



MAKING TAX SIMPLER

BETTER DIGITAL SERVICES

A GOVERNMENT DISCUSSION DOCUMENT



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MINISTER OF REVENUE

The second in a series of government discussion documents looking towards a better tax administration system for New Zealanders

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Better digital services: a government discussion document.

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CHAPTER 1

OVERVIEW

An efficient tax administration system is important for New Zealand and is critical to our country's economic and social wellbeing.

Why?

Inland Revenue collects taxes and distributes money on behalf of the Government.

- Taxes pay for essential public services such as schools, hospitals, roads, social welfare and much more.
- There are millions of interactions with the tax system every day. People pay tax through their wages, salaries and interest payments; businesses collect and pay GST and other taxes.
- Important government services, such as Working for Families, student loans, child support and KiwiSaver are delivered by the tax administration system.
- Running the tax system is expensive; for the government in running it, and for individuals and businesses complying with it. Everyone shares these costs, whether directly or indirectly.

A BETTER TAX ADMINISTRATION SYSTEM

The Government wants to make it simpler and faster for New Zealanders to pay the taxes and receive the entitlements they should. It is proposing changes that will create opportunities for individuals and businesses to spend less time on taxes and compliance, and more time on living their lives and growing their businesses.

Technology is a key consideration for this Government. The tax administration system could improve services and reduce compliance costs for customers and administrative costs for Inland Revenue.

For this to happen:

- Inland Revenue needs to offer a wider range of secure digital services.
- It needs to work with others who deal with tax, such as banks and business software developers, so tax interactions are built into customers' regular transactions, rather than having to manage

THIS IS HOW THE FUTURE COULD LOOK:



MIKE: Individual

Mike is 66 and retired, but still helps out at his former employer occasionally. He has reinvested his KiwiSaver funds in a range of New Zealand listed shares and bonds, and term deposits.

What if Mike's interest and dividends were already included in his online tax return? He could simply check everything was correct, and confirm and complete his return at the click of a button.



ZACK: Small business

Zack wants to establish an adventure tourism business.

What if Zack could buy a "business in a box" accounting software package that would automatically register his new business with government, including Inland Revenue, for income tax, GST, and as an employer?



**MARY: Medium/Large business
BEN: Individual**

Mary runs a medical supplies company with 140 staff. Ben works for the company on a casual basis when they need an extra hand. He is repaying his student loan and is entitled to Working for Families tax credits.

What if Mary's payroll software automatically sent Ben's information to and from Inland Revenue as part of each weekly pay cycle, with his student loan repayments and Working for Families entitlement being automatically calculated and updated? Mary's job would be much easier and Ben would no longer have money owing or a refund due at the end of each year.

tax separately at specific times of the year.

Non-digital services would continue to be provided for those who still cannot use digital services.

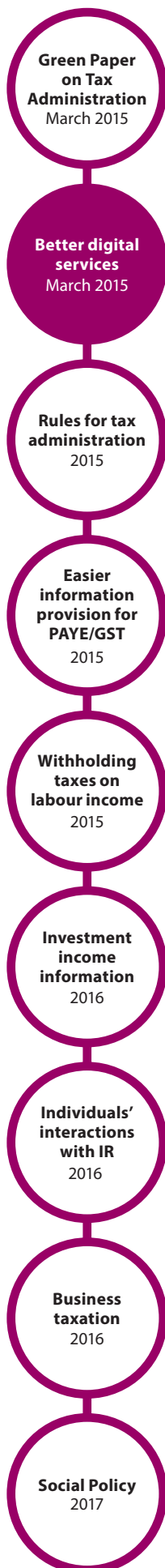
SUMMARY OF PROPOSALS

Many people and businesses are already using digital services to manage their taxes, and are enjoying the convenience, speed and simplicity. As Inland Revenue builds more and better digital services – sometimes in conjunction with third parties – more people and businesses will be able to enjoy the benefits that digital services provide.

People and businesses who do not have access to digital technology, or the skills or knowledge to use it, might be able to use digital services if some help was provided.

Some people and businesses might be able to use digital services, but need encouragement. When the majority of individuals and businesses in similar circumstances are using digital services, having a few who do not use digital services can create problems. These could include: the costs in keeping a non-digital service available for a small number of users, or denying others, such as a business's customers or employees the benefits of an improved tax administration system. This paper seeks views on how we might move these individuals and businesses to digital services.

CONSULTATION TIMETABLE



These proposals will need changes to the law, and system changes at Inland Revenue. Inland Revenue will be communicating the changes to New Zealanders well before the introduction of any changes.

MAKE A SUBMISSION

You are invited to make a submission on the ideas raised in this discussion document. You can make a submission:

- Online at:
makingtaxsimpler.ird.govt.nz
- By email to:
policy.webmaster@ird.govt.nz,
please put "Making Tax Simpler" in the subject line.
- By post, with submissions addressed to:
***Making Tax Simpler
C/- Deputy Commissioner,
Policy and Strategy
Inland Revenue Department
PO Box 2198
Wellington 6140***

The closing date for submissions is **15 May 2015**.

Submissions may be the subject of a request under the Official Information Act 1982, which may result in their release. The withholding of particular submissions, or parts thereof, on the grounds of privacy, or commercial sensitivity, or for any other reason, will be determined in accordance with that Act. Those making a submission who consider that there is any part of it that should

properly be withheld under the Act should clearly indicate this.

WIDER CONTEXT

Changes to the way tax is administered are planned over a number of years. You can find out more about the bigger picture, and have your say on a range of other topics in the future, by visiting *makingtaxsimpler.ird.govt.nz*

CHAPTER 2

WHY THE WAY TAX IS ADMINISTERED MATTERS

Inland Revenue administers the delivery of tax and social policies, including: Income tax, Goods and Services tax, Gaming duties, Working for Families tax credits, paid parental leave, student loan repayments, child support and KiwiSaver.

The term “Tax Administration” refers to the system for delivering the tax and social policies that are administered by Inland Revenue.

WHY IS IT IMPORTANT?

A key part of New Zealand’s infrastructure

Taxes are by far the biggest source of government revenue. They fund schools, hospitals, roads, policing, social welfare, and other government-provided services.

Because tax revenue is critical to delivering government services, and the same administrative system is used to provide many social services, the tax administration system operated by Inland Revenue is a key part of the infrastructure which supports New Zealand society.

More New Zealanders interact with Inland Revenue than with any other government agency. The efficiency and effectiveness of the tax administration system is important for:

- everyone who interacts with Inland Revenue to meet their tax obligations or access their entitlements;
- everyone who uses services provided by the New Zealand Government; and
- taxpayers, who pay the system’s costs.

It is big and expensive

There are millions of interactions with the tax administration system every day, across the economy. These interactions include:

- tax deductions from salaries, wages, and interest payments;
- payments like income tax;
- other amounts like student loan repayments; and
- Working for Families tax credits.

There are significant costs for businesses and individuals in

REVENUE COLLECTED AND
PAYMENTS DISBURSED – 2013/14

\$56.2b

*Tax revenue collected by
Inland Revenue*

\$1.1b

*Other revenue collected by
Inland Revenue*

\$1.0b

in student loan repayments

\$4.1b

*Distributed to KiwiSaver
scheme providers*

\$2.5b

*Distributed with Ministry of
Social Development in entitlements
to support families*

\$165m

*Paid parental leave payments
to 25,836 parents*

meeting their tax obligations to Inland Revenue. In addition, administering the tax system cost the Government over \$650 million in 2013/14.

