

Submission

By



To the

Inland Revenue Department

On

**Making Tax Simpler: Better Digital
Services Discussion Document**

15 May 2015

PO Box 1925
Wellington
Ph: 04 496 6555
Fax: 04 496 6550

**MAKING TAX SIMPLER – BETTER DIGITAL SERVICES
SUBMISSION BY BUSINESSNZ¹
15 MAY 2015**

1. INTRODUCTION

1.1 BusinessNZ welcomes the opportunity to comment on the *‘Making Tax Simpler: Better Digital Services’ Discussion Document* (referred to as ‘the Discussion Document’). The Discussion Document covers a number of tax administration issues in relation to digital services, which we believe are key components of an enhanced New Zealand tax administration system.

2. SUMMARY OF BUSINESSNZ’S VIEWS & RECOMMENDATIONS

2.1 BusinessNZ’s **overall view** is that:

a) *Issues outlined in the discussion document cover off the main concerns associated with provision of better digital services. (p.3);*

In addition, BusinessNZ **recommends** that:

b) *IRD look to use the over-arching principle of ‘services must be designed for the customer’ throughout the remainder of the Making Tax Simpler process. (p.3);*

c) *IRD look to establish future internal structures to evaluate existing channels and explore new channels for regular interaction with customers. (p.4);*

d) *The use of payroll businesses as the main method of providing electronic services to employers proceeds. (p.5);*

e) *IRD look to establish some form of digital or non-digital channel by which enterprises are able to discuss complex or sensitive matters with IRD. (p.5);*

f) *IRD’s call centre hours are significantly extended beyond normal working hours to assist micro/small businesses in particular with questions/queries. (p.6);*

g) *Where reasonable, IRD look to move to a digital by default strategy. (p.6);*

h) *IRD ensure resources put into assisting with the issue of the ‘digital divide’ are put into areas where there is the most long-term need. (p.7);*

i) *IRD ensure some form of process is provided to convert non-digital to digital information for those unable to use digital services (either via IRD or through a third party). (p.7);*

¹ Background information on BusinessNZ is attached in the appendix.

- j) ***Subsidies or similar forms of assistance are not considered as part of the tax administration review. (p.7);***
- k) ***IRD ensures digital and non-digital services sit alongside each other for a time period that best ensures a smooth transition for customers. (p.9);***
- l) ***Paper guides and booklets continue to remain available from the IRD website, although we do not object to booklets/guides being available only by downloading them on the IRD website. (p.10);***
- m) ***If paper-based statements will no longer be available due to the availability of online information, businesses should be able to refer to past statements no matter how old, and a printable option should be available. (p.10);***
- n) ***IRD be proactive in looking to establish other electronic communication channels if paper-based notices are discontinued. (p.10); and***
- o) ***KiwiSaver should at least be available electronically to view by IRD, so that individuals can see whether their contributions have gone through to their selected scheme. (p.11).***

3. BACKGROUND & PREVIOUS WORK

- 3.1 BusinessNZ will be submitting on the first consultation document entitled *Making Tax Simpler: A Government Green Paper on Tax Administration* later in the month. The submission will outline BusinessNZ's overall views on IRD's work programme on a better tax administration system for New Zealanders.
- 3.2 BusinessNZ has previously submitted on the issue of digital service options for tax administration, most recently through our response to the *Making Tax Easier Discussion Document* in mid-2010. There, we touched upon various issues, including:
 - Moving to an electronic environment;
 - The PAYE system and facilitators; and
 - Moving employers to an electronic environment

Overall, we thought these matters were key to consult on, given the rapidly changing face of electronic interaction increasingly seen in the private sector.

- 3.3 Taking this into account, the following outlines BusinessNZ's overall thoughts on elements of the 2015 Discussion Document centred on better digital services. In certain areas it replicates comments we made around five years ago.

- 3.4 Our overall view is that we support the thrust of what is proposed in the 2015 Discussion Document. We believe enhancing the digital services available to customers is a key way to improve New Zealand's tax administration system.

Overall view: That the issues outlined in the discussion document cover off the main concerns associated with the provision of better digital services.

4. CHAPTERS 5 & 6 – DIGITAL SERVICES & CUSTOMER EXPERIENCES

- 4.1 Chapters 5 and 6 of the Discussion Document outline a number of principles to guide the development of digital services so that the benefits identified in the document are realised.

