create an information asset to deliver improved outcomes. Through the programme, Inland Revenue will make a significant contribution to our Business Growth Agenda and achieving our targets for Better Public Services Results 9 and 10.

4. Transformation is far more than just updating existing computer systems - it will re-shape the way Inland Revenue works with customers, including improvements to policy and legislative settings. Transformation will simplify how services are delivered by changing how customers interact with government.

Inland Revenue is well positioned for the first stage of what is an inherently high risk programme

5. Inland Revenue is on track and within budget to successfully implement Stage 1 by the end of April 2017. While the department is well positioned, the programme is in its early stages and remains an inherently high risk undertaking. The programme's progress and risk profile will be constantly re-assessed, and any new opportunities which arise will need to be balanced against any potential slowing of progress or increase in risk. While risks may become issues from time to time in a programme of this nature, this is not unexpected. Should any opportunities or issues arise that may impact programme timelines, costs, benefits or risk profile these will be highlighted for Ministers to consider.

Stage 1 will make it simpler for GST customers to get things right and difficult to get wrong

6. Stage 1 is the first step in delivering a digitally-based, highly-automated revenue system that fits seamlessly into people's lives. New and improved services, reduced compliance costs and better access to information are expected to benefit small/medium enterprises, not-for-profit organisations and intermediaries the most.

7. Cabinet has agreed that GST is the starting point (CAB-15-MIN-0249 refers) because it is a relatively simple product, big enough to provide experience for Inland Revenue and deliver benefits to customers. In its 2015 Annual Report Inland Revenue reported that 631,000 registered customers filed 3 million GST returns, and that revenue from GST was \$15.6 billion, accounting for 26% of tax revenue collected. Inland Revenue estimates that by 2023/24, customers will spend approximately 9 fewer hours on GST compliance, a reduction of 37% over the time currently spent.

8. Inland Revenue has already taken the first steps to integrate tax into customers' business processes. Together with Xero and MYOB, Inland Revenue has introduced a new service enabling customers to file their GST returns through their accounting software and feedback has been very positive. Inland Revenue surveyed those using the service and customers reported the time saved was generally around 5 to 15 minutes, with a few saying it saved more time. One respondent stated *"I'm a sole trader and this reduced the time taken to file from about 10-15 minutes to about 30 seconds. In hourly terms, that's huge."* Survey respondents also emphasised the value of no longer needing to retype information and related this benefit directly to reduced costs of compliance. *"Huge cost saving if you take into account the old process was open to human error/typos."* Inland Revenue will make a digital GST submission service available to other software providers as part of Stage 1.

9. In addition to being able to file returns through accounting software, the changes being introduced in Stage 1 will be positive for customers. Once GST is implemented in START¹, customers will be able to:

- Reduce their compliance costs by using improved self-management services for GST.
- Make online amendments to their returns and accounts, register their business for GST, register as a tax preparer, include attachments, and set up payment plans.
- Have better visibility of their GST payments and refunds.
- Identify themselves to Inland Revenue as a GST customer using their NZBN.

10. Inland Revenue intends to offer opportunities later this year for customers to be involved in testing of services and customer reaction following go-live will be proactively monitored.

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.

Initiatives to improve digital interactions with government are included in the delivery of Stage 1

11. Stage 1 will advance the delivery of our priorities. In conjunction with the Ministry of Business, Innovation and Employment (MBIE) and the Department of Internal Affairs (DIA), as part of Stage 1 Inland Revenue is working to:

- Enable businesses to use their NZBN to identify themselves to Inland Revenue;
- Enhance the range of services available through the Companies Office;
- Enable new immigrants to digitally register for an IRD number; and
- Make RealMe available as an option to customers to authenticate their identity to Inland Revenue.

Policy changes supporting and enabling business transformation have been generally well received

12. The legislative changes needed to support Stage 1 and the business tax reforms announced as part of Budget 2016 are included in a Bill to be introduced in August 2016. Consultation with New Zealanders about the policy and law changes needed to enable the future revenue system will continue.

Inland Revenue will proactively support customers to adopt the changes being introduced

13. Inland Revenue will use a range of communication channels to provide confidence in, and information about, the changes being made. For intermediaries such as tax agents, Inland Revenue will continue to use existing relationships and scheduled events such as business and industry road-shows as key vehicles. Inland Revenue will communicate with businesses through website updates, emails and promotional activity² to provide tailored information to them when it is relevant to them.

14. There will be some relatively minor impacts for customers, primarily from the need to work in the new system for GST and in the old system for other products. Inland Revenue intends to absorb as much of these impacts as possible by putting in place a number of manual processes and providing information, education and support to customers. These measures will help to minimise impacts and ensure service levels are appropriately maintained.

The technology enablers and commercial arrangements needed to support successful implementation of Stage 1 are on track

15. The development of START is on track, with an acceptable amount of standard configuration and minimal customisation required for the New Zealand environment. START and Inland Revenue's existing system, FIRST, will need to co-exist for a pro-longed period.

² As per Cabinet Office Circular CO (15) 4, this expenditure will require the approval of the Minister of Revenue.