The Government's "Better Public Services" programme has a clear expectation of improved services to the public, and a reduction in costs in dealing with government agencies. A key consideration for this Government is how the tax administration system can use modern digital technology and connected government services to improve the customer experience and reduce compliance costs for customers and administrative costs

for Inland Revenue. Greater levels of tax compliance – as a result of tax obligations being easier to meet, and reducing the opportunity for mistakes – is also important.

CHAPTER 3

LIVING IN A DIGITAL WORLD

WHAT DOES “DIGITAL” MEAN?

Digital technology is a way to transfer, process, record, generate and display information electronically. It includes, but is not limited to, internet-enabled systems, email, text, apps, and social media. This discussion document uses “digital” as shorthand for any electronically enabled technology; in whatever form that might take today and in the future.

In July 2013 the Government set ten challenging results for the public sector over the next five years. Result 9 requires the cost to business in dealing with government to reduce by 25%. Result 10 requires New Zealanders to be able to complete their transactions with the government easily in a digital environment.

Digital services are evolving fast. The internet and the mobile phone have transformed communication, business processes and our lifestyles.

NEW ZEALANDERS ARE EMBRACING THE CHANGE

Internet use in New Zealand households is relatively high. According to the 2013 Census, 77% of households have access to the internet. The World Internet Project's 2012 research found that New Zealanders who use the internet use it extensively:

- 81% check emails at least daily;
- 64% pay bills online at least monthly; and
- 52% go online at least monthly to look for travel information.

In a recent research led by Tufts University on digital evolution among 50 countries, New Zealand is ranked as one of the nations that have shown high levels of digital development in the past and this is expected to continue.

THE GOVERNMENT’S VISION FOR NEW ZEALAND

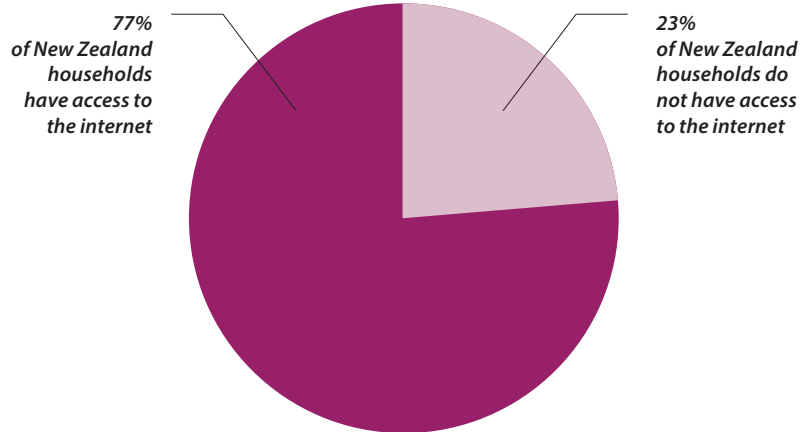
The Government recognises that digital technology can improve customers’ experience of government services and reduce the cost of providing these services for everyone.

Its vision for New Zealanders is for them to be able to “complete their transactions with government easily in a digital environment”. This vision includes the commitment to help customers to manage their transactions digitally, and provide alternatives for those who cannot.

For business, the Government’s target is to cut the costs of dealing with government by 25% by 2017. Greater use of digital services is considered to be a key enabler in meeting that target. The Government’s intent in promoting greater use of digital services is to improve the service offered by government and not simply to shift costs from government to the private sector.

PENETRATION OF INTERNET IN NEW ZEALAND HOUSEHOLDS

(Statistics NZ, 2013 census)



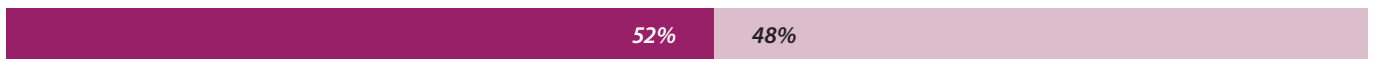
THE WORLD INTERNET PROJECT (2012) REPORT FOUND THAT:



81% of New Zealanders who use the internet check their emails daily



64% of New Zealanders who use the internet pay their bills online at least monthly



52% of New Zealanders who use the internet go online at least monthly to look for travel information

INCREASING ELECTRONIC TRANSACTIONS IN NEW ZEALAND

Industry sources indicate that approximately two-thirds of total spending in New Zealand is done electronically on eftpos and credit cards. This is significantly higher than the international average. Just over 32% of worldwide consumer retail spending was card-based, according to 2012 research by Moody's Analytics.

According to Statistics New Zealand, New Zealanders' use of electronic card transaction is growing.



POSSIBLE DEVELOPMENTS FOR THE TAX ADMINISTRATION SYSTEM

The digital technology already exists to transform the way individuals, families and businesses interact with Inland Revenue (see Appendix 1: other tax jurisdictions' digital approaches). For example, digital technology could be used to:

- allow customers to access services and information faster and at a time that is convenient for them, through whatever devices might be appropriate for that type of interaction;
- allow customers to receive immediate confirmation that their obligation to provide information or make a payment has been discharged;
- provide information already held by Inland Revenue – for example, from banks – in tax returns so businesses and individuals do not have to supply it;
- share information from other government agencies so businesses and individuals do not have to supply it again;
- integrate tax processes into normal “life” processes. For example, a migrant could receive an IRD number at the same time they were granted a work visa;
- integrate tax interactions into business software so businesses do not have to provide information separately for their

tax requirements. For example, an employer could meet their PAYE obligations as part of paying wages through payroll software;

- proactively inform customers of obligations or entitlements and inform customers about services that might be useful to them;
- provide a “real time” view of a customer’s tax and related social policy information; and
- enable shortfall payments and debt to be collected from subsequent income periods.

THERE COULD BE SIGNIFICANT BENEFITS FOR NEW ZEALANDERS

If digital services are secure and designed to make it easy for customers to use them, increased digital service delivery could deliver the following benefits to customers:

- *Greater convenience:* Digital services can provide customers with the immediacy and convenience of access to information and services any time and anywhere. Interactions can take place through multiple digital channels, such as mobile, apps and through business software.
- *Greater speed and confidence:* Responses and notifications could be delivered through digital channels in addition to those delivered now, and faster than those currently delivered.

QUESTIONS FOR READERS

1 Do you agree that the benefits set out could result from the greater use of digital services in tax administration?

2 Are there other benefits which could be gained from improving and introducing more secure digital services?

- *Reduction of effort:* The ability to integrate with other systems and pre-populate information could reduce the effort required by customers to fulfil their tax and social policy obligations.
- *Improved, more rapid and responsive customer services:* Digital services could make the monitoring and capturing of a customer's experience, satisfaction and perception of the services they have received much easier, and allow Inland Revenue to improve its services.
- *Reducing the cost of the tax administration system:* Reduced tax administration costs could allow Inland Revenue to provide better targeted services, the Government to increase spending in other areas and reduce government spending overall. Others involved in the tax administration system – such as tax agents and accountants – could focus on higher-value services such as supporting business growth rather than routine tax compliance.
- *Improved delivery of services across government.* Some information collected by Inland Revenue is used by other government agencies – such as ACC, which uses employment information to calculate levies. Faster, more accurate information which other agencies can use could enable the delivery of better services by them to their customers, and greater efficiencies across government.

