

## November 2016 Transformation Update

*Implementing Stage 1 of the future revenue system*

November 2016

Version: FINAL

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## Executive summary (page 1 of 2)

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Business transformation is on track and on budget, and preparations for go-live of Stage 1 are well in hand.

A modern, digital revenue system will serve the needs of all New Zealanders, improve government's ability to make policy changes more quickly and cost effectively, contribute to a growing, healthy economy, and create an information asset to deliver improved outcomes.

*The goal is a revenue system that is simple to comply with, making it easy for customers to get things right and difficult to get wrong.*

As a result of transformation, voluntary compliance will increase, and the effort required by customers to meet their obligations and receive their correct entitlements will reduce.

*Business transformation will re-shape how customers interact with government and Inland Revenue.*

In the future, most customers will not need to interact with Inland Revenue. Those with less complex needs will use automated, straight-through digital services that take less time and are more efficient.

Shifts in behaviour are already evident, with more customers using digital services. This has enabled Inland Revenue to realise some early benefits, such as a saving of approximately \$1 million to date in printing and postage.

Inland Revenue recognises that the revenue system interacts with the social policy, business, education, and justice sectors as well as the private sector. Understanding customers' broader circumstances will

help to deliver positive, personalised, timely and seamless customer experiences. Policy changes will be required to simplify requirements for customers.

*Inland Revenue will put customers at the centre.*

This means helping customers from the start rather than when things go wrong; and making more intelligent use of information.

Customers expect government to provide intuitive and personalised services. Organising activities around customers and outcomes, and improved analytical capabilities will enable Inland Revenue to generate insights that create better value for customers and government, and make sense of increasing volumes of data.

The quality and frequency of the information available to Inland Revenue will improve, providing opportunities for broader access to this information when it is needed. Inland Revenue will also benefit from access to a greater range of information.

In the future earlier, more complete and more accurate information will be available to Inland Revenue which will mean fewer under or over payments for customers. Information will be checked when it is received and errors fixed wherever possible. Increasingly, customers won't have to do anything as their information will be provided to Inland Revenue on their behalf.

For those that do, their systems and processes will be integrated with Inland Revenue's and part of their everyday activities. Opportunities for non-compliance

will reduce as core accounting transactions will be provided through accounting software.

*Stage 1 will deliver significant improvements for customers.*

Through transformation, Inland Revenue is making a significant contribution to improving digital interactions with government, and to achieving Better Public Services Results 9 and 10. Once Stage 1 is implemented customers will:

- be able to use their New Zealand Business Number (NZBN) to identify themselves to Inland Revenue;
- have access to an enhanced range of services through the Companies Office;
- be able to authenticate their identity to Inland Revenue using RealMe as an option; and
- new immigrants will be able to digitally register for an IRD number.

Implementing GST in START<sup>1</sup> will deliver further improvements through new online services that will enable customers to:

- Amend their GST returns and accounts;
- Register for GST;
- Register as a preparer of tax returns;
- Set up payment plans;
- Include attachments; and
- Track their GST payments and refunds.

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<sup>1</sup> START stands for simplified tax and revenue technology and is the name chosen for the GenTax software provided by FAST Enterprises LLC.

## Executive summary (page 2 of 2)

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Inland Revenue has already taken the first steps in changing how customers interact with the revenue system. As at 31 October 2016, more than 43,000 GST submissions have been received through MYOB and Xero accounting software. Customer feedback is positive, with some noting a significant reduction of effort: *“Using Xero saves a lot of time, so I basically put zeroes to most timing questions”*. Inland Revenue is working with MYOB and Xero to influence customers’ behaviour and drive further uptake.

Inland Revenue originally estimated that small and medium businesses would spend approximately 9 fewer hours a year on GST compliance by 2023/24 as a result of the changes being introduced in Stage 1. A recent survey of small and medium businesses indicates that the actions the department has taken over the last year have already significantly reduced their perceptions of effort for GST, broadly in line with the estimates made.

*Engagement with businesses, tax agents and key stakeholder groups is on-going.*

During 2016, Inland Revenue has been raising awareness of the changes being introduced in Stage 1 through its published information, road-shows, webinars and presentations. Further activity is planned in the lead up to go-live and in the period immediately after. Most affected customers will receive multiple communications at relevant times.

For Inland Revenue people, communication about the changes is underway and training has been scheduled.

*Inland Revenue intends to go-live with Stage 1 by the end of April 2017 or earlier if possible.*

All the work required to ensure successful go-live is progressing well:

- The development of START is on track.
- Customer data has been loaded into the START test environment with less than 5% errors.
- The two new data centres supporting START are up and running.
- The changes needed to FIRST to enable the two systems to co-exist have been made.
- Rigorous and comprehensive testing, including customer validation of new services, is well underway with positive results to date.

Stringent criteria need to be met before a decision to go-live is made to ensure that services and systems are working as they should. The readiness of customers, Inland Revenue itself, and the programme for go-live will be regularly assessed, with pre-defined conditions that must be met at key points.

*Preparations for Stage 2 are underway.*

The scope of Stage 2 has been confirmed in line with the roadmap noted by Cabinet in November 2015 (CAB-15-MIN-0249 refers).

Stage 2 includes all tax products and the Automatic Exchange of Information (AEOI).<sup>2</sup> The costs and benefits of Stage 2 will be reported to Cabinet by March 2017 once detailed design of this stage is further advanced.

Business transformation continually captures lessons learned and is incorporating learnings from Stage 1 into the approach for Stage 2.

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<sup>2</sup> AEOI will enable the discovery of formerly undetected tax evasion. It provides for the exchange of non-resident financial account information with the tax authorities in the account holders’ country of residence. Participating jurisdictions that implement AEOI send and receive pre-agreed information each year, without having to send a specific request.

# Introduction

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*This update outlines the progress being made by Inland Revenue in preparing for Stage 1.*

The purpose of this update is to enable Cabinet to note the progress being made by Inland Revenue in preparing for the implementation of Stage 1 of business transformation. It has been reviewed by the Treasury and the Government Chief Information Officer (GCIO).

