

# MAKING TAX SIMPLER

**BETTER ADMINISTRATION OF PAYE AND GST**

**SUMMARY OF FEEDBACK**



Hon Michael Woodhouse  
**MINISTER OF REVENUE**

A summary of the feedback on *Better Administration of PAYE and GST*  
public consultation

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*Better Administration of PAYE and GST  
Summary of Feedback*

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# CHAPTER 1

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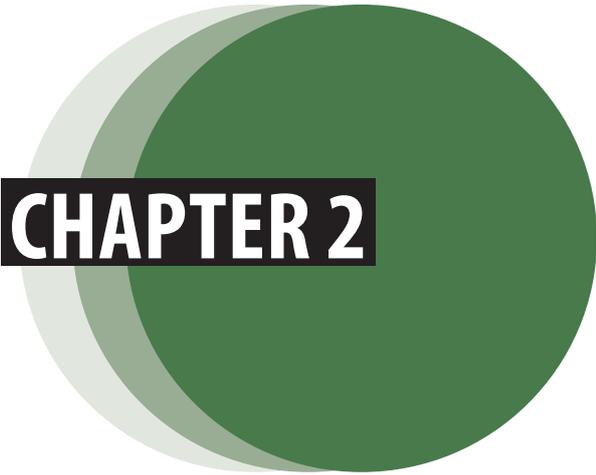
## INTRODUCTION

In November 2015, the Government released the fourth document in a series of discussion documents for public consultation planned for the next few years to support consultation on the Government's proposals for modernising and simplifying tax and social policy administration in New Zealand.

The fourth consultation, *Making Tax Simpler - Better administration of PAYE and GST* (the discussion document) outlined proposals to design digital services for PAYE and GST that will integrate tax requirements into tasks that people would already be doing as part of running their business, such as running their payroll.

An online forum, *makingtaxsimpler.ird.govt.nz*, provided the opportunity for the public to submit comments online and answer three opinion polls linked to specific questions. Written submissions were also received through the normal submission process. Over 1000 online comments were received as well as 87 written submissions.

This document summarises the main themes from both the online consultation and written submissions. The comments quoted in the summaries are representative examples of the comments received and are quoted as supplied, apart from the correction of typographical errors. It also sets out the results from the opinion poll questions for some of the proposals. The summary is organised by the chapter headings used in the discussion document. The submissions received were generally supportive of the overall direction of the document but highlighted concerns or issues that would need to be addressed. Most submitters did not support payday remittance of PAYE and other deductions or an electronic filing threshold for GST. Also the theme that "one size does not fit all" was evident from the submissions and online comments.



# CHAPTER 2

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## **INTEGRATING TAX REQUIREMENTS INTO BUSINESS PROCESSES USING SOFTWARE**

This section of the discussion document proposed integrating PAYE and GST requirements into business processes using software so that the tax processes are part of the normal business activity and would enable business and the like to use their business software to also meet their tax obligations.

### **Summary of comments**

Submissions were generally supportive of the approach, but there was a view that the use of business software should be optional. Also submissions noted a number of concerns or issues that would need to be considered in the detailed design. Feedback on the integration of tax obligations into business software is also covered in chapters 4, 5 and 7.

*“Any increase in filing frequency must come with an increased tolerance in relation to accuracy. Businesses operate to a level of materiality and will incur significant additional compliance costs if they are required to provide*

*information to a level of accuracy over and above that which they apply in their business operations.”*

*“For those businesses that use commercially available software this makes sense.”*

*“...we consider paper-based alternatives will continue to be required for some time yet.”*

*“Customers need to remain in control of their own data and it must be easy for them to manage and keep track of their interactions with IR.”*

*“We submit that businesses should always be aware at which point information is being sent to Inland Revenue, and there should be an option to save the information and delay sending it to Inland Revenue (i.e. to enable it to be reviewed by a manager or tax adviser).”*

*“It is however important to recognise that the “do it yourself” nature of the small NZ business means that a large number do run a paper based system and do not want the extra monthly cost that accounting packages have... the freedom should be maintained to use a*

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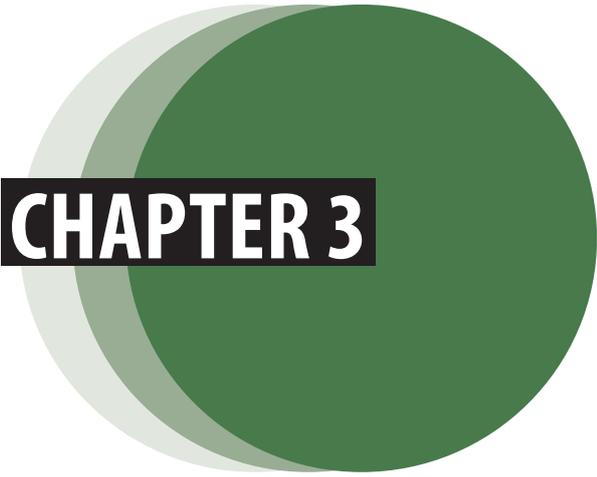
*paper based system.”*

*“We are supportive of the Government’s initiative to integrate tax requirements into business processes using software, as such a change can be expected to reduce compliance costs for businesses in the long term...”*

*“Changes to business processes will involve short-term compliance costs for businesses.”*

*“Employers should be able to “self-correct” this [errors] on a go forward basis (that is, in future pay periods) without any imposition of penalties... We believe that such error correction should not be limited to minor errors (i.e. constrained by a \$ figure).”*

*“...there should be an onus on Inland Revenue to respond to employers in a timely manner to allow them to update their payroll information...If employers are expected to update their systems and processes to interact with Inland Revenue in real-time, approval should be available in real-time.”*



# CHAPTER 3

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## MODERNISING THE PAYE RULES

This chapter of the discussion document consulted on potential changes to the PAYE rules relating to secondary tax codes, extra pays, holiday pay, an extra pay day in a tax year, as well as how legislated rate changes should be dealt with.

### Secondary tax codes

The discussion document set out the Government's approach for reducing existing pressure points around secondary tax codes through improved administrative intervention during the year, as a result of Inland Revenue receiving more timely PAYE information.

### Summary of comments

This approach was widely supported in written submissions, although many of the submitters emphasised that care must be taken to ensure that this does not increase compliance costs for employers. Some submitters considered that secondary tax codes were unfair and should be abolished.