CHAPTER 4

TAX ADMINISTRATION NEEDS TO CHANGE

Inland Revenue's website has won the top government website eight times in the annual New Zealand NetGuide Awards.

Inland Revenue already offers a range of digital services, including website, mobile apps, text, software-enabled filing, email, social media, and voice recognition technology. Customer satisfaction with online channels is relatively high.

There is already significant use of digital services to meet tax obligations:

- In December 2014, 86% of payments were made electronically.
- As at 30 June 2014, 1.7 million active customers were registered for myIR, Inland Revenue's web-based digital service channel. MyIR allows customers to update their own information and file returns digitally.

Voice ID is an example of Inland Revenue's innovative use of digital technology. Voice ID uses voice recognition technology so individuals can identify themselves at the beginning of a phone call to Inland Revenue, eliminating the need to answer personal security questions. This gives customers access to

automated self-service functions even outside office hours.

These examples suggest a relatively high level of willingness to adopt new digital services offered by Inland Revenue.

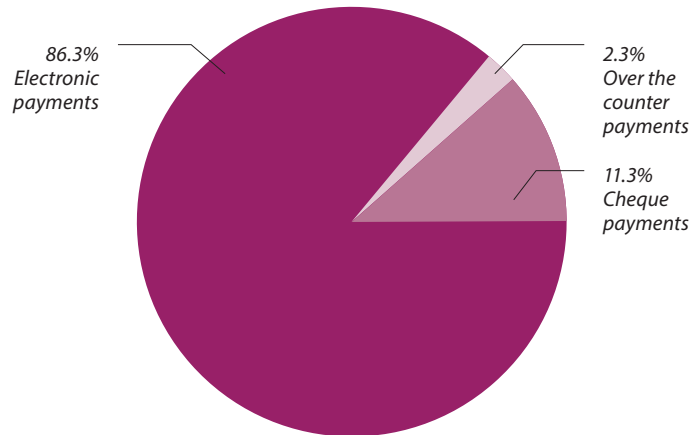
INLAND REVENUE'S CURRENT DIGITAL SERVICES HAVE LIMITATIONS

Despite positive progress, Inland Revenue's digital services have significant limitations:

- digital services are not available to cover all customer interactions;
- even when digital services are available for customers, they do not always generate a positive customer experience;
- they exist as stand-alone services, and are not integrated with other activities that customers carry out, such as dealing with their bank or using their business accounting software;
- they do not integrate with most other government services; and

THE MAJORITY OF PAYMENTS ARE MADE VIA DIGITAL CHANNELS

The proportion of electronic payments Inland Revenue received in December 2014 was 86% which shows a 19% increase compared with December 2013. A significant contributor to this has been the removal of a previous rule which provided a timing advantage to those who paid by cheque.



95%

of customers are 'satisfied' with Inland Revenue's online channel (2013-14 figures)

1.3 million

customers were registered with Voice ID by January 2015. Around 60-70 per cent of people who call IRD on any day are now enrolled with Voice ID. This means New Zealand has the highest level of voice biometrics per capita in the world.

19 million

visits were made to the Inland Revenue website (www.ird.govt.nz) in 2013-14

-
- they do not always provide the same level of functionality as other channels.

Despite high overall satisfaction with Inland Revenue's existing digital services, in-depth research found that customers:

- have difficulty accessing and using Inland Revenue information they need;
- find Inland Revenue's transactional processes time-consuming, disconnected and confusing;
- regularly use multiple service delivery channels to undertake one interaction;
- are uncertain whether they have done the right thing; and
- are frustrated that information is not shared and is inconsistent across Inland Revenue's different digital services.

The limitations outlined above are largely a consequence of the technology used to administer the tax system. The core technology Inland Revenue operates on is 25 years old and predates most of the digital innovations that customers currently take for granted. In addition, Inland Revenue's role has expanded from simply collecting tax in a paper-based world to managing the collection of tax and the delivery of income-related social policies such as student loan repayments, Working for Families tax credits and KiwiSaver. Adding social policy services to

25-year-old technology has resulted in an extremely complex intertwined system which is expensive, risky and time consuming to make further changes to.

Inland Revenue's ageing technology platform has also imposed significant limitations on its ability to deliver targeted services, and innovative policy approaches.

Current tax legislation, including the Tax Administration Act 1994, also originated in a paper-based environment. It needs to be modernised to ensure it does not inhibit the uptake of digital services. This is further discussed in Chapter 7.

GOVERNMENT HAS BEGUN THE CHANGE

The Government recognises that the improvements it wants to achieve in the way businesses and individuals interact with government cannot be achieved without a fundamental redesign of the tax administration system, enabled by digital technology.

The early design stage of this work has already begun, and the results of this consultation will help to shape the redesign.

CHAPTER 5

ENSURING DIGITAL SERVICES MEET EVERYONE'S NEEDS

SMEs are usually run by a single owner or small number of individuals who do everything for their business. Research conducted for the Government indicated that many SMEs wanted to be able to interact with government outside normal business hours.

Large corporates often have “bespoke” accounting systems and require considerable notice to make changes.

NEW ZEALAND IS HIGHLY CONNECTED
In the 2012 international comparison report by the Worldwide Internet Project, New Zealand (85.4%) was ranked as a country where access to the internet was high, along with Australia (86.8%), Sweden (85.6%) and Canada (84.1%).

The following discussion starts from the assumption that digital tax services will be designed and operated to be secure and reliable, and based on best practice standards. But developing and providing secure, reliable digital services does not mean that people will use them.

This chapter proposes a number of principles to guide the development of digital services so that the benefits identified in Chapter 3 will be realised.

OVER-ARCHING PRINCIPLE: SERVICES MUST BE DESIGNED FOR THE CUSTOMER

Designing services to meet customers' needs is critical to realising the benefits.

A fundamental objective of a new tax administration system is high quality user-friendly tax services – either delivered by Inland Revenue or by a third party.

Each of the following principles addresses a different aspect of this overriding principle.

PRINCIPLE 1: NO ONE SIZE FITS ALL

Customers vary

New Zealand businesses and individuals are diverse. When developing digital services, it is important that Inland Revenue understands and reflects this diversity.

Inland Revenue segments its customer base by demographic factors, such as individuals and families; small and medium enterprises (SMEs) and corporates, and the nature of the service they use, such as student loan borrowers. It also has important relationships with third parties such as tax intermediaries and software developers.

Types of interaction

People interact with the tax administration system for different reasons and typically have different preferences on how the interaction is handled, depending on the nature of interaction. Within a business, different people may be responsible for different interactions, and have different preferences – eg digital, telephone, in person or in writing.

RURAL BROADBAND CONNECTIVITY

The Government's rural broadband initiative aims to connect 86% of rural homes and businesses with broadband at peak speeds of at least 5 mbps by 2016. Before the initiative began in 2011 only 20% of the rural population enjoyed access at this speed.

According to Kiwis Count Survey on New Zealanders' satisfaction with public services in August 2013, the majority (83%) of New Zealanders consider that if digital access to public services was simple and user-friendly it would encourage them to use the internet to access those public services.

