



Future of Tax Administration in New Zealand

BusinessNZ Tax Group Paper

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Kirk Hope
Chief Executive
BusinessNZ

Foreword

Over the past decade the Government has invested heavily in upgrading Inland Revenue's IT capability. The Commissioner and her team have delivered a world class tax administration infrastructure including the new START system. That, however, is not the end of this journey, but the foundation on which New Zealand can build a world leading tax administration for the future. Such a tax administration needs to be low cost for everyone and fair to all, especially for those with the least resources to understand and comply with complex rules.

BusinessNZ welcomes the Government's willingness to explore this through the proposed Green Paper on Tax Administration. BusinessNZ, in collaboration with those with a diverse experience in tax, have produced this paper that sets a vision for the future by leveraging off the investment made in START. New Zealand needs a tax administration that is flexible and smart and that capitalises on the enormous possibilities IT advances open up. This means driving down risks and costs for everyone, including Inland Revenue, businesses and individuals.

Risks and costs are driven down by automation. Automation requires a diverse group of intermediaries providing systems and system management services. Therefore, in order to get value from the digital revolution in tax, Inland Revenue needs to partner with this much broader group of intermediaries than has been the case in the past. This challenge represents a change in attitude and view by Inland Revenue. However, the Commissioner and her team have already risen to the challenge of delivering START in time and under budget. The same attitude can enable the investment in START to benefit all New Zealanders.

Background

The BusinessNZ Tax Group (the Group) wishes to acknowledge the positive work Inland Revenue have undertaken through its Business Transformation process to improve New Zealand's tax system. Since Business Transformation began in 2012, Inland Revenue have delivered a number of changes to New Zealand's tax landscape, including:

- Making it simpler, accessible and more certain for New Zealanders to pay their taxes and receive their entitlements
- Successful movement of tax and social policy products to a new tax administration system
- Changes to tax policy, legislation and business processes, as well as the design and structure of Inland Revenue's organisation

Combined, these areas represent a significant shift and improvement in how New Zealand's tax system operates. Compared to the rest of the world, New Zealand now finds itself at a good starting point for any further improvements to how tax administration works.

To further ensure Inland Revenue can build on this past success, the Government's 2021-2022 tax policy work programme includes a Tax Administration Green Paper. The Paper will explore what tax administration could look like in the future and how to effectively leverage the Business Transformation assets. The Group welcomes this work and believes that ongoing innovation, particularly in regards to working with third parties, should be prioritised and resourced into the future. This recognises improved tax administration is not a one-off project but a process of continuous improvement especially in an age of substantial technological change.

The Group have outlined a roadmap for continual improvement through a set of revised tax principles applicable to administration. This paper does not examine the coherence of policy design, but rather how delivery of tax policy and administration should take place.

The roadmap outlined provides an opportunity for Inland Revenue and other stakeholders to change how they view tax administration. In income tax, Inland Revenue has traditionally seen itself as dealing mainly with taxpayers in managing a process involving the annual assessment of income. Technological change has been created to significantly reduce the costs and risks created by the tax system. These benefits have driven down the cost of managing data. However, to realise the benefits that technology can bring, taxpayers must be able to use and rely upon technology systems and intermediaries. This means Inland Revenue needs to focus on system management, as well as partnering and assisting a wide range of participants in the tax system other than taxpayers themselves. For instance, this may lead to a more formal process for innovation/cooperation, such as a channel within Inland Revenue for the private sector to bring innovation to them. This is what a future robust, low cost and low risk tax system requires.

Business Transformation

Inland Revenue's process to make the tax system easier for taxpayers to access and get their compliance right from the start, to reduce the costs associated with compliance, and to help facilitate faster introduction of key tax policy changes by the Government of the day.

Intermediary

Tax intermediaries refer to organisations or individuals that provide data and services to Inland Revenue and taxpayers to support the functioning of the tax system.

Tax Administration Principles

The Group has identified seven key tax principles that should shape Inland Revenue's thinking around how best to administer the tax system in New Zealand. While these generally are applicable to tax administrations at all times, our focus is on how these fit into a future of rapid technological change:

1. The purpose of ongoing reform is to reduce the risks and costs for all participants in the tax system and improve national wellbeing

2. The tax system is built to assist those who voluntarily comply, with robust enforcement for those who do not

3. Everyone understands their rights and obligations through clear, unambiguous legislation and guidance

4. Tax rules are designed and administered in a way which reduces compliance and administrative costs

5. Tax policy proposals are critically evaluated against the ability to automate outcomes

6. A well-functioning tax system recognises the role and importance of intermediaries

7. Taxpayers and intermediaries are held responsible only for matters within their knowledge or control

Outlining Tax Administration Principles for the Future

1. The purpose of ongoing reform is to reduce the risks and costs for all participants in the tax system and improve national wellbeing

Tax reforms need to ensure they clearly recognise the role of all participants in the tax system. Participants in a high performing tax administration include taxpayers, Inland Revenue, tax agents and other tax intermediaries such as employers, financial institutions, tax pools and technology-based tax compliance services.

