

In Confidence

Office of the Minister of Revenue

Chair, Cabinet Government Administration and Expenditure Review Committee

## **Inland Revenue's November 2018 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 preparations underway for implementing the next set of changes in April 2019.

### **Executive Summary**

- 2 The changes being introduced in April 2019 will result in a fundamental shift in how New Zealanders interact with the revenue system. New systems and processes for income tax and Working for Families will make tax and payments simpler and more certain. Most people will pay and receive the right amounts during the year without having to do anything. Employers, tax agents and intermediaries will also experience change.
- 3 The changes include a new year-end process for individuals, new online services for Working for Families' customers, new processes and reporting requirements for businesses and employers that will, ultimately, make tax and payments easier.
- 4 For individuals, subject to enactment of legislation that is currently before the House<sup>1</sup>, people that only earn salary and wages or investment income will no longer need to do anything at the end of the tax year. Inland Revenue will work out for them whether they have a refund or tax to pay. For the year ending 31 March 2019, approximately 1.67 million people will automatically receive a tax refund. This includes approximately 530,000 people who earn less than the minimum wage or are beneficiaries who have not previously applied for a refund. Approximately 263,000 people will have tax to pay.<sup>2</sup>
- 5 Employers, financial institutions and tax professionals will be adapting to new legislative reporting requirements. Payday information and investment income information will be reported to Inland Revenue more frequently. Inland Revenue is engaging face-to-face with as many of these groups as possible to provide certainty about what they need to do to prepare for these changes.
- 6 For all businesses and individuals, there will be new systems and processes for income tax and Working for Families. It will be easier for customers to manage their tax obligations and Working for Families' entitlements with new online services.
- 7 Given the scale of these changes, some disruption is to be expected from April 2019. Reactions to the changes are likely to be mixed, with individuals expected to be the most

---

<sup>1</sup> Subject to legislation. The Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters) Bill had its first reading on 3 July 2018 and was referred to the Finance and Expenditure Committee for consideration.

<sup>2</sup> Ibid

positive. Some groups may be less positive about the changes, in particular, some tax agents and tax intermediaries because of the need to make changes to their systems and, in some instances, to their business model. Inland Revenue is engaging face-to-face with as many businesses, employers and tax professionals as possible to ensure they understand the changes and are taking the steps necessary to ensure a smooth transition.

- 8 Inland Revenue is committed to maintaining services throughout the implementation of these changes, but recognises that this will be a challenge. Customer behaviour will take time to change and they may still contact Inland Revenue to seek reassurance even when there is no requirement to do so. Intensive customer engagement activity is underway to prepare customers and intermediaries for these changes, and to help them understand what is changing and what it means for them, using a full range of communication channels. In parallel, Inland Revenue is well-advanced in its planning to ensure it is resourced to cope with additional customer contacts expected from April 2019. Inland Revenue has also undertaken remedial work to enhance the stability of its web services following the issues experienced by customers in June.
- 9 Once all taxes are migrated to Inland Revenue's new systems and processes from April 2019, we will have more flexibility to introduce changes to the tax system. We will, however, need to use this flexibility judiciously. Transformation of the department's systems and processes will remain high-risk until it is complete in 2021 at which time all of the social policy products that Inland Revenue administers will be managed from new systems. The benefits of any policy opportunities we want to progress must be weighed against the potential to further increase the risk of, or prolong, transformation.

#### **April 2019 is a significant milestone**

- 10 The changes being introduced in April 2019 will result in a fundamental shift in how New Zealanders interact with the revenue system.<sup>3</sup> New systems and processes<sup>4</sup> for income tax and Working for Families will make tax and payments simpler and more certain. Most people will pay and receive the right amounts during the year without having to do anything.
- 11 Individuals will have tax correctly withheld and assistance provided at the time it is needed. Any refunds will be automatically paid and amounts of tax to pay of less than \$20 will be written off.<sup>5</sup>
- 12 New online services will make it easy for people to track what they've paid and what they owe, and what their entitlements are. Customers will have reassurance they've done the right thing. There will be fewer errors because Inland Revenue will identify problems during the year and prompt customers to address these, making any under or over payments easier to manage.
- 13 More people will be on the right tax code regardless of their employment arrangements. More frequent provision of payday information by employers will enable Inland Revenue to monitor more proactively during the year and ensure customers are on the right tax code, including a tailored tax code, particularly those with more than one employer and who are currently on a secondary tax code.

