



Making Tax Simpler – Cabinet Papers

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- Cabinet Economic Growth and Infrastructure Committee – Minute of decision (EGI Min (15) 5/2) (18 March 2015)
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- Paper for the Cabinet Economic Growth and Infrastructure Committee (EGI (15) 61) (16 March 2015)
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Also available at <http://taxpolicy.ird.govt.nz/publications/2017-other-mts-cabinet-papers/overview>



Cabinet Economic Growth and Infrastructure Committee

EGI (15) 65



Copy No: 44

Summary of Paper

16 March 2015

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: A Government Green Paper on the Future Direction of Tax Administration

Portfolio	Finance / Revenue
Purpose	This paper seeks agreement to release a government green paper on the future of the New Zealand tax administration system.
Previous Consideration	On 2 March 2015, Cabinet agreed to the government's revenue strategy, and noted that the tax policy work programme has been designed to implement that strategy [CAB Min (15) 6/9].
Summary	<p>Policy work to support the modernising of the tax administration system is a significant aspect of the tax policy work programme. The attached government green paper, which builds on a draft working paper that was produced as part of a 2014 conference on "Tax Administration for the 21st Century", is the start of this aspect of the programme.</p> <p>The government green paper describes some of the policy areas of tax administration that will need to be examined to ensure the tax system is fit for purpose. It seeks feedback on whether the policy direction for modernising and simplifying the tax administration system is heading in the right direction – it will therefore help to identify any errors or omissions of scope before more detailed policy work is undertaken.</p> <p>The government green paper makes the following assumptions:</p> <ul style="list-style-type: none"> • key tax bases will remain substantially in place, based on the broad-base low-rate (BBLR) tax framework; • social policy and other non-tax functions currently administered by Inland Revenue (eg relating to Working for Families, child support, student loans and KiwiSaver) will continue to be a key part of Inland Revenue's portfolio of work; • the use of technology and the implementation and delivery of digital services is a key enabler to ensure the policy direction is realised. <p>The diagram on page 5 depicts the key elements upon which the policy direction described in the government green paper (and in the associated discussion document on Better Digital Services) is based.</p>
Regulatory Impact Analysis	Not required.

Baseline Implications	None.
Legislative Implications	None from this paper.
Timing Issues	<p>The government green paper will be released on or after 31 March 2015, for an eight week consultation period.</p> <p>Appendix 1 on page 12 details the specific topics and indicative timing for the release of future green papers.</p>
Announcement	<p>The Minister of Finance and the Minister of Revenue will announce the release of the government green paper at an appropriate event.</p> <p>The government green paper will be accompanied by an internet-based public consultation forum (extracts are attached), and it will be linked to the associate consultation on providing digital services.</p>
Consultation	<p>Paper prepared by Inland Revenue. MBIE, DIA, Education, ACC, SSC, Statistics, Customs and MSD were consulted. DPMC was informed. The Commissioner of Inland Revenue's transformation reference group and the Taxpayers' Simplification Panel were also consulted.</p> <p>The Minister of Revenue indicates that a number of Ministers were consulted, and that discussion is not required with the government caucus and has been undertaken with other parties represented in Parliament.</p>

The Minister of Finance and the Minister of Revenue recommend that the Committee:

- 1 note the contents of the government green paper *Making Tax Simpler: A Government Green Paper on Tax Administration* (the government green paper), attached to the submission under EGI (15) 65;
- 2 note that the purpose of the government green paper is to seek feedback on whether the policy direction for modernising and simplifying the tax administration system is heading in the right direction, and to identify any errors or omissions of scope before more detailed work is undertaken;
- 3 agree to the release of the government green paper and associated material for public consultation, subject to any minor or editorial changes that may be authorised by the Minister of Revenue;
- 4 invite the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on feedback received from the consultation, and on whether there is general acceptance of the direction outlined in the government green paper to modernise the tax administration system.

Janine Harvey
Committee Secretary

Distribution: (see over)

Distribution:

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Secretary for Internal Affairs
Chief Executive, TPK



Chair
Economic Growth and Infrastructure Committee

**MAKING TAX SIMPLER – A GOVERNMENT GREEN PAPER ON THE FUTURE
DIRECTION OF TAX ADMINISTRATION**

Proposal

1. We seek the agreement of the Economic Growth and Infrastructure Committee to release a Government green paper on the future of the New Zealand tax administration system.

Executive summary

2. The Government green paper describes some of the policy areas of tax administration that will need to be examined to ensure the tax system is fit for purpose as we progress through the 21st century. The document indicates the key areas where change may be required to frame and enable Inland Revenue's business transformation programme in modernising and simplifying tax administration.

3. The document is the first in a series of documents that will be released over the next few years. This green paper seeks feedback on the overall direction of potential changes and aims to identify any errors or omissions in scope before more detailed policy analysis is undertaken.

4. In conjunction with the release of this document, the Minister of Revenue is also seeking Cabinet's agreement to release a discussion document which considers whether the current policy and legislative framework facilitates the implementation and delivery of secure digital services (see Cabinet paper titled Making Tax Simpler – Better Digital Services discussion document).

Objectives

5. The purpose of the business transformation programme is to design a tax system that makes it easier and simpler for New Zealanders to interact with Government, contributing to the goals of providing better public services. A modern tax system that is simple to comply with will mean less effort is required from New Zealanders and New Zealand businesses in managing their tax and social policy affairs, boosting overall compliance. Costs to the Government of administering the tax system should be kept to a minimum.

6. A flexible tax system that utilises existing business processes will mean lower compliance costs. This means that people can spend less time on tax and more time on

running their businesses, supporting our wider goal to build a competitive and productive economy as part of the Business Growth Agenda.

7. These objectives will be achieved by:

- making it easier and less expensive for businesses and other customers to meet their tax and social policy obligations, boosting overall levels of compliance;
- increasing certainty through easy access to information, earlier and simpler transactions, timely and effective resolution of issues, obligations being met through normal business processes, improved response times and tailored interactions;
- providing value for money for the Government through reduced administration costs, and more efficient collection of debt;
- re-using data across Government, where appropriate;
- increased use of digital services by both Inland Revenue and its customers;
- ensuring that the integrity of the tax and social policy system is maintained by identifying key policy concerns and audit risks easily; and
- providing flexibility for future changes.

8. To begin the dialogue Inland Revenue, in conjunction with the Treasury and Victoria University, hosted a conference called, “Tax Administration for the 21st century” in July 2014.

9. As part of the conference officials produced a draft working paper that outlined, at a very high level, a vision of some specific policy changes that could frame and support Inland Revenue’s business transformation programme. The draft green paper attached to this Cabinet paper takes that draft working paper a step further in order to test its underlying assumptions.

The future for business

10. The first building block is to streamline the collection of PAYE, GST and related information and integrate these obligations into business processes. This will reduce the compliance costs for businesses as “withholders” on behalf of others. The timely provision of data through the use of electronic and internet based technology is a key enabler to improve the tax system. Our understanding from industry sources is that over 50 per cent of small to medium enterprises (SMEs) use some form of accounting software.

11. Key benefits for business include:

- reduced tax compliance costs in particular for small and medium enterprises;
- greater speed and predictability in businesses’ tax affairs;
- a two-way transfer of information between business’s own systems (e.g. payroll) and Inland Revenue, meaning that tax compliance obligations are being met as part of a business’s normal processes; and
- errors being avoided in the first place or rectified in near real time.

12. Businesses not only withhold tax on behalf of others, but also pay tax on the income they earn. The green paper seeks feedback on how to simplify calculations for provisional tax, so that they are based on real-time information (for example when using approved accounting software), and the use of payment options that better reflect taxpayers’ cash flows. It also seeks feedback on other business tax related issues the Government should focus on from a tax administration perspective.

13. Another focus is on ensuring it is easy for small businesses to comply with their tax obligations improving overall levels of compliance. Tailoring interactions to ensure the right support is available at the right time and the use of improved technology and business systems should be encouraged, making it easy to comply right from the start – and hard not to.

The future for individuals

14. For individual taxpayers, it is envisaged that in the future:

- taxpayers will be able to quickly and easily satisfy their tax obligations via digital channels;
- Inland Revenue will pre-populate online income tax returns and, for the majority of individuals, any interaction will involve just confirming income sources and amounts;
- those with income sources that by their nature do not make it possible to pre-populate returns, amounts from these income sources would be the only additional information required from those individuals;
- refunds will be made quickly and, in most cases, automatically (based on better use of data and analytics); and
- any outstanding tax debts will be recovered proactively through automatic withholding from existing income sources, where appropriate.

The future for social policy

15. The intention is to design a social policy system that works for the customer and is fit for purpose. It should have many of the advantages that individual taxpayers will receive, such as pre-population of information Inland Revenue or government already holds. It should also match the timeliness of payments to the need to receive (or ability to pay) on a more real-time basis, providing increased certainty for individuals and families.

The policy and legislative framework

16. As part of business transformation, key administration and legal issues that frame and underpin much of New Zealand's tax system need to be considered. Changes to the way that taxpayers interact with Inland Revenue through better use of technology provides an opportunity to consider fundamental aspects of the Tax Administration Act 1994 (the TAA) including the roles of the Commissioner, of taxpayers and third parties, and information sharing and secrecy.

Background

17. Having a good overall tax system means having both good tax policies and a good administrative system; these two elements go hand in hand. In addition, the perception of fairness, together with the ease with which taxpayers can actually comply with their obligations, is also very important in assessing the overall effectiveness of a tax system.

18. New Zealand's tax policies are held in high regard internationally.¹ A number of independent domestic reviews have also been undertaken in recent years and have fundamentally supported the policy settings that frame New Zealand's tax system.

19. Business transformation is a long-term programme to consider different ways of delivering the tax and social policy system. To frame and support the programme, a review of the current policy and legislative settings is required. Modernising the tax administration system includes re-shaping the way Inland Revenue works with taxpayers, and looking at possible changes to, amongst other pieces of legislation, the Tax Administration Act 1994 (TAA).

20. Business transformation will enable Inland Revenue to become a modern revenue organisation that is recognised for service and excellence and:

- is agile, effective and efficient;
- enables customers to self-manage with speed and certainty, thereby reducing compliance costs;
- enables the Government to make timely policy changes; and
- works with other agencies to optimise interaction across government.

21. Business transformation will be delivered in four customer-focused stages over a period of approximately eight years. In April 2014 (CBC (14) 2 refers) we advised that the first stage of the programme would be delivered in three major work streams:

- strategic;
- tactical; and
- foundational.

22. The strategic work stream includes policy work to identify legislative barriers to providing digital services, and streamlining the collection of PAYE and GST information.

23. The following diagram depicts the key elements upon which the policy direction described in this Government green paper and the digital services paper (being concurrently considered by this Cabinet committee), is based.

¹ See, for example:

- Deloitte's 2014 Asia Pacific Tax Complexity Survey Report (<http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-ap-2014-tax-complexity-survey.pdf>)
- Washington DC Tax Foundation's 2014 international tax competitiveness index (see <http://taxfoundation.org/article/2014-international-tax-competitiveness-index>)
For example the McLeod Review in 2001 and, more recently, the Tax Working Group in 2010

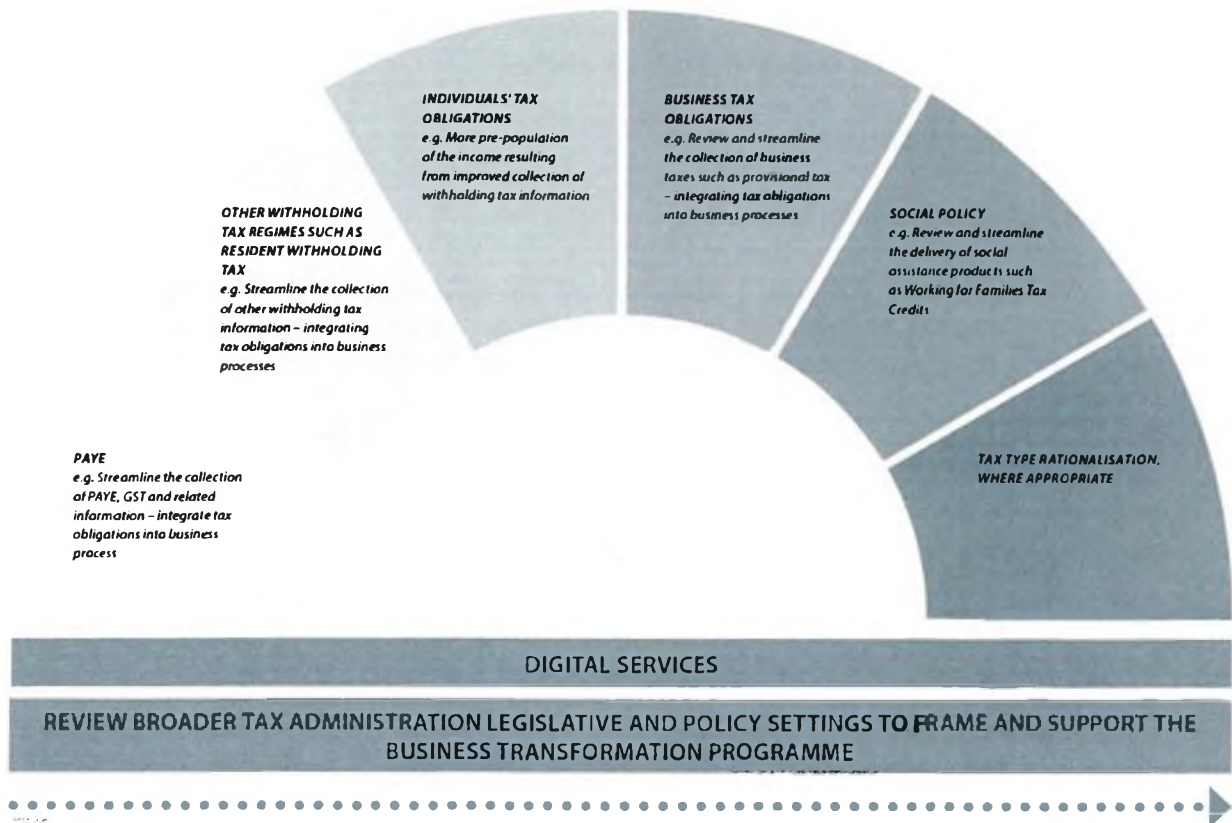


Figure 1

24. The attached Government green paper is the first in a series of papers that will be released over the next two years. The series will build on aspects of the proposals contained in the attached green paper. Appendix A details the specific topics and indicative timing for the release of future green papers.

The Government's Tax Policy Work Programme

25. Cabinet recently approved the release of the Government's tax policy work programme for the next 18 months (CAB Min (15) 6/9 refers). The policy work to support the modernisation of the tax administration system is a significant aspect of the work programme. The release of the attached Government green paper is the start of that aspect of the delivery of our tax policy work programme.

Key assumptions

26. Some key assumptions have been made during the early consideration of the policy issues that are likely to underpin Inland Revenue's business transformation. These include the following:

- key tax bases will remain substantially in place based on the broad-base low-rate (BBLR) tax framework²;
- social policy and other non-tax functions currently administered by Inland Revenue (for example, in relation to Working for Families, child support, student loans and KiwiSaver) will continue to be a key part of Inland Revenue's portfolio of work; and

² BBLR ensures that as broad a range of income and expenditure as practicable is taxed at rates that are as low as possible. A BBLR system helps keep administration and compliance costs low, and keeps economic distortions to a minimum.

- the use of technology and the implementation and delivery of digital services is a key enabler to ensure the policy direction is realised.

The future for business

Employment income (PAYE)

27. As highlighted in figure 1 streamlining the collection of PAYE information is a key strategic element to modernising the administration of the tax system. Doing so will lead to a reduction in compliance costs for businesses.

28. PAYE is a withholding regime for salary and wages. A business that employs staff has certain obligations imposed on it, including the deduction of tax and ACC levies for each employee each payday.³ PAYE information is received monthly from employers (or intermediaries) through the employer monthly schedule (EMS).

29. The Government green paper considers three main issues in relation to employment income:

- the collection of PAYE information;
- modernisation of the PAYE rules more generally; and
- enhancing withholding taxes to cover ‘employment like’ income.

30. The collection of PAYE information is still largely paper based. The shift to digital channels as part of business transformation provides an opportunity to:

- make better use of businesses natural systems to provide information;
- improve the timeliness and accuracy of information received;
- reduce the level of duplication, correction and other interventions required by employers, intermediaries or Inland Revenue before the information can be effectively used;
- improve the use of available information from an all-of-government perspective; and
- consider the types of information necessary to ensure the tax administration system operates effectively.

31. The same approach should be adopted for the collection of GST information.

Expanding the withholding regime

32. Withholding regimes are an effective means to collect income tax and are generally considered to be the foundation of an efficient tax administration system. As business transformation envisages a future where taxpayers’ systems are able to interact with Inland Revenue’s system there is an opportunity to expand the withholding regime to cover a wider range of situations that are similar to employment – such as independent contractors and particular industries.

33. There could be some resistance from businesses on the idea of extending the withholding regime. However, for the reasons referred to in paragraph 32, we consider it is worth testing the likely reaction through the release of the attached green paper.

³ The ACC levy is incorporated into the amount of PAYE the employer deducts.

Business tax

34. The tax system needs to focus on speed, accuracy, certainty, predictability and low business risk in business taxation matters. Businesses have also raised issues with the provisional tax rules. The green paper asks for specific feedback on the key administration issues we should be focusing on to meet business expectations.

35. The green paper also specifically seeks feedback on ways to improve the provisional tax rules. Businesses are required to pay income tax on their profits. The exact amount of tax that a business is required to pay for each year is only able to be determined after that year has finished. The provisional tax rules ensure that tax is paid throughout the year, rather than at the end of the year.

36. The Government green paper sets out some possible ways to achieve a more effective or more certain method for calculating and paying provisional tax, and in particular, it looks at how provisional tax could be better aligned to other business processes.

37. Any review of the provisional tax rules would have to consider changing the current rules excluding some taxpayers from use of money interest on provisional tax payments (referred to as “safe harbour taxpayers”) to reflect new payment calculations and re-consider how use of money interest would apply.

38. One idea explored in the document is that the calculation and payment of business income tax could be done more “on account” as income is earned during the year – much like PAYE for individuals. This has the potential to simplify the calculation of provisional tax and create more certainty for taxpayers.

39. Many small businesses have difficulty in meeting their tax obligations. Therefore, there is a real focus on how Inland Revenue can be more proactive and sophisticated in its approach to providing advice at the right time, and to encourage the use of improved business systems to ensure the first few years of a business’s lifecycle are successful. We are seeking feedback on what other business tax related issues the Government should focus on from a tax administration perspective.

Withholding taxes on capital income

40. A review of the current resident withholding tax (RWT) rules should build on improvements arising from more effective and streamlined collection of PAYE information. The green paper considers ways to enhance the provision of information about RWT arising from interest and dividends by integration into existing business processes – similar to the process envisaged for an improved PAYE information gathering process as described in paragraph 10 above.

41. Inland Revenue currently receives RWT information from financial institutions on an annual basis. However, the annual system does not allow for the timely provision of data and is therefore not used to its full potential. Administration and compliance costs are correspondingly high.

42. The green paper therefore seeks feedback on how best to integrate RWT into business processes, so that upfront validation of information is the norm, ensuring accuracy as much as possible.

The future for individuals

43. Streamlined PAYE and withholding tax mechanisms (as discussed above) are the building blocks on which an individual's experience of the tax system will be based.

44. A policy decision was made in the 1990s to remove the requirement to file income tax returns for as many individuals as possible. However, this approach has created inconsistency in the tax administration system between taxpayers who are not required to file, those who are, and those who choose to file in favourable circumstances (for example, to claim a refund). Significant numbers of individuals are now either required to file or are choosing to file returns. The rules can now also appear arbitrary and complex, which leads to fairness concerns.

45. A key consideration is whether it is still desirable to keep as many individuals as possible from actively interacting with the tax system. The Government green paper explores the possibility of Inland Revenue providing more extensive pre-populated information on tax returns for individual taxpayers. The only action required from the majority of taxpayers would be to check and confirm their details and, where applicable, report other income such as overseas income for which there was no deduction at source.

46. A practical difficulty with this approach is getting effective withholding rates in place, and minimising the costs involved in squaring up liabilities and refunds. The trade-off when seeking more accuracy is the resulting increase in compliance costs for the withholder and administrative costs for Inland Revenue.

47. However, technology may help by making end of year square ups much less costly.

The future for social policy

48. Social policies administered by Inland Revenue such as Working for Families and child support generally operate within the tax system which operates on a yearly basis. Some Working for Families and child support customers will go into debt, or are already in debt unnecessarily because Inland Revenue holds out-of-date information about them or their family. When circumstances change throughout the year, these customers are required to contact Inland Revenue. This means that customers may need to contact Inland Revenue multiple times or they may make no contact at all. Neither outcome is optimal.

49. The intent is to design a social policy system that works for the customer and is fit for purpose. The system needs to reflect the family's circumstances and income (and therefore need) to ensure payments reflect that need.

50. Reviewing the administration of social policies includes consideration of the efficacy of the annual cycle and making greater use of information from other sources. More accurate timely and regular receipt of information is likely to be facilitated by advances in technology. Debt prevention will be a key benefit arising from improvements in the administration of social policy.

The policy and legislative framework for tax administration

51. Finally, business transformation requires consideration of key tax administration and legal issues that frame and underpin much of New Zealand's tax system. Changes to the way that taxpayers interact with Inland Revenue through digital services provide an opportunity to consider fundamental aspects of the Tax Administration Act 1994 (TAA). These issues are:

- the roles of Parliament, the Commissioner, the taxpayer and third parties in tax administration;
- whether the Commissioner's current role is appropriately legislated for when considering the future tax administration environment;
- principles underpinning information and secrecy;
- the suitability of the penalty, disputes and binding rulings regimes in the future environment;
- record keeping and time bars in the future environment; and
- the legislative structure of the tax Acts.

Impact on taxpayers, including Government agencies

52. Modernising the tax administration system will have implications for taxpayers, including Government agencies. There will be short term implementation costs to achieve the long term gains of reduced compliance and administration costs.

53. The cumulative impact of both legislative change and changes to business processes will need to be carefully managed to ensure that businesses are not faced with successive changes through each stage of business transformation.

Proposed timeline

54. Subject to Cabinet approval, we propose to release the Government green paper for public consultation on or after 31 March 2015, with an eight week consultation period. Officials will analyse the submissions and the Minister of Revenue will report back to Cabinet on feedback received and whether there is general acceptance of the direction as outlined in the paper for modernising the tax administration system.

Consultation

55. Officials have consulted with the Ministry of Business, Innovation and Employment, the Department of Internal Affairs (DIA), the Ministry of Education, the Accident Compensation Corporation (ACC), the State Services Commission, Statistics New Zealand, the New Zealand Customs Service and the Ministry of Social Development. The Department of Prime Minister and Cabinet were informed on the proposals in the Government green paper. Officials also discussed the scope of the discussion document with the Commissioner's Transformation Reference Group and the Taxpayers' Simplification Panel.

56. Feedback from agencies has been supportive of the policy direction contained in the document and all who responded have expressed a desire to be further consulted. Our officials will continue to work with them over the course of the policy development process. ACC and DIA provided the following specific references for inclusion in the Green Paper:

- treating information as an asset;
- Result Areas 9 and 10; and
- ACC's dependence on Inland Revenue's information.

Financial implications

57. The release of the Government green paper does not give rise to any financial implications.

Human rights

58. There are no human rights implications associated with the release of the Government green paper.

Legislative implications

59. The draft Government green paper does not suggest any immediate legislative implications. However, legislative changes will be necessary if Cabinet subsequently decides to implement any of the potential changes identified.

60. The Minister of Revenue intends to introduce a bill titled Taxation (Business Transformation and Simplification) mid-year which will signal the start of modernising and simplifying the tax administration system. The bill will focus on reducing compliance costs for small to medium enterprises.

Regulatory impact analysis

61. Officials advise that the substantive regulatory impact analysis elements have been included in the draft green paper at a level that is appropriate given the stage of the policy development process. Regulatory Impact Statements will be prepared, if required, when policy decisions are sought.