We use the term tax intermediaries to refer to organisations or individuals that provide data and services to Inland Revenue and taxpayers to support the functioning of the tax system.

While this range of participants face different risks and costs associated with tax compliance, changes have flow-on effects for all of them. This is one reason why tax changes should seek to improve the overall national wellbeing by lowering costs overall.

Inland Revenue also needs to ensure that the use of technology can ease compliance for all participants and help drive costs and risks down for both taxpayers and the Government. An efficient and widespread use of technology for tax compliance should also mean tax positions are finalised as quickly as possible so as to provide certainty and minimise surprises.

2. The tax system is built to assist those who voluntarily comply, with robust enforcement for those who do not

Modern tax administration relies on voluntary compliance. It would be impossible for Inland Revenue to audit most taxpayers so the key focus of Inland Revenue should be to ensure most people comply with tax law enabling Inland Revenue audit resources to focus on the few that do not.

Creating an environment in which voluntary compliance is the norm requires Inland Revenue to build this into all aspects of the tax system - policy design, legislative drafting, assistance, ease of compliance. People will comply when they see the tax system as fair and reasonable. In other words, when Inland Revenue is making every effort to drive down taxpayer compliance costs and risks.

3. Everyone understands their rights and obligations through clear, unambiguous legislation and guidance

For New Zealand to benefit from a strong tax system, all participants need to have a clear and unambiguous understanding of their rights and obligations. Certainty and clarity reduce administration and compliance costs imposed on the economy.

A high performing tax administration should:

- implement tax policy with tax legislation that is clear, simple to follow and unambiguous
- draft tax legislation so that, to the extent possible, processes to comply with the rules can be automated through IT systems
- provide timely guidance to all participants on the operation of that tax legislation that is also clear, simple to follow and unambiguous

To achieve those objectives, a high performing tax administration should:

- invest in the technical competence of its officials
- provide education and support for taxpayers and tax intermediaries
- design its systems so that it is difficult for participants to get it wrong

4. Tax rules are designed and administered in a way which reduces compliance and administrative costs

By their nature, taxes impose economic costs on taxpayers, government, and society in general. These include the costs of complying with the tasks and requirements of tax laws and the costs of administration of the tax system as a whole. The aggregate burden this imposes is a key measure and it is not normally appropriate to simply shift the burden or point of imposition of these costs from the state to the private sector.

A reduction in Inland Revenue's administration costs is not an improvement if it results in even higher costs for taxpayers or intermediaries.

Well-designed tax systems and tax laws will:

- seek to understand these costs and how they impact the private and public sectors
- ensure that costs are optimised to enable the efficient and effective operation of the system as a whole
- encourage innovation, including the adoption and adaptation of technologies and new ways of working
- need to flex, change and adapt as private and public sector practices evolve

5. Tax policy proposals are critically evaluated against the ability to automate outcomes

When tax policies are brought to life through design or consultation, they should include an evaluation of the information Inland Revenue wants to collect in relation to the policy and why.

The focus should be on ensuring information collection is able to be automated to enable the taxpayer to easily provide the information to Inland Revenue, both directly or via an intermediary. Human intervention leads to increased costs and risks and therefore should always be minimised.

Information requirements should be evaluated to determine the most effective way for that information to be provided to Inland Revenue in an automated fashion, taking into account both Inland Revenue's and the taxpayer's perspectives.

6. A well-functioning tax administration recognises the role and importance of intermediaries

A diverse range of intermediaries interact with and support the tax system. They perform various roles, and their participation may be voluntary and commercial or mandated by legislation. The function of their participation and the level of interaction they have with the system varies significantly – from one-way data information providers to fully engaged participants necessitating the two-way flow of data/information.

A high performing tax administration needs to harness the endeavours of all intermediaries whilst validating inputs to ensure the efficient collection of revenue at the lowest compliance and administrative cost. It must differentiate and recognise the level of expertise and/or systems required for each intermediary role to set relevant entry requirements, on-going standards and data security arrangements as appropriate.

It is important that Inland Revenue recognises and values the role that intermediaries play in the overall tax system.