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

Transformation is far more than just updating existing computer systems: it will simplify how services are delivered and enable government to better leverage its information asset to better understand and meet customers' circumstances and needs.

As a result of transformation, voluntary compliance will increase, and the effort required by customers to meet their obligations and receive their correct entitlements will reduce.

*Transformation will re-shape how customers interact with government and Inland Revenue.*

The future revenue system will enable customers with less complex matters to interact with Inland Revenue through digital services. Most customers will not need to interact with Inland Revenue. Systems will be largely automated 'straight through' processes that take less time and are more efficient.

Shifts in behaviour are already evident, with more customers using digital services. This has enabled Inland Revenue to realise some early benefits, such as a saving

of approximately \$1 million to date in printing and postage.

The revenue system interacts with the social policy, business, education, and justice sectors. Customers have multiple touch points with multiple organisations across these sectors. Inland Revenue will take a holistic view of customers and their situation within the broader government and private sectors. Inland Revenue will engage with and listen to customers and stakeholders to understand their circumstances and deliver excellent customer experiences that are positive, personalised, timely and seamless.

Policy changes will be required across a number of areas to simplify requirements for customers.

*Inland Revenue will put customers at the centre.*

This means helping customers from the start, rather than when things go wrong, and making more intelligent use of information.

Customers expect government to provide intuitive and personalised services. Government has responded through its Better Public Services priorities and open data initiatives.

To enable direct, personalised support to customers, Inland Revenue will organise activities around customers and outcomes, rather than products and services. In addition, improved analytical tools and capabilities will enable Inland Revenue to generate insights that create better value for customers and government and to make sense of increasing volumes of data held in multiple and disparate systems.

As Inland Revenue enhances its digital services, the quality and frequency of information available will improve, providing opportunities for greater sharing. In the future, information will be exchanged with government and non-government organisations using the data highway. Inland Revenue will benefit from and enable data to be accessed as and when needed, provided appropriate approvals and consents are in place.

In the future earlier, more complete and more accurate information will be available to Inland Revenue which will mean fewer under or over payments for customers. Information will be checked when it is received and errors fixed wherever possible.

In line with the Government's focus on unlocking the value of data held by the public sector, transformation will equip Inland Revenue with a scalable and staged solution and new skill sets to enable the department to work in this environment.

Positively influencing customers and retaining their trust in the revenue system, including protecting their information appropriately, is essential for increasing voluntary compliance.

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

The activities and outcomes of Stage 1 will make it easier for customers to meet their GST obligations. The transformation roadmap, showing outcomes for all stages, is shown in appendix 1. Inland Revenue intends to implement Stage 1 by the end of April 2017 or earlier if possible.

## Delivering new and improved GST services to make it easier for customers

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Benefits for customers from Stage 1 will be new and improved services that will make it easier for them to meet their obligations, reduce their compliance costs over time, and provide them with better access to information.

Those benefiting most in Stage 1 will be small to medium enterprises and not-for-profit organisations registered for GST.

Stage 1 will enable these customers to better self-manage using new online services to:

- Amend their GST returns and accounts;
- Register for GST;
- Register as a preparer of tax returns;
- Set up payment plans;
- Include attachments; and
- Track their GST payments and refunds.

In addition, they will be able to identify themselves to Inland Revenue using their New Zealand Business Number (NZBN), and receive customised messages and information from Inland Revenue.

Since the last update, Inland Revenue has been focusing on raising general awareness of the GST changes being introduced in Stage 1 with customers, intermediaries and stakeholders.

*Engagement with tax agents, businesses and key industry and stakeholder groups continues.*

In June 2016, the Changing for You website discussing ideas about future tax for businesses went live. During August and September 2016, radio and newspaper

advertising ran to raise awareness among small business owners about what dealing with tax might look like in the future. As at the end of October 2016, the website had more than 52,000 unique visits and more than 350 customer comments.

The website has 4 different scenarios about the changes Inland Revenue could make to make tax easier for businesses. The changes include being able to fix mistakes online, having all accounts in one place, being able to use software to register as an employer and submit employee details. Customers are asked whether they agree or disagree with each scenario. Approximately 70% of those who rated the scenarios agreed with them. Feedback from respondents includes:

*“GST is such a breeze to work with now so PAYE should go in the same direction”.*

*“Great concepts and vision”.*

During June 2016, more than 1,200 tax agents attended webinars providing a high level preview of Stage 1 changes. These sessions followed presentations made at the Chartered Accountants of Australia and New Zealand (CAANZ) road-show in April and May 2016, and enabled members of other tax professional bodies and independent tax agents to access the information presented to CAANZ members.

From June to October 2016, Inland Revenue participated in the “Taking care of business” small business road-shows in conjunction with the Minister for Small Business and the Ministry of Business, Innovation and Employment (MBIE). The road-shows were an

opportunity to talk to local businesses about the initiatives being introduced to make tax simpler and reduce compliance effort, including new GST services and the new Accounting Income Method (AIM) for calculating provisional tax.

During July and August 2016, Inland Revenue presented at the Bookkeepers’ Association conference and had a presence at the Xero Accounting Software providers’ roadshow. Participants were positive and engaged about the changes and possible impacts for their business.

In August 2016, more than 400 tax agents across four locations in Auckland, Napier and Dunedin, were updated on business tax changes in the first round of Tax Management New Zealand (TMNZ) roadshow presentations. Participants were very interested in AIM and Inland Revenue’s presentation has been posted on the TMNZ website. TMNZ will schedule more roadshows.

From August 2016, engagement with the not-for profit sector began. Discussions focused on how not for profit groups could assist in sharing information provided by Inland Revenue with their associations/members. This will include messages relating to how Inland Revenue is making tax simpler, the GST changes being introduced in Stage 1, and a high-level view of Stage 2.

In September 2016, Inland Revenue established a small tax agent group to act as a sounding board regarding how informed and ready they and their customers are leading up to Stage 1 go-live.

In addition, the three external reference groups continue to provide advice and insights to Inland Revenue. They are the Transformation Reference Group, the Tax Simplification Panel and the Information and Communications Technology (ICT) reference group.