*"The setting of individual rates should*

*be optional. Some taxpayers may wish to maintain their privacy if they have income from other sources such as a second job, investment or family trust distributions." Suggestion for reducing secondary tax pressure points: "Allowing taxpayers to set own rates based on previous year's marginal tax rate."*

*"... supports the above vision for reducing existing pressure points by way of receiving more timely PAYE information. While we agree that IRD intervention during the year will help in reducing over and under payments of tax, this intervention should be managed and applied (by the IRD) in a way that does not increase compliance costs for employers, or result in special tax codes being applied incorrectly due to incomplete employment information being held regarding an employee."*

*"...the employee must make the decision whether to apply for a special tax code to change the withholding rate. An employer has imperfect information regarding an employee's overall income profile and as such, it is only the employee that is in a position to determine whether a special tax code is appropriate. Further we note that it is*

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*essential that the employee make this decision, as changes in withholding rates to correct for tax previously under-withheld or over-withheld without notifying the employee could cause issues in the employer-employee relationship."*

*"I think there shouldn't be secondary tax. Why should someone who is happy or needs to work 2+ jobs be taxed more? We should be thanking them for getting out there and doing everything they can to be a part of the working world."*

#### **Tax treatment of extra pays**

The discussion document sought feedback on what was more important in relation to the tax treatment of extra pays – a simple calculation method or withholding accuracy. It also sought feedback on the idea of introducing two options that an employer could use to determine the amount of tax to withhold from an extra pay – a simple method (suitable for employers doing their payroll manually), and a more accurate, but more complex, method (suitable for employers with payroll software). Feedback was also sought on what the calculation method(s) should be.

#### **Summary of comments**

Consultation responses were mixed. Small employers running their payroll manually and the accounting profession generally thought simplicity was more important, while payroll software providers and large employers generally thought withholding accuracy was

more important. There were also a number of suggestions to improve the calculation method for calculating tax on an extra pay.

*"On balance, making the method simpler for employers is more important. A degree of inaccuracy should be tolerated."*

*"... does not consider the current calculation of extra pay to be overly complex from an employer perspective (using payroll software), and is of the view that accuracy should be prioritised in this instance to reduce the occurrences of over withholding of tax from employees. ...we do not agree that the introduction of an annual 'square-up' would reduce the need for accuracy in the withholding of tax. Rather it would place a heightened importance on employers to get the tax "right" during the year, as the employee will be required to pay additional underpayments at year end (which does not necessarily occur now), which is likely to result in additional queries to the employer."*

*"we do question whether this (greater accuracy) is consistent with the overall vision of "Making Tax Simpler" as noted in the title to this discussion document. In [our] view, a drive for greater accuracy will lead to more complexity in the PAYE rules, and this is not necessarily a desirable outcome. In addition, accuracy in the calculation of PAYE appears to be of less importance in a post- Business Transformation world where it is envisaged that all taxpayers will be required to complete an annual square-up of income tax."*

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*“We are supportive of proposals to modernise the existing PAYE rules, such as secondary tax, extra pay and holiday pay. On balance, we support greater simplicity over complexity, particularly for smaller employers. However, a more accurate option (for calculating tax on extra pays) for employers who have more sophisticated payroll systems should be available.”*

*“We consider trying to achieve tax positions that are “correct” on a comprehensive annual liability basis solely by source deductions requires too much administration and compliance by employers and other payers to be entirely successful in a progressive tax rate system...”*

### **Tax treatment of holiday pay**

This section of the discussion document consulted on clarifying the tax treatment of holiday pay through either legislation or an Inland Revenue publication. Submitters were also asked whether the tax treatment of holiday pay is unclear.

#### ***Summary of comments***

The majority of large employers and tax advisors thought that the existing tax treatment of holiday pay is clear. The online forum comments suggested that there may be some lack of clarity amongst small employers. There were mixed views about whether legislative clarity should be provided, or whether clarification in an Inland Revenue publication would be sufficient. However, the majority of submitters thought clarification in an Inland

Revenue publication is sufficient.

Several submitters thought that taxing holiday pay paid in advance as an extra pay is unfair as it results in over withholding. It is common in some industries for employees to work extra hours in the lead up to Christmas, which can exacerbate the over-withholding if the extra pay formula is used.

*“...treating advance payments of holiday pay as extra pay can be seen as unfair to employees, and as such, more employers could be fielding more queries from potentially disgruntled employees.”*

### **Extra pay day in a tax year**

The idea of introducing a mechanism to withhold additional PAYE in tax years in which an extra pay day will occur was consulted on.

#### ***Summary of comments***

Consultation responses were mixed. Some submitters supported introducing a mechanism, but amongst supporters there was division about whether it should be mandatory or optional at the employers’ discretion. Other submitters were against introducing a mechanism, on the basis that it would introduce additional complexity for little benefit. Several submitters favoured retaining the status quo for now and revisiting the question if, and when, it is decided to make all individuals undertake an annual square-up.

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*“... for the next few years the status quo should be preserved and the problem dealt with if and when there is a requirement for all individuals to undertake an annual income tax square-up. Any firm decision at this point would risk following a different path from that eventually taken by the business transformation process.”*

*“Apply rate changes from first pay after 1 April consistently. Better chance of everyone getting right then.”*

### **Application of legislated rate changes**

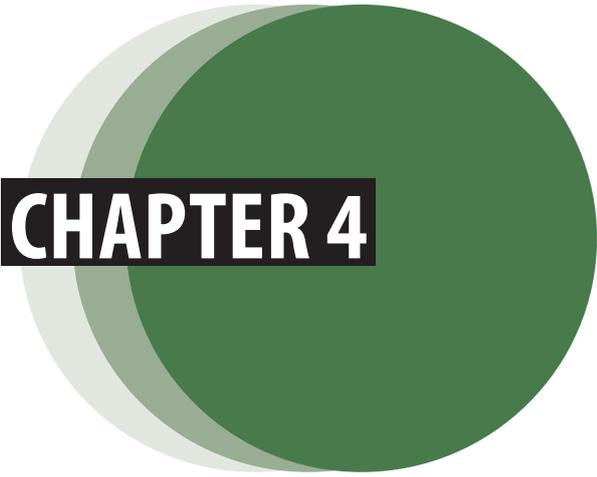
Different types of PAYE income payments and PAYE-related social policy products have different rules on what is to be done when there is a legislated rate (or threshold) change during a pay period, or if there is rate (or threshold) change between the date the payment is made and the pay period to which the payment relates. The discussion document consulted on aligning the rules about how legislated rate changes are applied across the different PAYE-related tax types/products.