To meet people's needs, it is important these preferences are understood and that customers are offered the channel of communication that best suits their needs. As far as possible, the underlying systems should be flexible enough to accommodate customer preferences and technology changes.

The environment will continue to change

Creating a comprehensive set of digital services at a fixed point in time will not be sufficient to ensure customers' needs are met. Technology evolves constantly – for example, internet over mobile networks is a relatively recent innovation, and mobile eftpos terminals are even more recent.

Change will also take place in business practice and in the way individuals organise their lives – in some instances as a result of technology, sometimes as a result of other factors.

In order to deliver digital services which have the customer at the centre, Inland Revenue will need to constantly evaluate emerging, maturing and declining technology and activity in the business sector and the individual customer sector, consider what new needs might emerge for digital services, and what new digital services become possible.

PRINCIPLE 2: TAX COMPLIANCE AND ACCESS TO ENTITLEMENTS ARE CRITICAL

The tax administration system is based on voluntary compliance; the idea that customers understand what they should do and do it. For voluntary compliance to work the tax administration system needs to feel fair, relatively simple and easy so that customers feel supported in meeting their tax obligations. The tax system is also used to deliver various social policy entitlements – Working for Families tax credits, paid parental leave, and child support. It is vital that those who benefit from these entitlements are able to interact with the tax administration system.

The term "digital divide" is used to describe the inequality which results from parts of the population not having access to information and communication technology. This exists in New Zealand but is relatively small in an international context. From available research, approximately 8% of the individuals surveyed did not have access to internet in 2013.

Socioeconomic factors, and New Zealand's challenging geography, which limits access to broadband in some rural areas, are factors which can prevent internet access.

Inability to use digital services does not solely arise from lack of access. Even for customers who have internet access the level of digital readiness can differ. Some customers will lack the skills, knowledge or confidence to interact with government digitally.



Others may prefer and trust what they know and see no reason to change.

Customer inclination has been described as ranging from “innovators and early adopters” at one end to “laggards” at the other. While research suggests that good customer-centred design is the most important factor in determining uptake, support and assistance for customers must be part of any future services design.

The Government is committed to ensuring that modernising the tax administration system will also help voluntary compliance and people’s ability to access their social policy entitlements. It is critical that the introduction of digital services does not result in some people who comply

with their tax obligations now not complying in the future, or make it more difficult for people to access their social policy entitlements. Because these objectives are key, where necessary assistance will be provided to help people to access digital services, and if they are unable to use a digital service they will not be prevented from complying with their tax obligations or accessing their social policy entitlements.

Administrative costs still reflect significant use of non-digital channels. In 2013 Inland Revenue issued approximately 25 million paper items, at a cost of approximately \$18 million. These items include returns, letters, forms, statements and notices. In 2013-2014 Inland Revenue handled over 4 million assisted (not automated) phone calls.

QUESTIONS FOR READERS

1 Do you agree that these principles are important when considering how greater use of digital technology might benefit all those who use the tax administration system?

2 Are there any other principles which ought to be taken into account?

PRINCIPLE 3: CHANGE WILL NOT BE IMPOSED WITHOUT CAREFUL CONSIDERATION OF THE COSTS AND BENEFITS

The benefits set out in Chapter 3 include reducing compliance costs and reducing the cost of administering the tax system. Who bears the costs and the costs of the changes need to be carefully considered before changes are made.

Compliance costs

Customers decide how to interact with the tax administration system, based on their skills, knowledge, inclinations and the benefits and costs they bear. Costs borne by business and other customers in dealing with the tax administration system are known as “compliance costs”.

The Government has set a target of cutting the costs to business when dealing with government by 25% by 2017. Changes to the way the tax system is administered are expected to significantly contribute to this cost reduction.

Administrative costs

Customers decide how to interact with the tax administration system based on their own costs and preferences. They do not factor in the costs of administering the tax system, such as the fact that it is more expensive to process a paper return than an electronic one. These costs are borne by society as a whole.

Outside the tax system, some private-sector businesses address the problem by imposing charges on customers who continue to use non-digital services after a digital alternative has been made available.

In modernising the tax administration system, the Government needs to ensure that the benefits to society (taxpayers) as a whole from reduced administrative costs are appropriately considered. The next chapter looks at how this might be achieved.



CHAPTER 6

A BETTER CUSTOMER EXPERIENCE USING DIGITAL SERVICES

Chapter 4 notes that while some digital services have already been delivered, their scope and sophistication are limited by the constraints of Inland Revenue's outdated system. New technology would remove these system constraints, and allow the development of new and better digital services.

This chapter looks at how new technology could deliver a better customer experience using digital services, based on the principles set out in chapter 5.

CUSTOMERS' NEEDS WILL BE MET BY A RANGE OF HIGH-QUALITY DIGITAL SERVICES

(Principle: No one size fits all)

As noted earlier digital services must be designed with the customer at the centre. They will need to be easy to access and use, fast, secure and reliable.

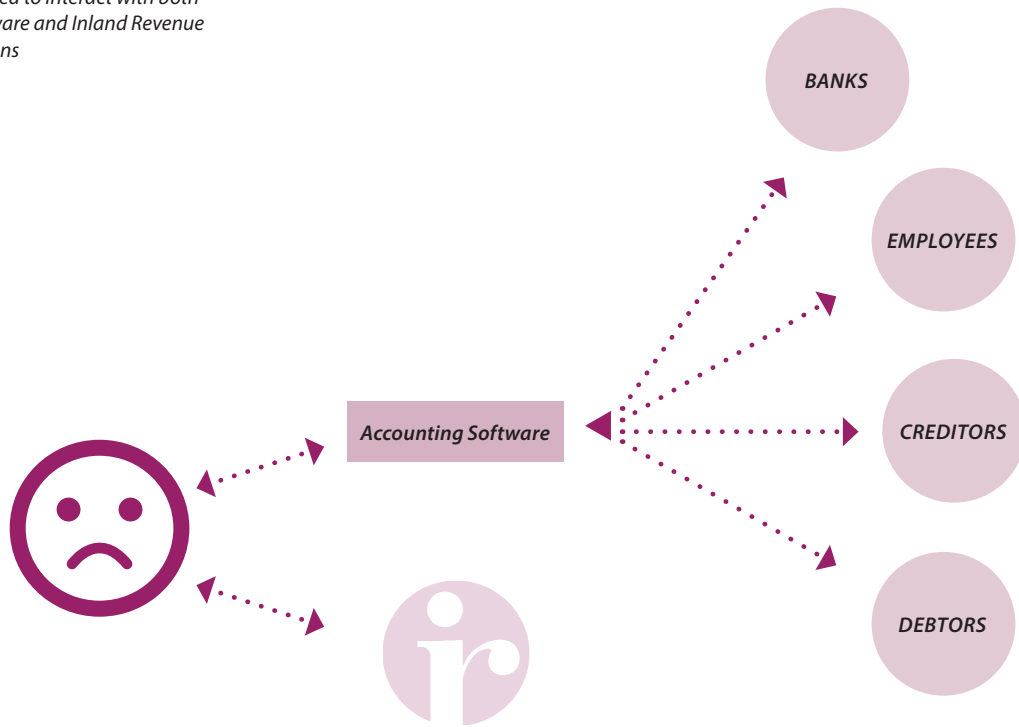
Digital technology is constantly evolving. A package of services which is designed for customers will need to be sufficiently flexible to keep pace with technology changes.