Publicity

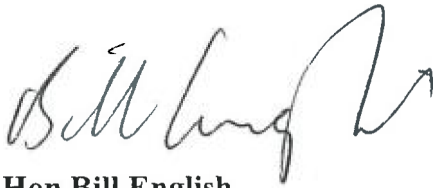
62. We intend to announce the release of the draft Government green paper at an appropriate event to be determined in due course. The Government green paper will be accompanied by an internet-based public consultation forum. It will set out a summary of the proposals and seek views on the same questions raised in the green paper. It will be linked to the internet-based public consultation on providing digital services. Extracts of the internet-based consultation are attached.

Recommendations

63. We recommend that the Cabinet Economic Growth and Infrastructure Committee:

1. **Note** the contents of the attached Government green paper *Making Tax Simpler: A Government Green Paper on Tax Administration*.
2. **Note** that the purpose of the Government green paper is to seek feedback on the policy direction for modernising and simplifying the tax administration system is heading in the right direction and to identify any errors or omissions of scope before more detailed work is undertaken.

3. **Agree** to release for public consultation the attached Government green paper and associated material.
4. **Agree** to delegate to the Minister of Revenue the ability to make editing changes and finalise the detail before the document is released for public consultation.
5. **Invite** the Minister of Revenue to report back on feedback received and whether there is general acceptance of the direction outlined in the Government green paper to modernise the tax administration system.



Hon Bill English
Minister of Finance

11, 03, 2015
Date

Hon Todd McClay
Minister of Revenue

___/___/___
Date

3. **Agree** to release for public consultation the attached Government green paper and associated material.
4. **Agree** to delegate to the Minister of Revenue the ability to make editing changes and finalise the detail before the document is released for public consultation.
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Hon Bill English
Minister of Finance

Hon Todd McClay
Minister of Revenue

____ / ____ / ____
Date

10 / 3 / 15
Date

	Indicative consultative paper release date	Indicative bill introduction date	Indicative bill enactment date
BT green paper on tax administration - setting the scene for a tax administration fit for the 21st century	March 2015	n/a	n/a
Digital services discussion document - ensuring the policy and legislative framework facilitates moving tax administration to digital channels	March 2015	November 2015	July 2016
Taxation (First Business Transformation and Simplification) Bill (2015)	n/a	May 2015	February 2016
Tax Administration Act discussion document - developing a tax administration framework fit for the 21st century and more joined-up government	October 2015	June 2016	July 2017
Streamlining the collection of GST and PAYE information/ modernisation of the PAYE rules discussion document - integrating tax obligations into business processes; modernising the PAYE rules	October 2015	June 2016	July 2017
Extending withholding taxes to other employment-like income discussion document - consider expanding the current PAYE rules to cover other employment-like income	October 2015	June 2016	July 2017
Individual's taxation discussion document - improving the tax system for individuals including comprehensive pre-population of income information, the collection of information, more efficient debt collection processes and the degree of interaction with the tax system	March 2016	November 2016	November 2017
Streamlining the collection of capital income withholding taxes discussion document - streamlining the collection of other withholding regime information such as resident withholding tax and dividends	March 2016	November 2016	November 2017
Business taxation discussion document - improving the tax system for business including the calculation of provisional tax, the collection of information and reviewing the penalties and interest rules	June 2016	November 2016	November 2017
Social policy discussion document - improving the administration of social policy including the accuracy of the collection of information and the payments / collection of entitlements	June 2017	November 2017	October 2018

Note: There may be more than one discussion document for some topics and some discussion documents may be amalgamated.

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:

Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation):

<http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation>

Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission: The Ministry of Business Innovation and Employment, the Department of Internal Affairs, the Ministry of Education, the Accident Compensation Corporation, the State Services Commission, Statistics New Zealand, the New Zealand Customs Service, the Ministry of Social Development

Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed: The Department of Prime Minister and Cabinet.

Others consulted: Other interested groups have been consulted as follows: Commissioner of Inland Revenue's transformation reference group and the Taxpayers' simplification panel.

Name, Title, Department: Mike Nutsford, Policy Manager, Inland Revenue Department

Date:

4 1 3 1 2015

Signature

Mike Nutsford

Certification by Minister:

Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.

The attached proposal:

<p><i>Consultation at Ministerial level</i></p>	<p><input checked="" type="checkbox"/> has been consulted with the Minister of Finance [required for all submissions seeking new funding] EGI Min BT MR 6/04</p> <p><input checked="" type="checkbox"/> has been consulted with the following portfolio Ministers:</p> <p><input type="checkbox"/> did not need consultation with other Ministers</p>	
<p><i>Discussion with National caucus</i></p>	<p><input type="checkbox"/> has been or <input type="checkbox"/> will be discussed with the government caucus</p> <p><input checked="" type="checkbox"/> does not need discussion with the government caucus</p>	
<p><i>Discussion with other parties</i></p>	<p><input checked="" type="checkbox"/> has been discussed with the following other parties represented in Parliament:</p> <p style="padding-left: 40px;"><input checked="" type="checkbox"/> Act Party <input checked="" type="checkbox"/> Maori Party <input checked="" type="checkbox"/> United Future Party</p> <p style="padding-left: 40px;"><input type="checkbox"/> Other [specify]</p> <p><input type="checkbox"/> will be discussed with the following other parties represented in Parliament:</p> <p style="padding-left: 40px;"><input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party</p> <p style="padding-left: 40px;"><input type="checkbox"/> Other [specify]</p> <p><input type="checkbox"/> does not need discussion with other parties represented in Parliament</p>	
<p>Portfolio Revenue</p>	<p>Date 10/3/15</p>	<p>Signature <i>[Signature]</i></p>

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

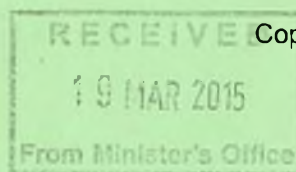
- The Government discussion document *Making tax simpler - A Government green paper on tax administration* is available at <http://taxpolicy.ird.govt.nz/publications/2015-dd-mts-1-tax-administration/overview>
- The Making Tax Simpler website is available at <https://www.makingtaxsimpler.ird.govt.nz>
- An archive of the Making Tax Simpler consultation sites is available at <http://taxpolicy.ird.govt.nz/archived-websites>



Cabinet Economic Growth and Infrastructure Committee

EGI Min (15) 5/2

Minute of Decision



Copy No: 42

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: A Government Green Paper on the Future Direction of Tax Administration

Portfolios: Finance / Revenue

On 18 March 2015, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** the contents of the government green paper *Making Tax Simpler: A Government Green Paper on Tax Administration* (the government green paper), attached to the submission under EGI (15) 65;
- 2 **noted** that the purpose of the government green paper is to seek feedback on whether the policy direction for modernising and simplifying the tax administration system is heading in the right direction, and to identify any errors or omissions of scope before more detailed work is undertaken;
- 3 **agreed** to the release of the government green paper and associated material for public consultation, subject to any minor or editorial changes that may be authorised by the Minister of Revenue;
- 4 **invited** the Minister of Revenue to report back to EGI on feedback received from the consultation, and on whether there is general acceptance of the direction outlined in the government green paper to modernise the tax administration system.

Janine Harvey
Committee Secretary

Reference: EGI (15) 65

Distribution: (see over)

Present:

Hon Bill English (Chair)
 Hon Gerry Brownlee
 Hon Dr Jonathan Coleman
 Hon Amy Adams
 Hon Dr Nick Smith
 Hon Nathan Guy
 Hon Nikki Kaye
 Hon Michael Woodhouse
 Hon Maggie Barry
 Hon Craig Foss
 Hon Jo Goodhew
 Hon Nicky Wagner
 Hon Louise Upston
 Hon Paul Goldsmith
 Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
 Officials Committee for EGI

Distribution:

Cabinet Economic Growth and Infrastructure Committee
 Office of the Prime Minister
 Chief Executive, DPMC
 Director, PAG, DPMC
 PAG Subject Advisor, DPMC
 Carolyn van Leuven, PAG, DPMC
 Secretary to the Treasury
 Jane Frances, Treasury
 Chief Executive, MBIE (Economic Development)
 Cath Atkins, MBIE
 State Services Commissioner
 Minister of Education
 Secretary for Education
 Minister for Social Development
 Chief Executive, MSD
 Minister for ACC
 Chief Executive, ACC
 Chief Executive, MBIE (ACC)
 Commissioner of Inland Revenue
 Government Statistician
 Comptroller of Customs
 Minister of Internal Affairs
 Secretary for Internal Affairs
 Chief Executive, TPK



Cabinet

CAB Min (15) 9/5

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From Minister's Office

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Minute of Decision

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Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 20 March 2015

On 23 March 2015, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 20 March 2015.

Out of scope	[REDACTED]	[REDACTED]
EGI Min (15) 5/2	Making Tax Simpler: A Government Green Paper on the Future Direction of Tax Administration Portfolios: Finance / Revenue	CONFIRMED
EGI Min (15) 5/3	Making Tax Simpler: Better Digital Services – A Government Discussion Document Portfolio: Revenue	CONFIRMED
Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Out of scope

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Michael Watt

Secretary of the Cabinet

Reference: CAB (15) 118

Distribution:

Cabinet Economic Growth and Infrastructure Committee
 Chief Executive, DPMC
 Director, PAG, DPMC
 Deputy Chief Executive, DPMC (Security and Intelligence)
 Secretary to the Treasury
 Chief Executive, CERA
 Chief Executive, MBIE (Economic Development)
 State Services Commissioner
 Secretary for Internal Affairs (Local Government)
 Minister of Health
 Director-General of Health
 Secretary for Justice
 Chief Executive, MBIE (Communications)
 Chief Executive, Ministry for Culture and Heritage (Broadcasting)
 Minister in Charge of the New Zealand Security Intelligence Service
 Director, NZSIS
 Director, GCSB
 Secretary for Transport
 Minister of Education
 Secretary for Education
 Minister for Social Development
 Chief Executive, MSD
 Secretary for the Environment
 Secretary for the Environment (EPA)
 Chief Executive, MBIE (Building and Housing)
 Minister of Foreign Affairs
 Secretary of Foreign Affairs and Trade
 Director-General, Ministry for Primary Industries
 Minister of Civil Defence
 Director, Civil Defence Emergency Management
 Chief Executive, ACC
 Chief Executive, MBIE (ACC)

Distribution: (continued over)

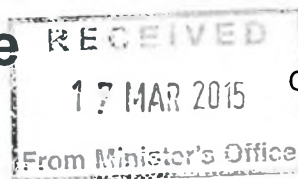
Distribution:

Chief Executive, MBIE, (Workplace Relations and Safety)
Commissioner of Police
Commissioner of Inland Revenue
Minister for Pacific Peoples
Chief Executive, Ministry of Pacific Island Affairs
Director-General of Conservation
Chief Executive, Ministry for Culture and Heritage
Government Statistician
Director-General, MPI (Food Safety)
Comptroller of Customs
Chief Executive, MSD (Disability Issues)
Chief Executive, Land Information New Zealand
Chief Executive, Ministry for Women
Minister of Internal Affairs
Secretary for Internal Affairs
Chief Executive, TPK
Chief Parliamentary Counsel
Legislation Coordinator
Secretary, EGI



Cabinet Economic Growth and Infrastructure Committee

EGI (15) 61



Copy No: 44

Summary of Paper

16 March 2015

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Better Digital Services - A Government Discussion Document

Portfolio

Revenue

Purpose

This paper seeks agreement to release a government discussion document on how the tax system can be improved using digital services.

Previous Consideration

On 5 November 2014, the Cabinet Committee on State Sector Reform and Expenditure Control:

- approved the commencement of the design of the future revenue system;
- agreed to advance the implementation of early improvements in digital services for customers in support of digital interactions with the government.

[SEC Min (14) 15/2]

Summary

Enabling digital services within the tax administration system is a key building block for Inland Revenue's business transformation programme. The attached discussion document seeks feedback on a proposed set of principles and options to facilitate the implementation of better digital services.

The suggested principles and options would:

- provide reassurance and confidence to customers that the key focus of future digital services is to deliver better customer experiences;
- encourage customers to move to better digital services over time, by providing specific assistance to some customers, while retaining non-digital alternatives for those who cannot adopt digital services;
- in some circumstances, require some customers that deal with the tax information of others (eg tax intermediaries) to use digital services for some transactions where they are able to do so;
- ensure tax legislation is technology-agnostic.

The Minister of Revenue will report back to EGI following the consultation process, with a view to including the necessary legislation in the Tax (November) Bill.

Regulatory Impact Analysis

Not required.

Baseline Implications	None from this paper.
Legislative Implications	<p>The proposed amendments are intended to be included in the tax bill scheduled for introduction in November 2015.</p> <p>The Taxation (November) Bill has a category 5 priority on the 2015 Legislation Programme (to be referred to a select committee in 2015).</p>
Timing Issues	The discussion document will be released on or shortly after 31 March 2015, for a six week consultation period.
Announcement	<p>The Office of the Minister of Revenue will arrange the appropriate publicity.</p> <p>The discussion document will be accompanied by the launch of an internet-based public consultation (extracts are attached), and it will be linked to the associated consultation on the government green paper [see EGI (15) 65].</p>
Consultation	<p>Paper prepared by Inland Revenue. Treasury, MBIE, MSD, ACC, SSC, DIA and Education were consulted. DPMC was informed.</p> <p>The Minister of Revenue indicates that a number of Ministers were consulted, and that discussion is not required with the government caucus and has been undertaken with other parties represented in Parliament.</p>

The Minister of Revenue recommends that the Committee:

- 1 note the contents of the government discussion document *Making Tax Simpler: Better Digital Services* (the discussion document), attached to the submission under EGI (15) 61;
- 2 agree to the release of the discussion document, and the launch of the internet-based consultation, which propose to:
 - 2.1 provide reassurance and confidence to customers that the key focus of future digital services is to deliver better customer experiences;
 - 2.2 encourage customers to move to better digital services over time, by providing specific assistance to some customers, while retaining non-digital alternatives for those who cannot adopt digital services;
 - 2.3 in some circumstances, require some customers that deal with the tax information of others to use digital services for some transactions where they are able to do so;
 - 2.4 ensure tax legislation is technology-agnostic;
- 3 authorise the Minister of Revenue to make any minor or technical changes to the discussion document prior to its release.

Janine Harvey
Committee Secretary

Distribution: (see over)

Distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Chief Executive, DPMC
Director, PAG, DPMC
PAG Subject Advisor, DPMC
Carolyn van Leuven, PAG, DPMC
Secretary to the Treasury
Jane Frances, Treasury
Chief Executive, MBIE (Economic Development)
Cath Atkins, MBIE
State Services Commissioner
Minister of Education
Secretary for Education
Minister for Social Development
Chief Executive, MSD
Minister for ACC
Chief Executive, MBIE (ACC)
Chief Executive, ACC
Commissioner of Inland Revenue
Minister of Internal Affairs
Secretary for Internal Affairs
Chief Executive, TPK



Chair
Economic Growth and Infrastructure Committee

MAKING TAX SIMPLER: BETTER DIGITAL SERVICES – A GOVERNMENT DISCUSSION DOCUMENT

Proposal

1. This paper seeks the agreement of the Economic Growth and Infrastructure Committee to the release of a government discussion document (and the launch of accompanying internet-based consultation) on how the tax system can be improved using digital services. A better tax administration system needs to take full advantage of electronic and internet technology, and, more importantly, provide services designed with customers at the centre. Moving to better digital services in the tax administration system aligns with Government's digital strategy to achieve better public services. The discussion document proposes a set of principles ensuring the better digital services will meet customers' needs, and proposes options to facilitate customers move to better digital services.
2. This Cabinet paper is presented to the Economic Growth and Infrastructure Committee alongside a Cabinet paper that seeks agreement for release of another discussion document. The discussion document attached to this present paper deals with a specific aspect of the transformation programme – the adoption of digital services by Inland Revenue's customers. The other discussion document sets out the overall vision for Inland Revenue's transformation programme.
3. Enabling digital services within the tax administration system is a key building block for Inland Revenue's business transformation programme. The concepts for digital services set out in the attached paper provide the foundation for further detailed policy proposals that will be presented to Cabinet in the next two to three years.

Executive summary

4. Most New Zealanders are already enjoying the benefits of digital services in personal and business interactions, and they expect public-sector agencies to meet the same standards as the private sector.
5. Government has agreed in principle to a long-term business transformation programme to look at different ways of delivering tax and social policy. Part of this programme's vision is a future tax administration system that offers a wider range of secure digital services for greater customer convenience, and for tax interactions to be built into customers' life events and business transactions. This is a once-in-a-generation opportunity to modernise and simplify the tax administration system to meet 21st-century needs.

6. I propose to release a government discussion document that sets out a range of principles and options to deliver better customer experience using digital services, and makes suggestions to ensure tax legislation can facilitate the implementation of better digital services. The draft discussion document is attached.

7. The suggested principles and options would:

- provide reassurance and confidence to customers that the key focus of future digital services is to deliver better customer experience;
- encourage customers to move to better digital services over time, by providing specific assistance to some customers, while retaining non-digital alternatives for those who cannot adopt digital services;
- in some circumstances, require some customers to use digital services for certain transactions where they are able to do so and where society as a whole would benefit from their move to digital services; and
- ensure tax legislation is technology-agnostic.

8. I expect that some customers will raise concerns about the potential requirement to use digital services for some interactions with Inland Revenue.

Background

9. In April 2013, Cabinet agreed the case for change for Inland Revenue's business transformation programme [SEC Min (13) 4/4 and CAB Min (13) 10/4 refer]. Cabinet also approved in principle the overall investment objectives and agreed that modernising the revenue system through business process re-engineering, supported by new technology is the preferred way forward. The first stage of the business transformation programme includes enabling secure digital services.

10. In November 2014 [CAB Min (14) 15/2], Cabinet agreed to the commencement of the design of the future revenue system.

Problem

11. Despite successful delivery of digital services in some areas, Inland Revenue faces significant limitations on its ability to deliver the services that customers want. Customers often:

- have difficulty accessing and using Inland Revenue information they need;
- find Inland Revenue's transactional processes overly time-consuming, disconnected and confusing;
- regularly use multiple service delivery channels to undertake one transaction;
- 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 services and more widely across government.

12. The limitations described above are largely a consequence of Inland Revenue's twenty-five year old core technology which was designed around processing paper returns. In addition, Inland Revenue's role has been expanded from simply collecting tax to the delivery of social policies such as student loan repayments, Working for Families tax credits and KiwiSaver. Adding social policy services to technology that is twenty-five years old has resulted in an extremely complex inter-twined system, which is expensive, risky and time-consuming to modernise.

13. The delivery of tax administration and social policy services above through digital channels is complex. Inland Revenue's customers are highly diversified; their needs, and their ability and desire to use digital services differ across types of customers and interactions. Some customers do not have sufficient knowledge or skill to use digital services or have no access to digital technology. Other customers will have the ability to use digital services but choose not to for a variety of reasons.

14. Current tax legislation, such as the Tax Administration Act 1994, was largely developed around a paper-based environment. For example, the phrases "by post" and "in writing" have been frequently used in current tax legislation.

Comment

Proposals in discussion document

15. The draft discussion document proposes a set of principles to ensure digital services can meet customers' needs. I seek public views on these principles and whether others should be included. The principles include:

- Services must be designed with the customer at the centre (an overriding principle).
- No one size fits all; a wide range of digital services will be required, and digital services may not be appropriate for complex transactions.
- Tax compliance and access to entitlements are critical.
- Changes will be imposed only after costs and benefits have been considered.

16. The document further proposes a range of tailored approaches to encourage customers to adopt digital services. These are outlined in the following paragraphs.

17. Services will be digital by default for new taxpayers or existing customers taking on new products.

18. Inland Revenue will offer specific assistance for customers who do not have the knowledge or skills to use digital services, or the ability to access them.

19. Inland Revenue will continue to provide non-digital alternatives for customers who are unable to use digital services.

20. There will be some customers who could move to digital services for appropriate transactions but will choose not to. This group is expected to be small, as most customers are expected to choose to adopt new digital services in order to receive the benefits of convenience, speed and certainty that the digital services will deliver. Where the adverse impact of those customers not adopting digital services falls on the customers themselves and on Inland Revenue's systems, the Commissioner of Inland Revenue is likely to use her existing powers to support, encourage, and in some instances require those customers to adopt digital services for certain transactions.

21. Some customers who could move to digital services for appropriate transactions but choose not to, are dealing with the tax information of others, and therefore the impact of their decision could fall on others. Examples could include tax intermediaries who provide tax information about their clients to Inland Revenue, or employers who are required to provide PAYE information about their employees to Inland Revenue. As Inland Revenue's transformation programme progresses, the level of service offered to those clients or

employees is expected to significantly improve, but in some instances will be contingent on Inland Revenue receiving information about them through digital channels. Where digital channels are not being used, the Commissioner is likely to use her existing powers to support, encourage, and in some instances require those customers to adopt digital services for some transactions. Ensuring that these customers do adopt digital services is critical to ensuring that the benefits of the new tax administration system are received by all, and I propose that the Commissioner's decisions for these kinds of customers have binding legal effect.

22. Requiring customers to use digital services should be a last resort. Relying on a framework under which most customers will move to digital services voluntarily means that agencies will need to develop digital services that customers want to use.

23. I seek public views on these approaches and associated criteria, and whether other approaches and criteria should be considered.

24. The discussion document also suggests that tax legislation be reviewed to ensure the language used in legislation is modernised to be technology-neutral. I am intending to introduce a tax bill (Taxation (Business Transformation and Simplification) Bill) mid-year which will signal the start of modernising and simplifying tax administration, with a particular focus on reducing compliance costs for small to medium sized enterprises.

25. I expect that some customers will raise concerns about the potential requirement to use digital services for some interactions with Inland Revenue. I also expect some customers will raise concerns about the assistance options for those customers who have difficulty using digital services.

Digital services are the building block for Inland Revenue's business transformation programme

26. Inland Revenue's business transformation programme is a technology-enabled change programme to implement the capability that will enable delivery of a modern revenue system. The use of technology and the implementation and delivery of digital services is a key enabler to ensure a successful outcome for business transformation. That outcome is a modernised tax administration system with both reduced tax system administration costs and reduced costs for individuals and businesses to comply with their tax obligations and access their social policy entitlements.

27. A system with a greater level of automation delivered through digital channels should deliver increased levels of taxpayer compliance. Taxpayers will find it easier to meet their obligations, and automation will make it more difficult to omit or provide incorrect information.

Alignment with Government's digital strategy

28. In 2014, the Government released the Key Result Area 10 Blueprint to guide all public agencies on redesigning existing digital services, increasing system capability and supporting New Zealanders through the digital transition. The government's vision of future digital public services contains three dimensions:

- digital by choice (meeting customers' needs);
- digital by design (optimising service efficacy); and
- digital by default (achieving system efficiency).

29. The Government has also set up specific goals to improve New Zealand businesses' interaction with government via Result 9: Better Public Services for Business, part of the Better Public Services programme. With the goal of increasing efficiency and reducing compliance costs for businesses, Result 9 aims to deliver a one-stop online shop for all the government advice and support that New Zealand businesses need to run and grow their businesses¹. The introduction of the New Zealand Business Number is a key component of Result 9's delivery of improved government services to business.

30. Both Result 9 and Result 10 are focused on improving interactions between customers and government by using digital technology to deliver joined-up customer services. A key enabler for both is the use of digital channels (because digitally-sourced information is much more easily shared). Greater use of digital services by Inland Revenue's customers will therefore deliver benefits not only to those customers and to Inland Revenue but more widely across Government.

31. Information collected by Inland Revenue is already used by other government agencies, and improving the accuracy and timeliness of that information by collecting it through digital channels will also benefit those other government agencies. Further benefits may also arise to customers of those agencies if the better quality, more timely data leads to improved services.

32. A good example of an agency which uses Inland Revenue data is the Accident Compensation Corporation. It relies on Inland Revenue for information to allow the collection of work account levies from employers, work account and earner account levies from self-employed, and for collecting earners' levies. This dependency also means that system changes will need to be coordinated between both agencies.