Co-existence refers to the requirement to support both FIRST and START during the transition, as customer information will be split across both systems until all products are administered in START, and is a key programme risk.

16. Inland Revenue has adopted an innovative approach to addressing co-existence risks. The department has partnered with Accenture to help mitigate this risk as they can provide significant capacity, through their global network, in the critical coding resources required to make changes in FIRST. In addition to the New Zealand-based resources working on the programme, Accenture are providing resources in their delivery centre based in Manila. This centre provides Inland Revenue with the flexibility to scale work effort up and down as required, and the ability to take advantage of different time zones to expand the working day window.

17. As large-scale integration of multiple systems and business partners is required, testing will be a key focus. New processes and systems will be extensively tested and re-tested until Inland Revenue can confidently provide assurance that everything is working as it should prior to “go-live” in April 2017.

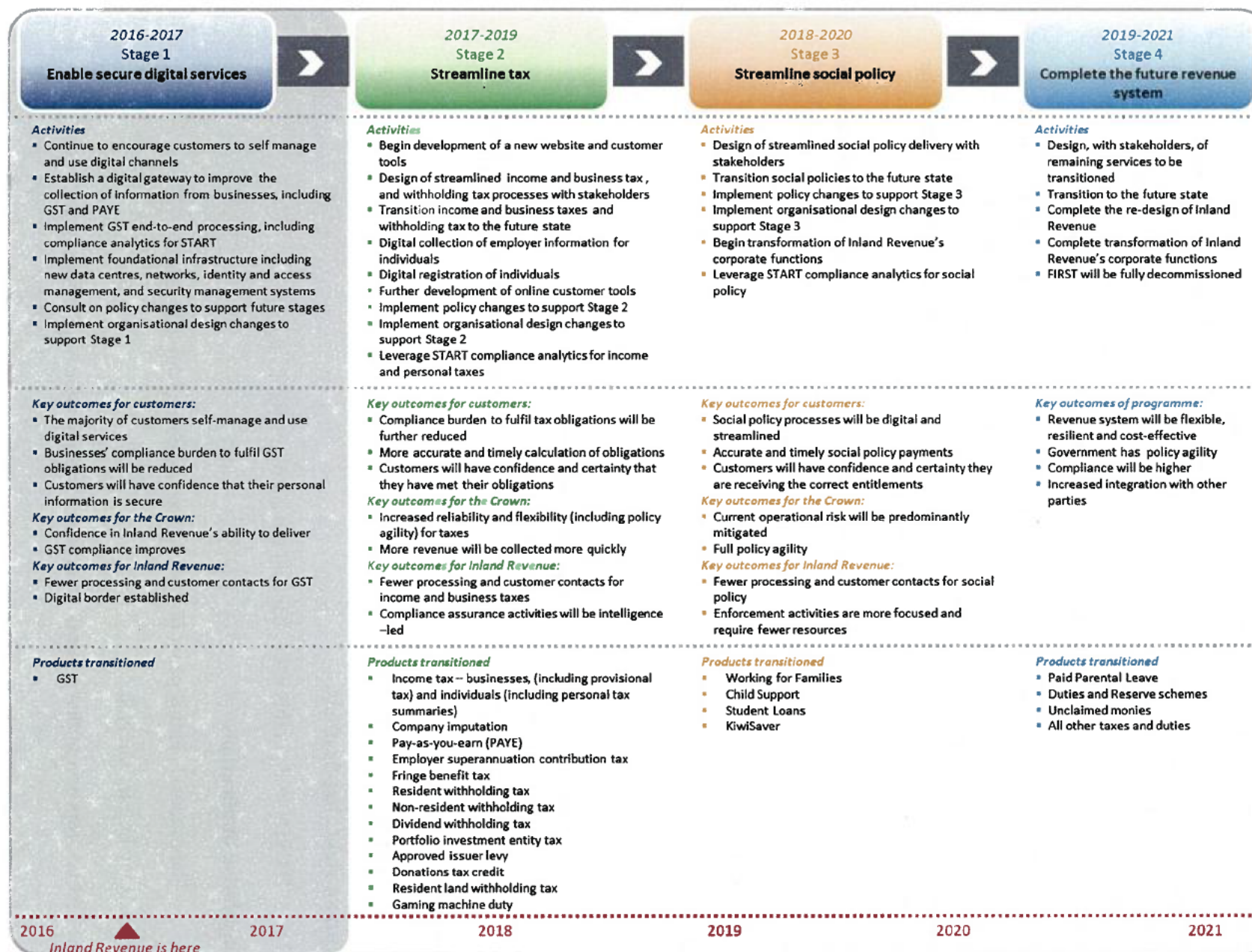
18. Assessments of business and customer readiness for go-live will be shared with the Ministers of Finance and Revenue as the go-live date approaches, along with the plan to cutover to new systems and processes.

19. Following discussions with PAYE intermediary software providers, it has been agreed by most that enabling businesses to file PAYE information through their software will be more effectively delivered as part of Stage 2. As the format and filing frequency of the employer monthly schedule (EMS) will change significantly for Stage 2, most PAYE intermediary software providers have told Inland Revenue they would prefer to invest in the future by integrating into START. Running a pilot similar to the GST service as originally proposed would have required integration with FIRST.