- 4.2 BusinessNZ strongly agrees with the over-arching principle that *services must be designed for the customer*, given the end result must be a high quality user-friendly administration system.

Recommendation: That IRD look to use the over-arching principle of 'services must be designed for the customer' throughout the remainder of the Making Tax Simpler process.

- 4.3 Underlying this are three further principles we wish to comment on. These have been identified as addressing various aspects of the over-arching principle.

Principle 1: No one size fits all

- 4.4 From a business demographic perspective, the sheer variety of enterprises currently in existence covers every type of industry, size and region, which in turn means a diversity of customer needs. While some tax processes are generic to most enterprises, the capacity to deal with them, along with the breadth of business structures, means that flexibility to accommodate customer preferences and technology changes are a must. Therefore, we are pleased to see that one of the underlying principles of *'no one size fits all'* is seen as a priority for shaping future tax administration systems.

- 4.5 As noted on page 18 of the Discussion Document, we agree with the view that the environment for digital services will continue to change. This means there is no point in time when it can be considered that customer needs have been fully met. Therefore, it is important that IRD constantly evaluates emerging, maturing and declining technology and activity, particularly in the private sector, given this is where trends and changes are first evident and where the private sector is more nimble in adjustment terms. In short, the private sector typically leads the way, while the public sector follows.

- 4.6 To that end, the key for IRD will be to ensure that appropriate ongoing internal processes are established so that rather than a step change required to catch up with digital services already utilised in the private sector, new processes are seamlessly introduced to ensure customer satisfaction.

Recommendation: That IRD look to establish internal structures to constantly evaluate existing channels and explore new channels for regular interaction with customers.

Customers' needs will be met by a range of high-quality digital services

- 4.7 BusinessNZ agrees with feedback IRD has received that customers want a seamless experience through all available channels. Therefore, the view outlined in the Discussion Document, that in some instances new services may be provided by third parties rather than by IRD directly suggests another way in which the private sector can enhance interaction and minimise compliance.
- 4.8 The example provided in the Discussion Document involving different customer needs for PAYE reporting obligations deserves mentioning, given the balancing act required between what IRD can provide and how the private sector can assist.
- 4.9 We agree that for IRD to provide a simple software package or an online web-space as a way in which to smooth the transition for very small businesses in particular, could be an initial and useful step. There will be a number of micro businesses who are self-employed, or run a part-time business, that would find it worthwhile to be able to have some type of log-on web browser. This interface could provide for a limited number of taxes (excluding PAYE for instance) but relevant to the micro business which allows them to see where they are at, as well as file online in real time their income tax returns, GST and FBT (if applicable). In this regard, New Zealand Customs have deployed a similar web browser option for very small Customs brokers etc that IRD may wish to examine.
- 4.10 We would also expect any web browser interface that is developed to provide a full range of technological options, including both a mobile and tablet/iPad app. For all intents and purposes, this has now become a pre-requisite for individuals to interact with IRD.
- 4.11 Long term however, the way forward is most probably via payroll software providers, who may see this as an opportunity to provide a free service, with the possibility of customers paying for enhanced services as their business expands.
- 4.12 The document then proceeds to outline possible integration of PAYE filing into business payroll accounting software, so there would be an ability to interact with IRD's systems, with the software becoming an approved provider. In addition, this would open opportunities for other areas of tax compliance, including monthly sales reporting for GST. A well-used process in other areas that could be used here is some form of voluntary quality management and improvement, along with a type of quality assurance mark to acknowledge standards have been met.

- 4.13 While we have no specific comments on the issues of transition for payroll specialists given the specialists themselves would be in a better position to comment, an important point was raised in *Making Tax Easier Discussion Document* in 2010, when it stated: *'it is important to note that the objective of the proposed changes is to increase certainty without adding any undue delay or unnecessary expense to payroll specialists. Therefore, it would not be compulsory to undertake this process. Rather, payroll specialists could choose this option if it made business sense to them'*. While we agree that compulsion will never be the solution, either then or now, we suspect that in the future there will be very few payroll specialists who will not go through the process to enhance their business opportunities. Competitive structures will make the process compulsory in all but name. Therefore, we expect IRD to continue to take note of any issues software specialists outline to ensure the process is as smooth as possible.
- 4.14 Also, it goes without saying that certification should be openly available to any payroll provider that meets the criteria, so there are no limitations on the number certified. Overall, the greater the number of payroll providers actively seeking to meet the criteria, the more market choice there will be and the more smooth the whole process of developing a better tax administration system.