Proposed timeline

33. Subject to Cabinet approval, I propose to release the discussion document for public consultation on or shortly after 31 March 2015, with a six week consultation period. I will report back to Cabinet on the policy proposals once public input has been taken into consideration, with the intention of including the necessary legislation in a tax bill scheduled for introduction in November 2015.

¹ <http://www.mbie.govt.nz/about-us/publications/cabinet-papers/bps-result-9-improving-business-interactions-with-government.pdf>

Consultation

34. The discussion document will be released alongside a discussion document on the overall policy direction for Inland Revenue's business transformation programme.

35. Officials have consulted with key external stakeholders being the Commissioner of Inland Revenue's Transformation Reference Group, the Taxpayers' Simplification Panel, the Treasury, the Ministry of Business, Innovation and Employment, the Ministry of Social Development, the Accident Compensation Corporation, the State Services Commission, the Department of Internal Affairs and the Ministry of Education on the suggested proposals in the discussion document. Officials will continue to work with government agencies over the course of the policy development process.

36. The Department of Prime Minister and Cabinet has been informed of the proposals.

Financial implications

37. The suggested proposals in the discussion document are aimed at seeking the best solution for encouraging taxpayers to adopt digital services and removing legislative barriers to delivering digital services. We expect them to be broadly fiscally neutral.

38. Separate Cabinet papers will present business cases seeking funding for Inland Revenue's business transformation programme.

Administration and compliance implications

39. The proposals in the discussion document are aimed at solutions that support and enable the majority of taxpayers to use digital services. Consequently, we expect there to be an overall reduction in both compliance and administration costs as the benefits are realised.

40. There may be some additional administration and/or compliance costs if other government agencies are required to use digital services as the result of these proposals. This will need to be managed carefully. My officials will work closely with agencies in understanding these implications.

Legislative implications

41. The release of the discussion document does not give rise to any immediate legislative implications. However, legislative changes will be necessary if Cabinet subsequently decides to implement the proposals.

Regulatory impact analysis

42. I advise that the substantive regulatory impact analysis elements have been included in the draft discussion document at a level that is appropriate given the stage of policy development. A Regulatory Impact Statement will be prepared later in the policy process, once the policy proposals have been finalised.

Other implications

43. I have considered any likely human rights, gender, or disability implications associated with the release of the discussion document and consider that any implications have been addressed in the discussion document. For example, the document proposes that for customers who are unable to use digital services, assistance should be provided where necessary, or non-digital services should be retained, as tax compliance and access to entitlements through the tax system are critical.

Publicity

44. I will arrange the appropriate publicity for the release of the discussion document, and Inland Revenue will also publicise it through its channels.

45. The discussion document will be accompanied by the launch of an internet-based public consultation. It will set out a summary of the proposals and seek views on the same questions raised in the discussion document. It will be linked to the internet-based public consultation on the Green paper on Inland Revenue's business transformation. Extracts of the internet-based consultation are attached.

Recommendations

46. I recommend that the Cabinet Economic Growth and Infrastructure Committee:

1. Note the contents of the attached draft Government discussion document, titled Better Digital Services.
2. Agree to the publication of the discussion document, and the launch of the internet-based consultation, which propose to:
 - 2.1 provide reassurance and confidence to customers that the key focus of future digital services is to deliver better customer experiences;
 - 2.2 encourage customers to move to better digital services over time, by providing specific assistance to some customers, while retaining non-digital alternatives for those who cannot adopt digital services;
 - 2.3 in some circumstances, require some customers that deal with the tax information of others to use digital services for some transactions where they are able to do so;
 - 2.4 ensure tax legislation is technology-agnostic.
3. Agree to delegate to the Minister of Revenue the authority to release the discussion document and finalise the detail.



Todd McClay
Minister of Revenue

10, 3, 15
Date



Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:

Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): <http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation>

Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission:
 The Treasury, the Ministry of Business, Innovation and Employment, the Ministry of Social Development, the Accident Compensation Corporation, the State Services Commission, the Department of Internal Affairs and the Ministry of Education

Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed:
 The Department of Prime Minister and Cabinet

Others consulted: Other interested groups have been consulted as follows:
 [external stakeholders]

Name, Title, Department: MIKE HUTCHESON, Policy Manager, INLAND REVENUE

Date: 4 13 15 **Signature:** Mike Hutchison

Certification by Minister:

Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.

The attached proposal:

<i>Consultation at Ministerial level</i>	<input checked="" type="checkbox"/> has been consulted with the Minister of Finance [required for all submissions seeking new funding] <input checked="" type="checkbox"/> has been consulted with the following portfolio Ministers: <input type="checkbox"/> did not need consultation with other Ministers	291 minutes BT ministerial group
<i>Discussion with National caucus</i>	<input type="checkbox"/> has been or <input type="checkbox"/> will be discussed with the government caucus <input checked="" type="checkbox"/> does not need discussion with the government caucus	
<i>Discussion with other parties</i>	<input checked="" type="checkbox"/> has been discussed with the following other parties represented in Parliament: <input checked="" type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input checked="" type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input type="checkbox"/> will be discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] <input type="checkbox"/> does not need discussion with other parties represented in Parliament	

Portfolio: Revenue **Date:** 10 / 3 / 15 **Signature:** [Signature]

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

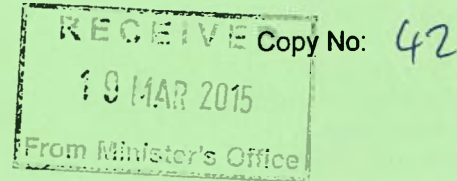
- The Government discussion document *Making tax simpler - Better digital services* is available at <http://taxpolicy.ird.govt.nz/publications/2015-dd-mts-2-better-digital-services/overview>
- The Making Tax Simpler website is available at <https://www.makingtaxsimpler.ird.govt.nz>
- An archive of the Making Tax Simpler consultation sites is available at <http://taxpolicy.ird.govt.nz/archived-websites>



Cabinet Economic Growth and Infrastructure Committee

EGI Min (15) 5/3

Minute of Decision



This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Better Digital Services - A Government Discussion Document

Portfolio: Revenue

On 18 March 2015, the Cabinet Economic Growth and Infrastructure Committee:

- 1 **noted** the contents of the government discussion document *Making Tax Simpler: Better Digital Services* (the discussion document), attached to the submission under EGI (15) 61;
- 2 **agreed** to the release of the discussion document, and the launch of the internet-based consultation, which propose to:
 - 2.1 provide reassurance and confidence to customers that the key focus of future digital services is to deliver better customer experiences;
 - 2.2 encourage customers to move to better digital services over time, by providing specific assistance to some customers, while retaining non-digital alternatives for those who cannot adopt digital services;
 - 2.3 in some circumstances, require some customers that deal with the tax information of others to use digital services for some transactions where they are able to do so;
 - 2.4 ensure tax legislation is technology-agnostic;
- 3 **authorised** the Minister of Revenue to make any minor or technical changes to the discussion document prior to its release.

Janine Harvey
Committee Secretary

Reference: EGI (15) 61

Distribution: (see over)

Present:

Rt Hon John Key
Hon Bill English (Chair)
Hon Gerry Brownlee
Hon Steven Joyce
Hon Dr Jonathan Coleman
Hon Amy Adams
Hon Dr Nick Smith
Hon Nathan Guy
Hon Nikki Kaye
Hon Michael Woodhouse
Hon Maggie Barry
Hon Craig Foss
Hon Jo Goodhew
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith
Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
Officials Committee for EGI

Distribution:

Cabinet Economic Growth and Infrastructure Committee
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Chief Executive, DPMC
 Director, PAG, DPMC
 PAG Subject Advisor, DPMC
 Carolyn van Leuven, PAG, DPMC
Secretary to the Treasury
 Jane Frances, Treasury
Chief Executive, MBIE (Economic Development)
 Cath Atkins, MBIE
State Services Commissioner
Minister of Education
 Secretary for Education
Minister for Social Development
 Chief Executive, MSD
Minister for ACC
 Chief Executive, MBIE (ACC)
 Chief Executive, ACC
Commissioner of Inland Revenue
Minister of Internal Affairs
 Secretary for Internal Affairs
 Chief Executive, TPK



Cabinet

CAB Min (15) 9/5

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Minute of Decision

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Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 20 March 2015

On 23 March 2015, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 20 March 2015.

Out of scope	[REDACTED]	[REDACTED]
EGI Min (15) 5/2	Making Tax Simpler: A Government Green Paper on the Future Direction of Tax Administration Portfolios: Finance / Revenue	CONFIRMED
EGI Min (15) 5/3	Making Tax Simpler: Better Digital Services – A Government Discussion Document Portfolio: Revenue	CONFIRMED
Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Out of scope

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Michael Watt

Secretary of the Cabinet

Reference: CAB (15) 118

Distribution:

Cabinet Economic Growth and Infrastructure Committee
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 Deputy Chief Executive, DPMC (Security and Intelligence)
 Secretary to the Treasury
 Chief Executive, CERA
 Chief Executive, MBIE (Economic Development)
 State Services Commissioner
 Secretary for Internal Affairs (Local Government)
 Minister of Health
 Director-General of Health
 Secretary for Justice
 Chief Executive, MBIE (Communications)
 Chief Executive, Ministry for Culture and Heritage (Broadcasting)
 Minister in Charge of the New Zealand Security Intelligence Service
 Director, NZSIS
 Director, GCSB
 Secretary for Transport
 Minister of Education
 Secretary for Education
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 Chief Executive, MSD
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 Chief Executive, MBIE (Building and Housing)
 Minister of Foreign Affairs
 Secretary of Foreign Affairs and Trade
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 Minister of Civil Defence
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Government Statistician
Director-General, MPI (Food Safety)
Comptroller of Customs
Chief Executive, MSD (Disability Issues)
Chief Executive, Land Information New Zealand
Chief Executive, Ministry for Women
Minister of Internal Affairs
Secretary for Internal Affairs
Chief Executive, TPK
Chief Parliamentary Counsel
Legislation Coordinator
Secretary, EGI



Cabinet Economic Growth and Infrastructure Committee

EGI-15-SUB-0108

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: A Government Green Paper on Tax Administration and Better Digital Services: Feedback from Consultation

Portfolio	Revenue
Purpose	This paper notes the outcome of the submissions received on the first two <i>Making Tax Simpler</i> consultation documents.
Previous Consideration	<p>On 18 March 2015, EGI agreed to the release of two discussion documents:</p> <ul style="list-style-type: none"> • <i>Making Tax Simpler: A Government Green Paper on Tax Administration;</i> • <i>Making Tax Simpler: Better Digital Services.</i> <p>[EGI Min (15) 5/2-3]</p>
Summary	<p>The above two discussion documents were released in March 2015 to support consultation on the government’s proposals for modernising and simplifying tax administration in New Zealand.</p> <p>In general, the feedback received on the two discussion documents supported the proposed direction and approach. The main themes from the responses were as follows:</p> <ul style="list-style-type: none"> • there was concern about the current provisional tax rules, and interest in the proposal for provisional tax to be calculated on a “pay as you earn” basis; • submitters were equally divided on proposals for a greater level of interaction with Inland Revenue – some saw increased interaction with Inland Revenue as undesirable and difficult to achieve for those without internet access, while others saw significant value in the process being improved; • large businesses have much less flexibility than smaller ones in changing their software to connect directly to Inland Revenue systems;

- submitters generally saw the benefits of moving to greater use of digital channels, but thought that moving to digital should be optional, not a requirement;
- submitters were concerned that moving to digital should not result in an increase in costs;
- most submitters supported the key proposal of linking business accounting software directly to Inland Revenue’s system, although some submitters were concerned about security, privacy and cost.

The attached **Appendices 1 and 2** set out a summary of the comments received on the two discussion documents.

Also attached is an anonymised report entitled *Making Tax Simpler: Green Paper and Better Digital Services: Summary of Feedback*. The Minister of Revenue intends to publicly release this report.

The proposals identified in the consultation processes will be developed further, and the submissions received will be used to shape the detailed discussion documents proposed for release in the future.

Treasury’s comments are on page 4.

Regulatory Impact Analysis	Not required.
Baseline Implications	None.
Legislative Implications	None.
Timing Issues	Three further <i>Making Tax Simpler</i> discussion documents will be released in November 2015.
Announcement	The Minister of Revenue will make an announcement. Anonymised details of the feedback will be published on Inland Revenue’s website.
Proactive Release	None.
Consultation	Paper prepared by Inland Revenue. ACC, MBIE, Customs, DIA, Treasury, MSD, Statistics and Education were consulted. DPMC was informed. A number of interested groups were also consulted.

The Minister of Revenue indicates that discussion is not required with the government caucus, or with other parties represented in Parliament.

The Minister of Revenue recommends that the Committee:

- 1 note that on 18 March 2015, the Cabinet Economic Growth and Infrastructure Committee agreed to the release of the following two discussion documents:
 - 1.1 *Making Tax Simpler: A Government Green Paper on Tax Administration;*
 - 1.2 *Making Tax Simpler: Better Digital Services;*[EGI Min (15) 5/2 and EGI Min (15) 5/3]
- 2 note that, in general, the feedback on the above two government discussion documents supported the proposed direction and approach for simplifying and modernising tax administration in New Zealand;
- 3 note that the proposals identified in the consultation processes will be developed further, and that the submissions received will be used to shape the detailed discussion documents proposed for release in the future;
- 4 note that the Minister of Revenue intends to release the anonymised summary of feedback received, entitled *Making Tax Simpler: Green Paper and Better Digital Services: Summary of Feedback*, attached to the paper under EGI-15-SUB-0108.

Janine Harvey
Committee Secretary

Hard copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Secretary for Education (Tertiary)
Minister for Social Development
Chief Executive, MSD
Minister for ACC
Chief Executive, ACC
Government Statistician
Comptroller of Customs
Chief Executive, TPK

Chair
Cabinet Economic Growth and Infrastructure Committee

FEEDBACK ON THE *MAKING TAX SIMPLER* CONSULTATIONS: *A GOVERNMENT GREEN PAPER ON TAX ADMINISTRATION AND BETTER DIGITAL SERVICES*

Proposal

1. This Cabinet paper asks the Committee to note the outcome of the submissions received on the first two *Making Tax Simpler* consultations, *A Government Green Paper on tax administration* and *Better digital services*. It also asks Cabinet to note that I intend to publicly release an anonymised summary of submissions based on the information in the attached appendices.
2. This paper further notes that the proposals identified in the consultations will be developed and the submissions received used to shape the detailed discussion documents proposed to be released as part of future *Making Tax Simpler* consultations.

Executive summary

3. Cabinet agreed to the release of two Government discussion documents, *Making Tax Simpler – A Government Green Paper on tax administration* and *Making Tax Simpler – Better digital services*, earlier this year (EGI Min 15 5/2 and 5/3, CAB Min (15) 9/5 refer).
4. This present Cabinet paper asks Ministers to note the results of this consultation and that I intend to release a summary of these results shortly. In general, the feedback supported the direction and approach we are proposing for simplifying and modernising tax administration and supporting Inland Revenue's Business Transformation programme. The subsequent discussion documents to be released in the coming years will set out in more detail the proposed changes to tax administration we are considering and allow people to provide more informed views.
5. This Cabinet paper further notes that the proposals identified in the consultations to date will be developed and the submissions used to shape the detailed discussion documents proposed to be released in the future as part of the *Making Tax Simpler* consultations. I intend to release, in November 2015, the following suite of discussions documents:
 - *Making Tax Simpler: towards a new Tax Administration Act*;
 - *Making Tax Simpler: better administration of PAYE and GST*; and
 - Out of scope
6. I recently introduced the Taxation (Transformation: First Phase Simplification and Other Measures) Bill, which shows that the Government is committed to simplifying and modernising tax administration. This bill includes legislation to remove the current legislative barriers that may prevent the use of digital channels, as proposed in the *Better digital services* discussion document.

Background

7. On 31 March 2015, the Government released the first two in a series of discussion documents to support consultation on the Government's proposals for modernising and simplifying tax administration in New Zealand.

8. The first document, *Making Tax Simpler – A Government Green Paper on tax administration (the Green Paper)*, aimed to introduce New Zealand to the overall direction of the tax administration modernisation programme and seek feedback on that direction. The second, *Making Tax Simpler – Better digital services (Better digital services)*, outlined proposals for moving Inland Revenue and its customers toward much greater use of sophisticated digital technology. These two documents set the foundation for the Government's approach to modernising and simplifying tax administration.

9. For both papers, an online forum, makingtaxsimpler.ird.govt.nz, gave people the opportunity to submit comments online and answer a series of questions linked to those in the hard copies of the discussion documents. Written submissions were also received through the normal policy submission process.

Comment

10. A large number of comments were received on the online forum, with more than 900 comments and more than 2,300 "tick the box" responses to the proposals in the two discussions documents. Ninety written submissions were also received, and officials met directly with key stakeholders and focus groups.

11. The overall response to the proposals was generally supportive. Both the general public and stakeholders welcome the opportunity to improve the tax administration system. This view was also generally taken by media commentators. Chartered Accountants of Australia and New Zealand expressed support for the overall project, noting that a "ground up" review of the tax administration system is "long overdue" and "the current system has been built in an ad hoc way over many decades and has not kept up with changes in technology and business practice".

12. The main themes from responses to the *Green Paper* consultation were as follows:

- Concern about the current provisional tax rules was the strongest theme to come through from the consultation. Many submitters were interested in the proposal in the *Green Paper* for provisional tax to be calculated on a "pay as you earn" basis. A minority said that they were comfortable with the current provisional tax rules.
- Submitters were about equally divided on proposals for a greater level of interaction with Inland Revenue for individuals, using new processes with a much greater level of pre-population of tax information. Some saw increased interaction with Inland Revenue as undesirable and difficult to achieve for those without internet access. Others, particularly those already filing, saw significant value in the process being improved.
- Large businesses have much less flexibility than smaller ones in changing their software to connect directly to Inland Revenue systems.

13. The main themes from responses to the *Better digital services* consultation were:

- Submitters generally saw the benefits of moving to greater use of digital channels but thought that moving to digital should be optional, not a requirement. Respondents said the quality of the digital offering should be good enough to make them want to move, and they believed that paper channels needed to remain available for some customers.

However, there was some support for mandating use of digital channels by specific groups of taxpayers who would otherwise impose costs on others, such as employers and tax agents.

- Submitters were concerned that moving to digital should not result in an increase in costs, either on an ongoing basis or as a result of the need to acquire new accounting software. Some submitters were sceptical and saw moving to digital as a cost-saving exercise for government that will increase their costs.
- The key proposal of linking business accounting software directly to Inland Revenue's system was supported by most, although some expressed concerns about security, privacy and cost.

14. The attached appendices summarise the feedback received on the *Green Paper* (Appendix 1) and *Better digital services* (Appendix 2) consultations. These appendices incorporate the overall results of the online polls, together with more detailed summaries of all the comments received on the submissions and representative examples of the comments. I intend to publicly release an anonymised summary of the submissions received, based on these appendices.

15. Given the general support for the direction set out in the *Green Paper*, I have directed officials to continue to develop the proposals outlined in that paper and to use the submissions received as appropriate to shape the detailed discussion documents proposed to be released in the future:¹



16. The subsequent discussion documents to be released in the coming years, which will set out in more detailed the proposed changes to tax administration, will help people to better understand the likely impacts and benefits, allowing them to provide more informed views. As part of the suite of papers I am submitting to this Cabinet Committee for consideration today, I have included the following companion Cabinet papers

- Release of discussion document – *Making Tax Simpler: towards a new Tax Administration Act*;
 - Release of discussion document – *Making Tax Simpler: better administration of PAYE and GST*; and
- Out of scope

17. These proposals were all flagged in the *Green Paper*. My intention, subject to Cabinet's agreement, is to release these three discussion documents in early November 2015.

18. The *Better digital services* paper's proposals for greater use of digital technology were generally supported, with some reservations, particularly about the requirement to use digital channels. One proposal in that paper was removal of current legislative barriers that prevent use of digital channels. This change has already been included in the Taxation (Transformation: First Phase Simplification and Other Measures) Bill, which was introduced on 30 June 2015.

19. The *Better digital services* paper also proposed that the Commissioner of Inland Revenue should have the ability to require customers to use digital channels when those channels are available and not using them has a wider impact. The discussion document proposed that the Commissioner's ability to require customers to adopt digital should have the full force of law.

¹ This diagram sets out the proposed suite of discussion documents to be released over the coming years to modernise and simplify tax administration.

Officials are still considering this issue in the context of the design of the rules to support the *Better administration of PAYE and GST* discussion document and will report back to Ministers in due course.

20. We will need to ensure that the implementation of any policy proposals to simplify and modernise tax administration are integrated and aligned with the implementation of Inland Revenue's business transformation programme. Furthermore, as the business transformation programme and any policy proposals will be implemented over a number of years, officials need to ensure that design and delivery decisions taken in the earlier phases of the programme do not constrain design and delivery opportunities in the later phases of implementation. This is particularly important in relation to our ability to simplify the delivery of our social policy programmes.

21. Ministers will be asked to consider the implementation approach later this year, as part of the detailed business case for stage 1 of business transformation and the updated roadmap for the programme.

Consultation

22. A copy of this paper was been provided to the Ministry of Social Development; the Ministry of Business, Innovation and Employment; the Ministry of Education; the New Zealand Customs Service; Statistics New Zealand; the Department of Internal Affairs; and ACC. The Department of Prime Minister and Cabinet was informed about this paper.

Treasury comment

23. The Treasury notes that there was broad acceptance for digital services, but respondents were concerned about the potential compliance costs associated with comprehensively mandating the use of these services. However, this may be because the discussion document did not consider in detail whether mandating could be appropriate for some taxpayer groups (for example, employers over a certain size).

24. The Treasury notes that the trade-offs associated with the decision whether to mandate digital services should be considered as part of the next business case in November 2015. This should include a comparison of the expected realisation of benefits under voluntary uptake with those under mandating. This will allow Ministers to make an informed decision on this matter.

Financial implications

25. As this paper merely notes the outcome of the *Green paper* and *Better digital services* consultations, there are no financial implications.

Human rights

26. This paper has no human rights implications.

Legislative implications

27. This paper has no legislative implications.

Regulatory impact analysis

28. As this paper merely notes the outcome of the *Green paper* and *Better digital services* consultations, Regulatory Impact Analysis requirements do not apply. A Regulatory Impact Statement (RIS) is therefore not attached.

Publicity

29. I will make an announcement when the summary of feedback on the *Green Paper* and *Better digital services* consultations is released. Inland Revenue will publish details about the feedback on its website.

Recommendations

30. I recommend that the Committee:

1. **Note** that Cabinet agreed on 23 March 2015 to the release of the following two Government discussion documents:
 - *Making Tax Simpler – A Government Green Paper on tax administration*; and
 - *Making Tax Simpler – Better digital services*.

(EGI Min (15) 5/2 and 5/3, and CAB Min (15) 9/5 refer.)

2. **Note** that, in general, the feedback on these two Government discussion documents supported the direction and approach we are proposing for simplifying and modernising tax administration.
3. **Note** that the proposals identified in the consultations will be developed further and the submissions used to shape the detailed discussion documents proposed to be released in the future.
4. **Note** that I intend to release an anonymised summary of feedback received on the *Green Paper* and *Better digital services* discussion documents.

Hon Todd McClay
Minister of Revenue

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- *Making tax simpler - Green paper and better digital services: summary of feedback* is available at <http://taxpolicy.ird.govt.nz/publications/2015-other-mts-feedback/overview>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: A Government Green Paper on Tax Administration and Better Digital Services: Feedback from Consultation

Portfolio Revenue

On 21 October 2015, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** that on 18 March 2015, EGI agreed to the release of the following two discussion documents:
 - 1.1 *Making Tax Simpler: A Government Green Paper on Tax Administration;*
 - 1.2 *Making Tax Simpler: Better Digital Services;*

[EGI Min (15) 5/2 and EGI Min (15) 5/3]
- 2 **noted** that, in general, the feedback on the above two government discussion documents supported the proposed direction and approach for simplifying and modernising tax administration in New Zealand;
- 3 **noted** that the proposals identified in the consultation processes will be developed further, and that the submissions received will be used to shape the detailed discussion documents proposed for release in the future;
- 4 **noted** that the Minister of Revenue intends to release the anonymised summary of feedback received, entitled *Making Tax Simpler: Green Paper and Better Digital Services: Summary of Feedback*, attached to the paper under EGI-15-SUB-0108.