---

<sup>3</sup> Subject to legislation

<sup>4</sup> Ibid

<sup>5</sup> Ibid

- 14 Employers and financial institutions will provide information to Inland Revenue more often. These changes will ensure that Inland Revenue has more up-to-date and accurate income information that, in turn, will result in fewer errors, less chance of customers getting into debt and less need for compliance checks. For employees and investors, these changes mean that more people will pay and receive the right amounts during the year.
- 15 While the first two releases have been successfully implemented, Release 3 is a quantum leap in its scale and complexity. Almost all New Zealanders, regardless of their role in the revenue system, will experience some degree of change. The period from April to June 2019 represents the peak period of change.
- 16 The target date for Release 3 to go-live is 23 April 2019. Inland Revenue is likely to be closed for 3 days, including Good Friday and Easter Monday. This will be signalled to customers well in advance. While no time is a good time for this level of disruption, the date takes into account major customer and business events and the timing of public holidays.

### **Changes will apply from the tax year ending 31 March 2019**

- 17 The impact of the changes varies for different groups. Inland Revenue has an intensive programme of customer engagement underway, led by its senior managers. The engagement is tailored to different groups to ensure they understand what the changes mean for them, and are taking all of the steps needed to make this a smooth transition.
- 18 Individuals are likely to regard the changes most positively. For people whose only income is from salary, wages or investments, having to contact Inland Revenue at the end of the year to work out whether they will get a refund or have tax to pay will be a thing of the past.
- 19 To illustrate, Inland Revenue estimates that approximately 1.67 million people will automatically receive a tax refund next year. This is made up of:
  - 19.1 950,000 people who have previously applied for and received a tax refund; and
  - 19.2 an additional 720,000 people who have not previously applied for a refund. Just under three-quarters of this group, approximately 530,000 people, earn less than the minimum wage or are beneficiaries.
- 20 Approximately 115,000 people will have additional tax to pay for the first time next year. This number will decrease over time as Inland Revenue uses the income information it receives to prompt customers to make any necessary changes, avoiding a year-end debt.
- 21 The more than 330,000 families who receive Working for Families will have more accurate payments during the year. Payments will be adjusted more quickly as families' circumstances change. This will avoid families being underpaid and missing out on assistance when they need it, or being overpaid and left with a debt to repay at the end of the year.
- 22 The groups who may be more concerned and potentially less positive, with whom Inland Revenue is working very closely, include:

- 22.1 *Personal tax summary intermediaries (PTSIs).*<sup>6</sup> Their business model will fundamentally change as customers will automatically receive any tax refunds they are entitled to. Some PTSIs are changing their business model to offer more value-add services as tax agents, while others are deciding to cease trading. Inland Revenue is working closely with those who are closing their business before they do so to ensure their customers' information is up-to-date in the department's systems.
- 22.2 *Tax agents.* The changes will make it easier for tax agents to provide services to their clients. Tax agents will, however, have to update their own systems and processes before April 2019 to ensure they can continue to transact and exchange information with Inland Revenue's systems. The department is working closely with tax agents through professional bodies, seminars, webinars and face-to-face meetings.
- 22.3 *Financial institutions.* Changes to the collection and use of investment income information, the implementation of the automatic exchange of information, and increased reporting requirements for anti-money laundering mean this sector is under pressure. Legislative changes for investment income will increase the frequency and the amount of data collected through digital channels. This information will enable Inland Revenue to pre-populate tax returns with investment income information, reducing the amount of effort required by customers. These changes become mandatory from April 2020, allowing more time for financial institutions to prepare and, should they choose, to opt in voluntarily from April 2019. Face-to-face meetings are ongoing to ensure financial institutions have plans in place to ensure a smooth implementation of these changes.
- 22.4 *Employers.* All employers, approximately 213,000, must comply with mandatory payday filing reporting requirements from 1 April 2019. Currently all employers provide salary and wage information to Inland Revenue on a monthly basis. While there are significant benefits from increased frequency of reporting, some employers may initially perceive that their compliance costs have increased as a result of this requirement. Inland Revenue is reaching out to employers to ensure they are aware of this requirement, and encouraging as many as possible to start to do so earlier. The department is running seminars across the country with small and medium-sized enterprises that have been well-attended. In addition, Inland Revenue is hosting webinars, meeting with industry groups, developing "how to" videos, contacting employers by phone and using all existing communications and channels to lift awareness of payday filing requirements.