Customers have indicated that they want a seamless experience through all available channels. For example, if they are filing a return online, they might want to be able to get help via telephone or email, or even complete their return over telephone or email, if they strike an unexpected difficulty. Customer-focused services need to allow customers to change the way they want to complete interactions, carrying across the information they already provided from one channel to another.

Customer needs and their ability to use digital services also differ, both by customer type and by the interaction which they are having with Inland Revenue. The requirements that a large business has for dealing with Inland Revenue about income tax are likely to be quite different from the requirements an individual will have. In these kinds of situations, it is likely that different types of digital services will need to be developed to provide a customer-focused experience and recognise that "no one size fits all". In some instances new services may be better provided by third parties than directly by Inland Revenue.

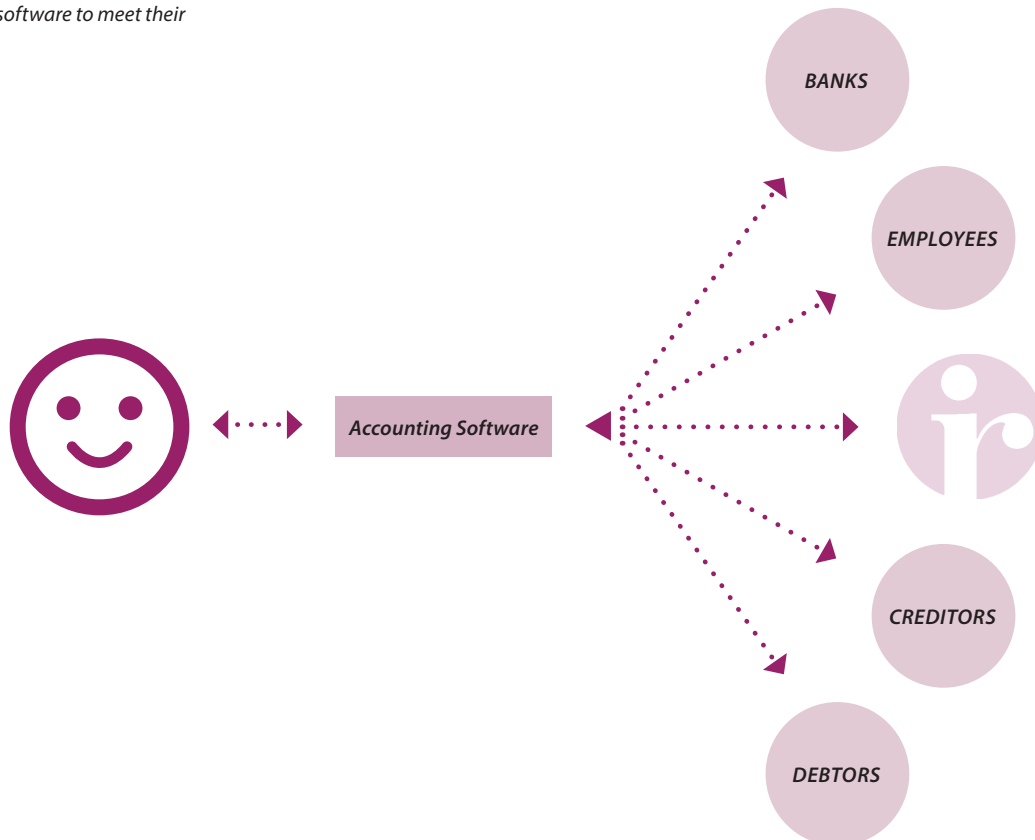
CURRENT STATE

Business customers need to interact with both their accounting software and Inland Revenue to meet their obligations



FUTURE STATE

Business customers only need to interact once with their accounting software to meet their obligations



A good example of different customer needs might be for businesses that have PAYE reporting obligations. A very small business using a simple manual payroll for one employee might be best served by something like an online portal which retains basic information into which they can enter current pay information. This could be provided by Inland Revenue, or a payroll software provider may provide this free as a marketing tool.

Some customers' needs will be best met through delivery by third parties

For businesses that already use computerised payroll systems, the best kind of digital service might be one delivered by the private sector. This could integrate PAYE filing into their payroll accounting software removing the need to deal with PAYE filing obligations separately.

This kind of integration with existing processes – in particular, business accounting systems – is a way of delivering services designed with the customer foremost. This kind of approach could deliver significant benefits to customers by eliminating the need for them to deal with routine tax matters as a separate exercise. Tax compliance could be integrated into business processes like weekly pay runs for PAYE or monthly sales reporting for GST.

To integrate with existing processes, Inland Revenue would need to ensure it has close and collaborative working relationships with those who develop business accounting systems, and

others who deal with individuals and businesses, such as financial institutions.

Interactions differ, as well as customers

Individuals and businesses will have different expectations of digital services. A person will have different expectations of customer-focused services, depending on the kind of tax interaction they require. Returning to the large business payroll example, direct integration with its payroll accounting system may be the best way to deal with the routine transfer of PAYE information.

This may not be business's preferred mechanism for a non-routine interaction. For example, if the Human Resource Manager and Chief Financial Officer become aware that the company's previous PAYE treatment of redundancy payments has been incorrect they might want discuss this concern directly with Inland Revenue, notwithstanding that their routine PAYE is dealt with automatically through their payroll software.

This need to discuss complex or sensitive matters might be best met by a different digital channel, such as an online enquiry portal or a dedicated email channel, or a non-digital channel such as a telephone contact centre.

THE MEANING OF DIGITAL BY DEFAULT

Being digital by default means producing digital services that are so compelling and easy to use that those who can do so will. Digital by default is also a shift in the culture of government so that it thinks "digital" first. Only then can the government create the outstanding digital services that people will embrace. "Digital by default" does not mean replacing services with a digital-only option (e.g. completely closing down the face-to-face approach or other alternatives). It is about encouraging people who can to turn to digital services first.

The Government's rural broadband initiative aims to connect 86% of rural homes and businesses to broadband at peak speeds of at least 5 Mbps by 2016. However, a segment of the population will continue to have very limited internet access.

QUESTIONS FOR READERS

1 Do you think you would move to digital services for your tax interactions, if high-quality digital services which met your needs were offered? Even in this situation, can you foresee any interactions which you would not want to carry out using digital services? What would they be?

2 What could Inland Revenue do to create an environment that supports new customers to adopt digital services?

3 What could Inland Revenue do to support existing customers using digital services?

MOST CUSTOMERS WILL CHOOSE TO USE DIGITAL SERVICES

If individuals and businesses are offered good quality, secure, customer-focused digital services for interactions appropriately carried out across digital channels (including in partnership with third parties such as business accounting software providers), the majority can be expected to move to these services in the timeframe which best fits their own personal or business needs. They would likely do this because they identify the benefits that digital services would provide, such as greater convenience, certainty or reliability.

Secondly, as noted in Chapter 4, despite the constraints of ageing technology, Inland Revenue's ability to deliver quality digital services is recognised.