7. Taxpayers and intermediaries are held responsible only for matters within their knowledge or control

Technological change is delivering enormous benefits to the tax system. However, realising those benefits requires an increasing dependence on intermediaries and the information they provide. There is no benefit from digital investment if the calculations produced by an IT system must be checked by recalculating the results the IT system produces. The tax system needs to recognise this and not hold people accountable for system errors which are not within their knowledge or control.

Instead, Inland Revenue should focus on systems and information that people quite reasonably rely upon, rather than focus on the people themselves. That may involve Inland Revenue auditing or accrediting intermediaries' systems.

Tax Administration Principles in Detail

Tax Principle 1: The purpose of ongoing reform is to reduce the risks and costs for all participants in the tax system and improve national wellbeing.

Driving down everyone's risks and costs should be a key Inland Revenue objective. When modern tax systems were originally designed last century, people were relatively cheap to employ but data was expensive to manage. The opposite is now true. Costs and risks are reduced by automating systems as much as possible and reducing the need for expensive and risky human interventions. This in turn means an increasing role for the intermediaries that supply and manage automated systems.

Therefore, Inland Revenue needs to ensure that the use of technology can ease compliance for all participants and help drive costs and risks down for both taxpayers and the Government. An efficient and widespread use of technology for tax compliance should also mean tax positions are finalised as quickly as possible so as to provide certainty and minimise surprises.

Examples for change:

- Induction programmes for new Inland Revenue policy staff already include a process to understand and hear from various taxpayer groups and representative bodies so they have a good initial understanding of the various taxpayers/customers needs and issues. This approach should be expanded to include other new starters
- Inland Revenue take more proactive responsibility for measuring tax compliance costs by undertaking a process for compliance costs measurement – particularly for Small and Medium Enterprises (SMEs) - that is more consistent and real-time than the current SME tax compliance cost survey that is run every 2-3 years
- Inland Revenue should establish an ongoing process for identifying and providing opportunity for private sector technology solutions that seek to reduce time and/or costs for taxpayers
- A framework for early cost/benefit analysis is established around tax policy that seeks to investigate New Zealand's alignment with offshore tax practices (where these are efficient). Clear targets need to be outlined to ensure the national wellbeing is not adversely affected

Tax Principle 2: The tax system is built to assist those who voluntarily comply, with robust enforcement for those who do not

If we base our tax system on voluntary compliance, tax rules and administration should assume most people willingly comply to the extent they can.

Laws should not be riddled with anti-avoidance provisions that assume every opportunity will be taken to rort the system if possible. The general anti-avoidance provision (with the 135-page Inland Revenue Interpretation Statement) is adequate to deal with abuse.

In administering the law Inland Revenue staff should generally assume a compliant intent by taxpayers. Nothing drives an otherwise compliant taxpayer into non-compliance as much as when the law is interpreted unreasonably or when they are penalised when they should not be. Therefore, this risk should be reduced as much as possible. To a much greater extent than now, people should be able to rely upon systems and third-party providers. Inland Revenue should focus on auditing (and in some cases accrediting) systems and providers. Mistakes produced by accredited systems and providers should not expose users to penalties for errors beyond their knowledge or control.

People view high compliance costs as a penalty imposed on those complying with the rules. In the modern world compliance costs rise dramatically whenever human interventions are necessary. Technology should be used to drive down required human interventions not just for Inland Revenue but for everyone. This means, for example, that when seeking information from taxpayers Inland Revenue should, unless absolutely necessary, limit such requests to information that systems can generate without human intervention. Inland Revenue should aim to understand how taxpayers use information systems and intermediaries to support their tax compliance.

"In administering the law Inland Revenue staff should generally assume a compliant intent by taxpayers."

To reduce risks and costs, where third party providers can offer benefits or more flexibility to taxpayers (such as greater flexibility on payment dates using tax pooling) Inland Revenue should actively accommodate this and make their systems work to achieve the benefits taxpayers want. The motto might be "happy taxpayers are compliant taxpayers". Many taxpayers try to comply but tax can be complicated. To assist people to get their tax right, Inland Revenue needs highly qualified, technical staff to provide support. That means being able to answer technical questions quickly and accurately in an unbiased manner. Similarly, there needs to be confidence in the Inland Revenue's Adjudication Unit being able to take a fresh and unbiased review of issues in dispute. Court litigation is costly and risky and should be viewed by everyone as a last resort for the most intractable issues.