### **A lot of work is underway to ensure all groups are well-prepared for the changes**

23 Inland Revenue is working hard to ensure:

- 23.1 Customers have a positive end-to-end experience and know online services are their first port of call if they need to do something or need additional information.

---

<sup>6</sup> PTSIs work with their clients, the majority of whom are salary and wage earners, to determine whether they have an end-of-year refund. If they do, PTSIs request a PTS from Inland Revenue on behalf of their client and then confirm it. PTSIs pass the refund on to their client, after deducting a fee.

- 23.2 Tax agents are fully briefed on the changes and have set up the appropriate delegations so they can continue to access their clients' information.
  - 23.3 A smooth transition for customers of PTSIs to the new end-of-year process.
  - 23.4 Employers, payroll developers, payroll intermediaries and payroll bureaux are ready for mandatory payday reporting by April 2019.
  - 23.5 Financial institutions are ready to meet new reporting requirements for providing investment income information between April 2019 (voluntary) and April 2020 (mandatory).
  - 23.6 Online services are resilient and there are no unexpected disruptions. After some challenges earlier this year, Inland Revenue is doing a lot of work behind the scenes to ensure online services are available when people need them.
- 24 In addition to the accelerated engagement underway with PTSIs, tax agents, employers, software developers and financial institutions, information will be sent directly to customers via emails, texts and letters, and made available on Inland Revenue's "Changing for you" website. Advertising campaigns using a range of channels will raise awareness of the changes and prompt individuals and families' customers to ensure Inland Revenue has up-to-date contact and bank account details. Customers who do not already have a myIR account (Inland Revenue's secure online service) will be encouraged to register.
- 25 Given the scale of the changes, Members of Parliament may be approached by the public wanting help to understand why the changes have been made and what they mean. I am working with Inland Revenue to determine what information should be made available to Members and electorate offices to help them respond to any queries they receive.

**Maintaining the confidence of the business community is a key priority.**

- 26 Inland Revenue is engaging face-to-face with as many businesses, employers and tax professionals as possible. In these engagements Inland Revenue is focusing on the opportunities created by the changes and providing certainty to these groups about what they need to do. Payment dates are not changing, so more frequent reporting of employment and investment income will not impact businesses' cash-flows or government revenue. This is being emphasised in all engagements with businesses.
- 27 New online services will make it easier for businesses to meet the new reporting requirements. Businesses will be able to file all their taxes through myIR and use new functionality such as more embedded calculations. In addition, there are choices to be made about when Inland Revenue begins to enforce compliance with the new requirements.

**Inland Revenue is getting ready to handle additional customer demand from April 2019**

- 28 Traditionally, there is a significant increase in customer demand for Inland Revenue's services from February to September each year, known as peak season. This is largely driven by end of the tax year activities for social policies when the next year's assessments are issued for Child Support and Working for Families, and key income tax

and GST filing dates. The volume of customer contacts is also influenced by PTSIs' advertising regarding potential tax refunds.

- 29 Once the April 2019 changes are in place, many of those who currently contact Inland Revenue to finalise their tax position through the Personal Tax Summary (PTS) will no longer need to do so. Peak season will not exist in the same way it does today.
- 30 Significant efforts are being made to ensure individuals know they do not need to contact Inland Revenue to get a refund next year and that they can update their Working for Families' details themselves. Timeframes will be made explicit so that people know when they can expect a refund, if they are entitled to one. A range of options are being considered for refunds, including progressively crediting them to customer's bank accounts, to ensure Inland Revenue can handle any resulting customer contacts.
- 31 Despite Inland Revenue's best efforts, customers may still make contact to seek reassurance. The department has estimated the effects of the changes on its work volumes and expected customer contacts, and is planning to expand its workforce to manage increased demand post the go-live and throughout the 2019 peak period. In parallel, the department has an independent review of its systems underway to ensure these remain stable during peak demand.
- 32 The department's service performance may dip while these changes are embedded. I will be kept regularly informed of any issues that arise.
- 33 Customers with more complex circumstances will still need to contact Inland Revenue. This is one of the objectives of transformation: people with straight-forward circumstances will not need to do anything, freeing the department up to support those customers with more complex needs.