***Direct communication with customers has just kicked off.***

Most affected customers will receive multiple communications, at relevant times, leading up to and after go-live:

- From mid-October to mid-November 2016 customers will receive direct communications (for most an email, for some a letter), supported by information on Inland Revenue's website and newsletters.
- Direct communications will continue from mid-January through to April 2017.
- Radio and digital advertising (including social media) will run from February to April 2017 to build awareness and support the direct communications.

***Customers are actively involved in validating that new services meet their expectations.***

From late August through to November 2016 customer user experience validation of new services being introduced in Stage 1 took place. The intent was to check with customers that the new services:

- Personalise and simplify their interactions with Inland Revenue;
- Provide certainty and assurance that they have met their obligations;

- Minimise the effort required by them to pay and/or receive the right amounts; and
- Are intuitive and easy to use and enable them to manage their own affairs.

In September 2016, a small, representative group of business customers, tax agents and bookkeepers experienced START online services for GST to check whether they were simple and easy to use. The customers completed a series of tasks including: filing a return, making a payment, checking the status of a refund, enrolling for GST and changing their profile.

In October 2016 customers validated the accessibility of new services by completing a series of tasks including changing profile details, filing a return and making a payment. Also in October 2016, compatibility testing was undertaken by customers on a wide range of browsers and devices.

Overall, the results were in line with expectations and Inland Revenue is using the feedback provided to refine new services to ensure they meet customers' needs.

Inland Revenue has also worked with a small group of new immigrants to validate the digital registration service. In October 2016, new migrants completed the end-to-end process of applying for an IRD number. Feedback was positive overall with comments including:

*"Firstly, it's online. It's a FANTASTIC THING. It's easy to use. It's seven or eight steps, took us a couple mins. Doesn't take half an hour, There's enough information there to complete the process".*

*"I would say it's great! They now have an online system for applying for an IRD number. It's really not that complicated".*

***Inland Revenue intends to absorb as many of the impacts of operating two systems as possible, so that impacts on customers will be minimised.***

There will be some minor impacts for customers and plans are in place to manage these:

- All online services will be accessed through myIR as is the case today; there will be a separate tab for GST, which will redirect customers to START, and a separate tab for other tax types.
- Customers may receive information from FIRST and START separately, and in different formats.
- Customers will receive earlier and more frequent notifications about GST amounts owing than currently.

Intermediaries will need to move between two systems when managing their clients' accounts for more than one product (i.e. START for GST, and the existing FIRST and myIR systems for all other tax types).

***Customer involvement will continue right throughout transformation.***

Inland Revenue intends to seek a wide range of customer views as changes are introduced. A small group of businesses and intermediaries of varying sizes, types and locations will be established to provide Inland Revenue with an early view of customers' likely response to changes, including any concerns. They will also provide feedback on Inland Revenue's communications and

engagement activity, including any areas which need more attention or emphasis.

A representative sample of customers from across New Zealand will be recruited to provide feedback on customer communications such as notices and on new services.

At appropriate points prior to go-live of Stages, focus groups will work with Inland Revenue in a lab environment to test end-to-end services. These groups are likely to be Wellington based.

*For Inland Revenue people, communication about the changes is well underway and training has been scheduled.*

Communication within Inland Revenue has increased as the go-live date approaches. Regular newsletters, videos about how START and FIRST will co-exist, and video messages from the Commissioner have ensured that all staff have had the opportunity to read or hear about the changes coming and have been positively received. Leaders and managers are being provided with additional information and support through monthly teleconferences, monthly briefing packs, and twice yearly face to face forums.

*The training approach and schedule for Inland Revenue people has been confirmed.*

Following consultation with leaders and managers across Inland Revenue, the number of people requiring training to be able to use the new systems and processes being introduced in Stage 1 is approximately 4,000 people.

Four distinct groups require differing levels of training:

- Individuals for whom GST is a high-proportion of their work or who work in a specialist team (group 1) - approximately 300 people who need a high level of training and change preparation for go-live.
- Individuals for whom GST is a proportion of their work (group 2) - approximately 2,500 people who require a medium to high level of training and change preparation for go-live.
- Individuals for whom GST is a small or infrequent proportion of their work (group 3) -approximately 1,000 people who require a low to medium level of training and change preparation, some of which may be delivered following go-live.
- All other non-customer facing people who are not directly impacted by Stage 1 (group 4). This group need awareness and communications.

Training began in October 2016 and will continue after GST goes live in START. Some training will be delivered online, some in a classroom setting and some through self-directed learning including on the job support and guides.

What and when people learn depends on their role, what's changing for them in Stage 1, and on making sure Inland Revenue keeps the organisation running smoothly while preparing for go-live. For the majority of staff in groups 1 and 2 training will consist of 6 hours of pre-learning, a maximum of three days of classroom training; and post go-live training.

Training not only includes training for START, but also for managing co-existence, new business processes and new

ways of working. In preparing the training plan, Inland Revenue has leveraged FAST Enterprises LLC's (FAST) extensive library of training materials and toolsets.

*Later stages will bring more significant changes for Inland Revenue people.*

Stage 1 will be implemented within existing structures and roles. Significant changes in structures and roles are not expected until subsequent stages of transformation. This has been well signalled to Inland Revenue people.

Design of the future Inland Revenue is underway, beginning with the customer facing groups and some of the key capabilities that support them. Implementation or deployment planning is also underway; one of the key criteria guiding this thinking is minimising the impact of any changes within Inland Revenue on customers.

A people transition hub has been established and will co-ordinate and facilitate transition processes for Inland Revenue people. The Hub is up and running and already managing some relatively small scale changes to build future capability in the commercial and technology teams.

On-going engagement with unions continues.

## Changing policy and legislative settings

Work on policy and legislative settings continues on a broad range of fronts and is tracking as expected.

### *Consultation with New Zealanders continues.*

Submissions on the most recent discussion document in the *Making Tax Simpler* series regarding investment income information closed in August 2016. Just over 60 online comments and 30 written submissions were received. Investment income will support future social policy changes.

The submissions largely support the principles behind the proposals, but raise concerns that compliance costs may outweigh any benefits and note the need for a long lead time to allow for large enterprises to make systems changes. Some specific areas of complexity that have been noted include joint account reporting, non-resident investors in portfolio investment entities (PIEs) and the volatility of PIE investment income. Recommendations are being considered by Cabinet in November 2016.