Finally, and most compellingly, uptake of Inland Revenue's digital services has, to date, been strong. As noted, the online service for individuals, myIR, has 1.7 million registered customers. In December 2014, 86% of payments to Inland Revenue were made through electronic channels.

There are a number of strategies that Inland Revenue could develop to encourage customers to adopt digital services. One could be to move to a "digital by default" strategy, in particular for new customers (or existing customers who are starting to use a new form of interaction – such as registering for GST). A good example of this would be to use email

to communicate with customers who have consented to this form of communication.

Where a high-quality digital service exists (whether delivered by the private sector or directly by Inland Revenue), customers should be directed to that option as a matter of course. Non-digital alternatives should be de-emphasised in favour of the digital offering. This is simpler for customers compared with the alternative of adopting a non-digital option initially and subsequently facing the cost and disruption of moving to a digital option.

When a new digital service has been established, Inland Revenue could expressly promote it, in particular to customers who are using the non-digital alternative.

SOME CUSTOMERS CANNOT MOVE TO DIGITAL SERVICES

Even if high-quality digital services targeted at all kinds of customers and appropriate tax interactions are built, there will inevitably be some customers who cannot adopt them.

Reasons for this could include:

- They do not have the skills or knowledge to use digital technology.
- They do not have access to digital technology – they may be financially constrained, or perhaps live in an area of New Zealand which does not have internet access.

The United Kingdom has adopted an approach to “assisted digital” which provides that government will:

- work with the private sector, voluntary sector and other parts of the public sector to provide assisted digital support
- try new ways of working to provide assisted digital support efficiently and effectively
- introduce a service standard, so assisted digital support is of consistently high quality
- consider introducing a quality mark for approved/accredited providers so users can be confident in the support they will receive.

A subsidy is currently provided to support the use of payroll intermediaries by certain small employers. Employers with less than \$500,000 of PAYE deductions per year are entitled to a subsidy of \$2 per employee, per pay period, for up to 5 employees, if they use a recognised payroll intermediary.

QUESTIONS FOR READERS

4 Do you agree Inland Revenue should provide specific assistance to enable some customers to use digital services? What forms do you think that assistance might take? How long do you think that assistance should be provided for?

5 Who do you think will not be able to move to digital services, even with specific assistance?

For this group, the relevant principle is that tax compliance and access to entitlements are critical. Their ability to comply with their tax obligations and access their entitlements must remain even if the majority of other customers are carrying out those interactions through digital options.

Two approaches could be offered to customers who cannot move to digital services. Both approaches would be operated simultaneously, with different customers falling into each approach.

Assistance

(Principle: Tax compliance and access to entitlements are critical)

The first approach is to provide some specific, targeted assistance to enable these customers to use digital services. There are two reasons for providing this kind of assistance – and both will raise additional costs for Inland Revenue:

- Digital services bring a range of benefits to customers compared with non-digital services, as identified earlier. It is fair that customers who would otherwise not be able to access these benefits be supported to do so.
- As noted in Chapter 5, Inland Revenue’s cost in dealing with digital interactions is lower than for non-digital interactions. Because society as a whole bears the cost of administering the tax system, (it is funded out of government revenue), providing additional

support to enable customers to move to digital options delivers a benefit to everyone.

The nature of assistance will vary from service to service and will need to be developed based on users’ needs. Some services will have more people who require assistance than others – for example, business services may need less support than a digital service which supports a user group with a lower level of digital skills. Some examples of this kind of assistance could be:

- Recognition that online services require appropriate offline support – the New Zealand strategy for digital public services requires that it should be easy for New Zealanders to get sufficient support when using digital options.
- Kiosks – Places where people who do not have internet access could go to use an internet-connected computer (whether provided by government or otherwise). Some specific assistance or even a digital service specifically designed for people who are not experienced internet users could even be provided.
- Assistance to develop digital capability – Inland Revenue’s staff already help customers, including small businesses, to understand their tax obligations and how to use existing digital services.

-
- Subsidies – For example, to support businesses adopting accounting software which integrates tax and accounting functions.

Other government agencies are also moving to provide digital services, and are likely to face the issues described above, with the same customers. Several of the forms of assistance described above could most efficiently be provided on a cross-government basis. This would also deliver a simpler and better customer experience.

Non-digital services should be available for some customers

(Principle: Tax compliance and access to entitlements are important)

The second approach to this customer group is to acknowledge that, whatever support and assistance Inland Revenue or wider government might be able to offer, some customers will still not be able to directly use digital services. For example, a business in a remote location with no broadband internet access will not be able to use business accounting software which integrates tax obligations online even if the cost is subsidised. These customers will still need to manage their interactions with Inland Revenue through non-digital services.

This could be done by ensuring existing non-digital services are provided. However, depending on the nature of some of Inland Revenue’s system changes, retaining existing

services in their current form in the future may not be possible. In these cases, some process to convert non-digital to digital information might be required. Inland Revenue could carry out this process itself, or arrange for a third party to supply it.

SOME CUSTOMERS COULD MOVE TO DIGITAL SERVICES, BUT WILL CHOOSE NOT TO

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

These customers are not those subject to the constraints preventing adoption of digital services set out above but for whatever reason, have chosen not to move to digital services.

As noted earlier in this chapter, once Inland Revenue has developed a comprehensive portfolio of high-quality digital services, the majority of customers who can adopt those services, are over, time expected to “vote with their feet” and move to digital services. The category of customers who can adopt those services but who choose not to is therefore expected to be small, and will diminish over time.

It is likely that digital and non-digital services will sit alongside each other for some time, with the choice of channel being largely left to customers. There are two possible reasons for customers who could use digital channels, but who choose not to.

QUESTION FOR READERS

6 Do you agree that when some people have a digital services option available, but by not using it are imposing a cost on everyone, they should be supported, encouraged and, if necessary, ultimately required to use digital services?

Additional and avoidable cost imposed on tax administration system

The cost of delivering tax administration through digital services is typically lower than by non-digital equivalents. Because tax administration is funded out of government revenue, everyone bears the cost. Everyone benefits by having the most efficient tax administration system. Accordingly, allowing some customers to impose a cost on wider society because of a choice they made, rather than out of necessity would need careful consideration.

The Commissioner of Inland Revenue would need to work alongside these customers to support and encourage them to adopt digital services. The Commissioner also has the ability to determine the range of services which are offered, under her powers to administer the tax system.

Those powers are set out in section 6A of the Tax Administration Act 1994, and give the Commissioner the duty to collect the highest net revenue over time, having regard to:

- the resources available to the Commissioner;
- the importance of promoting compliance; and
- the compliance costs incurred by taxpayers.

This provision requires the Commissioner to compare the additional costs these customers

would impose on the tax system by not using digital services with the costs these customers would face in moving to digital services, and using those digital services on an ongoing basis. The Commissioner could make the decision under this provision to remove non-digital services for some customers for some transactions.

As well as the additional and avoidable costs imposed on the tax system, the reluctance of these customers to use digital channels may also be imposing additional and avoidable costs on other agencies which rely on information provided by Inland Revenue. The Commissioner may also wish to take these costs into account in her approach to the use of digital channels by these customers.

Any legislation which currently prescribes non-digital services would need to be amended to be neutral – see Chapter 7.