A minority of taxpayers will remain non-compliant. They should be audited with a carefully managed campaign to bring them into compliance. Those who remain non-compliant should be subject to and publicly seen to be subject to audit and penalties. This should be viewed as necessary to maintain the integrity of the tax system and the compliance of the majority. Therefore, even if the administration costs of such audit work are seen as high relative to the revenue it directly produces, this should be viewed as a worthwhile and necessary investment. Technology offers Inland Revenue enhanced tools to identify and combat non-compliance. However, these need to be continuously updated to reflect a quickly changing commercial environment. For example, low levels of cash revenue returned as income may no longer be a reliable indicator of evasion when everyone is paying electronically.

Examples for change:

- Unless there is clear evidence of non-compliance, all Inland Revenue staff are encouraged to assume the public they deal with are trying to comply with their obligations. Tax laws are designed with compliant taxpayers in mind
- Inland Revenue reviews the information it requests and uses best endeavours to design those requests so that the responses can be produced without human intervention
- Inland Revenue's performance measures include the technical skills of staff, and ensuring that public queries are answered in an accurate and timely way
- Inland Revenue uses its data to identify areas of high non-compliance. These risk areas are published annually. Inland Revenue then initiates information campaigns to increase compliance followed by robust enforcement measures with an emphasis on obtaining better future compliance

Tax Principle 3: Everyone understands their rights and obligations through clear, unambiguous legislation and guidance

For New Zealand to benefit from a strong tax system, all participants need to have a clear and unambiguous understanding of their rights and obligations. Certainty and clarity reduces tax administration costs (the costs incurred by the Government to operate the tax system including collecting revenue and delivering social assistance) and compliance costs (the costs borne by taxpayers in complying with their tax obligations). Controlling tax administration and compliance costs against a given level of revenue collection and social assistance reduces the impact of the tax system on the economy.

"Controlling tax administration and compliance costs against a given level of revenue collection and social assistance reduces the impact of the tax system on the economy."

Tax intermediaries include those who are compelled to provide data and services ("statutory information providers/collection agents") specifically including: employers who report employees' and contractors' earnings and deduct

PAYE/withholding tax and other amounts; financial institutions who report investment income and deduct withholding taxes and conveyancers who report land transactions and collect withhold taxes.

Another category of tax intermediaries offer services to taxpayers that facilitate a taxpayer's engagement with the tax system and includes tax agents, lawyers, tax pools, payroll providers and other technology-based tax compliance services.

These tax intermediaries play a critical part in a high performing tax system by increasing taxpayer compliance through support, education and the deduction of tax at source, and reducing taxpayer compliance costs by aggregating and reporting tax information.

Tax intermediaries' costs of performing their functions for the tax system will be minimised, and the value that those services add to the tax system maximised, if the rules and processes that they apply to support the rights and obligations of taxpayers are clear and unambiguous.

Tax policy is a function of political decision making coupled with analytical and design advice from specialists within the public service. A high performing tax administration needs to develop that tax policy into law through tax legislation that is clear, simple to follow and unambiguous. That legislation is the foundation of the tax system.

Participants in the tax system should then be supported to comply with the tax legislation by guidance developed and distributed by the tax administration. That guidance should be timely, clear, simple to follow, concise and unambiguous. Participants should be entitled to rely on that guidance.

To achieve those objectives, a high performing tax administration should invest in the technical competence of its Officials. Technical competence is a foundational skill for tax administrators. That technical competence should then be leveraged by the tax administration to provide education and support for taxpayers and tax intermediaries. The objective of this investment in clear and simple to follow guidance is to support the design and implementation of compliance systems that make it hard for taxpayers to get it wrong.

Examples for change:

- Tax legislation is drafted consistent with the Parliamentary Counsel Offices guidelines for clear drafting ¹
- Tax legislation is designed with a clear purpose. Tax rules are developed to achieve this purpose and legislation is not over-complicated by tax avoidance rules (refer Principle 2)
- Tax legislation is designed to fit within the automated systems of taxpayers as much as possible
- Inland Revenue maintain a focus on the technical competence of its officials

Tax Principle 4: Tax rules are designed and administered in a way which reduces compliance and administrative costs

By their nature, taxes impose economic costs on taxpayers, government, and society in general. These include the costs of complying with the tasks and requirements of tax laws and the costs of administration of the tax system as a whole. Of course, consideration of the compliance and administrative burden encompasses the entire cycle of taxes including information requirements, assessment, obtaining certainty, error correction and dispute processes.

A well-designed tax system and tax laws will seek to understand these costs and ensure that costs are optimised to enable the efficient and effective operation of the system as a whole.

It is important to recognise that optimisation of costs is not a constraint on Government policy decisions which are the prerogative of Government. New policies will come with attendant compliance and administrative costs. There will invariably be choices about how to implement policies and these options will impact how laws are complied with and where the burden will fall.