Recommendation: The use of payroll businesses as the main method of providing electronic services to employers proceeds.

Interactions differ – non-routine interaction

- 4.15 Page 23 of the Discussion Document rightly points out that individuals and businesses will have different expectations of digital services. However, we agree that there might be instances of non-routine interaction where certain issues are best discussed directly between an enterprise and IRD. Therefore, we strongly support the establishment of a different digital channel, or even something as simple as a specific telephone contact centre.

Recommendation: That IRD look to establish some form of digital or non-digital channel by which enterprises are able to discuss complex or sensitive matters with IRD.

Extension of IRD call centre hours

- 4.16 In relation to raising the matter of an IRD telephone contact centre above, BusinessNZ believes that if such mandatory requirements are to be placed on businesses via compulsory digital formats, IRD would need to extend call centre hours. For many micro/small businesses in particular, tax compliance issues are often dealt with outside normal business hours, i.e. late in the evening or during the weekend. Therefore, to be on call to assist these businesses IRD call centres should significantly increase available hours, ideally to a 24 hour service, or at the very least, expanding into the evenings and weekends.

Recommendation: That IRD's call centre hours are significantly extended beyond normal working hours to assist micro/small businesses in particular with questions/queries.

Digital by default strategy

- 4.17 Given the already high uptake of IRD's digital services by way of 1.7m myIR registered customers, along with 86% of payments to IRD done through electronic channels, we believe there is strong evidence for encouraging most customers to adopt digital options in the future.
- 4.18 To boost uptake even further, we support the move to a 'digital by default strategy', in particular for new customers who are starting to use a new form of interaction. As the Discussion Document mentions, email is the best example of this, and it is common practice in the private sector that once an email address is provided, general communication is done via this channel. In addition, where the choice between digital and non-digital services is available to existing customers, there should be ongoing promotion of the digital option.

Recommendation: That where reasonable, IRD look to move to a digital by default strategy.

Principle 2: Tax compliance and access to entitlements are critical

- 4.19 Page 18 of the Discussion Document discusses issues relating to the 'digital divide', whereby for various reasons parts of the population do not have access to information and communication technology. In addition, it is pointed out that some customers will lack the skills, knowledge or confidence to interact with Government digitally, while others will simply stay with what they know.
- 4.20 This issue is again picked up on page 24, outlining the reasons most customers will choose to use digital services, while others do not for the reasons outlined above.
- 4.21 Overall, BusinessNZ believes it is advisable for IRD to provide some sort of specific assistance enabling more customers to use digital services and minimising the digital divide as much as possible. We agree that some services will see certain groups requiring greater assistance. Pockets of the business community - particularly SMEs and/or those running a business where there is no internet coverage - will be unable to use the new technology and will require help.
- 4.22 However, we also believe IRD needs to be careful not to provide SMEs with a disproportionately greater amount of assistance compared with other areas of society, which may present even greater difficulty utilising digital options. Overall, we believe the larger weight of IRD resources would be better used for groups that typically struggle to recognise available opportunities and have the most long-term need. For instance, those in low social economic areas, or older persons often unfamiliar with technological advancements/options.

Recommendation: That IRD ensure resources put into assisting with the issue of the 'digital divide' are put into areas where there is the most long-term need.

Availability of non-digital services for some customers

4.23 Overall, BusinessNZ agrees with the view taken in the Discussion Document that despite best intentions, there will be some customers who will still not be able to directly use digital services, such as the remote location businesses previously mentioned. Therefore, we support solutions such as that outlined whereby some process is introduced to convert non-digital to digital information, either by IRD or a third party.

4.24 We would not expect an arrangement whereby non-digital information is converted to digital to be one that lasts for an indefinite time period as technological advancements continue. However, the basic premise of ensuring some form of smooth transition between one state to another to minimise disruption for certain businesses is fully supported by BusinessNZ.

Recommendation: That IRD ensure some form of process is provided to convert non-digital to digital information for those unable to use digital services (either via IRD or through a third party).