Further consultation is planned as shown in the diagram below.

The second discussion document relating to the Tax Administration Act is proposed for release in December 2016, subject to Cabinet approval. Work is underway on

the individuals' and social policy discussion documents scheduled for release in 2017.

The release date for the individuals' discussion document has shifted out to early 2017. This change will not impact on the critical path for transformation.

Good progress is being made on scoping and researching social policy proposals on Working for Families and Child Support. The discussion document will focus on improving the administration of social policy, not on major social policy reforms.

The timing of any future business tax discussion document is to be agreed in consultation with Ministers and does not impact the critical path for transformation.

### *The law changes needed to enable and support the future revenue system are in train.*

The Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill is before the Finance and Expenditure Committee. The Committee is currently considering the officials' report analysing submissions. The Bill contains the business transformation law changes needed to:

- Implement the changes to business tax announced as part of Budget 2016 to make tax simpler.

- Allow transitional regulations and administrative exemptions to be made to resolve any potential issues arising during the period of co-existence of FIRST and START.
- Enable and support the implementation of Stage 1.
- Implement the G20/OECD standard for AEOI.

An Omnibus Bill is expected to be introduced in February 2017 to implement the policy changes arising from the administration of PAYE and GST and investment income information discussion documents. This Bill will also include any critical law changes needed for Stage 2.

The Minister of Revenue announced Cabinet's decisions on the application dates for PAYE and GST proposals at the New Zealand Payroll Practitioners Conference on 3 November 2016. This ensures that software providers, employers and payroll intermediaries have enough lead-in time to make the necessary changes to their products.

### *Planning is underway for any policy and legislative changes needed to support Stage 2.*

Work is underway to ensure that critical law changes that are appropriate to support and enable Stage 2 are planned for and progressed on a timely basis.



# Preparing for the implementation of Stage 1

Implementing GST in START<sup>3</sup> is the first step in changing how businesses and individuals interact and connect with the revenue system. The changes being introduced in Stage 1 and the ability to file returns through accounting software will make it simpler for GST customers to get things right and difficult to get wrong.

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.

*Increasing integration with private and public business partners is a key feature of the future revenue system.*

Increasingly, customers won't have to do anything as their information will be provided to Inland Revenue on their behalf. For those that do, their systems and processes will be integrated with Inland Revenue's and part of their everyday activities, and appropriate prompting from Inland Revenue will let them know when they need to do something. Opportunities for non-compliance will reduce as core accounting transactions will be provided through accounting software.

In July 2016 Xero released their GST filing service to all their GST-registered customers. MYOB began progressively making this service available to all their customers from April 2016. From January to 31 October 2016, there were more than 43,000 GST submissions through MYOB and Xero accounting software.

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<sup>3</sup> 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.

*"Using Xero saves a lot of time, so I basically put zeroes to most timing questions".*

*"Our GST is calculated by our accounting software so the time involved is minor, our accountant calculates our Provisional Tax for us".*

Inland Revenue is working with MYOB and Xero to influence customers' behaviour and drive further uptake. Regular assessment of results will help to determine which activities have been effective and which need to be reviewed.

Inland Revenue will make a digital GST submission service available to other software providers as part of Stage 1.

*The capabilities being delivered in Stage 1 support both Better Public Services and Business Growth Agenda goals.*

Once Stage 1 is implemented customers operating as incorporated entities will be able to use their NZBN to identify themselves to Inland Revenue, and new immigrants will be able to digitally register for an IRD number when they apply for a visa.

Testing of both these new services is underway with MBIE.

Inland Revenue has validated the technical feasibility of RealMe and myIR. However there are still some customer experience issues to work through before confirming the deployment date.

*Implementing a modern technology platform, with GST as the first step, is progressing well.*

The development of START remains on track and Inland Revenue intends to go-live with Stage 1 by the end of April 2017 or earlier if possible.

*The technology required to support START is in place.*

Inland Revenue's two new data centres have both gone live. The primary centre in Takanini, Auckland hosts essential systems such as START and Inland Revenue's identity management solution. It mirrors the secondary data centre in Trentham, Wellington, enabling Inland Revenue to store and backup all customer data securely.

The new centres provide Inland Revenue with greater scalability, modern security features, and much greater resilience. The current data centres that support FIRST will continue to operate alongside the new centres until 2021, as FIRST and START will co-exist until then.

An identity and access management solution has been selected and will enable Inland Revenue to authenticate the identity of users and authorise the appropriate accessing and modification of information. It will provide secure access to applications and online services for customers and staff.

*Data migration is a key focus, with conversion of data from FIRST to START underway.*

All the data Inland Revenue holds on customers has now been loaded into the START test environment. This includes all:

- Customer data including names, addresses, contact information, bank accounts, customer and account attributes.
- Financial information including all financial transactions and balance information.
- Compliance data including billing information, collection cases, instalment agreements, and deductions.
- eService logons.

Data was verified before being loaded and data quality was better than anticipated, with less than 5% identified as having errors.

Mock conversion of data will continue up until go-live to ensure that all records are in the right place and the impacts on customers of having their information split across two systems is minimised.

In addition, there are 3 mock go-live runs planned in the lead up to Stage 1 go-live. These include as many of the tasks that will be undertaken during cutover weekend as possible.

*Inland Revenue has adopted an innovative approach to addressing the challenges of co-existence.*

Both FIRST and START will need to be supported throughout the life of transformation as products are transitioned. Coexistence of business functions and technical capabilities is complex and is a key risk.

The best value for money approach for addressing co-existence while minimising the impacts on customers has been identified. Inland Revenue has confirmed which functions will remain in FIRST and which will be in START;

and confirmed that technical integration will be kept to a minimum, with staff managing a series of interim business processes.

Accenture has been contracted to deliver the changes needed to heritage systems to enable co-existence, augmented by a team focused on manual interventions where required. This work is on track.

For Stage 1, three releases will make the coding changes needed to FIRST. Each release consists of design, build and test. Design, build and testing are complete for all releases.