Janine Harvey
Committee Secretary

Reference: EGI-15-SUB-0108

Hard copy distribution: (see over)

Present:

Rt Hon John Key
Hon Bill English (Chair)
Hon Gerry Brownlee
Hon Paula Bennett
Hon Anne Tolley
Hon Dr Nick Smith
Hon Todd McClay
Hon Craig Foss
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith
Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
Officials Committee for EGI
Inland Revenue

Distribution:

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Government Statistician
Comptroller of Customs
Chief Executive, TPK



Cabinet

CAB-15-MIN-0177

Minute of Decision

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Report of the Economic Growth and Infrastructure Committee: Period ended 23 October 2015

On 27 October 2015, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 23 October 2015:

Out of scope	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]

EGI-15-MIN-0108 **Making Tax Simpler: A Government Green Paper on Tax Administration and Better Digital Services: Feedback from Consultation** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

EGI-15-MIN-0109 **Making Tax Simpler: Better Administration of PAYE and GST: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

EGI-15-MIN-0110 **Making Tax Simpler: Towards a New Tax Administration Act: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

Michael Webster
Secretary of the Cabinet

Reference: CAB-15-SUB-0177

Hard-copy distribution: (see over)

Hard copy distribution:

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Chief Executive, CERA
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Attorney-General
Solicitor-General
Secretary for Transport
Minister of Education
Minister for Social Development
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Secretary for the Environment
Minister of Foreign Affairs
Minister for ACC
Chief Executive, ACC
Commissioner of Police
Commissioner of Inland Revenue
Minister of Corrections
Chief Executive, Department of Corrections
Director-General of Conservation
Chief Executive, Ministry for Culture and Heritage
Government Statistician
Comptroller of Customs
Chief Executive, MSD (Disability Issues)
Chief Executive, Land Information New Zealand
Minister of Internal Affairs
Chief Executive, TPK
Chief Parliamentary Counsel
Legislation Coordinator
Secretary, EGI



Cabinet Economic Growth and Infrastructure Committee

EGI-15-SUB-0110

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Towards a New Tax Administration Act: Release of Discussion Document

Portfolio Revenue

Purpose This paper seeks agreement to release the attached discussion document on *Making Tax Simpler: Towards a New Tax Administration Act* (the discussion document).

Previous Consideration On 18 March 2015, EGI agreed to the release of a government green paper and a discussion document relating to Better Digital Services [EGI Min (15) 5/2-3]. The feedback received on those two documents has informed the proposals for this paper.

Summary The Commissioner of Inland Revenue (Commissioner) has statutory independence to ensure Inland Revenue is able to collect tax and carry out its duties, but the Commissioner is also a State sector chief executive with responsibilities to work closely with other government agencies to deliver more efficient public services.

The discussion document examines how the Commissioner's "care and management" responsibility can best coexist with the newly enhanced chief executive responsibilities in the State Sector Act 1988.

In particular, the discussion document seeks feedback on the following proposals:

- to clarify the Commissioner's care and management responsibilities to provide for greater administrative flexibility in limited circumstances, and to ensure the responsibility applies to the Commissioner's non-tax functions (eg administering Working for Families tax credits, student loan repayments, child support, KiwiSaver and paid parental leave);
- to clarify Inland Revenue's powers to access bulk third-party information and remotely stored information (eg by aligning the rules in the Search and Surveillance Act 2012 to clarify how Inland Revenue can use the remote access regime, recognising that many Inland Revenue searches are carried out without a requirement for a warrant);

- to narrow the secrecy rule from referring to “all information” to information that identifies, or could identify, a taxpayer (eg to allow for greater cross-government information sharing);
- how Inland Revenue could support improved information flows between government agencies, and whether a taxpayer should be able to consent to the release of their information;
- to impose an obligation on taxpayers who receive a pre-populated tax return to respond to that return within a prescribed period, and to treat that response as the taxpayer’s self-assessment for tax administration purposes.

The discussion document notes that further consideration will be given to the advice and disputes regime, the time bar, record keeping and the future compliance and penalties approaches.

Regulatory Impact Analysis

A Regulatory Impact Statement will be submitted when final policy approval is sought.

Baseline Implications

Any fiscal implications will be included in the final policy proposals.

Legislative Implications

None from this paper. The Minister of Revenue intends to seek approval to include two tax bills on the 2016 Legislation Programme. The proposals in this paper will be included in the second of these bills, for introduction in late -2016.

Timing Issues

The release of the discussion document will be announced at a Trans-Tasman Business Circle briefing on 11 November 2015.

Announcement

The relevant documents will be posted on Inland Revenue’s *Making Tax Simpler* website.

Proactive Release

None.

Consultation

Paper prepared by Inland Revenue. ACC, Crown Law, Customs, MBIE, Education, Treasury, DIA, Justice, Police, MSD and SSC were consulted. CAANZ and the NZ Law Society were also consulted.

The Minister of Revenue indicates that the Minister of Finance, the Minister for Economic Development and the Minister for Tertiary Education, Skills and Employment were consulted, and that discussion is not required with the government caucus, or with other parties represented in Parliament.

The Minister of Revenue recommends that the Committee:

- 1 note the contents of the government discussion document, *Making Tax Simpler: Towards a New Tax Administration Act* (the discussion document), attached to the submission under EGI-15-SUB-0110, which will consult on proposals to:
 - 1.1 clarify the Commissioner of Inland Revenue's care and management responsibilities;
 - 1.2 clarify Inland Revenue's powers to access bulk third-party information and remotely stored information;
 - 1.3 narrow the secrecy rule;
 - 1.4 impose an obligation to respond to a pre-populated return within a prescribed period for taxpayers receiving a pre-populated tax return, and to treat the response as the self-assessment;
- 2 agree to the release of the discussion document, and to the launch of accompanying online consultation on its contents;
- 3 authorise the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;
- 4 invite the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Hard copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Secretary for Education (Tertiary)
Attorney-General
Solicitor-General
Minister for Social Development
Chief Executive, MSD
Minister for ACC
Chief Executive, ACC
Commissioner of Police
Comptroller of Customs
Minister of Internal Affairs
Secretary for Internal Affairs
Chief Executive, TPK


Chair
Cabinet Economic Growth and Infrastructure Committee

RELEASE OF DISCUSSION DOCUMENT – MAKING TAX SIMPLER: TOWARDS A NEW TAX ADMINISTRATION ACT

Proposal

1. This paper seeks the agreement of the Cabinet Economic Growth and Infrastructure Committee to the release of the Government discussion document, *Making Tax Simpler: Towards a new Tax Administration Act*, and the launch of accompanying online consultation, discussing the review of the framework for the Tax Administration Act 1994.

Out of scope



3. Copies of the discussion documents are available, electronically or in print, from my office.

Executive summary

4. In short, the discussion document *Making Tax Simpler: Towards a new Tax Administration Act (Towards a new Tax Administration Act)*:

- concludes that the role of the Commissioner of Inland Revenue, as prescribed by legislation, is reasonably clear and adequately expressed, notwithstanding the fact that the recent State Sector Act changes affect the Commissioner's relationships with other organisations;
- proposes to clarify the Commissioner's care and management responsibilities to provide for greater administrative flexibility in limited circumstances and to ensure the responsibility applies to the non-tax functions;
- proposes to clarify Inland Revenue's powers to access bulk third-party information and remotely stored information;
- proposes to narrow the secrecy rule from referring to "all information" to information that identifies, or could identify, a taxpayer;
- consults on whether a taxpayer should be able to consent to the release of their information, in certain circumstances;

- consults on how Inland Revenue could support improved information flows between government agencies;
- proposes, for taxpayers receiving a pre-populated tax return, to impose an obligation to respond to the prepopulated return within a prescribed period;
- proposes to treat the taxpayers confirmation of the prepopulated return as their self-assessment for tax administration purposes; and
- notes that further consideration will be given to the advice and disputes regimes, the time bar, record keeping and the future compliance and penalties approaches, in the light of the modernised tax administration once features have been decided and implemented as Inland Revenue’s business transformation programme progresses.

5. Submissions on this discussion document will close on 12 February 2016. Following consultation I will report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and final policy recommendations.

Background

6. *Towards a new Tax Administration Act* is one in a series of consultation documents setting out the Government’s proposals for the transformation of tax administration. The components of the business transformation consultation timeline are set out below:



7. This discussion document builds on the concepts set out in the *Making Tax Simpler: A Government Green Paper on tax administration* (the *Green Paper*) which outlined the likely scope of the review of the Tax Administration Act. Most but not all of the issues raised in the *Green Paper* are addressed in this discussion document, some are still under consideration and others will be included in subsequent Making Tax Simpler documents.

8. Submissions received on the *Green Paper* and the *Making Tax Simpler: Better Digital Services* discussion document have informed the discussion and proposals in *Towards a new Tax Administration Act*.

9. Further background is included in the companion Cabinet paper, *Making Tax Simpler – Release of discussion documents and feedback on completed consultations*.

Comment

10. Tax administration refers to the rules and processes for collecting and disbursing the revenue and payments administered by Inland Revenue. The efficiency and effectiveness of these rules and processes is just as important for maintaining fairness in the tax system as the rules defining how much tax is due. In *Towards a new Tax Administration Act* the proposed framework for tax administration is discussed with an emphasis on the key roles of the Commissioner, taxpayers and tax agents as the three primary actors, as well as the rules around information collection and tax secrecy which underpin their interactions.

Role of the Commissioner

11. Tax can only be levied according to laws enacted by Parliament. Inland Revenue's role is to administer the Inland Revenue Acts and to collect tax to the best of its ability. In doing so, the integrity of the tax system and the confidentiality of people's tax affairs must be maintained. The Commissioner has statutory independence to ensure Inland Revenue is able to collect tax and carry out its duties. The *Towards a new Tax Administration Act* discussion document examines the Commissioner's role in three areas.

12. The first area examined is how the Commissioner's "care and management" responsibility can best coexist with the newly enhanced chief executive responsibilities in the State Sector Act. As well as accountability for Inland Revenue, the Commissioner has a role in ensuring Inland Revenue works more closely with other government agencies to deliver more efficient public services. Requiring the Commissioner, as a state sector chief executive, to be responsive to the collective interests of government needs to be considered alongside the Commissioner's statutory independence. The discussion document sets out how, in the transformed administration, the Commissioner's role will continue to be complementary to her chief executive functions.

13. Secondly, the discussion document proposes a clarification to the care and management provision, so that in some limited cases the Commissioner can apply the legislation in a way that does not tie up Commissioner and taxpayer resources in outcomes that are inconsistent with the practice and policy intent. The proposal is that the Commissioner would be able to:

- Apply a policy-based approach to small gaps in the tax legislation;
- Deal pragmatically with legislative anomalies that are minor or transitory;
- Address cases of hardship (inequity) at the margins; or
- Deal with cases in which a statutory rule is difficult to formulate (meaning that the relevant legislation has failed to adequately deal with the particular situation).

14. Thirdly, the document also considers whether the Commissioner's "care and management" responsibility in the non-tax functions is adequately expressed in legislation. The non-tax functions include administering Working for Families tax credits, student loan repayment, child support, KiwiSaver and paid parental leave. These functions have been added over time to Inland Revenue's functions for collecting tax. Clarification that the "care and management" responsibility applies broadly, reflecting the objectives of these functions, would better support the Commissioner's ability to use resources as effectively as possible to deliver more efficient services.

Information collection

15. Information flows are critical to Inland Revenue's interaction with taxpayers and third parties. Inland Revenue deals with large numbers of documents, forms, letters and returns that contain information about taxpayers' income or assets. Outside of the tax return process, Inland Revenue can require a person to provide any information considered "necessary or relevant" to Inland Revenue's functions. It is important to emphasise the "necessary or relevant" standard, or something similar, in the transformed administration. Retaining such a standard will provide people with continued confidence that Inland Revenue will not use its information-gathering powers to obtain information that is not needed.

16. The availability and usability of large datasets has greatly improved with the aid of technology. To efficiently administer the tax system, Inland Revenue needs to continue to be able to collect one-off taxpayer-specific and bulk data, and obtain some third-party information on a repeating basis. Therefore, more robust rules for repeating access to large third-party datasets are recommended.

17. More taxpayers are storing information in the cloud and utilising cloud-based software. While Inland Revenue is able to use its search powers to access information remotely in some situations, these powers will require review to ensure access to such information in all relevant circumstances.

18. In order to ensure Inland Revenue's ability to obtain necessary or relevant information, no matter how it is stored, it is proposed to clarify the rules for remote-access searches for Inland Revenue. The rules in the Search and Surveillance Act 2012 are currently crafted in relation to remote access searches authorised under search warrants. The preferred approach is to align the rules in the Search and Surveillance Act 2012 with a clarification of how Inland Revenue uses the remote access regime. This is intended to ensure Inland Revenue can use the remote access regime while recognising that many Inland Revenue searches are carried out without requirement for a warrant.

Tax secrecy

19. Tax secrecy, or taxpayer confidentiality laws, exist in most jurisdictions. Traditionally, tax secrecy is viewed as a means of improving compliance by reassuring taxpayers that it is safe to provide their information to Inland Revenue. The reasons for taxpayer confidentiality are:

- to increase voluntary compliance by assuring taxpayers their information will go no further;
- as a balance for the broad information-collection powers granted to Inland Revenue; and
- to protect the privacy of taxpayers.

20. There is increasing movement towards sharing information, in particular to participate in more cross-government initiatives, including the Data Futures work and the Government ICT strategy. Therefore, it is an appropriate time to consider whether Inland Revenue's current secrecy rules remain fit for purpose in a transformed tax administration. It is necessary to consider how a general framework of confidentiality with clear exceptions can be maintained, while at the same time modernising and allowing for greater cross-government information-sharing.

21. I propose in the first instance to narrow the coverage of the secrecy rule to information that identifies, or could identify, a taxpayer or taxpayers. The confidentiality of an individual's or business's affairs would, as a starting point, remain protected. This would not mean that taxpayer-specific information would never be disclosed; rather, as is the case now, a specific legislative exception to the general rule of confidentiality would be required. Rules would also remain to ensure that sensitive information about Inland Revenue processes continues to be protected.

22. Inland Revenue has an ability to enter into cross-agency information-sharing agreements in certain circumstances set out in the Tax Administration Act. Consideration could be given to greater use of this provision, or to amending the criteria to better enable its use in a wider range of circumstances.

Feedback is also sought on whether taxpayers might be permitted to consent to the release of their information in certain circumstances, especially within the cross-agency contest where other sharing options are not available.

The role of taxpayers and tax agents

23. The transformed tax administration envisages providing improved delivery of digital services, greater use of withholding payments, enhanced prepopulated income tax returns and better use of business's existing systems to automate interactions with Inland Revenue. These features have implications for the obligations and responsibilities of taxpayers and tax agents. The discussion document sets out the steps that would be involved in prepopulating returns and also the obligations of taxpayers that would underpin these steps. Self-assessment as a concept would be retained, as it recognises that taxpayers are in the best position to determine their final tax liability.

24. Including more information on prepopulated returns should reduce compliance costs by offering a more personalised tax return process. Tax returns should also be more accurate, as the opportunity for taxpayer error will be minimised. This reduces the resources required to correct return errors, for both taxpayers and Inland Revenue. To enable effective prepopulated returns, the discussion document considers:

- the obligations of a taxpayer with a prepopulated return in the context of self-assessment;
- what responses will be required from a taxpayer receiving a prepopulated return, and the consequence of failure to respond to a prepopulated return; and
- the ability for the taxpayer to amend the information contained in the prepopulated return.

25. Better use of technology and information will enable Inland Revenue to add more than just PAYE information or taxes withheld at source to a prepopulated return. However, the specific nature of the information that could be prepopulated is likely to be considered in a discussion document on improving the tax system for individuals that is due for release in 2016.

The role of tax agents

26. About 5,300 tax agents are registered with Inland Revenue, and they manage the tax affairs of nearly two million clients. The advice and assistance tax agents give their clients contributes to the smooth running of the tax system. The discussion document recognises that features of the modernised tax administration will change the nature of the support agents provide; however, tax agents will continue to significantly influence compliance.

Future issues

27. Finally the discussion document considers the advice and disputes regimes, the time bar and record-keeping requirements. Feedback is sought on the effectiveness of the current options for taxpayers to seek Inland Revenue's view on specific issues. A more individualised approach to the time bar is also discussed, as this would be compatible with Inland Revenue's future direction.

28. Modernising the tax system provides an opportunity to recognise that taxpayer behaviour is about more than attitude. A combination of capability, opportunity and motivation make up compliance behaviour. The new approach to compliance could mean a different approach to penalties. The *Better tax for small businesses* discussion document considers possible changes to late filing and late payment penalties for businesses.

29. These areas will require further analysis once key features of the modernised tax administration have been decided on and implemented.

Consultation

30. Officials have consulted with the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, the Ministry of Education, the Accident Compensation Corporation, the State Services Commission, Statistics New Zealand, the New Zealand Customs Service, the Ministry of Social Development, the Crown Law Office, the Ministry of Justice, the Office of the Privacy Commissioner, The Treasury, and New Zealand Police. The Department of the Prime Minister and Cabinet were informed of the proposals in the discussion document.

Financial implications

31. Approving the release of the Government discussion document will not have any fiscal implications. Any fiscal implications resulting from the proposals will be included in final policy advice to Cabinet following consultation.

Administrative implications

32. The administrative impacts of the proposed changes are being assessed in the context of the updated Business Transformation Business Case which is timetabled for submission before the end of 2015. The impacts will be reported on in the final policy advice to Cabinet.

Human rights

33. I consider that the proposals contained in the discussion document are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative implications

34. The release of the discussion document will not give rise to any immediate legislative implications. However, legislative changes will be necessary if Cabinet subsequently decides to implement the proposals. Therefore, I intend to propose a bill be included on next year's Cabinet Legislation Programme for introduction in late-2016.

Regulatory impact analysis

35. The regulatory impact analysis requirements apply to some of the proposals in the discussion document. The substantive regulatory impact analysis elements have been included in the discussion document at a level that is appropriate given the stage of policy development. Regulatory Impact Statements will be prepared as part of reporting back on final policy proposals.

Publicity

36. I intend to announce the release of the discussion document at a Trans-Tasman Business Circle briefing on 11 November 2015. I will announce, at the same time, the release of two other discussion documents in the *Making Tax Simpler* series, one on better administration of PAYE and GST, and the other on better tax for small business.

37. The release of the discussion documents will be accompanied by the launch of online public consultation. This will contain a summary of the proposals and seek views on questions raised in the discussion documents. The online consultation will be on the same website that was used for the consultation on the previous documents in the *Making Tax Simpler* series.

Recommendations

38. I recommend that the Cabinet Economic Growth and Infrastructure:

1. Note the contents of the Government discussion document *Making Tax Simpler: Towards a new Tax Administration Act*, which will consult on:
 - 1.1 the proposal to clarify the Commissioner's care and management responsibilities;
 - 1.2 the proposal to clarify Inland Revenue's powers to access bulk third-party information and remotely stored information;
 - 1.3 the proposal to narrow the secrecy rule;
 - 1.4 the proposal to impose an obligation to respond to a prepopulated return within a prescribed period for taxpayers receiving a pre-populated tax return and to treat the response as the self-assessment.
2. Agree to the release of the Government discussion document *Making Tax Simpler: Towards a new Tax Administration Act* and the launch of accompanying online consultation on its contents.
3. Authorise the Minister of Revenue to approve editorial, presentational and other minor changes to the discussion document before its release.

4. Invite the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and final policy recommendations.

Hon Todd McClay
Minister of Revenue

_____/_____/_____
Date

Consultation on Cabinet and Cabinet Committee Submissions

Certification by Department:	
Guidance on consultation requirements for Cabinet/Cabinet committee papers is provided in the CabGuide (see Procedures: Consultation): http://www.cabguide.cabinetoffice.govt.nz/procedures/consultation	
Departments/agencies consulted: The attached submission has implications for the following departments/agencies whose views have been sought and are accurately reflected in the submission:	
Departments/agencies informed: In addition to those listed above, the following departments/agencies have an interest in the submission and have been informed:	
Others consulted: Other interested groups have been consulted as follows:	
Name, Title, Department:	
Date: /	Signature

Certification by Minister:		
Ministers should be prepared to update and amplify the advice below when the submission is discussed at Cabinet/Cabinet committee.		
The attached proposal:		
<i>Consultation at Ministerial level</i>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	has been consulted with the Minister of Finance <i>[required for all submissions seeking new funding]</i> has been consulted with the following portfolio Ministers: did not need consultation with other Ministers
<i>Discussion with National caucus</i>	<input type="checkbox"/> <input type="checkbox"/>	has been or <input type="checkbox"/> will be discussed with the government caucus does not need discussion with the government caucus
<i>Discussion with other parties</i>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	has been discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] will be discussed with the following other parties represented in Parliament: <input type="checkbox"/> Act Party <input type="checkbox"/> Maori Party <input type="checkbox"/> United Future Party <input type="checkbox"/> Other [specify] does not need discussion with other parties represented in Parliament
Portfolio	Date / /	Signature

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- The Government discussion document *Making tax simpler – Towards a new Tax Administration Act* is available at <http://taxpolicy.ird.govt.nz/publications/2015-dd-mts-3-tax-administration/overview>
- An archive of the Making Tax Simpler consultation sites is available at <http://taxpolicy.ird.govt.nz/archived-websites>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Towards a New Tax Administration Act: Release of Discussion Document

Portfolio **Revenue**

On 21 October 2015, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** the contents of the government discussion document, *Making Tax Simpler: Towards a New Tax Administration Act* (the discussion document), attached to the submission under EGI-15-SUB-0110, which will consult on proposals to:
 - 1.1 clarify the Commissioner of Inland Revenue's care and management responsibilities;
 - 1.2 clarify Inland Revenue's powers to access bulk third-party information and remotely stored information;
 - 1.3 narrow the secrecy rule;
 - 1.4 impose an obligation to respond to a pre-populated return within a prescribed period for taxpayers receiving a pre-populated tax return, and to treat the response as the self-assessment;
- 2 **agreed** to the release of the discussion document, and to the launch of accompanying online consultation on its contents;
- 3 **authorised** the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;
- 4 **invited** the Minister of Revenue to report back to EGI on the outcome of consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Reference: EGI-15-SUB-0110

Hard copy distribution: (see over)

Present:

Rt Hon John Key
Hon Bill English (Chair)
Hon Gerry Brownlee
Hon Paula Bennett
Hon Anne Tolley
Hon Dr Nick Smith
Hon Todd McClay
Hon Craig Foss
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith
Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
Officials Committee for EGI
Inland Revenue

Distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Secretary for Education (Tertiary)
Attorney-General
Solicitor-General
Minister for Social Development
Chief Executive, MSD
Minister for ACC
Chief Executive, ACC
Commissioner of Police
Comptroller of Customs
Minister of Internal Affairs
Secretary for Internal Affairs
Chief Executive, TPK



Cabinet

CAB-15-MIN-0177

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Report of the Economic Growth and Infrastructure Committee: Period ended 23 October 2015

On 27 October 2015, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 23 October 2015:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

EGI-15-MIN-0108 **Making Tax Simpler: A Government Green Paper on Tax Administration and Better Digital Services: Feedback from Consultation** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

EGI-15-MIN-0109 **Making Tax Simpler: Better Administration of PAYE and GST: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

EGI-15-MIN-0110 **Making Tax Simpler: Towards a New Tax Administration Act: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

Michael Webster
Secretary of the Cabinet

Reference: CAB-15-SUB-0177

Hard-copy distribution: (see over)

Hard copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Chief Executive, DPMC
Deputy Chief Executive, Policy, DPMC
Chief Executive, CERA
Secretary of Defence
Chief of Defence Force
Minister of Health
Director-General of Health
Privacy Commissioner
Attorney-General
Solicitor-General
Secretary for Transport
Minister of Education
Minister for Social Development
Chief Executive, MSD
Secretary for the Environment
Minister of Foreign Affairs
Minister for ACC
Chief Executive, ACC
Commissioner of Police
Commissioner of Inland Revenue
Minister of Corrections
Chief Executive, Department of Corrections
Director-General of Conservation
Chief Executive, Ministry for Culture and Heritage
Government Statistician
Comptroller of Customs
Chief Executive, MSD (Disability Issues)
Chief Executive, Land Information New Zealand
Minister of Internal Affairs
Chief Executive, TPK
Chief Parliamentary Counsel
Legislation Coordinator
Secretary, EGI



Cabinet Economic Growth and Infrastructure Committee

EGI-15-SUB-0109

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Better Administration of PAYE and GST: Release of Discussion Document

Portfolio Revenue

Purpose This paper seeks agreement to release the attached discussion document on *Making Tax Simpler: Better Administration of PAYE and GST* (the discussion document).