### **Summary of comments**

Consultation responses strongly supported alignment. The majority of submitters favoured a pay date-based approach for alignment.

*“Yes this will help the simplification process”. “If the pay date approach is for pay periods starting after the rate change then it will be the best option.”*

*“...we support alignment based on a pay-date approach on the basis that this would minimise compliance costs for employers.”*



# CHAPTER 4

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## **PAYE - MODERNISING HOW INFORMATION IS PROVIDED**

### **Problems with current PAYE process**

Submitters were asked a number of questions regarding what aspects of PAYE processes caused problems or were sources of frustration. The Discussion Document also outlined a number of concerns identified from previous feedback which submitters agreed were concerns and should be addressed. A number of the suggestions to deal with problems with the current process are administrative and these concerns and suggestions will be passed onto Inland Revenue for its consideration.

### **Summary of comments**

Error correction - *"Inability to correct errors in real time or self-correct errors on-line." "Difficulty in making changes to information that has already been filed."*

IRD response time - *"Concern with the amount of time it takes IRD to process employer monthly schedules and action amendments." "The amount of time*

*it takes for amendments to KiwiSaver employer contributions to be processed." "Of primary importance is the need for Inland Revenue to update PAYE records on a more real time basis."*

MyIR - *"...using separate log in details for the IRD portal means that is not possible to see if one member of the team has already dealt with email communications. It would be useful if the portal provided for a better 'paper' trail that allows multiple users from a single entity to be able to identify what actions other users had taken."*

Some common themes from the online comments:

*"A reminder notice for payments due for PAYE would be helpful in the same way that we receive one for GST."*

*"I don't know why the IRD website doesn't save all historical data from using the PAYE calculator so you can then just press a button and do the monthly schedules based off what you already entered..."*

*"It is also frustrating that the complexity of IRD rules seems to prevent amalgamation of the EMS & EDF into*

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*just one form.”*

### **Providing PAYE information at time of business process**

This section of the discussion document outlined in more detail the PAYE processes and how those processes could be integrated into the payroll processes so that the PAYE obligations such as providing PAYE information and remitting the PAYE and other deductions could be met as part of the business’ payroll process. In other words, the PAYE obligations being met as a consequence of the payroll event such as paying staff.

#### **Summary of comments**

Feedback from written submissions from larger employers and representative groups was generally in favour of, or silent on, providing PAYE information at the time of the business process, although it was noted that there would be one off upgrade costs.

*“In general, we agree that this [using software to send payroll info to IR at the time staff are paid] would reduce compliance costs for employers. However some of our members did not feel that there would be a significant reduction in compliance costs arising as a result of being able to send payroll information to Inland Revenue at the same time staff are paid, particularly those who already use the file transfer method to provide employer monthly schedule information to Inland Revenue”.*

*“... current payroll software system*

*cannot provide pay information to the IRD on a real time basis. The initial cost of upgrading/replacing software to enable this to occur would be substantial, however it would likely reduce ongoing compliance costs due to the reduction in errors and quicker amendment of incorrect tax and PAYE information held.”*

Most, albeit not all, feedback on the online forum (assumed to largely be from SMEs) was strongly opposed to payday reporting of pay period information assuming it would increase their current workload in proportion to their paydays in a month and, that it would impose additional costs to adopt or upgrade software. There were positive comments, often from submitters who identified themselves as users of software.

### **Becoming an employer/ceasing to be an employer**

The discussion document proposed that payroll software packages include a feature that requires employers to notify Inland Revenue of a decision to commence or cease being an employer and asked whether such requirements should be included in legislation.

#### **Summary of comments**

There was strong support for this from written submitters. The general consensus was that this should not be a legislative requirement but some submitters considered that being a legislative requirement would mean that software developers would build

this feature into software. Some smaller employers were against this proposal due to the compliance costs. There was the belief that the EMS already serves this purpose.

*"[We] would not support any move to make such a change a legal requirement. As in all areas of regulation, moving from an operational matter to a legal requirement should occur only when there is a significant problem at hand requiring a move up the regulatory pyramid. [We] see no primary reason why these provisions should be included in legislation; any moves in this direction would likely worsen, rather than improve, the current employer-IRD relationship."*

*"We support the proposal in principle..."*

*"It may be useful to include these requirements in legislation so that this encourages software developers to build this option into their software payroll packages."*

### **Employing staff, maintaining their details and ceasing to employ staff**

The discussion document proposed that employers provide, via their payroll software, employee details to Inland Revenue at the time those details are entered, changed, or removed from the payroll system. It was proposed that the following information be provided:

- Employee's name;
- IRD number;
- Tax code;

- Contact details;
- Start date; and
- Date of birth.

It was also proposed that Inland Revenue would continue to communicate any change of employee obligations to the employee.

### **Summary of comments**

The majority of written submissions supported the proposal to use payroll software to provide employee details to IR at the time those details were entered/changed/removed from the payroll system.

*"We agree with this proposal. In addition, we believe that employers would value a response from Inland Revenue in real-time once this information is sent via the payroll system in order to verify that the information provided is correct prior to the first pay run to that employee. [We see] a lot of value in this as if new employees can be correctly 'on-boarded' this should ensure more accurate PAYE withholding."*

Smaller employers were less supportive of this proposal due an increase in compliance costs arising from entering employee details into the payroll system.

*"No. This effectively turns the payroll system into an HR system, and to achieve the aims stated on pages 38 – 39 require the information in the payroll system to be submitted to IRD"*

prior to the first pay. This is not usually realistic. Additionally, this would impose significant extra cost on those without an electronic payroll system which communicates with IRD."

"IRD already receives the information that a new employee has started or finished via the EMS. It would be onerous to have to separately advise them that an employee has finished or started. We use a lot of casual staff over the Christmas period and they may then work for us intermittently during the year. I can just put them into the system for a couple of weeks here or there without having to make any special notification to the IRD."

"This is a great idea. Very helpful to have that information before the employee starts – very annoying when start getting letters from IRD about child support etc, then at least can confirm it with the employee."

"We generally only add new employees to the payroll software when we are about to pay them so I can't see the benefit in the information being sent to IRD at that time."

There was strong support for Inland Revenue continuing to communicate any change of employee obligations to the employee.

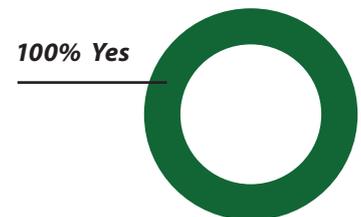
"[in regards to IRD communicating changes to employees] Yes then the employee has full knowledge of any amounts withheld. It is critical any such changes are notified to employees; otherwise employees will be requesting information from employers who may not know the reason why the tax rate

has increased/reduced."