¹ Principles of clear drafting | Parliamentary Counsel Office (pco.govt.nz)

This will necessarily require an understanding of the burden being imposed, consideration of an appropriate response to ensure that the costs are actively managed down, trade-offs understood and opportunities for innovation encouraged. The aggregate burden is a key measure and it is not normally appropriate to simply shift the burden of these costs between the state and the private sector, as this does not optimise costs in the aggregate.

The design of the system should encourage innovation, including the adoption and adaptation of technologies and ways of working as these have the ability to influence the costs of compliance. Similarly, tax laws and practices, should by conscious design, complement and utilise existing systems, technologies processes and ways of working to encourage efficiencies. This means tax administration and laws will need to flex, change and adapt as private and public sector practices evolve.

"The design of the system should encourage innovation, including the adoption and adaptation of technologies and ways of working as these have the ability to influence the costs of compliance."

This necessarily means active efforts to understand the impact of tax administration and policy on the system participants, and effective evaluation of the design of tax policies and related administrative requirements. Other Principles are relevant, including especially Principle 5 supporting the efficient automation of administrative burdens.

There is an existing Regulatory Impact Statement to report on the compliance impact for legislative change. These Statements are presently incomplete or lack a coherent understanding of the likely impact of change beyond Inland Revenue. Nevertheless, they present a framework and opportunity for significant improvement to have participants (including Officials) better understand the process and IT systems implications of reform. Indeed, by being limited to the impacts of legislative change alone, they do not reflect the costs created by changes to administrative processes and procedures. Their remit should therefore be expanded and include measurement of costs over time so Government and other participants can be sure that decisions include evaluation of the impact on all significantly affected parties.

Examples for change:

- Regulatory Impact Statements should be required to be evidence based, giving specific description of ways the law has been designed to optimise compliance and administrative costs
- Regulatory Impact Statement methodology should be expanded to include evaluation of changes to Inland Revenue's systems and practices that have an external impact
- Inland Revenue should undertake ongoing research into the impact of compliance and administration costs, and should report regularly over time to demonstrate that these costs are reducing individually and in the aggregate

Tax Principle 5: Tax policy proposals are critically evaluated against the ability to automate outcomes

In the modern world compliance costs rise dramatically whenever human intervention is necessary. Technology should be used to drive down required human interventions not just for Inland Revenue but for everyone. This means for example, when seeking information from taxpayers Inland Revenue should, unless absolutely necessary, limit such requests to information that systems can generate without human intervention. When tax policy is designed, consideration should be given to how the success (or otherwise) of the policy will be evaluated, and relevant data collection mechanisms factored into the policy design and implementation of the rules in order to minimise the need for Inland Revenue to make information requests.²

Whenever further information is required to be submitted to Inland Revenue there is an increase in compliance costs for the taxpayer due to having to source another separate data point. When tax policies are brought to life in legislation, the corresponding design and consultation processes should include an evaluation of the information Inland Revenue wants to collect in relation to the policy and why.

The first consideration should be whether any information needs to be specifically collected in relation to the policy in the first place. This includes analysis of what information is proposed to be collected, why that information is required, how the information will be useful to Inland Revenue and what value will it add to the effective administration of the tax system.

"The first consideration should be whether any information needs to be specifically collected in relation to the policy in the first place."

Once it is determined there is a valid reason for collecting the information, the next consideration is how that information will be collected. The aim is to collect information in as a automated process as possible, minimising the need for human intervention into the process by the taxpayer, an intermediary or Inland Revenue.

There is an assessment of how taxpayers receive, store and maintain the requested information in their systems. For example:

- The information could be easily identifiable because it is kept in the accounting system of the taxpayer and commonly tracked in its own ledger account, or
- The information may be less easily attainable because it is contained in a number of ledger accounts which means the specific transactions need to be identified and aggregated first.

In the first example, the information can be sourced and provided either direct to Inland Revenue or via an intermediary with minimal transformation whereas the second example requires human intervention from the taxpayer or the intermediary. The goal should be to minimise the degree of human intervention necessary to gather the information.

By ensuring information collection is able to be automated, taxpayers can easily provide information to Inland Revenue either directly or via an intermediary. Every time information needs to be analysed, dissected, aggregated or transformed in some other way there are increased costs for the parties involved and increased risk of error occurring somewhere in the process.

Information requirements should be evaluated to determine the most effective way for that information to be provided to Inland Revenue in an automated fashion, taking into account both the taxpayer's and Inland Revenue's perspectives.