Previous Consideration On 18 March 2015, EGI agreed to the release of a government green paper and a discussion document relating to *Better Digital Services* [EGI Min (15) 5/2-3]. The feedback received on those two documents has informed the proposals for this paper.

Summary The discussion document seeks feedback on:

- how new digital services could be used to minimise the compliance and administrative costs of providing PAYE and GST information to Inland Revenue (eg information about employees' earnings and PAYE deductions could be provided to Inland Revenue as part of an employer running their payroll). The proposals for consultation are discussed on pages **2-5** of this paper;
- a proposal that PAYE deductions be paid to Inland Revenue at the time employees are paid (employers currently enjoy delayed payment arrangements);
- the proposed thresholds above which customers would be required to submit their GST information digitally;
- the proposal that GST refunds should generally be made by direct credit;
- potential changes to modernise the PAYE rules in order to improve their overall workability.

Many of the options set out in the discussion document involve making trade-offs in relation to compliance costs (eg deciding what method should be used to determine the amount of tax to be deducted from an extra pay involves making a trade-off between simplicity for employers and withholding accuracy). Feedback from the consultation will help inform the final policy proposals.

Regulatory Impact Analysis	A Regulatory Impact Statement will be submitted when final policy approval is sought.
Baseline Implications	Any fiscal implications will be included in the final policy proposals.
Legislative Implications	None from this paper. The Minister of Revenue intends to seek approval to include two tax bills on the 2016 Legislation Programme. The proposals in this paper will be included in the second of these bills, for introduction in late-2016.
Timing Issues	<p>The release of the discussion document will be announced at a Trans-Tasman Business Circle briefing on 11 November 2015.</p> <p>The consultation period will close on 12 February 2016.</p>
Announcement	The relevant documents will be posted on Inland Revenue's <i>Making Tax Simpler</i> website.
Proactive Release	None.
Consultation	<p>Paper prepared by Inland Revenue. ACC, MBIE, Corrections, Customs, NZDF, Education, Treasury, Health, DIA, Justice, Privacy Commissioner, Police, Primary Industries, DPMC, MSD, SSC and Statistics were consulted. A number of interested groups were also consulted.</p> <p>The Minister of Revenue indicates that the Minister of Finance and the Minister for Economic Development were consulted, and that discussion is not required with the government caucus, or with other parties represented in Parliament.</p>

The Minister of Revenue recommends that the Committee:

- 1 note that currently the provision of PAYE and GST information to Inland Revenue is a separate manual process for employers and businesses, which has adverse impacts on:
 - 1.1 customers' compliance costs;
 - 1.2 the timeliness and accuracy of the information, and its usefulness to Inland Revenue and wider government;
 - 1.3 the way in which social policy is currently administered and could be delivered in future;

- 2 note that the government discussion document, *Maxing Tax Simpler: Better Administration of PAYE and GST* (the discussion document), attached to the submission under EGI-15-SUB-0109, will consult on:
 - 2.1 allowing employers and businesses to submit PAYE and GST information to Inland Revenue directly from their payroll and accounting software at the time they run the business process they would be undertaking for their own purposes;
 - 2.2 options for requiring employers to provide PAYE information on a pay day basis;
 - 2.3 lowering the threshold for mandatory digital filing of PAYE information by employers;
 - 2.4 the possibility that PAYE and other deductions withheld from employees' salary or wages are paid to Inland Revenue at the time employees are paid;
 - 2.5 modernising the PAYE rules to improve their overall workability;
 - 2.6 generally requiring GST refunds to be made by direct credit;
 - 2.7 whether there should be a threshold, above which GST registered persons would be required to file their returns electronically;
- 3 agree to the release of the discussion document, and to the launch of accompanying online consultation on its contents;
- 4 authorise the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;
- 5 invite the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of the consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Hard copy distribution: (see over)

Hard copy distribution:


Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Secretary of Defence
 Chief of Defence Force
Minister of Health
 Director-General of Health
Privacy Commissioner
Minister of Education
 Secretary for Education
Minister for Social Development
 Chief Executive, MSD
Minister for ACC
 Chief Executive, ACC
Commissioner of Police
Minister of Corrections
 Chief Executive, Department of Corrections
Government Statistician
Comptroller of Customs
Minister of Internal Affairs
 Secretary for Internal Affairs
Chief Executive, TPK

Chair
Cabinet Economic Growth and Infrastructure Committee

RELEASE OF DISCUSSION DOCUMENT – MAKING TAX SIMPLER: BETTER ADMINISTRATION OF PAYE AND GST

Proposal

1. This paper seeks the agreement of the Cabinet Economic Growth and Infrastructure Committee to the release of the Government discussion document, *Making Tax Simpler: better administration of PAYE and GST*, and the launch of accompanying online consultation. The discussion document consults on how the administration of PAYE and GST could be improved, as well as on some potential changes to the PAYE rules, as part of Inland Revenue's business transformation programme.

2. In conjunction with the release of this document, I am also seeking the Committee's agreement to release two further *Making Tax Simpler* discussion documents, one on modernising the Tax Administration Act 199 ^{Out of scope} 

3. Copies of the discussion documents are available, electronically or in print, from my office.

Executive summary

4. In short, the discussion document *Making Tax Simpler: better administration of PAYE and GST* (*Better administration of PAYE and GST*):

- Proposes how new digital services could be used to minimise the compliance and administrative costs of providing PAYE and GST information to Inland Revenue. This would be achieved by integrating these processes with the business processes the customer would be undertaking for their own purposes (for example, information about employees' earnings and PAYE deductions would be provided to Inland Revenue as part of an employer running the payroll). In the case of PAYE, the proposals would create opportunities to improve the delivery of social policy. Because of these wider benefits, a number of options for requiring the more frequent provision of PAYE information are consulted on.
- Raises the possibility that PAYE deductions should be paid to Inland Revenue at the time employees are paid. Employers currently enjoy delayed payment arrangements.
- Consults on proposed thresholds above which customers would be required to file digitally, and on a proposal that GST refunds should generally be made by direct credit.
- Consults on some potential changes to modernise the PAYE rules, in order to improve their overall workability. The issues canvassed are technical issues that have been raised by employers as suggestions as to where the rules could be improved.

5. Submissions on this discussion document will close on 12 February 2016. Following consultation I will report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of the consultation and final policy recommendations.

Background

6. *Better administration of PAYE and GST* is one in a series of consultation documents setting out the Government's proposals for the transformation of tax administration. The components of the business transformation consultation timeline are set out below:



7. This discussion document builds on the concepts set out in *Making Tax Simpler: A Government green paper on tax administration* (the *Green Paper*) which outlined the likely scope of the review of PAYE and GST processes and the PAYE rules. Most, but not all, of the issues raised in the *Green Paper* are addressed in the discussion document, some are still under consideration and others will be included in subsequent *Making Tax Simpler* discussion documents.

8. Submissions received on the *Green Paper* and the *Making Tax Simpler: better digital services* (*Better digital services*) discussion document have informed the discussion and proposals in *Better administration of PAYE and GST*.

Out of scope

Comment

PAYE information and payments

10. Pay as you earn (PAYE) is a withholding tax where employers deduct income tax from employees' salary and wages and pay it to Inland Revenue. The PAYE system is also used to collect payments and information for many income-related social policies.

11. Currently, employers are required to provide an employer monthly schedule to Inland Revenue every month that details information about the gross earnings of, and PAYE, child support, student loan and KiwiSaver deductions made from, each of their employees during the previous month. The employer monthly schedule for a given month is due to be filed by:

- the 5th of the following month for employers with \$500,000 or more of combined PAYE tax and employer's superannuation contribution tax (ESCT) deductions in the preceding tax year; and
- the 20th of the following month for employers with less than \$500,000 of combined PAYE tax and ESCT deductions in the preceding tax year.

12. Employers must pay PAYE deductions to Inland Revenue and provide an employer deductions form to Inland Revenue:

- by the 20th of the month following the month in which they withheld the tax; or
- twice¹ monthly for employers with \$500,000 or more of combined PAYE tax and ESCT deductions in the preceding tax year.

13. Employers with \$100,000 or more of combined PAYE tax and ESCT deductions in the preceding tax year must submit their employer monthly schedule and employer deductions form by electronic means in a format prescribed by the Commissioner of Inland Revenue.

14. The current process for providing PAYE information to Inland Revenue was largely designed for a paper world. Completing the employer monthly schedule is an additional step removed from employers' normal business process of running their payroll and must be completed for tax compliance purposes. Even when an employer monthly schedule must be provided digitally, it is essentially just an electronic version of the paper form.

15. In addition to the compliance costs that providing PAYE information to Inland Revenue imposes on employers:

- There is a greater risk of calculation errors when employers calculate their PAYE and related deductions manually, as well as the potential for transcription errors when employers transcribe information from their payroll records into the employer monthly schedule. There are significant administrative costs involved in processing paper employer monthly schedules and contacting employers and employees to correct inaccurate information.
- Inland Revenue's ability to effectively use PAYE information is constrained by the fact that it is not received until the following month. For example, if Inland Revenue received more timely PAYE information, it could make earlier interventions to correct incorrect tax codes or suggest the use of a special tax code, thus reducing existing pressure points around secondary tax.
- The fact that PAYE information is aggregated into a monthly return is a key limitation, as it is not possible for government agencies that use the information to accurately calculate pay period income, such as weekly or fortnightly. More detailed information would create opportunities for future changes to social policy, for example, the period of assessment for Working for Families could be reduced from an annual basis to several times a year, which might better match assistance with need.
- Problems with the timeliness and accuracy of PAYE-related information limit the extent to which social policy recipients can be confident of receiving their correct social policy entitlements during the year and of avoiding social policy debt.

Proposals for consultation

16. The discussion document consults on how new digital services could be used to integrate the process of providing PAYE information to Inland Revenue with the business processes that the employer undertakes for their own purposes (such as adding an employee to the payroll or running the payroll). This should minimise the effort businesses face in meeting their tax obligations, meaning more time for them to focus on their operations. This is consistent with the objectives of

1

By the 20th of the same month for deductions made between the 1st and the 15th of the month, and by the 5th of the following month for deductions made between the 16th and the end of the month.

the Government's Business Growth Agenda. Legislative amendments will be necessary to enable an employer to meet their PAYE obligations in this way.

17. Employers submitting PAYE information to Inland Revenue at the time their business process occurs could reduce compliance costs for employers and improve the timeliness and accuracy of the information received by Inland Revenue. The discussion document seeks feedback on the changes which would be possible if PAYE information was provided to Inland Revenue at the time of the business process. Possible changes include simplifying the KiwiSaver enrolment process, modernising how employers are informed of required employee deductions, simplifying procedures for supplying and amending PAYE information, and changes that could eliminate the need to file nil returns of PAYE information.

18. The discussion document proposes that the threshold above which employers are required to use electronic means to file their employer monthly schedule is halved to \$50,000 of PAYE tax and ESCT in the preceding tax year. The options for electronic filing include using a web portal into which an employer could type, or attach, the PAYE information; alternatively, employers could file electronically using payroll software. The proposed reduction in the threshold reflects the fact that many more employers now make use of digital technology than when the \$100,000 threshold was set in 1999.

19. To fully benefit from the new digital PAYE services, employers will have to purchase payroll software or, for those already using software, they will have to adopt an upgraded version.

20. Timely, accurate PAYE information is important to the correct delivery of many current social policy entitlements and may be a prerequisite for future changes to social policy delivery. Feedback on an earlier proposal, in the *Better digital services* discussion document, that would enable the Commissioner of Inland Revenue to use her powers to require employers who are able, but choose not to, to use digital services to provide PAYE information, was mixed. Many submitters proposed that paper filing should remain an option for those who cannot use digital services, or who prefer not to. I consider the proposal to reduce the threshold for digital filing to \$50,000, of PAYE and ESCT, to be reasonable in light of the increased use of digital technology since 1999. However, because of the earlier feedback, the discussion document does not propose that employers should be required to use payroll software that supports the new digital services.

21. Instead, the discussion document proposes changes which are focused on *when* PAYE information is provided, rather than on *how* it is provided. This leaves the decision about whether or not to use upgraded payroll software to the employer. Employers without upgraded software would be catered for with a modernised web-based portal, and employers below the digital filing threshold would retain the option of paper-based filing, for the foreseeable future.

22. The discussion document outlines several options for implementing the proposed change:

- Under a *voluntary-first approach*, employers would choose whether to provide PAYE-related information to Inland Revenue at the time the business process occurs (for example, providing information about PAYE and other deductions when the payroll is run, rather than in the following month). After an undefined period, a review would be conducted, as in the review approach described below.
- Under a *review approach*, there would be a defined period for voluntary provision of PAYE information at the time of the business process. This would be followed by a required review, where the costs, benefits and experience would be revisited. Depending on the outcome, employers may then be given a lead-in period, by the end of which they would have to provide PAYE-related information at the time the business process occurs. If it became a requirement to provide PAYE information when the business process

occurs, it is proposed that there would be an exemption process for those who could not use digital services to meet the new requirements.

- Under a *legislated approach*, legislation permitting the provision of PAYE-related information on the new basis would also identify a lead-in period, at the end of which employers would be required to provide PAYE information on that basis. Different periods might be provided for different classes of employer and, as outlined above, it is proposed that there would be an exemption process for those who could not use digital services to meet the new requirements.

23. The discussion document also raises the possibility of requiring PAYE and other deductions withheld from employees' salary or wages to be paid to Inland Revenue at the time employees are paid. This has the potential to reduce employers' compliance costs, improve compliance and provide prompter payments to the Crown and third parties (such as recipients of child support). However, there is a trade-off between these benefits and the benefit (time value of money) the delayed payment of PAYE currently provides to employers.

24. I expect that some customers will raise concerns about paying PAYE earlier, and about the potential requirement to change the way in which they provide PAYE information. Some employers may find it difficult to envisage how integrating the provision of PAYE information into their business processes will reduce compliance costs and may regard the possible requirement to file PAYE information on a pay-day basis as increasing rather than reducing their compliance costs. Adopting or upgrading PAYE software would impose costs on many employers and, while the discussion document does not propose that customers be required to use upgraded software, the use of upgraded software or payroll intermediaries using such software is the only way that employers could fully benefit from the new services.

25. The discussion document reminds readers of the payroll subsidy, which is a government subsidy to assist small employers in engaging a payroll intermediary. The document seeks feedback on whether the Government should consider any additional form of financial assistance to assist employers to take advantage of the new digital services.

The PAYE rules

26. At the same time as considering changes to administrative processes relating to the provision of PAYE information, there is an opportunity to consider modernising the PAYE rules to improve their overall workability.

Proposals for consultation

27. The discussion document consults on:

- Whether the method for determining the amount of tax to be deducted from an extra pay should be changed.
- Whether the tax treatment of holiday pay should be clarified legislatively or administratively by Inland Revenue publication.
- Whether a mechanism should be introduced to improve withholding accuracy in years in which an extra pay day will occur.
- Whether legislated rate changes should be applied in the same way across PAYE-related tax types/products.

Provision of GST information

28. When a person is registered for GST, they must file a GST return for each taxable period. A person's taxable period is one, two or six months, depending on the amount of taxable supplies made in a 12-month period or, in some cases, on the election of the GST-registered person. Generally, GST returns must be filed along with any payment by the 28th of the month following the end of the taxable period. GST returns can be filed electronically, through Inland Revenue's myIR service, from a mobile application and E-File from tax agents, as well as by paper.

29. Creating and filing a GST return and paying GST involve time and effort for many registered businesses and persons. The majority of registered persons have to transcribe GST information from their accounts (paper-based or digital) to their preferred GST filing channels. Information cannot be transferred automatically and must be re-entered manually.

30. The calculation of GST can also add to compliance costs. Manual calculations can result in errors, leaving registered persons exposed to the risk of penalties. It also affects efficiency and results in additional costs to registered persons, as well as Inland Revenue, in fixing these errors.

31. Furthermore, the time and effort involved in communicating with Inland Revenue imposes costs on registered persons. Some seek confirmation from Inland Revenue that their return has been received and others seek advice or progress reporting on the payment of refunds.

Proposals for consultation

32. The discussion document proposes allowing GST registered persons to provide GST information to Inland Revenue directly from their integrated accounting software used as part of their business processes, rather than producing and filing a GST return as a separate manual process. This should minimise the effort businesses face in meeting their tax obligations, meaning more time for them to focus on their operations. This is consistent with the objectives of the Government's Business Growth Agenda.

33. Although the adoption by GST registered persons of the new digital GST services would reduce administrative costs for Inland Revenue, there are not wider system benefits like those expected from the adoption of the new PAYE services. The discussion document therefore proposes that the decision to adopt the new integrated GST services for providing GST information should be, for the foreseeable future at least, voluntary.

34. The discussion document also proposes that GST refunds are generally made by direct credit into the bank accounts of GST registered persons, rather than having the option of receiving them by cheque.

35. The discussion document also seeks feedback on whether there should be a threshold, above which, GST registered persons should be required to submit their GST returns electronically (through existing electronic channels or the new digital service).

Consultation

36. The Treasury, the State Services Commission, the Ministry of Social Development, the Ministry of Justice, the Accident Compensation Corporation, Statistics New Zealand, the New Zealand Customs Service, the New Zealand Defence Force, New Zealand Police, the Office of the Privacy Commissioner, the Department of the Prime Minister and Cabinet, the Department of Corrections, the Department of Internal Affairs, the Ministry of Education, the Ministry of Health,

the Ministry for Primary Industries and the Ministry of Business, Innovation and Employment have been consulted. None of the government agencies consulted wished to include specific comment.

37. The Commissioner of Inland Revenue's Transformation Reference Group, the Corporate Taxpayers Group, Chartered Accountants Australia and New Zealand, and a range of private sector employers have been consulted. The discussion document reflects some of the issues they raised with officials.

Financial implications

38. Approving the release of the *Better administration of PAYE and GST* discussion document will not have any fiscal implications. Any fiscal implications will be included in the final policy advice to Ministers.

Administrative implications

Inland Revenue

39. The administrative impacts of the proposed changes are being assessed in the context of the updated Business Transformation Business Case which is timetabled for submission to the Cabinet Committee on State Sector Reform and Expenditure Control before the end of 2015. The impacts will be reported on in the final policy advice to Ministers.

Implications for government agencies

40. The proposed changes to the PAYE system will have implications for government agencies as employers. If employers are required to provide PAYE information at the time of the business process, they will have to upgrade their payroll systems to allow for the provision of PAYE information on this basis.

41. Student allowances, most benefits and pensions, and ACC compensation payments are subject to PAYE. However, the systems MSD and ACC use for these clients are designed to administer the welfare and accident compensation programmes respectively. As such, these systems are not designed as "payrolls". Work is not yet far enough advanced to understand all the implications of upgrading these systems to be consistent with the proposed changes to the PAYE system, but MSD advises that the costs are likely to be significant.

42. Other government agencies, such as the New Zealand Defence Force and Schools' Payroll Service (previously known as Novopay), are also known to have concerns with aspects of the proposals in their current form.

43. Inland Revenue will continue discussions with these agencies over the next few months, so that the reporting to Ministers on policy recommendations will include options for these agencies.

44. Issues around tax secrecy and collecting information on behalf of other agencies are discussed in the companion discussion document, *Making Tax Simpler: towards a new Tax Administration Act*. Once these issues are worked through, there is potential for greater use of PAYE and GST information across government.

Compliance implications

45. The proposals in the discussion document are aimed at solutions that support and enable many customers to use the new digital services for PAYE and GST. Consequently, although there will be one off costs as customers adopt or upgrade their software, we expect there to be an overall reduction in both compliance and administration costs as the benefits are realised.

46. In addition, the proposed changes to the provision of PAYE information will enable government agencies to intervene more quickly to ensure individuals receive their social policy entitlements. More timely income information will also help detect fraud earlier.

47. The proposal that employers should pay PAYE and other deductions to Inland Revenue at the same time staff are paid should improve compliance by reducing the risk that employers use the amounts they hold in trust to cover these payments for other purposes.

48. Much of the consultation on potential changes to the PAYE rules is in response to issues raised by employers. Many of the options involve making trade-offs in relation to compliance costs. For example, deciding what method should be used to determine the amount of tax to be deducted from an extra pay involves making a trade-off between simplicity for employers and withholding accuracy. Consultation feedback will help inform final policy decisions, where trade-offs have to be made.

Human rights

49. I consider that the proposals contained in the discussion document are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993. The discussion document consults on a proposal that employees should provide their date of birth to Inland Revenue, via their employer, after they have taken up a new job. Date of birth information would be used to help confirm identity to ensure that deductions, such as for KiwiSaver and to repay a student loan, are correctly credited and that obligations, such as child support, are correctly assigned.

50. It is possible that some people may be uncomfortable with this information being provided to their employer because of the possibility of subsequent age discrimination. My officials will develop final policy recommendations based on submissions.

Legislative implications

51. The release of the discussion document will not give rise to any immediate legislative implications. However, legislative changes will be necessary if Cabinet subsequently decides to implement the proposals. Therefore, I intend to propose that a bill be included on next year's Cabinet Legislation Programme for introduction in late 2016, for this purpose.

Regulatory impact analysis

52. The Regulatory Impact Analysis requirements apply to some of the proposals in the discussion document. The substantive regulatory impact analysis elements have been included in the discussion document at a level that is appropriate, given the stage of policy development. Regulatory Impact Statements will be prepared as part of reporting back on final policy proposals.

Publicity

53. I intend to announce the release of the discussion document, at a Trans-Tasman Business Circle briefing on 11 November 2015. I will announce, at the same time, the release of two other discussion documents in the *Making Tax Simpler* series, one on modernising the Tax Administration Act 1994 and the other on better tax for small businesses.

54. The release of the discussion documents will be accompanied by the launch of online public consultation. This will contain a summary of the proposals and seek views on questions raised in the discussion documents. The online consultation will be on the same website used for the previous consultations in the *Making Tax Simpler* series. The consultation period will close on 12 February 2016.

Recommendations

55. I recommend that the Committee:

1. **Note** that currently the provision of PAYE and GST information to Inland Revenue is a separate manual process for employers and businesses, which has adverse impacts on:

- 1.1 Customers' compliance costs.
- 1.2 The timeliness and accuracy of the information, and its usefulness to Inland Revenue and wider government.
- 1.3 The way in which social policy is currently administered and could be delivered in future.

2. **Note** the Government discussion document, *Making Tax Simpler: better administration of PAYE and GST*, will consult on:

- 2.1 Allowing employers and businesses to submit PAYE and GST information to Inland Revenue directly from their payroll and accounting software at the time they run the business process they would be undertaking for their own purposes.
- 2.2 Options for requiring employers to provide PAYE information on a pay day basis.
- 2.3 Lowering the threshold for mandatory digital filing of PAYE information by employers.
- 2.4 The possibility that PAYE and other deductions withheld from employees' salary or wages are paid to Inland Revenue at the time employees are paid.
- 2.5 Modernising the PAYE rules to improve their overall workability.
- 2.6 Generally requiring GST refunds to be made by direct credit.
- 2.7 Whether there should be a threshold, above which, GST registered persons would be required to file their returns electronically.

3. **Agree** to the release of the Government discussion document, *Making Tax Simpler: better administration of PAYE and GST*, and the launch of accompanying online consultation on its contents.
4. **Authorise** the Minister of Revenue to approve editorial, presentational and other minor changes to the discussion document before its release.
5. **Invite** the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and final policy recommendations.