"We also support the proposal that IR continue to communicate any change of employee obligations or details to the employee. This enables employees to remain in control of their information and to immediately correct anything they consider to be wrong."

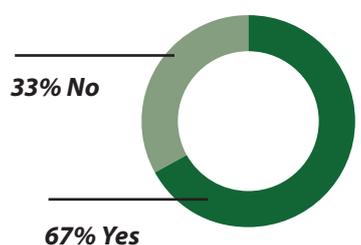
**Poll question: Do you support the proposal that Inland Revenue should continue to communicate any change of employee obligations or details to the employee?**

**7 responses, all yes.**



**Poll question: Do you agree that employers should be able to send new employee details to Inland Revenue before the employees are first paid - this should ensure that new employees are correctly set up from the beginning of employment?**

**6 responses, 4 said yes (67%) and 2 said no.**



## Date of birth information

Submitters were asked whether employers should obtain date-of-birth information from their new employees and provide this information to Inland Revenue, in order to help Inland Revenue confirm taxpayers' identities.

### Summary of comments

Feedback was generally but not universally positive. The main message from submissions was that if employers are going to be required to obtain employee date of birth information and provide it to Inland Revenue, then it should be legislated for. Alternatively, Inland Revenue could provide a channel for employees to provide that information directly.

Online comments in favour amounted to 56% of responses. Many of those opposed assumed that the alternative, direct employee provision of identity information to IR, was straightforward with employees happy to contact IR to provide details.

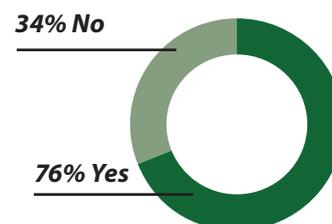
*"We support this requirement being included in legislation. Due to the sensitivities in the employer collecting this information from an employee, if this was not included as a legislative requirement, employees may otherwise refuse to provide this information."*

*"We are not comfortable with the proposal that employers should obtain date of birth information and provide it to Inland Revenue. Age is a sensitive issue for some and age discrimination still exists in New Zealand workplaces. IR*

*will already have the employee's name and IRD number in order to verify their identity. If a birth date is also needed for verification purposes, we recommend the employee provide this directly to Inland Revenue."*

**Poll question: Do you agree employees should provide date of birth information to their employer along with their IRD number?**

**17 responses, 13 said yes (76% in favour) and 4 said no.**



## Compliance cost implications of provision of PAYE information at the time staff are paid

The consultation sought information on the compliance cost implications of using software to send payroll information at the time staff are paid and whether it would increase or reduce such costs and if possible quantify that effect.

### Summary of comments

The responses were mixed. Some submitters, particularly those who made on-line comments (assumed to largely be small to medium businesses) considered pay day reporting would increase compliance costs because of the need to check information on a pay period basis

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rather than monthly and / or the need to purchase payroll software. This concern was reflected in a number of written submissions also.

A number of submitters were comfortable with their current process and did not want to change. A number of submitters that currently use payroll software supported the proposal. Again some submitters thought that this should be optional.

Some submitters noted that there would be a one-off cost in upgrading systems to allow for pay-day reporting, but considered on-going compliance costs would reduce. Others considered the compliance cost savings to be quite small as the transmission of data is only a small part of the payroll process.

*"In our view, the more frequently the information is required, the more likely that there will be additional cost to employers. While electronic transfer costs are low, the cost is in employee time required for compilation and verification. If Inland Revenue is prepared to relax the rules around penalties, this would reduce the costs because employers would be more confident to send information directly from the payroll system without incurring such high compliance costs in compilation and verification. One option would be to allow the information to be submitted on the following working day to allow time for the detection and correction of errors."*

*"...Our current payroll software system cannot provide pay information to the IRD on a real time basis. The initial*

*cost of upgrading/replacing software to enable this to occur would be substantial, however it would likely reduce ongoing compliance costs due to the reduction in errors and quicker amendment of incorrect tax and PAYE information held."*

*"I think that this would increase compliance costs. It would also remove the internal process of checking for errors. If something was mis-entered in the pay run, for example, it can be corrected before the month end return to the IRD. Commonly, businesses perform reconciliations on a month end basis, to tie in with their management reporting, not after each payroll. Sending information to the IRD automatically after each pay run would therefore increase the possibility for error and also compliance."*

*"It would reduce compliance costs because it would save having to reenter the same data on a different day to file with IRD. It saves double handling and is more efficient doing both tasks at the same time."*

*"I think that submitting to the IRD every time we have a pay run increases compliance rather than decreases it."*

*"...we would be disadvantaged straight away with extra compliance costs as we do not use a digital payroll system at present."*

### **Amending PAYE information**

The consultation proposed that employer's payroll systems calculate and submit amending data to Inland Revenue at the same time the changes

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are made to the employer's own records.

### **Summary of comments**

There was general support for using payroll software to amend payroll records and to send that information to Inland Revenue at the time the records are amended. Also there was support for the ability to correct errors in a subsequent period as is the case for other taxes such as GST. There was no consensus on which option should be chosen regarding the method for amending PAYE information.

*"We believe this would be an advantage."*

*"The majority of our members were indifferent as to which option is selected. We expect that provided whichever option is selected, the process should be automated within the payroll software, and therefore it should not make a significant difference to employers as to what option is selected."*

*"The proposal to expand s 113A of the TAA to allow corrections of PAYE errors in the next period is welcome and could provide sufficient relief in many cases... we doubt that change would provide a complete solution, particularly where errors or adjustments (increasing or reducing tax payable) may not become apparent until some pay periods later."*

*"Automated corrections would be great."*

### **Information provided to other agencies**

The discussion document asked

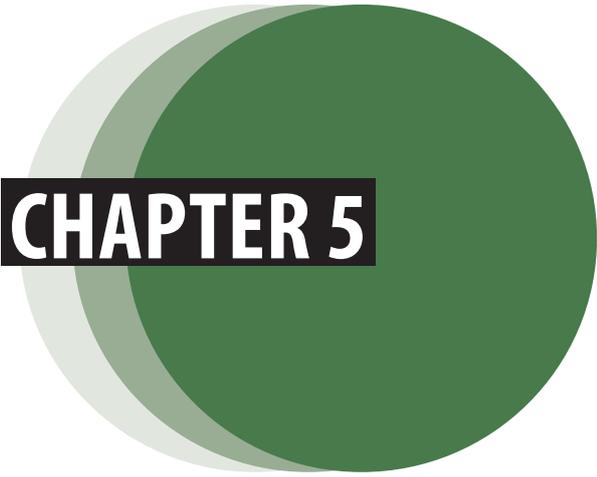
whether submitters provide information to other government agencies that they think would more appropriately be provided to and passed on by Inland Revenue as part of the PAYE information process.