² For example, the Business Continuity Test rules should be implemented in a way that a taxpayer is able to "check the box" to notify IR in the income tax return that the rules have been utilised, rather than Inland Revenue making assumptions based on shareholding changes and changes in loss profiles and sending information requests to taxpayers to confirm what positions have been taken.

Examples for change:

- Using the Regulatory Impact Statement process to include an evaluation of the information Inland Revenue wants to collect in relation to the policy and why. This would include the practicalities of collecting the information in an automated manner
- Inland Revenue consider how the required information can be provided in a low cost, automated way that minimises human intervention and data transformation
- Proposals for information collection are consulted on as part of the policy process and not after the implementation of a policy. This consultation includes taxpayers and intermediaries

Tax Principle 6: A well-functioning tax system recognises the role and importance of intermediaries

A diverse range of intermediaries interact with and support the tax system, while performing various roles. Their participation may be voluntary and commercial or mandated by legislation. The function of their participation and the level of interaction they have with the system varies significantly—from one-way information providers to fully engaged participants necessitating the two-way flow of information.

Intermediaries are expected to be at the forefront of on-going innovation to lower compliance and administration costs. Inland Revenue need to accommodate this. Taxpayers will use a range of intermediaries (in different capacities) to comply with their tax obligations. Intermediaries will continue to access taxpayer specific information but to a much wider extent (with more types of intermediaries accessing such information). Inland Revenue will need to manage this to enable ease of access but also to ensure that confidentiality continues to be protected.

Tax Agents

It is important that Inland Revenue fully understands and appreciates the role of tax agents in the tax system.

Tax agents typically have specialist expertise to assist taxpayers to comply with their tax compliance obligations. They are an important control in the tax system, providing additional scrutiny over their clients' tax compliance for the tax types within the scope of their work. Tax agents who are members of a professional body are also bound by a code of ethics both in terms of their behaviour and their on-going acceptance to act for specific clients. This enhances the integrity of the tax system overall.

Tax agents are contractually engaged to act on behalf of their taxpayer clients. The terms of engagement will set out the scope and extent of work to be undertaken. Inland Revenue should be cognisant that not all returns filed by tax agents are prepared to the same standard or level of scrutiny, this will depend on what the agent has been contracted to do.

Examples for change:

- Inland Revenue should differentiate between the various classes of intermediary by broad function and interaction with the tax system.
- Each class of intermediary should be separately defined/named taking into account their role in the tax system. This would enable Inland Revenue to set minimum systems specification and data security requirements and where applicable relevant entry requirements, options for accreditation, expectations of conduct and on-going standards. A clear and transparent process should be established for the removal of levels of access rights and/or termination of relevant intermediary status (where that status/function was not a statutory obligation) commensurate with the degree of non-performance/breach of obligations. This process would also need to include an appeal process and pathway to future re-entry, if appropriate, having regard to protecting the integrity of the tax system.
- Where an intermediary is a member of an appropriate professional or industry body, due regard should be given to that body's entry qualification and ongoing educational requirements, code of ethics and disciplinary processes as applicable.
- A simple tick box format could be developed to disclose the level of work undertaken by a tax agent to support the tax return/tax computation, which will assist Inland Revenue to profile the risk of errors in tax returns. Functionally this could be included on the return filing.

Tax Principle 7: Taxpayers and intermediaries are held responsible only for matters within their knowledge or control

There are a wide range of intermediaries within the tax system, and different intermediaries will have differing levels of information access and responsibilities. As part of this principle, we differentiate between intermediaries who may assist with tax obligations in some way (for example a tax advisor preparing a tax return based on information supplied by a taxpayer), and intermediaries who hold source data and are required by law to perform some form of tax calculation and/or withholding of tax (we refer to these intermediaries as "Statutory Information Providers").

Under this Principle, taxpayers and intermediaries are only held responsible for matters which are within their knowledge or control.

Obligations on taxpayers

The current tax system is based on people knowing the information necessary to calculate their tax liabilities. They provide this information to Inland Revenue with the assistance of intermediaries such as their accountant but they are accountable for any errors in the information provided.

Technological change makes this model outdated. People increasingly rely on IT systems and intermediaries to determine their tax liabilities. This includes income information provided by their employer or bank or KiwiSaver manager that they access through myIR. People should have clear requirements that they have to meet (accurate information to the employer, bank or KiwiSaver manager), and should still be required to disclose untaxed income, such as from casual work.

"People increasingly rely on IT systems and intermediaries to determine their tax liabilities. This includes income information provided by their employer or bank or KiwiSaver manager that they access through myIR."

They should take reasonable care to ensure Inland Revenue has up to date and accurate information relating to their tax liabilities, but that should be the end of their responsibility. They should not be held accountable for errors that are beyond their control or knowledge.