Subsidies

4.25 While we do not have any specific issues with the first three example of assistance outlined on pages 25 and 26, we would be very wary of attempts to introduce some form of subsidy, such as one that supports businesses adopting accounting software to integrate tax and accounting functions. Instead, we believe IRD should look to develop an overall revised tax administration system that creates such a degree of value for business that any form of subsidy is not required. Savings will far outweigh the cost of purchasing/using the software.

4.26 Also, from a policy point of view, introducing subsidies can often lead to ineffective solutions and/or unintended consequences. For instance, the subsidy provided might be at a level that makes little difference to uptake. Perversely, a high subsidy might lead to higher uptake, but as is often the case with such incentives. Ending it can be problematic, both from a policy and political sense as the subsidy involves a transfer of wealth.

Recommendation: That subsidies or similar forms of direct monetary assistance/incentives are not considered as part of the tax administration review.

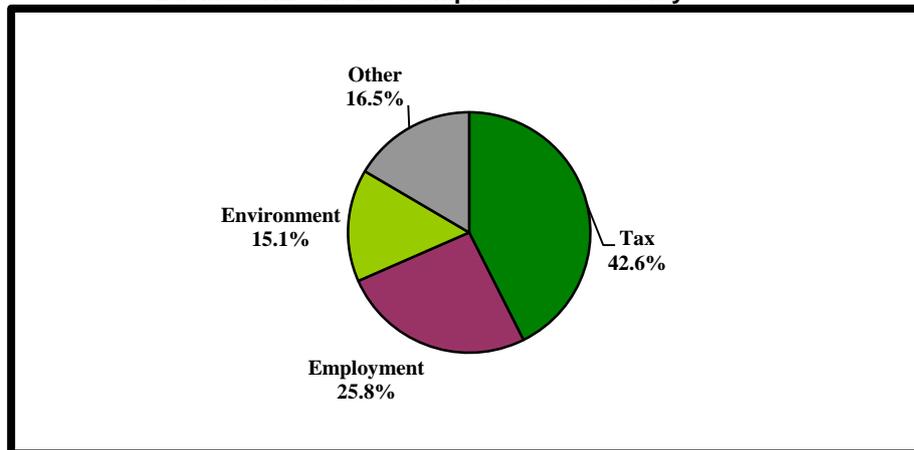
Principle 3: Change will not be imposed without careful consideration of the costs and benefits

Compliance Costs

4.27 Regarding compliance costs on page 20 of the Discussion Document, the Government's stated target is to cut costs to business when dealing with

various Government departments by 25% by 2017. As we have outlined in other submissions and discussions with Government, this is a lofty target to achieve. As figure 1 shows below, tax makes up the largest proportion of total compliance costs for businesses. Therefore, any attempt to achieve a 25% reduction within the next two years requires step changes sooner rather than later.

Figure 1: Proportion of Total Compliance Costs (2008)
BusinessNZ – KPMG Compliance Cost Survey



Customers choosing not to move to digital services

- 4.28 Despite best attempts, we concur with the view outlined on page 26 of the Discussion Document that for whatever reason, certain customers will have chosen not to move to digital services.
- 4.29 In relation to the problems with the current system IRD has already outlined, introducing a new option while keeping the old would undoubtedly cause more stress on IRD's administration and resources. Given the overall net benefits expected, BusinessNZ believes that at some point in the future the electronic provision of information to IRD should become compulsory. However, this should not mean there are swift moves towards compulsion and that no consultation takes place. When examining this issue, the key question is not whether the 'step change' should be compulsory but exactly how compulsion should be introduced?

Additional and avoidable cost imposed on tax administration system

- 4.30 Pages 27 and 28 of the Discussion Document outline the costs imposed on society because certain customers choose not to switch to the new system. We certainly sympathise with the fact that improvements in the level of service offered will be contingent on IRD receiving information through digital channels, with PAYE information outlined as an example of something critical to determining associated matters such as social policy and entitlements to employees.
- 4.31 In our submission on the *Making Tax Easier*, we pointed out that many small employers are happy with their current manual processes, and are comfortable sending a paper-based monthly schedule to IRD. However, as

the 2010 Document also correctly pointed out, at the same time greater certainty and quicker service from the department is also expected, and this cannot be achieved with the current platform. Therefore, there must eventually be a requirement on all employers to change from a paper-based system to an electronic one.