### **Summary of comments**

There was marginal support for this, however it was noted that other Government agencies' officers must be subject to the same secrecy requirements as IR officers.

*"We believe there still needs to be controls on information flows from Inland Revenue to other government departments for privacy reasons. Information from Inland Revenue should be available to other government agencies on a need basis only, especially where it is individual information. If a person is applying for social assistance or for income related payments from ACC, it is appropriate for Inland Revenue to release income information to the particular department and for this purpose. There should still be restrictions on the release of income information to other government departments. For example, in our view IR should not be allowed to release information that would result in it being required to police legislation and policy in relation to pay rates (i.e. compliance with minimum wage rules), working hours and secondary jobs."*

*"Could the IRD please also share data with Statistics New Zealand. Their quarterly employment surveys are a complete waste of our time given the government already has this information through the PAYE system."*



# CHAPTER 5

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## **PAYE INFORMATION - IMPLEMENTING CHANGE**

### **Threshold for electronic filing**

The discussion document consulted on reducing the electronic filing threshold for the employer monthly schedule (EMS) from \$100,000 PAYE and ESCT to \$50,000 a year. Also it asked if such threshold should be based on something other than the value of PAYE and ESCT deductions and if so, what. A process for obtaining an exemption from digital filing would remain, and focus on whether the employer is unable to access digital services.

### **Summary of comments**

Feedback from the online consultation was generally opposed to a reduction in the threshold. Some submitters were opposed to an electronic filing threshold altogether.

Feedback from written submissions was mixed.

*“Threshold should remain at \$100,000. Was set some years ago and wage increases have eroded this anyway.*

*Some businesses still prefer manual systems to computer software.”*

*“We consider \$50,000 to be an appropriate threshold for filing PAYE information electronically. . .we consider the number of employees is a viable option. Above a certain number, electronic filing of PAYE information could be compulsory.”*

*“With the lack of guidance as to whether a drop from \$100,000 to \$50,000 would make any material difference, we believe it would be more beneficial if any decision on the future PAYE threshold is not made until (a) more information is provided so that an informed choice can be made on an optimal threshold level, and (b) submitters have a better understanding of likely significant changes to PAYE processes so that these can be taken into account when examining a revised threshold.”*

*“The \$50,000 threshold is much lower than the current \$100,000 e-filing threshold and is not supported. Our concern is that this will capture very small employers and impose compliance costs on them to upgrade. This will be a “cliff”, from a compliance cost perspective, for an employer who*

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*has PAYE obligations of \$50,001.” “...the electronic filing option should not apply to businesses with PAYE of \$100,000 or less or 3 or fewer employees.”*

### **Providing PAYE information when the business process occurs – implementation options**

The consultation proposed three options for implementing the provision of PAYE information at the time of the business process:

- 1) Voluntary-first approach - Once a critical mass of employers are using the new software the Government may review the situation and require all employers (or all of a certain class) to provide PAYE info at the time of the business process.
- 2) Legislated approach - Initial legislation would set out dates by which time employers would be required to provide PAYE information at time of business process (possibly different dates for different classes of employers).
- 3) Review approach – Legislation would be amended to allow employers to voluntarily submit PAYE information when the business process occurs. This would be reviewed 12 – 36 months after introduction and mandated for employers (or certain classes) if the Government concludes that the benefits outweigh the costs. The review approach would have a time-tabled review period from the outset, whereas the voluntary-first approach would not.

Also views were sought on whether employers would seek to change the frequency with which they pay staff, if required to provide information at the time the business process occurred.

### ***Summary of comments***

Almost all of the online submitters who responded on this topic stressed that the provision of PAYE information at the time of the business process should be voluntary. This was not necessarily support for a voluntary-first approach which allowed for the possibility of a subsequent legislative requirement but support for employers always having a choice.

The preference amongst the written submitters was mixed. The general consensus was that uptake should be voluntary - however some submitters were of the view that more time is required for large employers and software developers to adapt to the changes and therefore there should not be a set review period.

The feedback in response to whether employers would change pay cycles in response to the requirement to provide information at the time of the business process was mixed. The majority of the submitters who responded to this question said they would not change their pay cycle.

*“Agree that the Government needs to be able to balance the employer’s interest in choosing how to provide PAYE information against the wider system benefits. Prefer the voluntary approach. Think Government should require employers to use payroll software*

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*capable of providing PAYE information at the time of the business process – but there should be some payback for additional costs. I wouldn't seek to change the frequency of paying staff if required to provide PAYE information at the time of the business process."*

*"have no issue with processing PAYE at same time as doing wages (but don't think payroll software should be mandatory). May seek to do wages monthly if this was introduced."*

*"We recommend the voluntary-first approach...there will be a range of employers with different levels of capability that will need to be accommodated...PAYE technology solutions will need time to develop and gain buy-in...therefore, we do not believe the review period should be time constrained."*

*"We prefer that IR adopt the review approach in the first instance, rather than mandating electronic filing of PAYE information. If the systems and processes that IR implements are time saving and user friendly taxpayers will be keen to adopt them. If they are not, further work should be undertaken to ensure that they are useful to business and fit for purpose...over time this would be in the best interest of the tax system. However, we do not believe it should be required at first instance. In our view, it would be preferable to encourage employers to use such software. This would also encourage software developers to develop it."*

## **Factors influencing the uptake of software**

The discussion document asked what factors would influence submitters as to whether or not they would upgrade their software to provide PAYE information at the time the business process occurs. Also, it sought views that if some employers were exempt from the requirement to provide PAYE information at the time of the business process occurs, whether such employers should provide disaggregated PAYE (pay day) information and when that information should be provided by.

### **Summary of comments**

For large employers it was stressed that a long lead in time was essential in order for them to upgrade their software. For smaller employers, the most influential factor mentioned was cost, ease of use and the benefits to the business. A number of submitters mentioned the provisions of free software or Inland Revenue providing a basic payroll system for small employers to use.