### **Delivery is progressing well**

- 34 Inland Revenue is just over half way through the delivery phase of Release 3. Officials advise that the target delivery date is achievable but there is pressure in some areas, including testing, given the extent of the changes. Focused attention and rigorous prioritisation means Inland Revenue is confident it is on track for the go-live in April 2019.
- 35 Inland Revenue is ensuring its people are fully trained and ready to support customers as they become accustomed to the changes. Approximately 4,000 staff mainly in customer-facing areas will require a moderate to high level of training and support. I am advised by the department that internal communications, training and online help to reflect the greater depth and breadth of the Release 3 changes are well underway.
- 36 I am meeting with officials nearly every week between now and April 2019 to ensure everything remains on track and that customers and Inland Revenue are as well prepared as they can be. The department has been running year-end processes for the last 25 years. While April 2019 scales this up considerably, Inland Revenue has years of experience to call on.
- 37 In addition to its intensive preparations for Release 3, Inland Revenue is making good progress in enhancing its skills and capabilities and changing the way it works to better serve customers. These changes include implementation of a new data and intelligence platform from late 2018 that will enable Inland Revenue to better understand customers' needs, tailor services to them, and help them get things right from the start. The

department is also progressing its future operating model, focusing on the capabilities of its corporate, policy and tax technical functions, supported by new enterprise support services and workplace tools. The Public Service Association, Taxpro and the National Union of Public Employees are being involved at key points.

- 38 The department remains confident that it will realise business case benefits from transformation. Administrative savings have been re-tested recently, indicating that these may be realised slightly later than originally planned given the need to support customers through the impacts of Release 3. Transformation costs continue to track within budget.

### **We will have more flexibility to make changes to the tax system**

- 39 After April 2019, all tax information will be in START<sup>7</sup> providing us with greater ability to make any changes to the tax system resulting from the Tax Working Group's recommendations or other Government priorities. However, we will need to use this flexibility judiciously. The benefits of any opportunities we want to progress will need to be weighed against their potential to:

39.1 increase delivery risk for transformation;

39.2 prolong the inherent complexity involved in Inland Revenue operating its old and new systems in parallel until transformation is complete in 2021; and

39.3 overwhelm participants in the revenue system with change.

- 40 While we will have more flexibility, until firm recommendations from working groups are available it is difficult to assess the impact on Inland Revenue's capacity for any additional work. It depends on the detail of any proposals.

- 41 For example, any changes to tax products that have flow-on impacts for social policy entitlements will be far more challenging. By way of example, Working for Families has ten different components, all of which interconnect. This makes it difficult to change one component without affecting all the others and makes it difficult for customers to understand the resulting payment. The challenges become more pronounced when administration is shared across agencies.

### **Transformation is a complex undertaking and remains inherently high risk**

- 42 Transformation is inherently high-risk and will remain so until its completion in 2021. Once Release 3 has been implemented, Student Loans, KiwiSaver and Child Support will be migrated to new systems and processes during 2020 and 2021. Initial work for migrating Student Loans and KiwiSaver in 2020 (Release 4) is underway. These are complex products and their payment calculations rely on income information. Therefore the risks of co-existence with Inland Revenue's old and new systems operating in parallel remain high until 2021 when transformation is complete.

- 43 The most significant external risks for Release 3 are:

43.1 *Customer readiness.* Despite Inland Revenue's best efforts, some groups of customers will not understand what the changes mean for them and others will not take the preparatory steps they need to before the go-live. These customers

---

<sup>7</sup> START is Inland Revenue's new system and stands for simplified tax and revenue technology

are likely to contact Inland Revenue to find out why things don't work as they used to. Inland Revenue has customer engagement activity underway and this will ramp up in the lead up to go-live and continue afterwards.