- 4.32 BusinessNZ empathises with those businesses that are content with their existing administration structures, but it is important to look at the bigger picture of what a new system could mean to all businesses by way of reducing compliance costs, while at the same time providing more streamlined options. Therefore, we view the requirement for all businesses to subscribe to the electronic option as having a far stronger net benefit than any type of half-way house of having both an electronic and paper-based option as an ongoing structure.
- 4.33 However, as correctly pointed out in the both the *Making Tax Easier* and *Better Digital Services* Discussion Documents, making electronic filing mandatory for all employers should not mean IRD does not provide avenues to ensure the change-over is as smooth as possible.
- 4.34 To that end, to ensure a smooth transition having digital and non-digital services sitting alongside each other for a certain length of time is a pragmatic step that is strongly welcomed by the business community.

Recommendation: That IRD ensures digital and non-digital services sit alongside each other for a time period that best ensures a smooth transition for customers.

5. OTHER ISSUES

- 5.1 In addition to the areas of consultation outlined in the Discussion Document, we believe the *Making Tax Easier discussion document* highlights additional issues that need to be considered for the future.

IRD Replacing Paper Guides/Booklets with Electronic Information

- 5.2 One issue that was outlined in the *Making Tax Easier discussion document* was whether IRD should replace paper guides and booklets with electronic information. Given the direction in which IRD is heading with its current consultation, we believe this is still important.
- 5.3 From our perspective, there are two ways in which the issue could be addressed. The first is to replace booklets/guides with general information on a website. If that were to happen, BusinessNZ would not agree. We believe there will continue to be a need for hard copy booklets/guides when complicated issues are dealt with. Such guides in physical form provide a useful tool for businesses to refer to, especially when personal notes etc are added.

- 5.4 However, if such guides were available by downloading them from a website (as opposed to IRD printing copies to deliver upon request), BusinessNZ does not see any significant concern with this option going ahead.

Recommendation: That paper guides and booklets continue to remain available from the IRD website, although we do not object to booklets/guides being available only by downloading them on the IRD website.

No Longer Receiving Paper Based Statements

- 5.5 Broadly speaking, BusinessNZ does not object to the idea of businesses no longer receiving paper-based statements once all information is available on the web. However, we believe IRD should take two issues into consideration. First, we would expect a business's financial information to remain embedded on IRD's website, so that businesses can easily refer to past statements, no matter how far back they go. This option would align itself to statements from banks, where consumers can check previous statements etc going back to when an account was first opened.

- 5.6 Second, if businesses still wish to have paper statements to refer to or to keep as a separate file, then we would presume it would be relatively simple for IRD to provide a 'printable option'. This would also give those still fond of paper based records the option to print information if they want to.

Recommendation: That if paper-based statements will no longer be available due to the availability of online information, businesses should be able to refer to past statements no matter how old, and a printable option should be available.

Other Forms of Electronic Communication Introduced

- 5.7 If the possibility of businesses not receiving any further paper notices from IRD as digital options takes precedence, BusinessNZ would accept this move as long as other modes of notification are developed. For instance, we would expect an increased use of text messaging, email notification, as well as pop up bubbles and other forms of visual reminders when required.
- 5.8 For an individual business page, either IRD or a private sector provider could set up some form of online presence outlining all important dates for that business, including special notices and when these need to be actioned by. In short, digital services offer a myriad of opportunities to change the way both IRD and private sector providers' best provide information and notices to ensure customers are fully informed about their tax obligations.

Recommendation: That IRD be proactive in looking to establish other electronic communication channels if paper-based notices are discontinued.

KiwiSaver

- 5.9 Since KiwiSaver is a gateway operation by IRD, BusinessNZ believes the scheme should at least be available electronically to view for the individual to

see whether their contributions have gone through to their selected scheme. We believe this will be important for those changing jobs where, for instance, the new enterprise has a different default scheme so that the individual can easily track what is happening and whether their payment has gone to the correct scheme.

Recommendation: That KiwiSaver should at least be available electronically to view by IRD, so that individuals can see whether their contributions have gone through to their selected scheme.

APPENDIX

6. About BusinessNZ

- 6.1 Encompassing four regional business organisations (Employers' & Manufacturers' Association, Business Central, Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), its 82 member Major Companies Group comprising New Zealand's largest businesses, and its 74-member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, BusinessNZ is New Zealand's largest business advocacy body. BusinessNZ is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.
- 6.2 In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.
- 6.3 BusinessNZ's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.