As implementation is product based, some of the impacts of co-existence on customers cannot be mitigated. For example, products may be administered differently depending on whether they have been migrated to START or are still being administered in FIRST.

*Testing is underway and the results so far are positive.*

A rigorous and comprehensive testing schedule has been developed. Testing of new systems and processes is a key input into assessing readiness for go-live, and includes a number of phases:

- Business system testing involves Inland Revenue staff testing the functionality within START and how START interacts with other systems.
- Customer user experience validation involves customers trying out and providing feedback on new services.

- Scaled business simulation testing practices the go-live step by step including the migration of data, and processes following go-live such as return filing.
- Security testing verifies that solutions conform to minimum security standards.
- Performance testing verifies that requirements such as response times and transaction rates have been achieved.
- Technical cutover testing tests the full deployment in a technical sense. Rollback is tested as part of this phase to confirm that Inland Revenue could revert to the pre-implementation state if required.

The first two phases, business system testing and customer experience validation (refer to page 7), have been completed with positive results.

Business system testing for Stage 1 ran from July to October 2016 to thoroughly test every aspect of START and its interactions with Inland Revenue's other systems. More than 50 subject matter experts from around Inland Revenue were involved, many from outside Wellington.

Functionality including customer information, returns, payments, disbursements and eServices were each tested for between two and six weeks using customer scenarios. The failure rate for the scenarios tested was low and failures were resolved quickly.

The next phases of testing begin in November 2016 and will continue right up until cutover weekend.

*Inland Revenue is sharing its approach to testing.*

Inland Revenue is using an innovative approach to delivering and testing changes – DevOps. DevOps is short

for development operations and establishes an environment where building, testing, and releasing software happens rapidly, frequently, and reliably.

This iterative, continuous development approach is relatively new to the public sector. Inland Revenue is using it in the replacement of its “end-of-life” middleware software that transports around 90% of its data, enabling customers to connect with the core tax system and for systems to talk to each other.

The New Zealand Qualifications Authority (NZQA), the Ministry of Justice and MSD have been hosted by Inland Revenue in its testing centre to demonstrate the approach in action.

*Stringent criteria need to be met before a decision to go-live is made.*

Inland Revenue has developed a comprehensive and robust approach for determining readiness for go-live of Stage 1.

A business readiness framework has been developed which uses checkpoints to assess the readiness of

customers, business partners and stakeholders. Readiness will be assessed across three major areas:

- Customer readiness – are customers sufficiently informed by Inland Revenue to be ready for Stage 1?
- Inland Revenue’s readiness – is the business ready to receive Stage 1?
- Programme readiness – is the business transformation programme ready to deploy Stage 1?

At a more detailed level, there will also be assessments of the readiness of data, processes, infrastructure, applications, policy, quality assurance, support and deployment.

Readiness will be regularly assessed through six checkpoints as shown in the diagram below. Each checkpoint has a defined purpose and pre-defined conditions that must be met to provide confidence that the preparations for go-live are on track. The checkpoints will confirm that “Inland Revenue is where it expects to be” at key points.

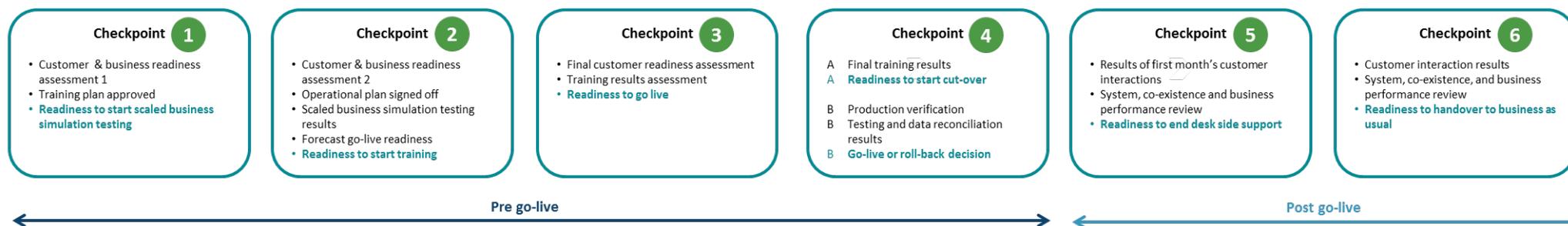
Based on the results of the checkpoints, decisions may be taken to implement contingency options or, in the worst case scenario, to delay go-live.

The Ministers of Finance and Revenue will be provided with an overview of the results from checkpoints through existing monthly reports and meetings.

*Clear accountabilities have been established for making the decision to go-live.*

A go-live committee has been established to provide governance over checkpoint 4. The committee is chaired by the Senior Responsible Officer (SRO), and membership consists of four deputy commissioners. Its role is to recommend to the Commissioner the deployment of changes into production or to recommend roll-back if cutover criteria have not been met.

The Ministers of Finance and Revenue will be notified by the Commissioner if checkpoint 4 results in a decision not to proceed with go-live.



## Preparing for Stage 2

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Planning for Stage 2 is well underway as it is significantly bigger in scope and complexity than Stage 1. Given this, it will be important to minimise changes to the products in scope other than the business tax package changes.

A small, separate team has been working to confirm the scope of Stage 2 in line with the roadmap noted by Cabinet (CAB-1-MIN-0249 refers), and mobilise the resources needed to begin detailed design. This approach has ensured that the majority of the programme can focus their efforts and attention on ensuring successful implementation of Stage 1.

The scope of stage 2 includes the following products:

- Income tax, including provisional tax;
- Imputation tax;
- Withholding tax;
- Pay-as-you-earn (information collection);
- Tax credits – independent earner rebate, payroll giving, payroll subsidy;
- Fringe benefit tax; and
- Gaming machine duty.<sup>4</sup>

Stage 2 will also include AEOL, enhanced online services for customers for the products in scope, and some new contact options for customers, such as a possible extension of click-to-chat following a pilot period. In addition, there will be a wider rollout to Inland Revenue

people of some of the capabilities being introduced in Stage 1, such as enterprise content management.

Stage 2 will continue with the co-existence approach established in Stage 1, with functionality split between heritage and new systems.