Others are being denied the benefits of the new tax administration system

As Inland Revenue's transformation programme progresses, the levels of service offered to everyone affected by the tax system in some way are expected to significantly improve. In some circumstances, those improvements will be contingent on Inland Revenue receiving information through digital channels – for example, employers, who provide PAYE information about their employees to Inland Revenue.

PAYE information is critical to determining matters like social policy

QUESTION FOR READERS

7 Do you agree that where some people (such as employers and tax agents) who choose not to use digital services, and by doing so are denying others (such as their employees or clients) the benefits of the new tax administration system, that first group should be required to use digital services?

8 Do you agree that the Commissioner should use her existing powers under the Tax Administration Act, which include the requirement to have regard to compliance costs, to facilitate the move to digital services?

entitlements of employees. The tax system is likely to evolve so that Inland Revenue can deliver better services to these employees (such as correct calculations of Working for Families entitlements for each pay period, removing any need for annual square-ups), when their employers are working with Inland Revenue via digital services.

Another example could be tax intermediaries, who provide information to Inland Revenue on the tax affairs of their clients. Inland Revenue may be able to deliver better services to these clients – such as allowing them to check their tax position online in near real-time, when their tax agents are working with Inland Revenue via digital services.

As noted above, as well as this information being critical to determine the tax position of others, it may also be used by other government agencies to determine other liabilities. For example, information provided by employers to Inland Revenue is used by ACC to determine liability for earner account levies for employees.

The Commissioner of Inland Revenue would need to work alongside those who provide information to support and encourage them to adopt digital services. Again, the Commissioner's powers under the Tax Administration Act will allow her to restrict the availability of non-digital channels for some transactions carried out by those who provide information if this was appropriate, although this would need to be evaluated against compliance costs for those affected.

The Government sees the satisfactory resolution of this issue as critical to ensuring that the New Zealand economy as a whole derives maximum benefit from the Government's investment in the new tax administration system, and the delivery of this benefit to some sectors of the economy should not be prevented by the reluctance of others to adopt digital services.

Accordingly, the Government proposes to make it clear that any decision by the Commissioner to require these customers to use digital channels has the full force of law.

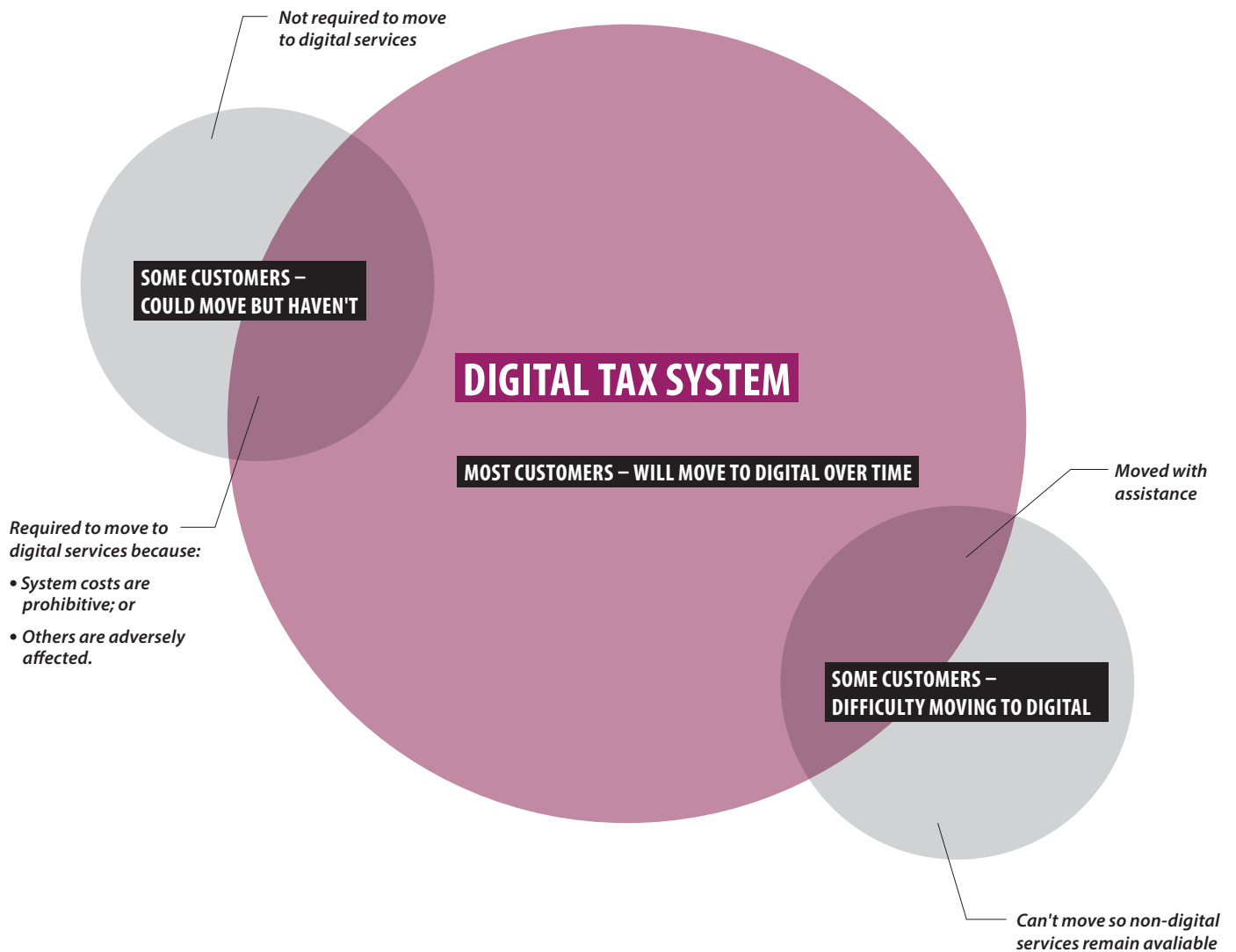
SUMMARY OF PROPOSALS

Most customers will voluntarily move to digital services, provided Inland Revenue builds (or works with the private sector to build) digital services that meet customers' needs.

Some customers will initially be unable to adopt digital services. Others will be able to adopt digital services if assistance is provided; and for the remainder, some non-digital services will need to be provided.

Some customers will be able to adopt digital services, but may choose not to. This may be an issue if the cost of providing non-digital services for them becomes prohibitive, or others (such as their customers or employees) are denied the benefits that a modernised tax administration could otherwise deliver. For both categories, the Commissioner of Inland Revenue could work alongside affected groups to encourage and

CUSTOMER GROUPS



support them to adopt digital services. The Commissioner has power under existing legislation to require the use of digital services if necessary. However, the Government thinks that where others are adversely affected by someone not using digital services, the Commissioner's requirement to use digital channels should have the full force of the law.



CHAPTER 7

REMOVING LEGISLATIVE BARRIERS TO DELIVERING DIGITAL SERVICES

New Zealand's tax administration system is underpinned by the Tax Administration Act 1994. Rules that govern the obligations and entitlements of customers are detailed in a body of legislation collectively known as the Inland Revenue Acts.

Much of this legislation predates the widespread use of digital services. It is important that the legislation does not inhibit the development of digital services and that it is sufficiently flexible to accommodate the continued evolution of technology and services. This chapter looks at the Inland Revenue Acts and includes some proposals to remove barriers to establishing digital services.