Thus, individuals should be able to rely on the inputs into the tax system as being correct. There should be no obligation on taxpayers to validate source data when it has been provided by a Statutory Information Provider. A taxpayer should be able to rely on the IT system calculations of a Statutory Information Provider in the knowledge that this is open to audit by Inland Revenue and may be accredited by Inland Revenue.

"There should be no obligation on taxpayers to validate source data when it has been provided by a Statutory Information Provider."

A taxpayer does have an obligation to ensure they provide true and correct information to all intermediaries, to the best of their ability. This approach is already in place for a large number of salary and wage earners (those earning reportable income). We think this approach should be adopted more broadly. For example, taxpayers who use fund managers to administer investments should be able to rely on the information provided and calculations performed by the managers as correct and complete. There is also a need to reconsider the desirability of annual income assessments for all taxpayers.

What this means in practice is:

- A taxpayer is not expected to recalculate and confirm amounts of employment income, New Zealand sourced interest/dividend payments and Portfolio Investment Entity (PIE), which are all populated in myIR
- A taxpayer can rely on the Fair Dividend Rate calculations prepared by an accredited Statutory Information Provider
- Inland Revenue is responsible for advising taxpayers and intermediaries of incorrect tax rates and tax codes
- A taxpayer is expected to confirm that all sources of income are included within myIR, including verifying that all employers are recorded, that all sources of investment income are recorded
- A taxpayer is still responsible for paying the correct amount of tax, but will not be subject to use of money interest, late payment penalties or shortfall penalties where a taxpayer has relied on a Statutory Information Provider

Obligations on intermediaries

An intermediary is entitled to rely on the instructions received from a taxpayer, unless this is overridden by an Inland Revenue instruction, for example in relation to employee tax code or RWT rate.

A Statutory Information Provider can become accredited by Inland Revenue in respect of tax laws which can be automated, including payroll and investment income reporting. Under Principle 5, there should be an expansion of tax laws which can have automated processes, and therefore accredited intermediaries/Statutory Information Providers.

A Statutory Information Provider is responsible for ensuring that tax laws are complied with for its customers. As part of compliance with tax laws, Statutory Information Providers should undertake regular reviews of tax compliance systems, including (but not limited to) spot checking of tax calculations, independent verification of systems controls, review of all new tax laws to identify required systems changes.

An accredited Statutory Information Provider could be liable for penalties if reasonable care is not taken in reviewing and maintaining its systems.

Role of Inland Revenue

The role of Inland Revenue is to ensure the tax system is administered in a manner where good faith voluntary compliance is valued and rewarded.

Inland Revenue's role is to develop a tax system which facilitates intermediaries co-existing with Inland Revenue and taxpayers. Inland Revenue's role in designing tax laws (acknowledging these are enacted by Parliament) is to develop rules which can be automated as much as possible (refer Principle 5). Inland Revenue's role is also to implement these rules with Intermediaries, including (but not limited to):

- Providing sufficient lead time for legislative changes to be implemented
- Providing the relevant technological details to allow intermediaries to develop products and information flows (both to and from Inland Revenue, as appropriate)
- To provide a mechanism to allow intermediaries to be accredited for parts of the tax system
- To work with accredited Statutory Information Providers to develop protocols around products (including agreeing control frameworks)

Examples for change:

- Inland Revenue should develop an intermediary accreditation process
- Inland Revenue should proactively raise any issues with intermediaries if potential discrepancies are detected in automated tax calculations
- Tax laws are reviewed to minimise exceptions from standard rules, with the result being to maximise the instances in which taxpayers are able to rely on Statutory Information Providers; for example, "cash basis person" thresholds in the financial arrangement rules should be increased to ensure most/all natural persons are able to rely on investment income reporting information rather than recalculating income under a financial arrangement spreading method

The Future Tax System in New Zealand

With a revised set of tax principles in place and some examples for change outlined, below represents what the future tax system in New Zealand should look like.

Key Points for the Future

- **A no surprises approach:** An evaluation of potential issues and systems design are considered early on in the policy process, through a Regulatory Impact Statement.
- **Technology enables flexibility:** Technology is used to provide the flexibility people want in terms of how, when and for what purpose they deal with the tax system.
- **Focus on driving down costs and risks:** START and technology is used to drive down everyone's costs and risks – not just Inland Revenue's.
- **Private sector to deliver innovation:** Such a future cannot be delivered by one centralised organisation such as Inland Revenue. Instead, there is a need to use private sector intermediaries to provide a variety of ways for people to interact with the tax system. Inland Revenue manages general rules and accredits third parties to protect the integrity and fairness of the system. The private sector operates within this to deliver flexibility.
- **Core system infrastructure from Inland Revenue:** The focus of Inland Revenue moves from running the system and auditing taxpayers to one where it provides the core system infrastructure that others use. It is much more focused on auditing and accrediting systems and intermediaries.
- **Inland Revenue's upskilling programme:** Inland Revenue has undergone a major upskilling programme. It has the technical staff to resolve issues quickly and intelligently. It has technology and business skills to understand systems and how business operates, and actively partners with third parties to lower the tax system costs and risks as much as possible.