20. The commercial arrangements needed to support Stage 1 are in place. This includes working with the Government Chief Information Officer to ensure all-of-government as-a-service offerings meet requirements and can be leveraged. Relevant all-of-government services have been adopted to support Inland Revenue’s new data centres. Partners are critical to successful implementation and partner management is a strength of the programme.

Inland Revenue is on track to deliver the agreed outcomes and benefits of Stage 1

21. In November 2015, Cabinet noted (CAB-15-MIN-0249 refers) that the programme roadmap had been confirmed following the design phase and that Stage 1 would be delivered over 2016 and 2017, focusing on enabling secure digital services. The activities and outcomes of Stage 1 will make it easier for customers to meet their GST obligations and are shown in the diagram on the next page.



As preparations for the implementation of Stage 1 are progressing well, planning has begun for Stage 2, which includes all other tax products

22. Stage 2 will be significantly bigger in scope and complexity, so planning and mobilising for this stage has begun in parallel with progressing Stage 1. The transformation programme combined with the implementation of Budget 2016 measures and other initiatives, such as base erosion and profit shifting, will mean a significant volume of change for customers, staff and other stakeholders. As a result, Inland Revenue envisages that re-prioritisation will be required should further initiatives be added to the work programme.

23. One of the main enablers of reform for Stage 2 is improving the collection of pay-as-you-earn (PAYE) information. More accurate and timely PAYE information will enable government to subsequently redesign the social policies that Inland Revenue administers, for example by introducing shorter periods of assessment. This will mean assistance can be better matched to periods of need, improving outcomes for New Zealanders.

24. The annual programme update will be presented to Cabinet for consideration by December 2016. Inland Revenue intends to seek Cabinet's confirmation of the high-level scope of Stage 2, including estimated costs and benefits.

Next steps

25. The next steps are to:

- continue preparations for the implementation of Stage 1;
- prepare further discussion documents in the *Making Tax Simpler* series for consideration by the Ministers of Finance and Revenue;
- begin more detailed planning for Stage 2; and
- provide a programme update by December 2016 for consideration by Cabinet.

Financial implications

26. The proposals in this paper have no financial implications.

Human rights implications

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

Legislative implications

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

Regulatory impact analysis

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

Publicity

30. I intend to ask Inland Revenue to publish the Interim Programme Update and this paper on its website once it has been considered by Cabinet. This is consistent with the publication of other material such as the business cases prepared by the department, which are already available online.

Consultation

31. 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.

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

32. Corporate centre agencies were consulted throughout the development of this update.

33. In the context of consistent achievement of milestones, a number of favourable assurance reviews and Inland Revenue's strong "A" Investor Confidence Rating (ICR) result, the corporate centre has adapted its approach to engaging with Business Transformation. We have reduced the frequency and changed the nature of our engagement, shifting it towards understanding aspects of the programme that might be shared as good practice across the system, without placing further demand on the programme's resources. Inland Revenue is supporting this objective, while being careful to manage the demand on the organisation's resources.

34. The next independent quality assurance review for the Transformation Programme will focus on testing and data conversion, in preparation for Stage 1 go-live early in 2017. This will provide Inland Revenue and Ministers with the confidence that IR is well-placed in advance of its first major release.

35. The corporate centre will continue to work with IR to identify opportunities and risks for the system, adopt common capabilities and improve information sharing arrangements between Inland Revenue and other government agencies, particularly following planned changes to information requirements from PAYE and investment income. This includes working with Inland Revenue through Stage One to support the adoption of RealMe's Digital Identity Services, the New Zealand Business Number (NZBN), and digital tax registration for new immigrants.

Recommendations

I recommend that the Committee:

Background

1. **Note** that Cabinet has agreed to invest in the implementation of New Zealand's future revenue system, starting with GST (CAB-15-MIN-0249 refers);

Preparation for the implementation of Stage 1

2. **Note** that Stage 1 of Inland Revenue's business transformation programme is on track for implementation by the end of April 2017;
3. **Note** that Stage 1 will make it simpler for GST customers to get things right and difficult to get wrong;
4. **Note** that while Inland Revenue's intention is to absorb as much of the impact of operating two systems as possible, there will be some impacts on customers and intermediaries;
5. **Note** that the legislative changes needed to support Stage 1 and the Budget 2016 business tax reforms are included in the Taxation (Provisional Tax, Exchange of Information and Remedial Matters) Bill to be introduced in August 2016;
6. **Note** that Inland Revenue will enable businesses to file PAYE information through their software as part of Stage 2;

Planning for Stage 2

7. **Note** that Inland Revenue is currently at capacity implementing Stage 1 and Budget 2016 measures and preparing for Stage 2, and that prioritisation will be required should further initiatives be added to the department's work programme;
8. **Note** that the annual programme update will be presented to Cabinet for consideration by December 2016.

Hon Michael Woodhouse
Minister of Revenue

/ /2016