*"A more realistic timeframe would be around 24-36 months to ensure the transition is as smooth as possible for businesses employing the largest percentage of employees."* (The discussion document referred to 12 – 24 month lead time.)

### **Other factors mentioned:**

*"Whether [we] are able to access the new PAYE services (i.e. employers can only utilise the new services once their*

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*payroll software provider updates the employer's current system to take advantage of the new PAYE services);*

*The timeframe in which their current payroll software provider will upgrade the system to the required standard to access the new PAYE services;*

*Whether using the new PAYE services is required by legislation;*

*The cost of upgrading the payroll software system;*

*Efficiencies achieved in utilising upgrading payroll software to take advantage of the new PAYE services;*

*Whether the new PAYE services will be easy to use within a payroll software package;*

*Whether adopters of the new PAYE services experience system 'errors';*

*Potential for disruption and the time it will take for the organisation to implement and adapt to the new computer software."*

*"While it is reasonable to expect those using non-digital services to provide Inland Revenue with some of or the same information, there will need to be separate requirements for how this information is to be provided and the timeframe for providing it. In our view, exempt employers will still need to provide some form of non-digital form to Inland Revenue, such as a revised EMS schedule."*

*"We support a tax system that is fair, simple to use and efficient. We recognise*

*that moving to digital services will help make this possible, but we also see clients who are at risk of being left behind...we also recommend that, for the small number of people who will never make the transition to the digital environment, non-digital services be available for as long as is needed, without penalty or charge. We do not want to see people forced to use accountants or tax agents, or decide not to bother filing at all, because of the absence of a non-digital option."*

*"Most influential factors for determining whether to upgrade will be minimising fixed ongoing costs, access to support, ease of use and interactivity with other systems. If we were required to provide PAYE information at the time of the business process I would consider outsourcing the job."*

## **Financial assistance**

Submitters were asked for their views on whether financial assistance should be available to assist employers to take advantage of the new digital services proposed to modernise PAYE information.

## **Summary of comments**

In the online submissions there was overwhelming support for the Government to provide financial assistance, however a proportion said that financial assistance would not influence them to purchase software. Some submitters were of the view that the current payroll subsidy is too low. Some suggested that Inland Revenue should provide a basic payroll package for small employers

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to use. The majority of written submitters were silent on the question of whether the Government should provide financial assistance. Those that did submit on the issue were generally supportive.

*“Small to medium businesses should have assistance from the government. Any changes made to the tax system should fall on IRD and the government. For example, a new staff member starts. It's up to the employer to provide all the necessary information and equipment related to that job description. You're the boss IRD. If you want certain systems in place, then it's up to IRD to provide and equip the new system. Our tax system is suffocating small business!”*

*“We believe financial assistance may be required to compensate for the transitional cost as well as ongoing costs (the latter particularly if employers are to lose the cash-flow benefit from holding PAYE as working capital prior to remittance)...assistance could be targeted by size of business, with smaller employers more likely to be disproportionately impacted by the changes (see also above our suggestion to limit the PAYE proposals to employers with more than 3 employees).”*

*“This subsidy [the payroll subsidy] should be retained or even increased to assist employers to take advantage of the new digital services proposed to modernise PAYE information.”*

*“Financial assistance can aid in uptake, also potential assistance to education and upskilling.”*

*“Yes - financial assistance or a subsidy*

*should be available, particularly if an employer will be required to purchase or modify software. We believe IR should consider building a portal that all employers can access, rather than requiring them to purchase software in order to be able to take advantage of the new digital services. Given Government's need to remain neutral, we would not support IR favouring or preferring one software provider over another. Subsidies always have issues with targeting. Unless it is a universal subsidy there will be perceptions of inequity. Also any subsidy needs to be paid to employers, not a third party.”*

### **IR 56 taxpayers**

The discussion document asked whether IR 56 taxpayers (that is employees responsible for their own PAYE rather than their employer) should remain responsible for their own PAYE, and whether the due date for filing and payment should be brought forward from the 20th of the month following payment.

### **Summary of comments**

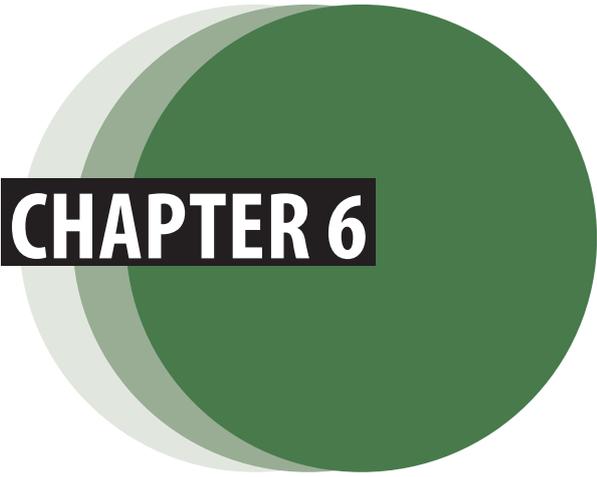
Written submissions and most online comments supported the continuation of the current system. However, two online commentators questioned the current system and suggested a schedular payment type withholding tax and an end of year return as an alternative. The consensus among submitters was that the suggested due date of the 5th of the following month would be impractical, with most submitters being of the view that the 20th of the following month remained

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appropriate for IR 56 taxpayers.

*"...I consider the IR56 tax payment model a liability as an employer. Asking people to file their own PAYE is tedious for them to do and me to manage. ...I can see no reason why employees who currently fit the IR56 criteria could not be registered as self-employed like so many other freelance workers and either have WHT deducted and/or pay tax at the end of their financial year."*

*"We agree that IR 56 taxpayers should remain responsible for their own PAYE information and deductions...we believe that 20th of the month following payment filing is still appropriate."*



# CHAPTER 6

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## PAYE - ALIGNING PAYMENTS

The discussion document consulted on the possibility of aligning the process of making PAYE payments (and related deductions and contributions such as for KiwiSaver, child support and student loan repayments) to IR with the timing and business process of paying salary and wages to employees.

### *Summary of comments*

Most submitters (including online) did not support payday remittance of PAYE. The minority that supported paying PAYE at the time wages are paid considered it would save time, be more efficient and would allow employers to better manage their tax liabilities.

