



Inland Revenue
Te Tari Taake

NEW ZEALAND'S POLICY VISION

A good tax system requires both good tax
policy and good tax administration



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Scene setting

Our future

For standard processes:

- Facilitated by digital
- Analytics based decisions not hard wired process
- Machine to machine, and embedded in business processes
- Much larger role for intermediaries (e.g. software developers, accountants)
- Innovation in the private sector
- All-of-Government consideration

For complex tax affairs and processes:

- Efficiencies allow focus on providing speed and certainty



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Policy vision

What we are trying to achieve in policy terms

- Make it easier to pay tax and meet social policy obligations
- Increase certainty for taxpayers
- Increase speed of response
- Reduce compliance and administration costs
- Support broader 'whole of government' goals
- Continue the integrity of the tax and social policy system
- Meet our future commitments as a revenue agency
- Policy focus is on benefits for the tax community not a tax administration focussed solution



Foundations on which we will build

- Key tax bases remain (income tax (individuals/corporates), GST)
- Previous tax reviews provide solidity on policy side
- Social policy is part of the system (WFF, Child Support, Student Loans)

We are going to have to think a lot

Need an outcome that still has regard for:

- Efficiency
- Equity
- Revenue
- Fiscal cost of any change
- Regard for the **whole** system

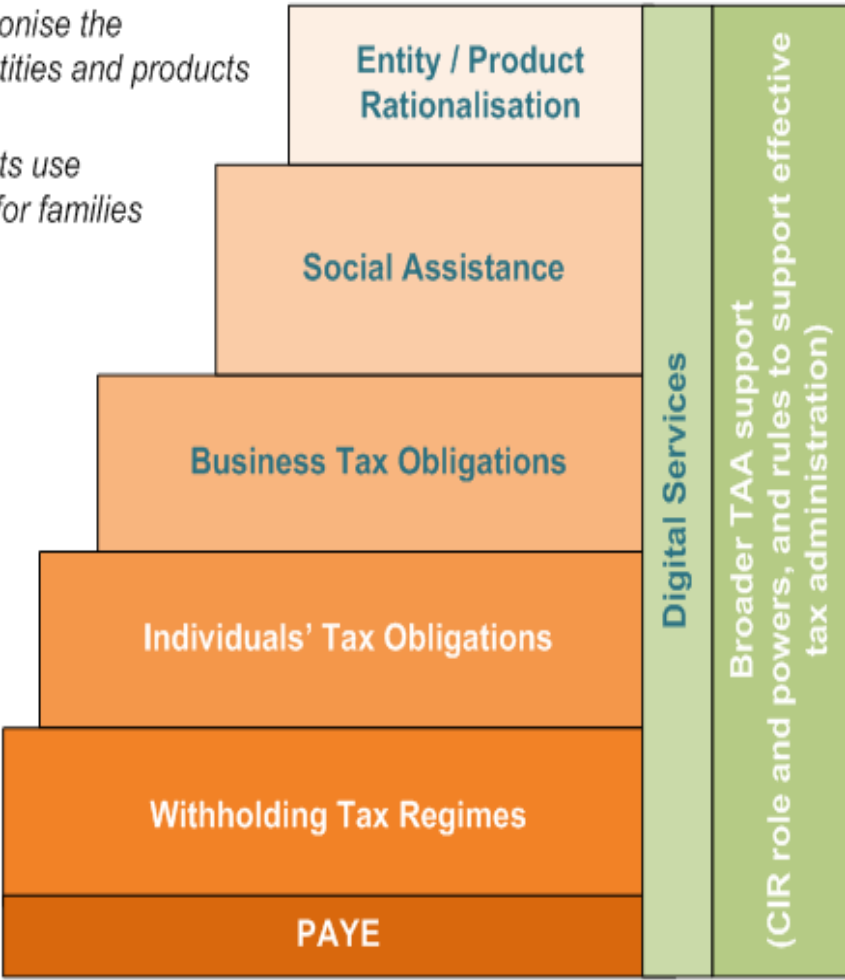
Our policy Vision is built upon a few key components – which can be seen as building blocks

1. Work with business to improve timeliness, quality of withholding information (integrating tax obligations into business processes – using business processes and agreed systems...)
2. Use the improved withholding information to improve equity for individuals
- allowing pre-population
 - allowing more immediate / effective interventions and forward looking responses (e.g 'running balances')

3. Improve systems for businesses to help businesses meet their obligations (e.g. by making more use of business' own processes)

4. On the back of withholding improvements use similar real time improvement for working for families and social policy products more generally

5. Where possible, harmonise the approaches to similar entities and products



6. We will also need to review / change IR's admin settings around role, powers, delegations & the collection / sharing of info.