The costs and benefits of Stage 2 will be confirmed by March 2017 once detailed design is further advanced.

Given the scale of changes that will be made to systems and processes by Inland Revenue, business partners and customers, Stage 2 is likely to be implemented in a series of releases throughout 2018 and 2019. These will reflect the annual tax cycle, i.e. processes required at the beginning of the tax year will be released first, with end-of-year processes released later.

*As some of the changes require longer lead-in times for stakeholders, engagement has already begun.*

Inland Revenue has begun to brief financial institutions on AEOL. In August 2016 briefings in Auckland, Wellington and via audio conference were attended by 65 different entities. These included the “big four” accounting firms; 11 of the registered banks; a range of financial services, tax advisors and law firms; the Reserve Bank of New Zealand; and three industry bodies – CAANZ, New Zealand Bankers’ Association and Co-op Money NZ. A fact sheet explaining the changes has also been published on Inland Revenue’s tax policy website.

In August 2016, the first workshop to begin designing the new Accounting Income Method (AIM) for calculating provisional tax was held. The workshop brought together a range of key parties interested in offering AIM,

including software developers Reckon, CCH, MYOB, Tax Lab and Xero, small business accountants BDO and Addsmart, as well as CAANZ. Regular workshops are planned with this group to work together on the design, implementation and communication of AIM.

Discussions with software developers about how AIM might be accommodated into software are also underway. Talks have also started with selected members of the Corporate Taxpayer Group on the design of a potential AIM scheme for larger corporate taxpayers.

*Inland Revenue will continue to work across the public sector to achieve better outcomes for New Zealanders.*

Inland Revenue will continue to work with the Ministry of Social Development (MSD), MBIE and the Department of Internal Affairs (DIA) to improve services for customers. Initiatives being considered as part of Stage 2 include:

- A more automated solution, integrated with START, to support the approved information sharing agreement (AISA) between Inland Revenue and MSD will be implemented as part of Stage 2 onwards. An interim solution will be in place by mid-2017 to enable the AISA to be implemented in the heritage environment as the AISA is expected to be in place from June 2017.

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<sup>4</sup> Gaming Machine Duty is a stand-alone duty, not linked to other taxes in Stage 2. However implementing this in stage 2 or 3, should allow the FIRST mainframe to be decommissioned at the end of Stage 3 rather than at the end of Stage 4 as originally envisaged.

- Inland Revenue will recognise customers by their NZBN once 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, marriage, name change and death. This work is at the scoping stage and more information will be provided in the next transformation update in mid-2017.

*New ways of working are being trialled within Inland Revenue to inform future stages of transformation.*

To create value from customer insights, and unlock the value of Inland Revenue's information, new approaches will be trialled with specific customer segments.

Implementing a continuous learning loop will enable Inland Revenue to learn through action, adapt quickly to improve results, or stop activity that is not creating enough value. The initial focus will be on tertiary students and small to medium businesses. Customer mapping will help build an understanding of the journey of students from tertiary education to employment and how this impacts their behaviour, and of the factors that contribute to, for example, poor regulatory compliance among start-up businesses.

## Procuring the products and services required for transformation

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

Since the July 2016 update, Inland Revenue has completed further procurement activity to select the services and products required for Stage 1.

Negotiations with Deloitte to supply an identity and access management solution have been completed and a Statement of Work (SoW) agreed.

TEAM Asparona (a 50% subsidiary of Deloitte) were selected as the provider of an information and knowledge management solution.

TEAM Asparona offered the most cost effective and fit for purpose solution. TEAM Asparona are on the all-of-government (AoG) panel for Enterprise Content Management (ECM)-as-a-Service, and gave Inland Revenue an option to contract outside the ECM panel. Inland Revenue is still negotiating the outcome.

However, during contract negotiations agreement was reached that Inland Revenue volumes would contribute to overall government volumes for pricing purposes. This means that other agencies already using this solution will benefit from price reductions resulting from Inland Revenue's higher volumes, as will any agency that chooses to use this solution in the future.

As previously noted, AoG services will be used by Inland Revenue where they are available, support the business outcomes of the revenue system and Inland Revenue, and are cost effective.

Inland Revenue has consumed Infrastructure-as-a-Service, Information Technology Managed Services, and Telecommunications-as-a-Service common capabilities, and expects to consume Workplace Technology-as-a-Service.

### *Planning for future procurement activity is underway.*

In the last update, Inland Revenue advised that a closed request for proposal (RFP) for Workplace Technology-as-a-Service was expected to be issued in mid-2016. This has been deferred as finalising the commercial arrangements needed to support Stage 1 was a higher priority.

Inland Revenue is now reconsidering its options for replacement of workplace technology and the optimum timing of any investment. Current arrangements will be supported until 2021.

Planning for the products and services needed to support the implementation of Stage 2 is underway. Inland Revenue is working with its existing vendors to agree what services will be required and what deliverables they will be accountable for.

Inland Revenue expects some new vendors to be brought on board for Stage 2. For example a provider of web content management services will be required.

### *Vendor management remains a strength.*

A range of mechanisms support the management of vendors. The performance of seven of the most critical vendors is assessed monthly against a balanced scorecard across a number of areas, and key points are identified and discussed with the vendors concerned. The seven vendors are FAST, Accenture, Unisys, Vodafone, Deloitte, Assurity, and Spark and their subsidiary Revera.

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

As noted in the last update, Inland Revenue has shared lessons learnt with a number of other agencies: the Treasury, the Accident Compensation Corporation (ACC), Land Information New Zealand (LINZ), the Earthquake Commission (EQC), HealthAlliance and the Department of Corrections.

Inland Revenue is now sharing a deeper level of detail with relevant agencies such as its vendor management processes and the structure of its contracts with vendors.

For example, the process Inland Revenue used to select new data centres has been highlighted by the GCIO as a model of best practice. Inland Revenue has shared the processes followed and the outcomes achieved with LINZ, HealthAlliance, and EQC.

# Managing and governing transformation

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## *Transformation is on track and on budget.*

The programme is on schedule and expenses are tracking as expected.