Hon Todd McClay
Minister of Revenue

____/____/____
Date

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- The Government discussion document *Making tax simpler - Better administration of PAYE and GST* is available at <http://taxpolicy.ird.govt.nz/publications/2015-dd-mts-4-payee-gst/overview>
- An archive of the Making Tax Simpler consultation sites is available at <http://taxpolicy.ird.govt.nz/archived-websites>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Better Administration of PAYE and GST: Release of Discussion Document

Portfolio Revenue

On 21 October 2015, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** that currently the provision of PAYE and GST information to Inland Revenue is a separate manual process for employers and businesses, which has adverse impacts on:
 - 1.1 customers' compliance costs;
 - 1.2 the timeliness and accuracy of the information, and its usefulness to Inland Revenue and wider government;
 - 1.3 the way in which social policy is currently administered and could be delivered in future;

- 2 **noted** that the government discussion document, *Maxing Tax Simpler: Better Administration of PAYE and GST* (the discussion document), attached to the submission under EGI-15-SUB-0109, will consult on:
 - 2.1 allowing employers and businesses to submit PAYE and GST information to Inland Revenue directly from their payroll and accounting software at the time they run the business process they would be undertaking for their own purposes;
 - 2.2 options for requiring employers to provide PAYE information on a pay day basis;
 - 2.3 lowering the threshold for mandatory digital filing of PAYE information by employers;
 - 2.4 the possibility that PAYE and other deductions withheld from employees' salary or wages are paid to Inland Revenue at the time employees are paid;
 - 2.5 modernising the PAYE rules to improve their overall workability;
 - 2.6 generally requiring GST refunds to be made by direct credit;

- 2.7 whether there should be a threshold, above which GST registered persons would be required to file their returns electronically;
- 3 **agreed** to the release of the discussion document, and to the launch of accompanying online consultation on its contents;
- 4 **authorised** the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;
- 5 **invited** the Minister of Revenue to report back to EGI on the outcome of the consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Reference: EGI-15-SUB-0109

Present:

Rt Hon John Key
Hon Bill English (Chair)
Hon Gerry Brownlee
Hon Paula Bennett
Hon Anne Tolley
Hon Dr Nick Smith
Hon Todd McClay
Hon Craig Foss
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith
Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
Officials Committee for EGI
Inland Revenue

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Cabinet

CAB-15-MIN-0177

Minute of Decision

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Report of the Economic Growth and Infrastructure Committee: Period ended 23 October 2015

On 27 October 2015, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 23 October 2015:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

EGI-15-MIN-0108 **Making Tax Simpler: A Government Green Paper on Tax Administration and Better Digital Services: Feedback from Consultation** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

EGI-15-MIN-0109 **Making Tax Simpler: Better Administration of PAYE and GST: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

EGI-15-MIN-0110 **Making Tax Simpler: Towards a New Tax Administration Act: Release of Discussion Document** CONFIRMED
Portfolio: Revenue

Out of scope [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

[REDACTED] [REDACTED] [REDACTED]
[REDACTED]

Michael Webster
Secretary of the Cabinet

Reference: CAB-15-SUB-0177

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Chief Executive, ACC
Commissioner of Police
Commissioner of Inland Revenue
Minister of Corrections
Chief Executive, Department of Corrections
Director-General of Conservation
Chief Executive, Ministry for Culture and Heritage
Government Statistician
Comptroller of Customs
Chief Executive, MSD (Disability Issues)
Chief Executive, Land Information New Zealand
Minister of Internal Affairs
Chief Executive, TPK
Chief Parliamentary Counsel
Legislation Coordinator
Secretary, EGI



Cabinet Economic Growth and Infrastructure Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Better Administration of PAYE and GST

Portfolio	Revenue
Purpose	This paper seeks agreement to a number of reforms to PAYE and GST that will reduce compliance and administrative costs and create opportunities for better service delivery to individuals.
Previous Consideration	On 21 October 2015, EGI agreed to the release of a discussion document on proposals to improve the administration of PAYE and GST, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-15-MIN-0109].
Summary	<p>Following a consultation process, a number of changes are proposed, grouped under the following themes:</p> <ul style="list-style-type: none"> • using digital services to integrate tax requirements into normal business processes (eg facilitating the provision of PAYE information through payroll software, encouraging the take-up of digital PAYE services, lowering the electronic filing threshold for PAYE returns, and introducing a framework for setting an electronic filing threshold for GST returns); • getting it right from the start (eg requiring employers to provide Inland Revenue with date of birth and contact details of all new employees); • making the PAYE rules work better (eg changes relating to the tax treatment of holiday pay paid in advance, and the tax treatment of retrospective increases in salary or wages). <p>Agency comments (ACC, MSD, Education Payroll Limited and Treasury) are in paragraphs 69-77.</p> <p>A summary of the submissions received on the consultation document are in Appendix A.</p>
Regulatory Impact Analysis	A Regulatory Impact Statement (RIS) is attached. The Regulatory Impact Analysis Team considers that the RIS meets the quality assurance criteria.

Baseline Implications	<p>There will be upfront costs to upgrade software, and those who choose not to go digital may incur increased compliance costs.</p> <p>The Ministry of Social Development and Education Payroll Limited (Novopay) have identified additional costs.</p> <p>The proposed cessation of the current payroll subsidy (\$2 per employee per pay-run for up to a maximum of five employees) is expected to generate fiscal savings of \$17.1 million over four years.</p>
Legislative Implications	<p>Amendments will be required to the Income Tax Act 2007, the KiwiSaver Act 2006 and the Tax Administration Act 1994.</p> <p>The proposed amendments will be included in a tax Bill that is expected to be introduced in late 2016, for enactment in 2017.</p>
Timing Issues	<p>The proposed changes will take effect from either 1 April 2018 or 1 April 2019, as noted in recommendations 14-16 below.</p>
Announcement	<p>The Minister of Revenue will announce the proposed changes and will release an anonymised version of the summary of submissions when the Bill is introduced.</p>
Proactive Release	<p>This paper will be proactively released at the time the Bill is introduced.</p>
Consultation	<p>Paper prepared by Inland Revenue. ACC, MBIE, Corrections, Customs, NZDF, MBIE, Education, Treasury, DIA, Justice, Privacy Commissioner, Police, DPMC, MSD, SSC and Statistics were consulted. Health was informed. A number of accounting firms, industry representative bodies, business and payroll software providers, and a range of individual businesses and employers made submissions in response to the consultation document.</p> <p>The Minister of Revenue indicates that the Minister of Finance was consulted, and that discussion has occurred with the government caucus and is not required with other parties represented in Parliament.</p>

The Minister of Revenue recommends that the Committee:

Background

- 1 note that on 21 October 2015, the Cabinet Economic Growth and Infrastructure Committee agreed to the release of a discussion document on proposals to improve the administration of PAYE and GST, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-15-MIN-0109];

Proposed changes

- 2 agree to the introduction of a number of reforms to PAYE and GST, as outlined in the paragraphs below, that will reduce compliance and administrative costs and create opportunities for better service delivery to individuals;

Using digital services to integrate tax requirements into business processes: PAYE

- 3 agree that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:
- 3.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;
 - 3.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 4 agree that employees (including IR56 taxpayers) who are required to remit their own PAYE and related deductions be required to provide PAYE information by the 7th working day after the end of the month in which they receive the payment(s);
- 5 agree that payroll software specifications include the following:
- 5.1 the requirement that PAYE information is provided on the day following payday;
 - 5.2 functionality to allow employers to provide details of new and departing employees to Inland Revenue when they are added to, or removed from, the payroll;
- 6 agree that the threshold referred to in paragraph 3.1 above for mandatory digital submission of PAYE information be set at \$50,000 per annum of PAYE and ESCT deductions;
- 7 agree that the PAYE thresholds for the remittance of PAYE and for the digital submission of PAYE information be able to be changed by Order-in-Council, and that the process include a requirement to consult with affected parties;

Using digital services to integrate tax requirements into business processes: GST

- 8 agree that a legislative framework be introduced allowing for an electronic filing threshold for GST returns to be set by Order-in-Council;
- 9 agree that a non-electronic filing penalty for GST returns be introduced as part of the framework referred to in paragraph 8 above, and that the amount of the penalty be set at \$250;

Getting it right from the start

- 10 agree that:
- 10.1 in addition to IRD number and tax code, all new employees be required to provide contact information and date of birth information to their employer;
 - 10.2 the employer must provide this information, along with the commencement date, to Inland Revenue;

PAYE rules

- 11 agree that, for PAYE deduction purposes, employers be given the option to treat holiday pay paid in advance and salary or wages paid in advance as if the lump sum payment was paid over the pay periods to which it relates;
- 12 agree that the rules in tax legislation about how legislated rate or threshold changes are applied be aligned across the different types of PAYE income payments and PAYE-related social policy products, such that the rates and thresholds to be applied are those in force on the date the payment is made;
- 13 agree that the *de minimis* rule in relation to the tax treatment of retrospective increases in salary or wages be repealed;

Application date

- 14 agree that the implementation of the changes for PAYE information follow a legislated approach, where the submission of PAYE information on the new basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide PAYE information on the new basis;
- 15 agree that the legislation include the following implementation timetable:
 - 15.1 1 April 2018 is the date from which it becomes permissible for employers to submit PAYE information and remit PAYE and related deductions on payday;
 - 15.2 1 April 2018 is the effective date for the proposed changes to the PAYE rules (paragraphs 11, 12 and 13 above);
 - 15.3 1 April 2019 is the date from which employers are required to submit PAYE information on a payday basis (paragraphs 3, 4, 5, 6, 7 and 10 above);
 - 15.4 the date of Royal Assent of the Bill is the effective date for the proposed framework for setting an electronic filing threshold for GST returns (paragraphs 8 and 9 above);

Payroll subsidy

- 16 agree that the payroll subsidy be repealed with effect from 1 April 2018;

Fiscal implications

- 17 note the following changes reflecting the proposal in paragraph 16 above, with a corresponding impact on the operating balance:

	\$m – increase/(decrease)				
Vote Revenue Minister of Revenue	2015/16	2016/17	2017/18	2018/19	2019/20 and outyears
Non-departmental Benefits and Other Related Expenses					
Payroll Subsidy PLA	-	-	(1.700)	(7.300)	(8.100)

Legislative implications

- 18 agree that the above proposals be included in a tax Bill scheduled for introduction in October 2016;

- 19 authorise the Minister of Revenue to make minor amendments of a technical nature to the measures outlined in the paper under EGI-16-SUB-0136 without further reference to Cabinet, including changes to modernise the way the PAYE rules are expressed in legislation;
- 20 invite the Minister of Revenue to issue drafting instructions to Inland Revenue to give effect to the above paragraphs;

Publicity

- 21 note that the Minister of Revenue intends to release a media statement to announce the above measures when the Bill is introduced;
- 22 note that an anonymised summary of submissions will be publicly released at the time the Bill is introduced.

Janine Harvey
Committee Secretary

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Minister for ACC
Legislation Coordinator

Chair
Cabinet Economic Growth and Infrastructure Committee

MAKING TAX SIMPLER: BETTER ADMINISTRATION OF PAYE AND GST

Proposal

1. This paper seeks the Cabinet Economic Growth and Infrastructure Committee's agreement to the introduction of a number of reforms to PAYE and GST that will reduce compliance and administrative costs and create opportunities for better service delivery to individuals. The proposals are part of the Government's plans to modernise the revenue system through business process and technology change. The measures will:

- reduce compliance costs by enabling employers to meet their tax obligations as part of their normal business processes – for example, meeting PAYE obligations at the time they pay wages or salaries;
- enable Inland Revenue to use PAYE information more effectively to improve the accuracy of withholding and help prevent individuals getting into debt;
- create an opportunity for Government to subsequently redesign social policies – for example, by introducing shorter periods of assessment to better match assistance to periods of need;
- improve the workability of some PAYE rules;
- introduce a framework for setting an electronic filing threshold for GST returns.

2. These proposals could be included in a bill to be introduced in the last quarter of 2016 and passed before Parliament is dissolved for the 2017 general election.

Executive summary

3. PAYE and GST are major components of the tax system, raising 37% and 36% (24% Inland Revenue and 12% Customs) of total tax revenue respectively. Both PAYE and GST impose obligations on businesses and other organisations, including many very small entities.

4. The proposals take advantage of modern digital technology to reduce compliance and administrative costs. By reducing errors and improving timeliness, digital systems allow government agencies to make better use of income information – for example, to ensure that benefits and other assistance are not overpaid. Better quality and more timely PAYE information enables future improvements to social policy, such as better targeting tax credit assistance to periods of need.

5. The proposals for the reform of PAYE and GST are made up of the following measures that will take effect from either 1 April 2018 or 1 April 2019 as noted:

- Employers will be able to meet their PAYE information obligations by providing PAYE information on payday from 1 April 2018.

- Employers will be required to provide PAYE information on payday from 1 April 2019, but there will be no change to when employers have to pay their PAYE and related deductions.
- The threshold for electronic filing of PAYE information will be reduced from \$100,000 a year of PAYE and employer's superannuation contribution tax (ESCT) to \$50,000 a year from 1 April 2019; those above the threshold who are unable to access digital services will be able to apply for an exemption from the requirement to file PAYE information electronically.
- From 1 April 2019 payroll software will be required to offer services which employers can use to notify Inland Revenue of new and departing staff when they are added to or removed from the payroll. This will help ensure that new employees are set up correctly from the beginning of their employment.
- To help ensure that identity is correctly assigned, employers will be required to obtain date of birth information from new employees and pass it on to Inland Revenue from 1 April 2019.
- Employers will be required to pass on contact details for all new employees from 1 April 2019.
- The existing payroll subsidy provides \$2 per employee per pay-run, up to a maximum of five employees, for employers who outsource their PAYE responsibilities to a listed payroll intermediary. The subsidy incentivises only one model of payroll provision and will end with effect from 1 April 2018.
- To strike a balance between the desire for more accurate withholding of PAYE and the impact on compliance costs, employers will be given the option to tax holiday pay paid in advance as if the lump sum payment was paid over the pay periods to which the leave relates, or under the existing extra pay method, from 1 April 2018.
- To reduce complexity and confusion for employers, the rules about how legislated rate or threshold changes are applied will be aligned across the different types of PAYE income payments and PAYE-related social policy products, such that the rates and thresholds to be applied are those in force on the date the payment is made.
- A framework will be introduced allowing for the setting of an electronic filing threshold for GST returns.

6. The above measures will contribute to the achievement of Government's Better Public Service Results 9 and 10. They will make PAYE income and deduction information available on a timely basis for 3.7 million New Zealanders.¹ As well as the compliance and administrative cost reductions and changes to social policy identified in this paper the information will create opportunities for future improvements in services as information is shared more effectively across government.

¹ The population subject to PAYE includes employees and recipients of taxable benefits and entitlements; this includes most benefits, New Zealand superannuation, student allowance, and accident compensation.

7. There will however be upfront costs to upgrade software and those who choose not to go digital may incur increased compliance costs. Therefore, I expect that there will be some resistance to the recommended changes. However, the continuation of the status quo is not sustainable. It limits the opportunities for those who want to benefit from more modern ways of interacting with Inland Revenue and it limits what we can do to provide better services to individuals, including changes to social policy.

8. Most government agencies will have the core costs of upgrading their payroll software covered by their contracts with the software vendors. The Ministry of Social Development (MSD) and Education Payroll Limited (Novopay) have identified additional costs.

9. There will be additional administrative costs for Inland Revenue associated with the transition but these will be accommodated within Inland Revenue's Business Transformation programme. The package I am recommending will give rise to total fiscal savings of \$17.1 million over the four years commencing 2016/17.

10. I propose to include these measures in a bill to be introduced in late 2016 to enable passage before Parliament is dissolved for the 2017 general election. This timetable aligns with the plans for Inland Revenue's new computer system (Business Transformation) and should allow sufficient time for payroll software providers and employers to make the necessary changes to their systems.

Background

11. The Government's objective for the tax system is that it should be simple to comply with, making it easy for customers to get things right and difficult to get wrong. It should serve the needs of all New Zealanders, put customers at the centre and help them from the start, rather than when things go wrong.

12. Inland Revenue's business transformation is a long-term programme to modernise New Zealand's revenue system. Transformation will simplify how services are delivered by changing how customers interact with a digitally-based revenue system, simplifying policies and making better use of data and intelligence to better understand taxpayers. Inland Revenue will facilitate compliance by providing assistance at the beginning so customers get it right from the start.

13. Business Transformation is far more than just a new computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings and enabling more timely policy changes.

14. In March 2015 the Government released two documents, *Making Tax Simpler: A Government green paper on tax administration (Green Paper)* and *Making Tax Simpler: Better digital services – a Government discussion document*. Feedback on those documents informed *Making Tax Simpler: Better administration of PAYE and GST – A Government discussion document* (the discussion document) which was released in November 2015. This set out the Government's proposals for improving the administration of PAYE and GST and creating opportunities for better delivery of social policy in future.

15. An employer's PAYE obligations² can broadly be described as deducting PAYE from an employee's salary or wages each payday, providing information on the employee's gross wages and deductions to Inland Revenue once a month, and paying the withheld PAYE and related deductions to Inland Revenue once or twice monthly.³ Employers with over \$100,000 per year of PAYE and ESCT deductions are required to send PAYE information to Inland Revenue electronically, while

² Payroll intermediaries and government agencies such as MSD, ACC and Inland Revenue which pay benefits or entitlements subject to PAYE have the same obligations as employers and references to employers in this paper should be read as including these groups.

employers below this threshold have the option of sending a paper employer monthly schedule. Not all employers are businesses; not for profit organisations, government agencies and individuals can also have obligations as employers.

Comment

16. Feedback on the *Green Paper* and discussion documents confirmed many of the known pain points and indicated broad support, particularly from large organisations, representative bodies and existing users of business software, for greater integration of tax requirements into business processes.

17. Benefit modelling indicates that significant compliance cost savings are available to small businesses from the adoption of business software that integrates tax requirements into normal business processes. For example, for PAYE, compliance cost savings for small employers are estimated at between 15% and 40% of time spent on PAYE. Feedback nevertheless indicates that some businesses and other organisations are opposed to the prospect of using business software. While this package of measures will require employers to file PAYE information more frequently, it does not require them to use payroll software.

18. I am not recommending that employers be required to pay (remit) PAYE and other deductions to Inland Revenue any more often. Combining the process of making payments to Inland Revenue with the process of paying staff would maximise compliance and administrative cost savings. However, feedback from the discussion document indicated that most employers value the benefits from delayed payments, particularly the cash flow benefits, more than the compliance cost savings that could arise from a fully integrated process. The option of paying Inland Revenue at the same time as employees are paid will be available on a voluntary basis for those who would like to take advantage of it. The existing threshold of \$500,000 a year of PAYE and ESCT will remain in place for twice monthly payment of PAYE and associated deductions. All other employers are required to pay PAYE by the 20th of the month following.

19. The measures I am recommending enable compliance and administrative cost savings and improvements to service delivery, including of social policy. While the compliance cost savings will be achieved through the greater use of digital services in general and business software in particular, the proposals allow small organisations to choose whether or not to take advantage of digital services. Some measures to improve the fairness and workability of the PAYE rules are also included.

20. Further information on each measure is provided below. The proposals have been grouped under the following themes:

Using digital services to integrate tax requirements into business processes

- Requiring PAYE information at the time of the business process
- Facilitating provision of PAYE information through payroll software
- Encouraging the take-up of digital PAYE services and targeting support
- Thresholds for PAYE obligations
- GST – Introducing a framework for setting an electronic filing threshold for GST returns

3 The 5,400 largest employers with over \$500,000 a year of PAYE and employer's superannuation contribution tax (ESCT) and all payroll intermediaries are required to pay PAYE and related deductions twice monthly and to provide PAYE information by the 5th of the following month. All other employers are required to provide PAYE information and pay by the 20th of the following month.

Getting it right from the start

- Provision of all new employees' date of birth and contact detail information from employers

Making the PAYE rules work better

- Tax treatment of holiday pay paid in advance
- Application of legislated rate changes
- Tax treatment of retrospective increase in salary or wages – de minimis provision

Using digital services to integrate tax requirements into business processes

21. These measures take advantage of digital services to reduce compliance and administrative costs and to create opportunities for the improved delivery of social policy and other government services.

Requiring PAYE information at the time of the business process

22. Legislation currently requires employers and payroll intermediaries to provide PAYE information about new and departing employees and about each employee's income and deductions on a monthly cycle, regardless of the employer's pay cycle. Although employers provide information for each employee, the information must be aggregated across pay periods to provide monthly totals.

23. The aggregated and delayed nature of PAYE information enables errors to perpetuate which creates rework and drives up compliance and administrative costs. If the provision of PAYE information was integrated with the process of paying staff, Inland Revenue would have disaggregated (pay period) information provided on, or just after, payday. Pay period information received sooner would enable better administration of the PAYE system and improved delivery of social policies, such as *Working for Families* tax credits. It would also create opportunities to improve the design of social policy – for example, by reducing the 'square up' period for *Working for Families* to allow periods of assistance to better match periods of need. The previously released *Green Paper* set out the Government's early thinking in this area. A consultation document on social policy which will set out how these changes might work is scheduled for release in 2017.

24. A number of approaches to allow employers to provide information at the time of the business process were canvassed in consultation. Many of those who provided feedback preferred a voluntary approach to providing PAYE information on payday. However, even where change is associated with better service, inertia can slow the uptake of new approaches and a voluntary approach would delay the realisation of benefits. Without a legislative requirement it will also be difficult to ensure that software providers upgrade their payroll systems. This is particularly true for large overseas based providers of payroll software. As disaggregated, more timely PAYE information is a prerequisite for subsequent improvements to social policy I recommend that the legislation allows an initial voluntary phase but specifies a date by which all employers are required to provide PAYE information on payday.

25. Some employers pay employees on a daily basis but the legislation will have a minimum pay period of a week. An employer which pays on a daily basis, including a government agency such as MSD or ACC in respect of benefits or entitlements, would report weekly and a special pay run during a pay period, will be included with the next pay period return.

26. Just over 64,000 employers (or 33%) currently file their PAYE information on paper. This number is declining at a rate of approximately 9% a year. While employers already calculate PAYE

and deductions for each pay period, a requirement for payday filing is likely to increase compliance costs for those who continue to provide the information on paper forms sent by post. Consideration was given to whether a threshold should be used to exempt small employers from the requirement to submit information on payday and allow them to provide pay period information at month end. However, I consider that the benefits of payday filing to the wider system justify imposing the payday filing requirement on all employers.

27. I recommend that the legislation is amended so that employers can, on a voluntary basis, provide PAYE information on payday from 1 April 2018.

28. To ensure that pay period information is available on a much timelier basis for all employees I further recommend that the legislation should require all employers to submit PAYE information on payday from 1 April 2019.

29. Information will be received more quickly from employers filing electronically than will be possible from employers using paper and posting their return. Taking this into account, the due date for information provided from payroll software will be the day following payday and the due date for employers below the electronic filing threshold not using payroll software, will be the 7th working day following payday.

30. Currently, certain types of employees (known as “IR 56 taxpayers”⁴) are responsible for remitting their own PAYE and related deductions instead of their employer. There are approximately 1,600 active IR 56 taxpayers. Additionally, some other employees are required to remit PAYE. This occurs when an employer does not deduct PAYE and pays the employee a gross salary or wage. Under current rules, both these categories of employees are required to pay the tax and provide an employer monthly schedule by the 20th of the month following payment. I recommend that the due date for provision of PAYE information from these employees be brought forward to the 7th working day after the end of the month in which they receive the payment(s). This will align the due date with the proposed due date for an employer below the electronic filing threshold, not using payroll software, who pays its employees on the last day of a month. I consider that requiring PAYE information more frequently from these employees would impose an unduly onerous compliance burden on them.

31. Employers who supported reporting PAYE information on a payday basis asked for a simple error correction process. It is intended that genuine PAYE errors will be able to be self-corrected in a subsequent period. It was also suggested that the provisions around penalties and interest might need re-consideration. The penalty regime is currently being reviewed and, if substantive legislative change is required to support the PAYE changes, officials will report to me.