At a more granular level, the Group want to see the following outcomes for three key end-user groups:

Individuals

- **An automatic process for most taxpayers:** Those with tax on all income deducted through withholdings (wages and salaries, interest, dividends) have their tax managed automatically by Inland Revenue and Statutory Information Providers. Individuals can access myIR through many channels to check this, and if necessary query it. If the person provides the information required they are not liable for any mistakes made by systems, employers, Inland Revenue or others in the absence of fraud. They have low risk from the tax system and speedy resolution of any issues.
- **Easy transition between benefit and work:** Those moving in/out of work/benefits are assisted in this by third parties such as Jobhop.³ Inland Revenue and Work and Income New Zealand actively assist such third parties to make the transition from benefit to work as easy as possible with wrap around assistance. The tax system operates to encourage rather than penalise those who are moving into employment.

³ www.jobhop.co.nz

SMEs

- **Easy to understand tax rules:** SMEs operate within clear tax rules that have been written so as to be easy to understand and comply with. Most use systems to enter receipts and payments that then can be inputted into accounting systems to produce basic financial accounts and this data can be systematised to automate all tax information required by Inland Revenue. Human interventions are limited to judgment calls – such as whether an expense is business or personal and if business costs are capital or revenue in nature.
- **Not liable for errors by third parties:** This heavy reliance on systems is reflected in the fact that SMEs are not liable for errors caused by the systems third parties used which are audited/accredited.
- **Legislation that fits with automation:** Legislation is designed and drafted to fit within automated systems so that, as examples, FBT returns and entertainment adjustments can be produced from accounting information automatically as far as possible.
- **Tax pooling:** SMEs can use tax pooling to pay tax when and how this best suits their business needs and cashflow.
- **Clear and fair Inland Revenue advice:** Inland Revenue offers technical advice that is clear and fair. If there is a dispute, this is handled through a fast and low-cost disputes process with all but a handful being resolved by a widely accepted independent adjudication service. There is a much shorter time frame for disputes to become automatically settled so that Inland Revenue's compliance focus is the future not the past.

Large Companies

- **Option of automatic tax information:** Large companies are also able to produce required tax information (including returns) automatically from their financial systems unless Inland Revenue has strong justification for why additional information is needed.
- **IFRS principles included:** While tax principles are still followed to determine whether an amount is assessable income or a deductible expense, taxpayers are entitled to follow IFRS principles to determine the timing of recognition of income or timing of deductibility of expenditure (for example, it is no longer necessary to review accrued expenses and prepayments).
- **Designed around automation:** The tax system is designed around automation with required human interventions limited to when absolutely necessary.
- **Relationship management:** The focus of Inland Revenue is managing the relationship. Except in exceptional circumstances, notified to the company, it is assumed companies are trying to comply with the legal rules. Each company has technically skilled account managers who can pro-actively and fairly resolve issues of technical uncertainty. Disputes are quickly resolved within a much shorter time bar period.

About the BusinessNZ Tax Group

The BusinessNZ Tax Group represents a selection of business groups and individual businesses in the tax policy field that have an interest in how New Zealand's tax administration system can be improved, particularly post Business Transformation. BusinessNZ wishes to sincerely thank them for their time and effort in putting this paper together.

The group consists of:

John Cuthbertson (NZ Tax & Financial Services Leader) – Chartered Accountants Australia and New Zealand

Paul Dunne (Partner) – Ernst & Young

Geof Nightingale (Partner) – PriceWaterhouseCoopers

Robin Oliver (Director) – OliverShaw

Stephen Summers (Economist) - BusinessNZ

Christel Townley (Tax Director) – Taxlab and Digital Service Providers Australia New Zealand (DSPANZ)

Robyn Walker (Partner) – Deloitte and Secretariat to the Corporate Taxpayers Group

We note the views in this document are a reflection of the views of the individual members and do not necessarily reflect the views of the organisations they represent.

Please direct any initial enquiries to:

Stephen Summers

Economist – [BusinessNZ](#)

Email: ssummers@businessnz.org.nz

Ph: 021 714 564