## *On-going monitoring arrangements have been agreed with Treasury.*

Monitoring will focus on delivery progress and realisation of benefits, through key performance indicators (KPIs) and outcome measures.

The KPIs will 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.

The outcome measures will 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.

Inland Revenue's will report progress towards achieving these outcomes to Cabinet as part of the regular transformation updates as changes are likely to be gradual and more frequent reporting is unlikely to be of greater value.

Inland Revenue and Treasury have agreed measures for reporting against KPIs and outcome measures. Please refer to appendix 2.

## *There has been a recent change in programme management.*

Recruitment for a new Programme Director is underway. In the interim, the SRO has taken responsibility for the management of transformation. This has ensured minimal disruption in the lead up to Stage 1 go-live.

Inland Revenue is fortunate to have built a very experienced and capable leadership team for transformation, which is well supported by governance structures.

## *Transformation remains inherently high risk.*

While the department is well positioned, transformation is in its early stages and remains inherently high risk. Progress and risks 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.

Inland Revenue is mitigating implementation risk for Stage 1 by starting with a relatively simple tax, keeping technical integration for co-existence to a minimum, and proactively supporting customers and staff to understand and adopt new services.

The key risks facing transformation are:

- Continuing to recruit and retain experienced resources of the right calibre is critical to success. Retention strategies and succession plans help to mitigate this risk.
- Customers and staff must embrace change for the expected benefits to be realised. On-going focus on preparing customers and staff for change and on driving uptake of new services will ensure understanding and adoption.
- Government may not be easily able to implement significant policy proposals at short notice as Inland Revenue may not easily be able to accommodate sudden changes in sequencing and priorities. On-going dialogue with Ministers will ensure that changes in priorities are understood and that any implications for costs, benefits or risks are highlighted.

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 timelines, costs, benefits or risk profile these will be highlighted for Ministers to consider.

***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 progress updates.

In June 2016, KPMG undertook an IQA4.2 focusing on Inland Revenue's strategies, approaches and plans for testing and for data preparation and conversion. Although not a focus for this review, KPMG noted that the programme continues generally to be managed in accordance with good industry practice.

The key findings were that *"The approach to programme management continues generally to be robust and fit for purpose"*, *"The Programme continues to align the differing methodologies (of providers) effectively"* and *"The planned timescales for testing are predicated on a risk-based approach"*. KPMG recommended some specific areas of focus for testing and data, all of which have been either completed or are under action.

Further assurance reviews are planned over the remainder of this year:

- In November 2016, a Gateway review will be undertaken.
- In October/ November 2016, a fifth IQA and fourth TQA will be undertaken by KPMG.

The assurance arrangements for 2017 have yet to be finalised.

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.

## Learning from the experiences of other change programmes

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### *Inland Revenue continues to engage with other revenue authorities who have implemented START to learn from their experiences.*

In August 2016 members of Inland Revenue's executive leadership team along with senior business managers attended the FAST Enterprises LLC (FAST) revenue administration customer conference<sup>5</sup> and the Federation of Tax Authorities (FTA)<sup>6</sup> conference.

As these conferences were held in the United States, visits to three state tax authorities who have implemented FAST's GenTax product (named START by Inland Revenue) were also undertaken.

While every implementation is different, there are some common themes. The key insights Inland Revenue gained from the conferences and site visits were:

- The configurable nature of GenTax/START enables more agile implementation of change. For Inland Revenue, agility will increase as implementation progresses. Following Stage 2, government will have much greater agility for tax products. The complex inter-relationships between income and social policy (which will still be on FIRST) will place some limits on agility during Stage 2. Full policy agility will be provided once transformation is complete.

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<sup>5</sup> FAST's user conferences provide a forum to share successes, discuss approaches, find out about product updates and innovations, and provide feedback for future product enhancements.

<sup>6</sup> The FTA provides research and information exchange, training, and intergovernmental and interstate coordination services to state tax authorities and administrators in the United States.

- Any data quality issues should be addressed as early as possible. Inland Revenue began extracting data from FIRST and loading it into START in March 2016, just over a year ahead of the go-live date.
- External partners who have systems and processes that need to interact with the revenue administration should be identified as early as possible and provided with as much lead in time for testing as possible. Inland Revenue has identified external parties who will need to interact with the revenue system differently as a result of Stage 1 and testing is underway.
- Test early and test often, and involve a wide range of people. Inland Revenue has a comprehensive and robust testing plan, elements of which are already underway.
- Plan early for cutover and practice, practice, practice. Inland Revenue will run a series of mock go-lives, and has a detailed plan for cutover weekend.
- Staying on the latest version of the software is important to take advantage of improvements in tax administration practice. Inland Revenue is planning for the cost of upgrades and maintenance as new solutions are transitioned to business-as-usual.

At the FAST customer conference, Inland Revenue attendees took the opportunity to spend time with the representatives from the Finnish Tax Administration who attended – most of whom are on their Transformation Leadership team. There are similarities of scale, complexity and approach between the Inland Revenue and Finnish programmes.

Stage 1 was successfully implemented in Finland in January 2016. Points of note were:

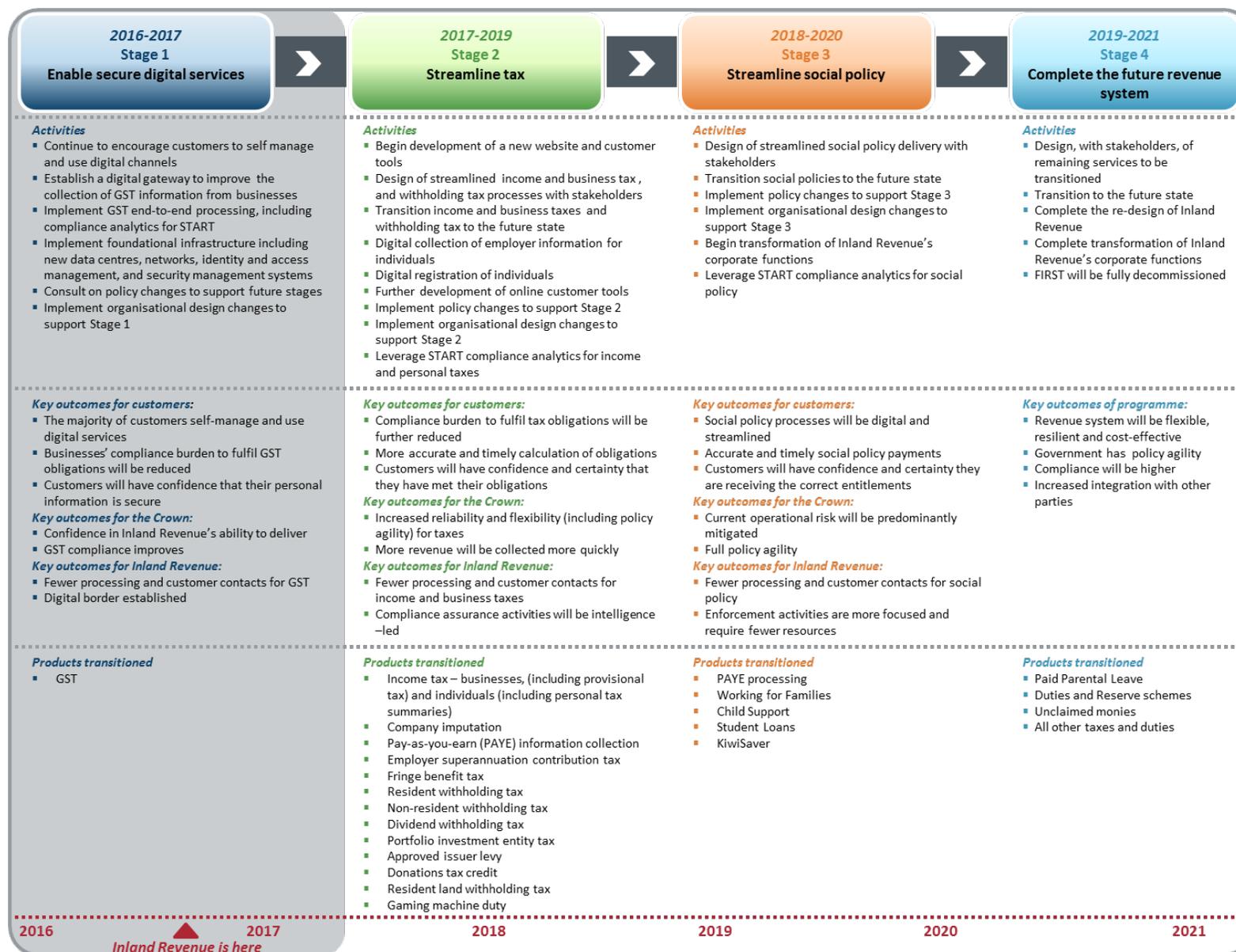
- There were the expected small issues/errors to work through post go-live however there was nothing of any real consequence to either the Finnish Tax Authority or their customers.
- The largest challenge resulted from creating "customer master data"<sup>7</sup> in the new system at the outset. This is proposed to be included in Stage 2 for Inland Revenue once all tax products have been migrated to START.
- An opportunity to learn from Finland's testing approach was identified and Inland Revenue's test lead for transformation has been in contact with the Finland team to discuss their experiences.

Overall, feedback from other FAST customers was that they had been able to deliver significant improvements in serving citizens.

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<sup>7</sup> Master data management is the collection, aggregation, matching, consolidation, and quality-assurance of data, and how it is made available throughout an organisation. It ensures consistency and control in how data is maintained and used.

# Appendix 1 – Transformation roadmap



## Appendix 2 – Outcome measures

Outcome	Description	How measured	Stage 1 targets
Administrative savings to Inland Revenue	<p>Measures achievement against the following investment objective:</p> <ul style="list-style-type: none"> <li>Improving productivity and reducing the cost of providing Inland Revenue’s services</li> </ul>	<p>Measured by financial benefits released as a result of transformation. Includes:</p> <ul style="list-style-type: none"> <li>Digital uptake by taxpayers by product</li> <li>Reduction in Inland Revenue’s workforce</li> </ul>	<ul style="list-style-type: none"> <li>85% - 90% by 2023/24</li> <li>Administrative savings of \$6.1 - \$6.8 million per annum by 2023/24</li> </ul>
Easier for customers	<p>Measures achievement against the following investment objectives:</p> <ul style="list-style-type: none"> <li>Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies</li> <li>Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services</li> <li>Increasing the secure sharing of intelligence and information to improve delivery of services to New Zealanders and improve public sector performance</li> </ul>	<ul style="list-style-type: none"> <li>Increase in number of taxpayers who find it easy to comply, measured by net ‘agree’ score in Inland Revenue’s Customer Satisfaction &amp; Perceptions Survey</li> <li>Reduction in customer effort as a result of information sharing and security of information, demonstrated by case studies</li> <li>Digital uptake by taxpayers by product</li> <li>Reduction in the number of hours taken to complete tax activities, from Inland Revenue’s SME compliance survey</li> <li>Improved business perception that the revenue system requires less effort, measured by Inland Revenue’s Result 9 indicator</li> <li>Government services to businesses perform similarly well as those of leading private sector firms</li> </ul>	<ul style="list-style-type: none"> <li>Maintain at 82% with a single (GST) product deployed within START</li> <li>N/A with a single (GST) product deployed within START</li> <li>85% - 90% by 2023/24</li> <li>9 hours by 2023/24</li> <li>N/A with a single (GST) product deployed within START</li> <li>A rating of 3.00 or less by 2023/24 (this is a programme level measure)</li> </ul>
Reduced time and cost to implement policy	<p>Measures achievement against the following investment objectives:</p> <ul style="list-style-type: none"> <li>Improving agility so that policy changes can be made in a timely and cost effective manner</li> <li>Minimising the risk of protracted system outages and intermittent systems failure</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the mean time between failures for customer-facing services</li> <li>Increased revenue system resilience as assessed by Inland Revenue</li> <li>Reduction in the time and cost to implement policy, demonstrated by case studies</li> </ul>	<ul style="list-style-type: none"> <li>All measures - Not significant with a single (GST) product deployed within START</li> </ul>