Information sharing

32. The above changes to improve the quality and timeliness of information about income and deductions for over 3.7 million New Zealanders will increase its usefulness to other government agencies. While no specific legislative changes are proposed at this point, improved sharing of the information is intended. It is expected that a second Tax Administration Act discussion document will include greater detail on how the legislative framework could be changed to accommodate this.

Facilitating provision of PAYE information through software

⁴ IR56 taxpayers include private domestic workers, embassy staff, New Zealand-based representatives of overseas companies, and United States Antarctic Program personnel.

33. The requirements for payroll software will include the ability for employers to provide details of new and departing employees to Inland Revenue at the time they are added to or removed from the payroll. Because businesses vary in the way they manage this process, it is not possible to legislate that this information should be provided when these business processes occur, but early receipt of such information would bring benefits. It will enable new employees to be set up correctly from the beginning of their employment, reducing subsequent re-work and employee debt. It would also sever the link in Inland Revenue's systems between the employers and employees in a timely way which would stop Inland Revenue contacting employers about departed employees.

34. There was considerable support for this feature in consultation, so, although the requirement imposed on employers will be to include information about new and departing employers no later than the next payday return of PAYE information, payroll software providers will be required to offer a feature to provide earlier notice which employers will use to the extent that it brings them benefits.

35. Because the detailed specifications for PAYE changes are not yet available, some software providers and large employers who have heavily customised or 'bespoke' systems may be concerned that a date of 1 April 2019 provides insufficient time to amend their systems. The proposed timetable will allow almost 2½ years from the time a bill is introduced to schedule the changes, and approximately 18 months from the time legislation is passed to develop and implement them. This is broadly consistent with feedback requesting 2 to 3 years notice of required changes.

Encouraging the uptake of digital PAYE services

36. A significant number of those who responded to consultation suggested that, in order to encourage digital uptake, Inland Revenue should make payroll software freely available. Others suggested that some form of subsidy should be provided to offset the cost of switching or updating software, while others commented favourably on the existing payroll subsidy.

37. Approximately one third of employers (64,000) currently file their PAYE information by typing into an online form and then submitting the information from the secure part of Inland Revenue's website. Inland Revenue proposes to significantly upgrade its 'e-services' and PAYE-related calculators so that the experience of submitting information via the website on payday is more akin to online banking. User-friendly, intuitively designed e-services should also encourage a significant number of those currently using paper (another 64,000) to switch to digital services, even if they consider themselves 'just too small' to invest in payroll software.

38. Payroll software is inherently complex and does much more than calculate tax obligations. Although Inland Revenue proposes to upgrade its calculators and e-services, it does not propose to offer free payroll software as this would be a distraction from its core business and may disincentivise the private sector from innovations in this area.

39. The government has offered a payroll subsidy of \$2 per employee per pay-run, for up to a maximum of five employees, since 2006. The subsidy was introduced to offset small employers' compliance costs by incentivising them to outsource their PAYE responsibilities to listed payroll intermediaries. The subsidy is used by some payroll intermediaries to make free payroll services available, including to non-profit bodies. The payroll subsidy is currently available to almost 98% of employers and is paid to 20 listed payroll intermediaries on behalf of approximately 23,000 employers.⁵

40. Officials considered that tighter targeting of the subsidy would return it to its original intent of supporting small employers who may lack payroll or digital skills. I nevertheless recommend

⁵ To minimise administrative costs, the subsidy is paid to the payroll intermediary, rather than to the employer.

that the subsidy cease with effect from 1 April 2018, generating fiscal savings of \$17.1 million over four years.

41. While I expect that the loss of the payroll subsidy could result in an increase in the price of services from listed payroll intermediaries the subsidy reflects an old fashioned approach to reducing barriers for small employers. The experience for employers filing through the Inland Revenue's website will be significantly improved and a range of payroll software products and services already exist in the market at a variety of price points. In this context because only services provided by listed payroll intermediaries are subsidised, the payroll subsidy potentially distorts employers' choices between different types of payroll products and services.

Thresholds for PAYE

42. The existing electronic filing threshold of \$100,000 a year of PAYE and ESCT was introduced in 1999. Since that time, the use of electronic channels has become much more widespread, not just in business, but across society in general 63% of those below the current threshold file PAYE information electronically, despite not being required to do so.

43. There was considerable opposition in consultation to lowering the electronic filing threshold, often on the grounds that small employers should still be able to use paper systems. Because a lower threshold of \$50,000 a year of PAYE and ESCT will still allow 77% of employers to choose to file on paper, I recommend lowering the electronic filing threshold from \$100,000 a year of PAYE and ESCT to \$50,000 a year of PAYE and ESCT from 1 April 2019. Based on 2015 figures, this change would require approximately 6,000 employers to begin to file electronically.

44. It is further proposed that, in future, the level at which the threshold is set should be subject to change by Order-in-Council following consultation with affected parties. There will be a limited exception for those employers above the electronic filing threshold who are unable to access digital services.

GST – Introduction of a framework for an electronic filing threshold for GST returns

45. Fast, effective and accurate information provision can best be achieved through electronic transfer of information. GST-registered persons and businesses can currently file their GST returns on paper or in electronic form. For the year to June 2015, taxpayers chose to file 65% of GST returns (1.8 million of the 2.9 million total GST returns filed) electronically.

46. It is anticipated that electronic filing of GST returns will increase as a result of Business Transformation. I recommend that a legislative empowering provision be introduced that allows me to introduce an electronic filing threshold by Order-in-Council if uptake needs to be encouraged.

47. While there may be transitional costs for some taxpayers, once a threshold is set and implemented, electronic transfer of GST returns will have the long-term benefit of reducing compliance and administrative costs. There will also be the benefit of reduced transcription errors.

48. The vast majority of businesses and persons in New Zealand have access to the internet and electronic transfer. However, a limited exemption will be available for taxpayers for which electronic filing would cause undue compliance costs.

49. To encourage taxpayers to file electronically and to recover the additional costs of administering paper returns there will be a penalty of \$250 for those taxpayers who are, in the future, required to file in an electronic format and fail to do so. The level of the penalty is consistent with the existing minimum non-electronic filing penalty for PAYE and the minimum late filing penalty for GST returns for larger businesses.

Getting it right from the start

Provision of all new employees' date of birth and contact detail information from employers

50. The overwhelming majority of new employees have to fill in two Inland Revenue forms when they start a new job.⁶ There is significant duplication of information collected through the forms, which both ask for the employee's name and IRD number. However, Inland Revenue does not ask for the employee's date of birth. There are thousands of cases where employees have provided an incorrect IRD number or used a variant of their name. In the absence of further information to help confirm identity, most of these instances trigger contact with the employer and employee. Employers report that they can spend considerable time helping employees to sort out instances of identity confusion. If improved service delivery is going to be based on and informed by better information appropriately shared across government agencies, we need to be confident that individuals are correctly identified.⁷

51. Many employers currently obtain date of birth information from new employees. I recommend that date of birth be added to the information required for Inland Revenue. Its provision will not be a condition of employment and its absence would not automatically trigger the use of the 'no declaration' tax rate of 45c in the dollar,⁸ however if identity cannot be confirmed that is the appropriate deduction rate. The provision of date of birth information will help confirm identity and should reduce recourse to the penalty rate. The majority of submitters supported the addition of date of birth information to the information already provided to Inland Revenue at the time an employee starts a new job.

52. Contact information is currently provided, for Inland Revenue purposes, by the vast majority new employees.⁹ To assist Inland Revenue in staying in touch with individual customers, I recommend requiring the provision of this information for all new employees. Most employers already collect this information for their own purposes and the legislation will enable them to send the information directly to Inland Revenue from their payroll systems. It is intended that a single form will remain for those who wish to continue using paper.

Making the PAYE rules work better

Tax treatment of holiday pay paid in advance

53. The tax treatment of holiday pay depends on whether the holiday pay is a lump sum payment (in which case it should be treated as an extra pay), or is included in an employee's regular pay or paid in substitution for an employee's ordinary salary or wages when annual paid holidays are taken (in these cases it should be treated as salary or wages).

54. In the case of holiday pay paid in advance (for example, where an employee takes four weeks' annual leave and receives a lump sum payment of holiday pay covering the four weeks in advance), extra pay tax treatment has a tendency to result in over-withholding of PAYE.

55. More accurate withholding outcomes could be achieved if PAYE was deducted as if the lump sum payment was paid over the pay periods to which the leave relates. Consultation feedback suggested it was common practice to apply this alternative approach for end of (calendar) year holiday pay paid as a lump sum. Moreover, prior to Inland Revenue clarifying its operational

⁶ The IR330 which requires the employee to select a tax code and the KS2 KiwiSaver form.

⁷ Inland Revenue will recognise RealMe from June 2017.

⁸ The no declaration rate is automatically used if an IRD number is not provided and/or if a tax code is not selected.

⁹ Contact information (postal address, phone numbers and email) is required on the KiwiSaver deduction form which must be completed by new employees between the ages of 18 and 65 who are New Zealand citizens or entitled to live in New Zealand indefinitely and are not employed for 28 days or less or as casual employees.

position on the correct tax treatment of holiday pay in November 2015, some payroll software applied this alternative approach to holiday pay paid in advance.

56. This alternative treatment would, however, be more complicated for employers to apply than treating the payment as an extra pay. This is due to the need, when future payments are made for pay periods to which the leave relates, for employers to calculate PAYE based on all earnings for the pay period, less PAYE already collected for the pay period. This will occur for pay periods that are not taken entirely on leave, but partially taken on leave and partially worked in.

57. Although it is a more precise method of withholding, I consider that the alternative method is too complicated to compel employers who do their payroll manually to use. I therefore recommend that employers be given the option to tax holiday pay paid in advance under the existing extra pay method, or as if the lump sum payment was paid over the pay periods to which the leave relates. For consistency, I also recommend that similar treatment be extended to the analogous situation of salary or wages paid in advance.

Application of legislated rate changes

58. Different types of PAYE income payments and PAYE-related social policy products¹⁰ 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 rates (or thresholds) that apply are sometimes based on the pay date, pay period end-date or pay period start-date, while sometimes apportionment applies. This creates complexity and confusion for employers which adds to compliance costs.

59. I recommend that the rules in the Inland Revenue Acts about how legislated rate or threshold changes are applied be aligned across the different types of PAYE income payments and PAYE-related social policy products, such that the rates and thresholds to be applied are those in force on the date the payment is made. Aligning the rules would simplify the transitional process for employers when a legislated rate (or threshold) change occurs, thus reducing compliance costs. There was strong support for this in consultation feedback.

Tax treatment of retrospective increase in salary or wages – de minimis provision

60. Under the PAYE rules, a retrospective increase in salary or wages is treated as an extra pay. This is subject to a longstanding de minimis provision, so only applies where the total salary or wages a person earns in a week (including the increase) is more than \$4. If a person earned less than \$4 for the week, the payment would be treated as salary or wages but, due to the effects of inflation over the last half century, this is now extremely unlikely to occur.

61. I recommend that the de minimis rule in relation to the tax treatment of retrospective increases in salary or wages be repealed, as it is effectively redundant and the mischief it was presumably intended to address is no longer an issue.

Consultation

62. In June 2014, Inland Revenue, the Treasury and Victoria University of Wellington hosted a conference entitled *Tax Administration for the 21st Century*. The conference explored options for making tax easier. Following this conference, the Government issued *Making Tax Simpler: A Government Green Paper on Tax Administration*, which set out the broad direction of proposed improvements to administration of the tax system, and *Better Digital Services: A Government*

¹⁰ PAYE-related social policy products include the ACC earners' levy, student loan deductions, the minimum employee KiwiSaver contribution and the compulsory employer KiwiSaver contribution.

Discussion Document, which outlined how digital technology could be used to improve service, reduce compliance costs and improve compliance. To encourage feedback from a wide audience, the release of these documents was accompanied by the launch of online public consultation on a dedicated *Making Tax Simpler* website.

63. On 11 November 2015, the Government released *Making Tax Simpler – Better administration of PAYE and GST: a Government discussion document* (the discussion document), which outlined how digital technology could be used to streamline PAYE and GST processes. Once again, to encourage feedback from a wide audience, the discussion document was accompanied by the launch of online public consultation on the *Making Tax Simpler* website. A summary of the feedback provided is at Appendix A and agreement is sought to the public release of an anonymised version of this material at the time the bill is introduced.

64. Officials also consulted directly with a number of large private and public sector employers with complex payrolls and with the Ministry of Social Development (MSD) and Accident Compensation Corporation (ACC) which pay taxable benefits and compensation payments that are subject to the deduction of PAYE. The implications for government agencies are discussed in the subsequent section on administrative implications. Feedback from consultation has informed the development of the measures included in this paper.

65. The Treasury, the State Services Commission, the Ministry of Social Development, the Ministry of Justice, the Accident Compensation Corporation, Statistics New Zealand, the New Zealand Customs Service, the New Zealand Defence Force, New Zealand Police, the Office of the Privacy Commissioner, the Department of the Prime Minister and Cabinet, the Department of Corrections, the Department of Internal Affairs, the Ministry of Education, and the Ministry of Business, Innovation and Employment have been consulted.

Financial implications

66. The table below provides a summary of the fiscal impact of the measures I am recommending in this package. The payroll subsidy is an annual appropriation established under permanent legislative authority. The proposed repeal, with effect from 1 April 2018 will reduce expenditure from the baseline and increase the operating balance.

\$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears
Non-departmental Benefits and Other Related Expenses Payroll Subsidy PLA	-	-	(1.700)	(7.300)	(8.100)

Administrative implications

Inland Revenue

67. The changes proposed in this report would be implemented in Inland Revenue's new computer system, START, during stage 2 of the Business Transformation programme.

68. It is anticipated that there will be additional administrative costs associated with implementing the recommended changes to PAYE but these are expected to be largely transitional.

It is expected that the administrative costs of the proposed changes will be accommodated within the programme funding.

Other government agencies

69. Most government agencies will have the core costs of upgrading their payroll software covered by their contracts with the software vendors, although there will be costs associated with installing and testing the upgrade and training staff and changing processes. Small government agencies using ‘off the shelf’ packages or cloud-based services may face additional costs for upgrades but these are not expected to be material.

70. Student allowances, most benefits and pensions, and accident compensation payments are subject to PAYE. The systems MSD and ACC use for these clients are complex and are primarily designed to administer the welfare and accident compensation programmes respectively. The costs of change will fall on the agencies.

71. ACC has indicated general support for the provision of details of accident compensation payments on payday but has identified possible concern around its capacity to always share date of birth and contact information by the time of the first compensation payment. ACC has also identified a number of related opportunities for improving the accuracy of compensation payments and the calculation of levies. Inland Revenue and ACC will work closely to ensure that these benefits can, where possible, be realised through better information flows between agencies.

72. ACC does face some system constraints but their own transformation project includes the development of new systems which, provided the timeframes can be aligned, provides the opportunity for ACC to build in the necessary functionality at marginal cost. ACC has identified the importance of working closely with Inland Revenue through detailed design and subsequent phases to ensure that the programme requirements, implementation timeframes and delivery risks are effectively co-ordinated and managed.

73. Education Payroll Limited (EPL), through the Ministry of Education, commented that the schools’ existing payroll platform (Alesco, through supplier Ascender) could provide existing pay period information to Inland Revenue at the time staff is paid without major changes. Their response to the wider Inland Revenue transformation was caveated to the effect that, until the interface to be used between Inland Revenue and EPL is known, the capability to comply, lead time and costs cannot be confirmed and/or estimated.

Ministry of Social Development comment

74. MSD is generally supportive of the proposals in the paper for the reforms to PAYE and GST, including those to improve the timeliness of these payments. However, MSD considers that the costs of implementing these changes require additional funding as these costs are not able to be absorbed within a baseline. The Ministry’s baseline is already facing significant cost pressures and a constrained financial outlook.

75. MSD will meet its costs as an employer adjusting its payroll systems. However, as noted in the paper, MSD’s systems are complex and primarily designed to administer the social welfare system. The systems currently provide information on a monthly schedule basis to Inland Revenue on payments made and tax adjustments for debt for clients receiving most main benefits, pensions and student allowances.

Withheld under section 9(2)(f)(iv) of the Official Information Act 1982

Treasury comment

77. Treasury supports the proposed changes as they will enable improvements in government services through more timely and useful information. In addition to public consultation, Inland Revenue has consulted with many government agencies and note that most will have any costs covered by their contracts with software vendors. We recognise the changes may present cost pressures on some agencies, but these should be funded from agency baselines. Additional funding could be considered for a few agencies on an exceptional basis. Agencies will have until 1 April 2019 to implement most changes, and it would be inequitable to provide funding to government agencies while the payroll subsidy for small and medium businesses is being removed.

Compliance implications

78. The proposals in this paper will enable customers to use the new digital services for PAYE and GST. Consequently, there will be one off costs as customers adopt or upgrade their software. However, it is expected that there will be an overall reduction in both compliance and administration costs as the benefits are realised.

79. Inland Revenue will deliver targeted support and education to ensure that all employers understand the PAYE changes and, in particular, that those employers who are not taking advantage of digital services understand the available benefits.

80. The proposed changes to the provision of PAYE information will enable government agencies to intervene more quickly to ensure individuals are subject to accurate rates of withholding and are supported to avoid debt. More timely income information will also help detect fraud and overpayment earlier.

Human rights

81. There are no human rights implications. While the provision of date of birth information to Inland Revenue at the time an employee takes up a new job may cause concern to some people, many employers routinely collect this information already. The proposal that date of birth information be provided to Inland Revenue to help confirm identity was supported by a majority of those who provided feedback on the subject.

Legislative implications

82. The proposals contained in this package of measures would require legislative amendments to the Income Tax Act 2007, KiwiSaver Act 2006 and the Tax Administration Act 1994. I also recommend that drafters be instructed to modernise the way the PAYE rules are expressed in legislation.

83. It is proposed to include the amendments in a tax bill that would be introduced in late 2016 and enacted before the Parliament is dissolved for the 2017 general election. This timeline is necessary to provide sufficient time for payroll providers and large employers with customised payrolls to plan and implement the change.

Regulatory impact analysis

84. The Regulatory Impact Analysis (RIA) requirements apply to most of the proposals in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.

85. The Regulatory Impact Analysis Team at the Treasury (RIAT) has reviewed the RIS prepared by Inland Revenue. RIAT considers that the information and analysis summarised in the RIS *meets* the quality assurance criteria.

Publicity

86. I propose to announce these measures and release an anonymised version of the summary of submissions when the bill is introduced. I also propose to proactively release this Cabinet paper.

Recommendations

87. I recommend that the Cabinet Economic Growth and Infrastructure Committee:

1. **Agree** to the introduction of a number of reforms to PAYE and GST that will reduce compliance and administrative costs and create opportunities for better service delivery to individuals.

Using digital services to integrate tax requirements into business processes: PAYE

2. **Agree** that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:
 - i. Payroll intermediaries, employers at or above a threshold, and those employers using payroll software, being required to submit that information digitally on the day following the payday; and
 - ii. Employers below that threshold not using payroll software, and employers unable to access digital services, being required to submit that information by the 7th working day following the payday.
3. **Agree** that employees (including IR56 taxpayers) who are required to remit their own PAYE and related deductions be required to provide PAYE information by the 7th working day after the end of the month in which they receive the payment(s).
4. **Agree** that payroll software specifications include the following:
 - i. The requirement that PAYE information is provided on the day following payday; and
 - ii. Functionality to allow employers to provide details of new and departing employees to Inland Revenue when they are added to, or removed from, the payroll.
5. **Agree** that the threshold referred to in recommendation 2(i) above for mandatory digital submission of PAYE information be set at \$50,000 a year of PAYE and ESCT deductions.

6. **Agree** that the PAYE thresholds for the remittance of PAYE and for the digital submission of PAYE information be able to be changed by Order-in-Council and that the process should include a requirement to consult with affected parties.

Using digital services to integrate tax requirements into business processes: GST

7. **Agree** that a legislative framework be introduced allowing for an electronic filing threshold for GST returns to be set by Order-in-Council.
8. **Agree** that a non-electronic filing penalty for GST returns be introduced as part of the framework referred to in recommendation 7 and that the amount of the penalty be set at \$250.

Getting it right from the start

9. **Agree** that, in addition to IRD number and tax code, all new employees be required to provide contact information and date of birth information to their employer and that the employer must provide this information, along with the commencement date, to Inland Revenue.

PAYE rules

10. **Agree** that, for PAYE deduction purposes, employers be given the option to treat holiday pay paid in advance and salary or wages paid in advance as if the lump sum payment was paid over the pay periods to which it relates.
11. **Agree** that the rules in the Inland Revenue Acts about how legislated rate or threshold changes are applied be aligned across the different types of PAYE income payments and PAYE-related social policy products, such that the rates and thresholds to be applied are those in force on the date the payment is made.
12. **Agree** that the de minimis rule in relation to the tax treatment of retrospective increases in salary or wages be repealed.

Application date

13. **Agree** that the implementation of the changes for PAYE information follow a legislated approach, where the submission of PAYE information on the new basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide PAYE information on the new basis.
14. **Agree** that the legislation includes the following implementation timetable:
 - i. 1 April 2018 is the date from which it becomes permissible for employers to submit PAYE information and remit PAYE and related deductions on payday.
 - ii. 1 April 2018 is the effective date for the proposed changes to the PAYE rules (recommendations 10, 11 and 12 above).
 - iii. 1 April 2019 is the date from which employers are required to submit PAYE information on a payday basis (recommendations 2, 3, 4, 5, 6 and 9 above).

- iv. The date of Royal Assent of the bill is the effective date for the proposed framework for setting an electronic filing threshold for GST returns (recommendations 7 and 8 above).

Payroll subsidy

15. **Agree** that the payroll subsidy be repealed with effect from 1 April 2018.

Fiscal implications

16. **Note** the following changes reflecting the decision in recommendation 15 above, with a corresponding impact on the operating balance.

\$m – increase/(decrease)					
Vote Revenue Minister of Revenue	2015/16	2016/17	2017/18	2018/19	2019/20 & outyears
Non-departmental Benefits and Other Related Expenses					
Payroll Subsidy PLA	-	-	(1.700)	(7.300)	(8.100)

Legislation

17. **Agree** that the proposed amendments be included in a tax bill scheduled for introduction in October 2016.
18. **Delegate** to the Minister of Revenue authority to make minor amendments of a technical nature to the measures recommended in this paper without further reference to Cabinet, including changes to modernise the way the PAYE rules are expressed in legislation.
19. **Invite** the Minister of Revenue to instruct Inland Revenue to draft legislation to give effect to the proposals contained in this paper.

Publicity

20. **Invite** the Minister of Revenue to release a media statement to announce these measures when the bill is introduced.
21. **Agree** to the public release of an anonymised summary of submissions at the time the bill is introduced.