Payroll (PAYE)

Key facts:

- Our PAYE system has a lot going for it
- PAYE is a key Government revenue stream

Problems:

- Separate tax process rather than embedded in payroll
- Process for correction
- Needs to support wider Government use of payroll information

Way forward:

- Business systems “talk” to IR systems and vice versa
- Validate information immediately
- PAYE part of systems not on top of business systems
- Innovation through private sector
- Data, not returns, over the month and not at the end

PAYE is our starting point

Transforming PAYE is critical

With PAYE working better we can:

- Simplify our fringe benefit tax system
- Simplify the employee superannuation system
- Test the model we are developing
- Sets the foundation for other reforms

Income of individuals

Key facts:

- Income from capital is going to matter more in the future as people age and accumulate capital

Problems:

- Existing withholding system are annual, slow, inaccurate and lack robustness
- Different systems to different types of income
- Large gaps in withholding systems especially contractors

Way forward:

- Standardisation of withholding of income of individuals

Individuals' income tax: End of year square-up

Key facts:

- Need a system:
 - with low cost of contact for all parties
 - designed for electronic world not paper world
 - that works for debts not just refunds

Problems:

- Need a mechanism to collect large amounts of medium debt
 - Use withholding systems in a new way
- Artificial unclear boundaries
- Taking refunds but not paying debts
- Paper, so high administration and compliance costs

Individuals' income tax: Way forward

End of year square-up, but:

- Electronic world not paper
- Pre-populated data
- Easier than current system

Taxpayer obligations:

- Check and correct
- Non-checking will be treated as confirmation

Inland Revenue obligation:

- Calculation of tax liability
- Self-assessment

Square up amount:

- Refunds automatically released
- Debt paid or withholding systems

Use of analytics to guide interventions

Social Policy

Key facts :

- Household income is often the base of entitlement
- Brings in non-income information into entitlement
- Broader definition of income than for income tax purposes

Problems:

- How do we pay accurately during the year?
- Changes in circumstances requiring contact by customer during the year
- Little incentive if customer would receive reduction in regular payment

Way forward:

- Reconsidering annual approach
- Consideration around how key life cycle events are managed
- More frequent contact better reflects real live circumstances
- Reduced or ceased entitlement if no confirmation for the period
- Technology/digital allows for easy, more active, low cost interaction
- Debt recovery from future entitlement payments

Business Tax

Key facts:

- To collect tax on-account as income is earned during the year (PAYE for businesses)
- Tax returns don't collect the data required but they do collect data we don't require

Problems:

- How do we get payments accurately during the year?
- Interest risk for businesses due to the need to estimate
- New businesses often end up with debt
- How do we collect information to inform Inland Revenue decision making e.g. policy advice to Government
- How do we best provide speed and certainty to taxpayers with complex affairs.

Business Tax: Way forward

Resource re-allocation to provide speed and certainty

Tax payments:

- Options to simplify the calculation of provisional tax and provide more certainty
- Use of interim accounts to determine payments
- No terminal tax date
- “Tax bank” – taxpayers could have a tax account with their bank

Information collection:

- Need to collect what we need (more from some, likely to be less from many)
- Financial account based approach
- Information on third parties where appropriate

Tax administration implications?

Opportunity to look at what is required for a tax administration in the 21st century

Role of the Commissioner:

- Self-assessment
- Tax secrecy – whole of Government context
- Joint delivery of services
- Need to review obligations and associated penalties

Questions?

“We have an unknown distance yet to run, an unknown river to explore. What falls there are, we know not; what rocks beset the channel, we know not; what walls ride over the river, we know not. Ah, well! we may conjecture many things.”

John Wesley Powell

(U.S. explorer, academic and geologist)