Those in support said:

*"[We support] the voluntary introduction of pay-day payment of PAYE to IR. The most time efficient processing of payroll can be achieved when the payroll calculation, payment instructions, PAYE payment and IR information filing are all completed at the same time, as part of the usual business process of*

*paying employees. We recognise that some employers will choose to retain the status quo and pay PAYE in arrears. However, some small businesses will value the certainty and finality of a pay-day payment over the cash flow benefit from paying in arrears."*

*"We are generally supportive of the proposal for PAYE to be paid to Inland Revenue on a pay day basis, due to the expected reductions in compliance and administration costs as well as a potential to help reduce PAYE payment default. However, we submit that there should be an extended transition period for small businesses if pay day payment is adopted."*

*"... would not be against the proposal to combine the payment of salary and wages to employees, the payment of PAYE deductions to IRD, and providing PAYE information to IRD on the same day, on the condition that the process of payment and filing of information to the IRD is fully automated."*

*"Don't mind paying PAYE at the same time as the wages – would make the process more efficient instead of having to do it later. But will consider paying monthly instead of fortnightly."*

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The main reasons submitters gave against the proposal were:

**(1) Cash flow**

Employers and their representatives were largely concerned about the impact it would have on the cash flow of businesses, especially on small businesses, which are often under-capitalised and most likely to be adversely affected by the impact of the proposal. Because of this, some submitters suggested that payday alignment should only be targeted at large employers.

*"We believe a change to align PAYE payment with salary payments would have a significant effect on overall cash flow in the New Zealand economy. Officials should conduct an analysis of the effects on New Zealand's business and economy."*

*"This would impact cash flow of under-capitalised small businesses. Would be extra work for IRD arranging delayed payments – businesses would be charged penalties and interest resulting in additional tax effectively."*

**(2) Ability to offset costs**

Employers (being "unpaid" intermediaries in the tax system) would lose the advantage of interest on the PAYE deductions they hold between the time they pay their staff and the time they pay the PAYE deductions to Inland Revenue. Currently employers may offset some of their PAYE compliance costs with the benefit provided by holding the PAYE until payment is due.

*"It is often pointed out that some employers consider the time use of money from the delay in paying PAYE is a form of payment from IRD for costs incurred in complying with PAYE obligations...[We have] much sympathy for this view..."*

**(3) May compromise digital filing through intermediaries**

Payroll intermediaries are able to provide electronic filing services at a cheaper price because of the timing delay (30-40% of their revenue comes from interest earned on trust account). Without it, prices will need to be increased (or the payroll subsidy will have to increase) which may result in fewer employers using payroll intermediary services.

*"The proposal to align PAYE payment obligations would eliminate a key revenue stream that PAYE Intermediaries rely on to fund and subsidise their services. Without increases in the current subsidies paid by the Commissioner, the proposal would result in payroll intermediaries having to increase their prices charged to employers, or abandon the additional services that they provide, which would in turn result in fewer employers (particularly small employers) using their services. This would leave Inland Revenue to manage these employers directly, at significant additional cost." "[this proposal would] increase business costs by an estimated \$175M in funding costs if all employers had to borrow to fund the short-fall."*

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#### **(4) Additional administrative costs**

Most submitters thought that more frequent payment was likely to introduce additional administrative burdens and costs to many employers (payroll staff involved, authorisation, and transaction costs). Some large employers make several pay runs a week (sometimes daily) due to different categories of employees being paid on a different frequency.

*“An approach which requires PAYE to be paid each time a payment is made to an employee will result in more frequent payments of PAYE. This is particularly the case in large organisations where a large number of extra pays are made to employees through the year, or where employees are paid on a weekly basis... Given the internal administrative costs and transaction costs involved in making a payment of PAYE, this would likely increase compliance costs for many large employers.”*

#### **(5) No time for error correction**

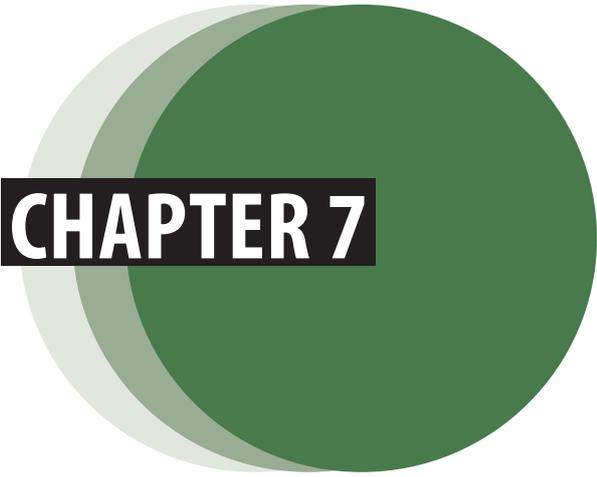
Payday remittance would expose employers to potential penalties as there will be no time for error correction.

*“Filing the EMS with IR requires additional compilation, verification and, often, error correction, over and above the work done for the monthly or fortnightly payment run. If IR were to require the EMS or equivalent at the same time as the payment run, IR would need to waive all interest and penalties payable on the filing of the EMS.”*

#### **Other comments:**

*“This just looks like a scheme to improve the government's cashflow under the guise of tax simplification. I cannot see the time or cost saving.”*

*“...the 20th of the month following is when most small businesses are paid by their clients, meaning that the 20th is a good time cash flow-wise for them to meet their obligations re IRD to PAYE.”*



# CHAPTER 7

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## GST - MODERNISING HOW INFORMATION IS PROVIDED

### Using integrated software to provide GST information

The discussion document proposed that taxpayers would be able to provide GST information to Inland Revenue directly from their integrated accounting software used as part of their business processes. This would replace the manual filing of GST returns.

#### *Summary of comments*

The majority of written submitters supported this, however some took the view that because of the large amount of manual adjustments that are required for GST returns, integrated software may not be all that useful. The lack of time for error correction was also raised as a concern.

Small business registered for GST generally opposed using integrated software for the following reasons:

- Current system works fine/have no need for software;

- Cost;
- Inability to correct errors.

A significant proportion of SMEs were still in favour of it provided it was voluntary.

Also concerns were expressed about the ability to correct errors or make adjustments.

Comments were made that these proposals rely on the correct information being inputted into the accounting software in the first place. One submitter recommended that the proposal needs to be further explored with an emphasis on how incorrect information provided by the GST registered person is handled.