INLAND REVENUE ACTS

The Inland Revenue Acts set out the obligations that customers and Inland Revenue must meet, including for the provision of information and returns. There are three categories of requirement dealing with how communication/interaction should be made:

- those that are silent on how the engagement should be made; (see Appendix 2, example 1);

- those that give the Commissioner a discretion on how the engagement should be made (see Appendix 2, example 2); and
- those where the specific form of engagement is prescribed in legislation (see Appendix 2, example 3).

No legislative change is needed for the first two categories.

In the third category set out above, provisions which, for example, require information to be provided "in writing", or "by post" (see Appendix 3) would appear to prevent the move to digital services.

The Electronic Transactions Act 2002 can override these rules, if, effectively, both parties to the transaction consent. This would enable the Electronic Transactions Act to potentially override even specific requirements in tax legislation.

While the Electronic Transactions Act would allow tax communication to move to digital services even in light of express requirements for non-digital services, this would conflict

QUESTIONS FOR READERS

1 Do you agree with the proposals that requirements for transactions to be carried out through non-digital services be removed?

2 Can you think of any legislative barriers other than those described above that need to be addressed to allow transactions to be carried out via digital services?

3 Do you agree with the proposal to ensure that timing rules for digital and non-digital services are aligned?

with the important principle of tax legislation being as simple and clear as possible.

The Electronic Transactions Act would also not deal with situations where the Commissioner has decided that certain customers should be required to use digital services.

TIMING RULES

The Tax Administration Act 1994 sets out a range of rules by which various returns must be received, payments made, and other things must be completed. These rules were typically designed to deal with paper-based transaction systems. These timing rules would need to be reviewed to ensure that the requirements for the use of digital services are clear, and that there are no inadvertent timing benefits to customers in using non-digital compared with digital services.

PROPOSALS

The Inland Revenue Acts should be reviewed and provisions requiring non-digital communication removed to allow potential future use of digital services.

Timing rules should be reviewed to ensure that rules for digital services are clear and align with non-digital services.

APPENDIX 1

OTHER TAX JURISDICTIONS' DIGITAL APPROACHES

Overseas revenue agencies are actively expanding digital services and self-management options, for example:

DIGITAL SIGNATURES	<p>Spain has made progress in the development of authentication services, including the development of digital signatures.</p> <p>Mexico uses one identification system (digital signature) to support secure electronic transactions.</p>
ELECTRONIC MESSAGE/REMINDER	<p>The United Kingdom uses electronic and phone messages to individual taxpayers with tax debt reminding them to pay.</p>
NATURAL SYSTEM	<p>The Australian Tax Office has launched a reinvention programme that focuses on a strong staff and customer focus; mobile delivery; natural systems; voice ID and ATO as a wholesaler and retailer of services.</p> <p>Chile offers a free IT software solution that simplifies accounting management for small business taxpayers by allowing them to automatically capture information related to commercial transactions in the respective accounting journals thus complying with their tax obligations “on the go”.</p>
PRE-POPULATE DATA	<p>Singapore has introduced a “no-filing” service, if customers have only pre-populated income. It also offers pre-filled e-filing screen for individuals to view employment and deduction information.</p>
SMART PHONES AND MOBILE APPS	<p>Chile launched a smart phone application for individual taxpayers to access services in an online authenticated and non-authenticated environment.</p> <p>Sweden uses a mobile application with a mobile electronic ID to facilitate interactions via mobile devices.</p>
REDUCE OTHER CHANNELS' SERVICE OFFERING	<p>Canada gradually discontinued counter services as part of broader modernisation of the Canada Revenue Agency's service delivery offering.</p>
PAPERLESS INTERACTION	<p>Denmark improved the process of using individual income tax assessment including replacement of printed documentation with web services and issuing an online assessment with forecast of income and deductions to individual taxpayers.</p>

APPENDIX 2

EXAMPLES OF DIFFERENT INTERACTION AND TRANSACTION RULES IN THE INLAND REVENUE ACTS

Example of silent legislation as to form of interaction and transaction with Inland Revenue

Section 15I of TAA states: [Procedure for revocation of listing]

(1) The Commissioner must notify a listed PAYE intermediary of an intended revocation under section 15H, and must provide reasons for the intended revocation.

(2) If the listed PAYE intermediary who is notified by the Commissioner under subsection (1) does not resolve the matters set out in the notice to the satisfaction of the Commissioner within 30 days of the date on which they are notified, the Commissioner may give 14 days' notice of revocation.

(3) At the end of the 14-day notice period under subsection (2), the listing of the listed PAYE intermediary is revoked.

(4) A decision by the Commissioner under this section is not open to challenge under Part 8A.

Example of Commissioner having discretion as to form of interaction and transaction

Section 34B of TAA states:

[Commissioner to list tax agents]

A person who is not a tax agent and who is eligible to be a tax agent may give a notice (the application) to the Commissioner in a form approved by the Commissioner—

(a) stating that the person wishes to be listed as a tax agent; and

(b) providing the information required by subsection (11), if the person is not a natural person; and

(c) providing any other information required by the Commissioner.

Example of where the specific form of interaction and transaction is prescribed in legislation

Section 14B of TAA states: [Giving of notices to Commissioner]

(1) This section applies when this Act or any other Act requires a person to give a notice to the Commissioner.

(2) The person must give the notice in writing.

(3) The person may give the notice to any office of the department.

(4) The person may use the methods set out in subsections (5) to (7) to give the notice, subject to any conditions described in the subsection.

(5) The person may give the notice by personal delivery, if the personal delivery is made during working hours.

(6) The person may give the notice by an electronic means of communication, if the person complies with the Electronic Transactions Act 2002.

(7) The person may give the notice by post—

(a) to the street address; or

(b) to the post office box number.

(8) A notice given by post is treated as having been given at the time the notice would have been delivered in the ordinary course of the post.

(9) The following provisions apply if there is a conflict between this section and a provision in this or any other enactment:

(a) if the conflict is between either of subsections (2) and (6) and another provision, subsection (2) or (6) prevails; and

(b) if the conflict is between any of subsections (3) to (5), (7), and (8) and another provision, the other provision prevails.

LEGISLATION ON INTERACTION

CURRENT STATE



FUTURE STATE



APPENDIX 3

THE USAGE OF “IN WRITING” AND “BY POST” IN THE INLAND REVENUE ACTS *“in writing” in the Inland Revenue Acts:*

REVENUE ACTS	“IN WRITING” APPEARS
Income Tax Act 2007	102 times in 37 sections
Tax Administration Act 1994	98 times in 42 sections
Child Support Act 1991	78 times in 39 sections
Student Loan Scheme Act 2011	74 times in 29 sections
Goods and Services Tax Act 1985	60 times in 20 sections
KiwiSaver Act 2006	28 times in 11 sections
Taxation Review Authorities Act 1994	8 times in 2 sections
Stamp and Cheque Duties Act 1971	6 times in 3 sections
Gaming Duties Act 1971	8 times in 3 sections

“by post” in the Inland Revenue Acts:

REVENUE ACTS	“BY POST” APPEARS
Tax Administration Act 1994	26 times in 7 sections
Student Loan Scheme Act 2011	6 times in 3 sections
KiwiSaver Act 2006	4 times in 1 sections