- 43.2 *The stability of Inland Revenue's technology.* Customers will be encouraged to use myIR to check whether they will receive a refund or have tax to pay, rather than contact Inland Revenue. As many of the approximately 2.5 million salary and wage earners will no doubt do so, the availability issues experienced with myIR this year clearly cannot be repeated. Inland Revenue is undertaking a complete review of its systems to identify what actions are needed to ensure that system availability is as close to 100% as possible.
- 43.3 *Inland Revenue's ability to support customers.* It has traditionally been difficult for Inland Revenue to meet customer demand during peak filing periods. This may be even more challenging in 2019, particularly if the risks around customer readiness and system stability are realised. The number of customer-facing staff will be increased to manage anticipated volume of customer contacts, drawing on existing staff and a temporary labour force if required.
- 43.4 *Early life support.* As with previous releases, Inland Revenue will provide additional support to customers for the three month period after the go-live, known as early life support. Given the scale of the changes being introduced in April 2019, there is potential for customers to require support for a longer period of time compared to the first two releases. Inland Revenue is gearing up to ensure any issues that arise following go-live can be resolved quickly.

#### **Recent independent assurance reviews are positive**

- 44 Inland Revenue undertakes regular independent quality assurance (IQA) and technical quality assurance (TQA) reviews, and Gateway reviews. The Minister of Finance and I are provided with the opportunity to talk directly with the review teams. We also receive copies of the reports once they have been finalised.
- 45 The latest Gateway review, completed on 5 October 2018, concluded that transformation continues to be well managed and governed. The review concluded that "Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery". Further independent assurance reviews are scheduled to take place in late February – early March 2019, before the go-live of Release 3 in April 2019.

#### **Next steps**

- 46 The next steps are to:
- 46.1 continue preparations for the implementation of Release 3 in April 2019;
- 46.2 support the passage of the Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters) Bill which contains key transformation proposals; and
- 46.3 provide a further progress update to Cabinet by July 2019.



## **Consultation**

47 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**

48 The proposals in this paper have no financial implications.

## **Human Rights**

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

## **Legislative Implications**

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

## **Regulatory Impact Analysis**

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

## **Gender Implications**

52 The proposals in this paper have no gender implications.

## **Disability Perspective**

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

## **Publicity**

54 I intend to ask Inland Revenue to publish this paper on its website once it has been considered by Cabinet.

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

55 Central agencies were consulted on this update. The Treasury's delivery confidence assessment of the programme has moved from Amber/Green to Amber, due to the programme having minimal schedule contingency available to manage delays and still achieve its targeted Release 3 date. 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. We also note the recent Gateway Review assessed 'delivery confidence' for Release 3 as Amber/Green. This is relatively consistent with Treasury's own assessment of delivery confidence and that of the IR Business Transformation Programme. Central agencies continue to have good visibility of the programme and the risks/mitigations due to high standards of reporting and transparency applied by the programme team.

56 Since the July 2018 update, Inland Revenue has continued its preparations for Release 3. Central agencies are mindful that this Release will affect significantly more New

Zealanders than in previous releases, and that Release 3 is the most complex stage of the project to date. Central agencies also note that Inland Revenue is continuing to engage with its customers to help them prepare for the upcoming changes.

- 57 Central agencies believe that, before Release 3 goes live, any policy changes that resulted in a substantial impact on the operation of the tax system could negatively affect Inland Revenue's ability to deliver Business Transformation and realise the benefits committed to in the 2015 business case. After Release 3, Inland Revenue will be better positioned for future changes arising from other Government initiatives, including the Tax Working Group, but any requirement to implement these changes prior to completion of Release 5 would substantially increase risk and cost.
- 58 Inland Revenue customers experienced significant disruptions to online services following Release 2. Inland Revenue is working with one of its key suppliers to address the root causes, with a view to both minimising the likelihood of future disruptions, and ensuring a swift and effective response should one occur. Central agencies will continue working with Inland Revenue and can provide additional assistance should they require it.

## Recommendations

I recommend that the Committee:

- 1 note that Release 3 in April 2019 will introduce significant changes and includes:
  - 1.1 mandatory reporting of PAYE information every payday for employers;
  - 1.2 optional reporting of investment income information;
  - 1.3 a new year-end process for individual customers;<sup>8</sup>
  - 1.4 moving income tax and Working for Families to new systems and processes;
- 2 note that these changes will affect almost all New Zealanders;
- 3 note that the April to June 2019 period represents the peak period of change, and that there may be some disruption following the go-live of Release 3;
- 4 note that Inland Revenue's performance may deteriorate for a time following go-live;
- 5 note that the next progress update will be provided to Cabinet to consider by July 2019.

Authorised for lodgement

Hon Stuart Nash  
**Minister for Revenue**

---

<sup>8</sup> Subject to legislation