*“Given the bespoke nature of most large employer’s accounting systems, it would be difficult to produce a GST return directly from the firm’s accounting system given the number of manual adjustments required. In addition, some employers do not use their accounting software to calculate their GST obligations.”*

*“As a chartered accountant I see the*

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*mistakes people make using accounting software. Software should prevent people from filing until certain checks have been made such as:*

*1. All transactions from the bank feeds have been allocated, coded, processed, leaving none un-coded for the period in review.*

*2. The Bank reconciliation has been completed and all outstanding items on the bank rec are brought to the clients attention before the return is processed.*

*3. The accounting system ensures that the debtors ledger reconciles with the balance in the general ledger.*

*4. The accounting system ensures that the creditors ledger reconciles with the balance in the general ledger."*

*"We support the proposal to allow the submission of GST returns online via accounting software as an additional option...in order for the proposal to work efficiently, Officials should develop a process to allow subsequent error correction for GST returns."*

*"...although the future state looks to simplify the lines of required communication and data transfer, success is still predicated on the notion of the right information being inputted to provide the correct result. Therefore, the future state could lessen, but not eliminate, the age-old technological problem of "garbage-in-garbage-out."*

*"I would not be happy if the accounting software was directly linked - small adjustments have to be made, etc- I rely on our accountant and my own*

*checks and not "blindly" on accounting software. Definitely a "no" from us - not good for small businesses!"*

*"I do not think this should be made compulsory as a lot of people (such as myself) are registered for GST (although the present size of business is smaller than the minimum threshold for GST) and do not have accounting software as the business cannot afford it. Electronic submission of GST returns is fine but should be optional, not compulsory."*

*"If you are going to do this, it must be optional. A lot of small businesses and independent contractors in NZ run their business without accounting software. To impose the cost of having to use accounting software on all organisations in NZ could pose a substantial net cost to the economy; and provide a barrier for new start-ups. Other options: Let small businesses file once a year - that'd halve my compliance costs. For me the current categories of costs required by IRD are meaningless and not how I prepare my accounts for any other purpose. Having to recode for tax/GST purposes adds compliance costs. Tax returns may be made on cash or accrual basis - that flexibility/choice should definitely be retained. As a CA I also have some concerns about the practicality of feeding the information for medium-larger businesses given the need for month/year end adjustments and adjustments to GL coding made for tax reasons."*

*"I would welcome the ability to have my accounting software send information directly to IR, with suitable controls. This would reduce my effort. I am only*

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*a one-man band, but anything which reduces effort and cuts down chance of error would be good. Support others comments that this should only be optional, but not those that say 'make no changes' - don't hold back those who are willing and able to improve their efficiency."*

### **Direct crediting of GST refunds**

The discussion document proposed GST refunds should only be made by direct credit into a customer's nominated bank account, unless it would cause undue hardship to a customer or is not practicable.

#### **Summary of comments**

The majority of submitters (written & online) that responded on this issue were in support. Some submitters indicated that it should be the default option, but not compulsory.

*"Making it compulsory won't be an improvement and won't benefit anyone – will place hardship on those that currently choose to receive a cheque for whatever reason."*

*"Given the prevalence of electronic payment methods, it is reasonable that GST refunds should be paid by Inland Revenue electronically (either to the taxpayer's account or its authorised agent). The benefits of such payments are identified in the discussion document. However, as acknowledged in the document, it is important Inland Revenue continues to ensure that "an exemption to this rule would be available if the taxpayer expresses hardship or direct crediting is not*

*practical". It would be helpful for Inland Revenue to publish guidelines on when the exemption may apply and how taxpayers can utilise it."*

*"We do not support the proposal that GST refunds should only be made by direct credit into a taxpayer's nominated bank account. We consider the proposal is open to abuse and would require a greater degree of accurate record-keeping than is presently happening. If the measure was to be made compulsory we believe additional security checks would be necessary."*

### **Electronic submission of GST information for some registered persons**

The discussion document asked whether GST-registered persons over a certain threshold should be required to submit their GST information to Inland Revenue in an electronic format.

#### **Summary of comments**

The majority of online submitters were of the view that electronic filing of GST information should be voluntary and there is no compulsion to use accountancy software to submit digitally.

The response among the written submitters was mixed:

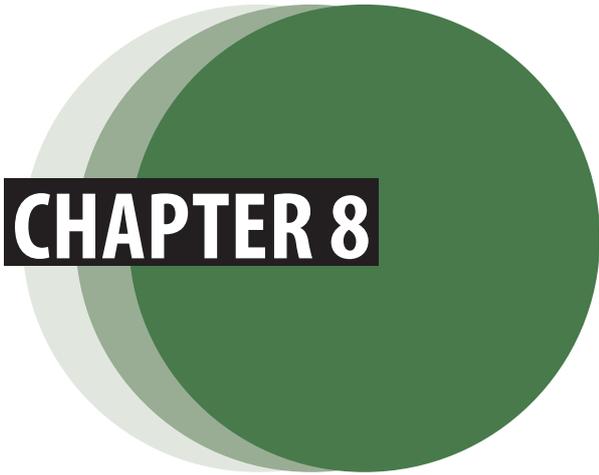
*"We do not support a compulsory electronic filing threshold for GST. We expect over time, with the development of technology, that the number of electronic filing will increase naturally. Compulsion is therefore not required."*

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*"The majority of [our] members support this proposal. We note that if submitting the GST return electronically, there should also be the ability for the taxpayer to attach further information to assist with the processing of the return and to pre-empt the IRD information requests for information (rather than having to post this information separately)."*

*"While [we are] not averse to the idea of having to file GST information electronically over a certain threshold, it is difficult to make a call as to what that threshold should be given need for further information. For instance, since two-thirds of all GST-registered persons already file in this way, a threshold of say \$50,000 or \$75,000 might in reality make little difference to the numbers filing electronically, as at that level, the vast majority do so anyway."*

*"Yes." "Turnover of 300k per year."*



# CHAPTER 8

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## **OTHER CONCERNS**

### **Data and integrity issues**

There was a submission that the modernisation of the PAYE system needs to be able to address situations where no PAYE information is held about a taxpayer, for example, where the employer has not made the required deductions, or where the deductions have been made, but not passed on to Inland Revenue. An example was given of a new migrant who realised his employer was not deducting PAYE but didn't know what to do as he did not want to lose his job or employer provided accommodation. A further example given was of a client who was dismissed without notice by his employer. His employer would not sign a declaration for Work and Income confirming his previous employment as he had been paid under the table.

### **Compliance costs & document scope**

There was concerned with the short term compliance costs that will be imposed on businesses by

these proposals. The submitter also submitted that the discussion document is not clear on what information will be sourced from accounting and payroll software, and cautioned that these proposals should not allow Inland Revenue unfettered access to data.

### **Non-digital services**

Another common message was that some form of non-digital services must remain for those unable to use digital services.