Hon Michael Woodhouse
Minister of Revenue

_____/_____/_____
Date

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- *Making tax simpler - Better administration of PAYE and GST: summary of feedback* (November 2016) is available at <http://taxpolicy.ird.govt.nz/publications/2016-other-mts-payee-feedback/overview>
- The regulatory impact statement *Proposed changes to PAYE and GST* (2 June 2016) is available at <http://taxpolicy.ird.govt.nz/publications/2017-ris-areirm-bill/overview>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

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Making Tax Simpler: Better Administration of PAYE and GST

Portfolio Revenue

On 15 June 2016, the Cabinet Economic Growth and Infrastructure Committee (EGI):

Background

- 1 **noted** that on 21 October 2015, EGI agreed to the release of a discussion document on proposals to improve the administration of PAYE and GST, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-15-MIN-0109];

Proposed changes

- 2 **agreed** to the introduction of a number of reforms to PAYE and GST, as outlined in the paragraphs below, that will reduce compliance and administrative costs and create opportunities for better service delivery to individuals;

Using digital services to integrate tax requirements into business processes: PAYE

- 3 **agreed** that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:
 - 3.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;
 - 3.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 4 **agreed** that employees (including IR56 taxpayers) who are required to remit their own PAYE and related deductions be required to provide PAYE information by the 7th working day after the end of the month in which they receive the payment(s);
- 5 **agreed** that payroll software specifications include the following:
 - 5.1 the requirement that PAYE information is provided on the day following payday;
 - 5.2 functionality to allow employers to provide details of new and departing employees to Inland Revenue when they are added to, or removed from, the payroll;

6 **agreed** that the threshold referred to in paragraph 3.1 above for mandatory digital submission of PAYE information be set at \$50,000 per annum of PAYE and ESCT deductions;

7 **agreed** that the PAYE thresholds for the remittance of PAYE and for the digital submission of PAYE information be able to be changed by Order-in-Council, and that the process include a requirement to consult with affected parties;

Using digital services to integrate tax requirements into business processes: GST

8 **agreed** that a legislative framework be introduced allowing for an electronic filing threshold for GST returns to be set by Order-in-Council;

9 **agreed** that a non-electronic filing penalty for GST returns be introduced as part of the framework referred to in paragraph 8 above, and that the amount of the penalty be set at \$250;

Getting it right from the start

10 **agreed** that:

10.1 in addition to IRD number and tax code, all new employees be required to provide contact information and date of birth information to their employer;

10.2 the employer must provide this information, along with the commencement date, to Inland Revenue;

PAYE rules

11 **agreed** that, for PAYE deduction purposes, employers be given the option to treat holiday pay paid in advance and salary or wages paid in advance as if the lump sum payment was paid over the pay periods to which it relates;

12 **agreed** that the rules in tax legislation about how legislated rate or threshold changes are applied be aligned across the different types of PAYE income payments and PAYE-related social policy products, such that the rates and thresholds to be applied are those in force on the date the payment is made;

13 **agreed** that the *de minimis* rule in relation to the tax treatment of retrospective increases in salary or wages be repealed;

Application date

14 **agreed** that the implementation of the changes for PAYE information follow a legislated approach, where the submission of PAYE information on the new basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide PAYE information on the new basis;

15 **agreed** that the legislation include the following implementation timetable:

15.1 1 April 2018 is the date from which it becomes permissible for employers to submit PAYE information and remit PAYE and related deductions on payday;

15.2 1 April 2018 is the effective date for the proposed changes to the PAYE rules (paragraphs 11, 12 and 13 above);

- 15.3 1 April 2019 is the date from which employers are required to submit PAYE information on a payday basis (paragraphs 3, 4, 5, 6, 7 and 10 above);
- 15.4 the date of Royal Assent of the Bill is the effective date for the proposed framework for setting an electronic filing threshold for GST returns (paragraphs 8 and 9 above);

Payroll subsidy

- 16 **agreed** that the payroll subsidy be repealed with effect from 1 April 2018;

Fiscal implications

- 17 **noted** the following changes reflecting the proposal in paragraph 16 above, with a corresponding impact on the operating balance:

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	2015/16	2016/17	2017/18	2018/19	2019/20 and outyears
Non-departmental Benefits and Other Related Expenses					
Payroll Subsidy PLA	-	-	(1.700)	(7.300)	(8.100)

Legislative implications

- 18 **agreed** that the above proposals be included in a tax Bill scheduled for introduction in October 2016;
- 19 **authorised** the Minister of Revenue to make minor amendments of a technical nature to the measures outlined in the paper under EGI-16-SUB-0136 without further reference to Cabinet, including changes to modernise the way the PAYE rules are expressed in legislation;
- 20 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to give effect to the above paragraphs;

Publicity

- 21 **noted** that the Minister of Revenue intends to release a media statement to announce the above measures when the Bill is introduced;
- 22 **noted** that an anonymised summary of submissions will be publicly released at the time the Bill is introduced.

Janine Harvey
Committee Secretary

Hard-copy distribution: (see over)

Present:

Hon Gerry Brownlee (Chair)
Hon Amy Adams
Hon Dr Nick Smith
Hon Michael Woodhouse
Hon Todd McClay
Hon Peseta Sam Lotu-liga
Hon Louise Upson
Hon Paul Goldsmith

Officials present from:

Officials Committee for EGI

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Melleny Black, PAG, DPMC
Chief of Defence Force
Minister of Health
Minister of Education
Minister for Social Development
Minister of Corrections
Minister for ACC
Legislation Coordinator



Cabinet

Minute of Decision

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Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 17 June 2016

On 20 June 2016, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 17 June 2016:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

EGI-16-MIN-0136	Making Tax Simpler: Better Administration of PAYE and GST Portfolio: Revenue	CONFIRMED
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Out of scope [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

- Cabinet Economic Growth and Infrastructure Committee
- Minister of Health
- Minister for Treaty of Waitangi Negotiations
- Minister of Education
- Minister for Social Development
- Minister of Foreign Affairs
- Minister of Corrections
- Minister for ACC
- Minister of Internal Affairs



Cabinet Economic Growth and Infrastructure Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

First 2017 Omnibus Tax Bill: Miscellaneous Items

Portfolio	Revenue
Purpose	This paper seeks agreement to several miscellaneous amendments to tax legislation for inclusion in the next omnibus tax Bill.
Previous Consideration	On 15 June 2016, EGI made a number of decisions relating to pay period reporting and the due date for filing PAYE information [EGI-16-MIN-0136].
Summary	Amendments to tax legislation are proposed to:

- Out of scope [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Following further consultation with stakeholders, agreement is also sought to rescind earlier decisions relating to pay period reporting and the due date for filing PAYE information. Specifically, it is proposed that:

- rather than being required to file on a pay period basis, employers should be required to provide PAYE information on a payday basis;
- the due date for PAYE information above the electronic filing threshold for payroll intermediaries and for employers using payroll software should be the second working day, rather than the first day, after payday.

Out of scope [Redacted]

Regulatory Impact Analysis

Two Regulatory Impact Statements (RIS) are attached. Inland Revenue considers that both RISs meet the quality assurance criteria.

Baseline Implications

Out of scope [Redacted]

The other proposals are expected to be fiscally neutral.

Legislative Implications

Changes will be required to the Income Tax Act 2007, the Tax Administration Act 1994, and the Goods and Services Tax Act 1985.

Timing Issues

The next omnibus taxation Bill is scheduled for introduction in early 2017. The proposed changes will take effect from 1 April 2017 or 1 April 2018.

Announcement

The Minister of Revenue will mention the PAYE administration changes at the New Zealand Payroll Practitioners Association in early November 2016.

The Minister will make an announcement when the Bill is introduced. A commentary on the Bill will be released at that time, and Inland Revenue will publish details on its website once the Bill is enacted.

Proactive Release

None.

Consultation

Paper prepared by Inland Revenue. Out of scope Treasury [Redacted] were consulted. [Redacted]

The Minister of Revenue indicates that discussion is not required with the government caucus, or with other parties represented in Parliament.

The Minister of Revenue recommends that the Committee:

Proposed amendments to tax legislation

- Out of scope [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

Out of scope

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Pay period reporting and due date for filing PAYE information

7 note that on 15 June 2016, the Cabinet Economic Growth and Infrastructure Committee:

7.1 agreed that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:

7.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;

7.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;

7.2 agreed that payroll software include the requirement that PAYE information is provided on the day following payday;

[EGI-16-MIN-0136, paragraphs 3 and 5.1]

8 agree to recommend that Cabinet rescind the decisions referred to in paragraph 7 above; and instead

8.1 agree that all employers be required to provide PAYE information on a payday basis, as follows:

- 8.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, are required to submit that information digitally by the second working day following the payday;
- 8.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 8.2 agree that payroll specifications include the requirement that PAYE information is provided by the second working day following payday;

Financial implications

Out of scope

- 10 note that the other changes proposed in the paper under EGI-16-SUB-0297 do not have a fiscal effect;

Legislative implications

- 11 agree to include the above proposals in the next omnibus taxation Bill, which is scheduled for introduction in early 2017;
- 12 invite the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above paragraphs.

Janine Harvey
Committee Secretary

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Deputy Chief Executive, Policy, DPMC
Melleny Black, PAG, DPMC
Minister of Foreign Affairs

Chair
Cabinet Economic Growth and Infrastructure Committee


MISCELLANEOUS ITEMS FOR INCLUSION IN THE FIRST 2017 OMNIBUS TAXATION BILL

Proposal

- 1 This paper seeks the Cabinet Economic Growth and Infrastructure Committee's agreement to several miscellaneous measures that require changes to tax legislation.
- 2 Earlier decisions by Cabinet [CAB-16-MIN-0283 refers] relating to pay period reporting and the due date for filing PAYE information should be rescinded and replaced.
- 3 If approved, I propose including the necessary legislative amendments in the next omnibus taxation bill, scheduled for introduction in early 2017.

Executive summary

Out of scope



6 Following further consultation by Inland Revenue with stakeholders on its Business Transformation programme (*Better administration of PAYE and GST*), I am also recommending that earlier decisions by Cabinet [CAB-16-MIN-0283 refers] in June relating to pay period reporting and the due date for filing PAYE information be rescinded and replaced:

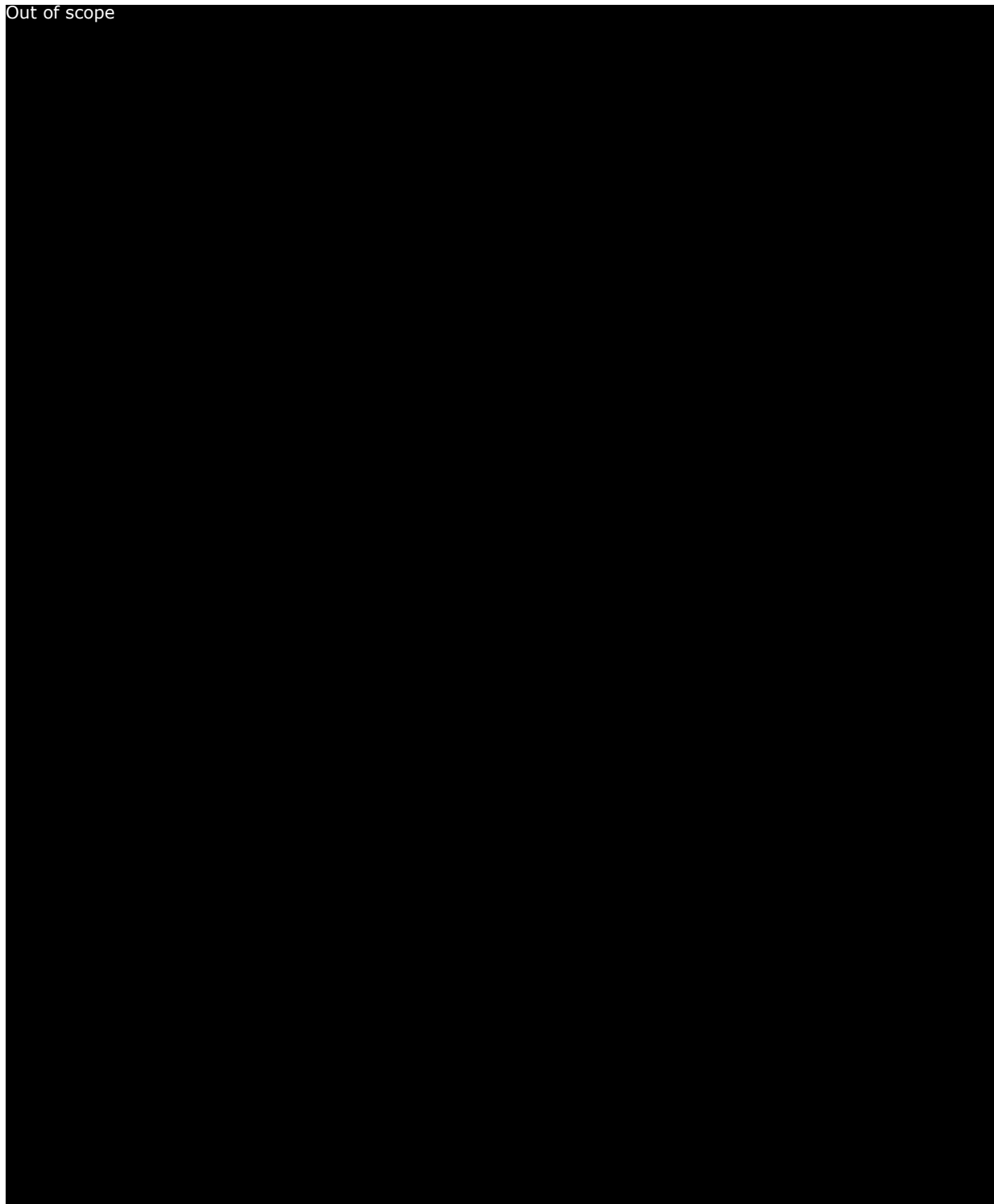
- Rather than being required to file on a pay period basis, employers should be required to provide PAYE information on a payday basis.

- The due date for PAYE information employers above the electronic filing threshold, for payroll intermediaries and for employers using payroll software should be the second working day, rather than the first day, after payday.

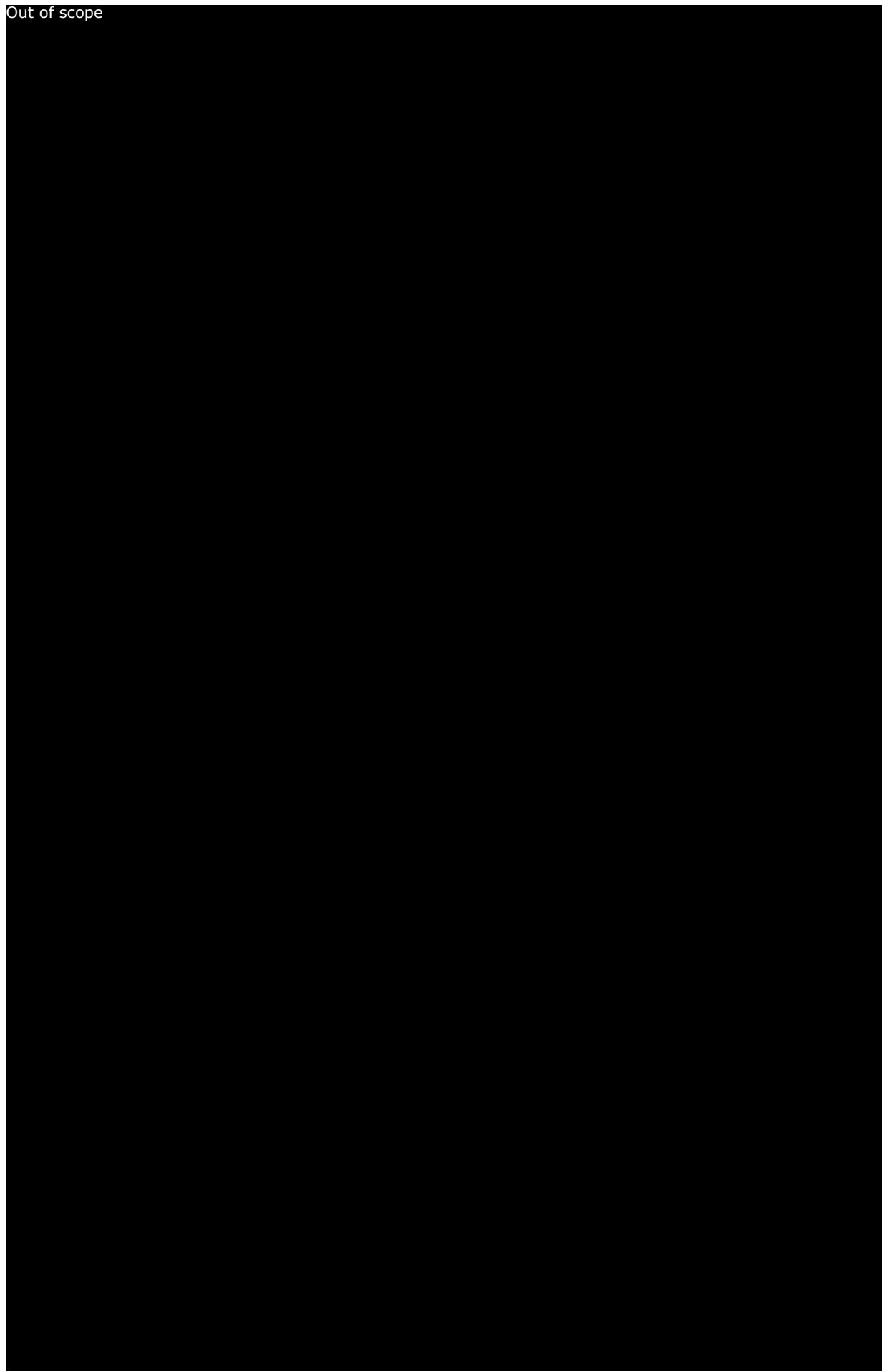
7 These changes to the PAYE rules should allow for better integration with payroll software and should improve the accuracy of the information sent to Inland Revenue. Amendments to the Tax Administration Act 1994 are necessary to implement this change.

8 I recommend these miscellaneous changes to tax legislation be included in an omnibus taxation bill, scheduled for introduction in early 2017.

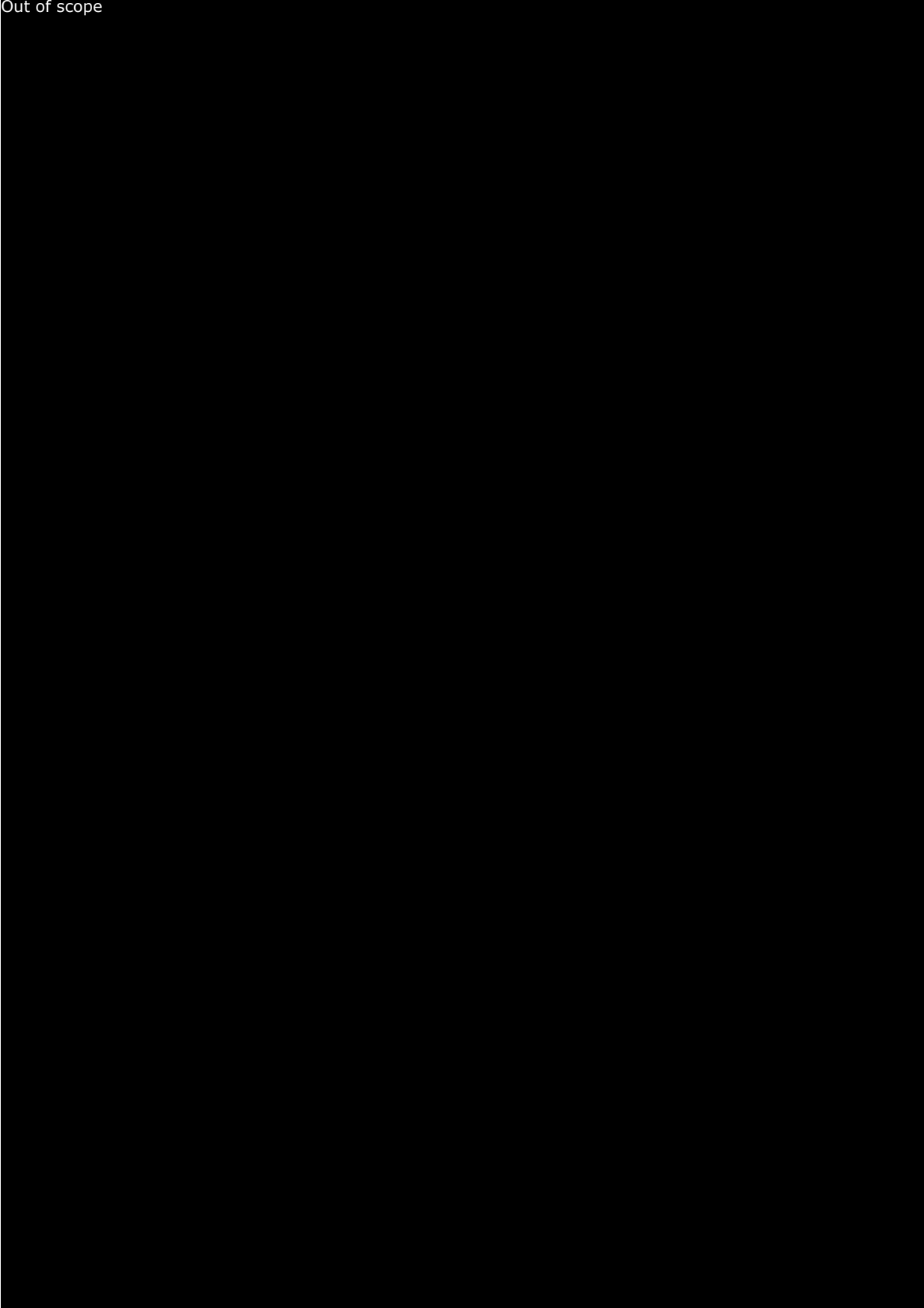
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Out of scope

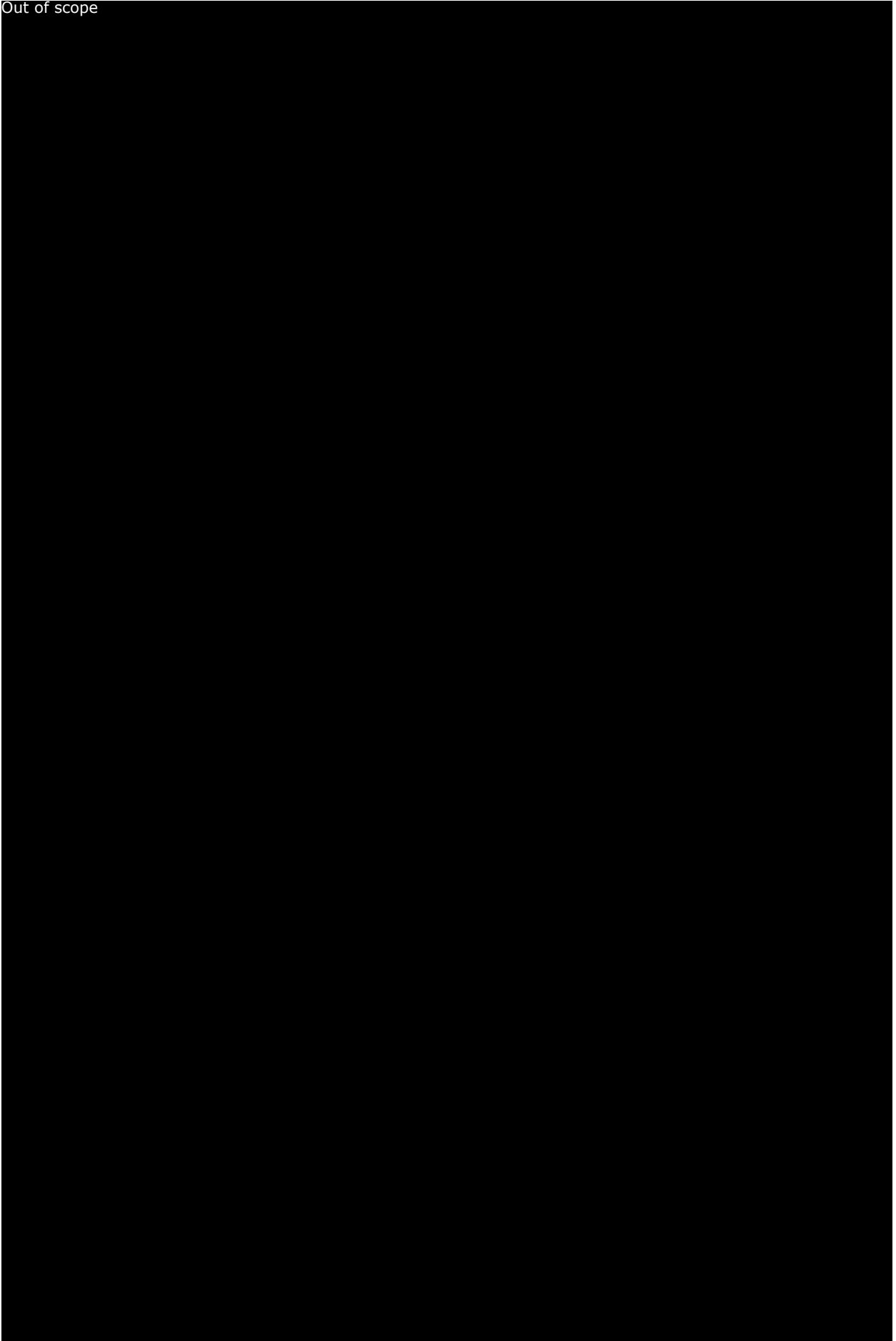


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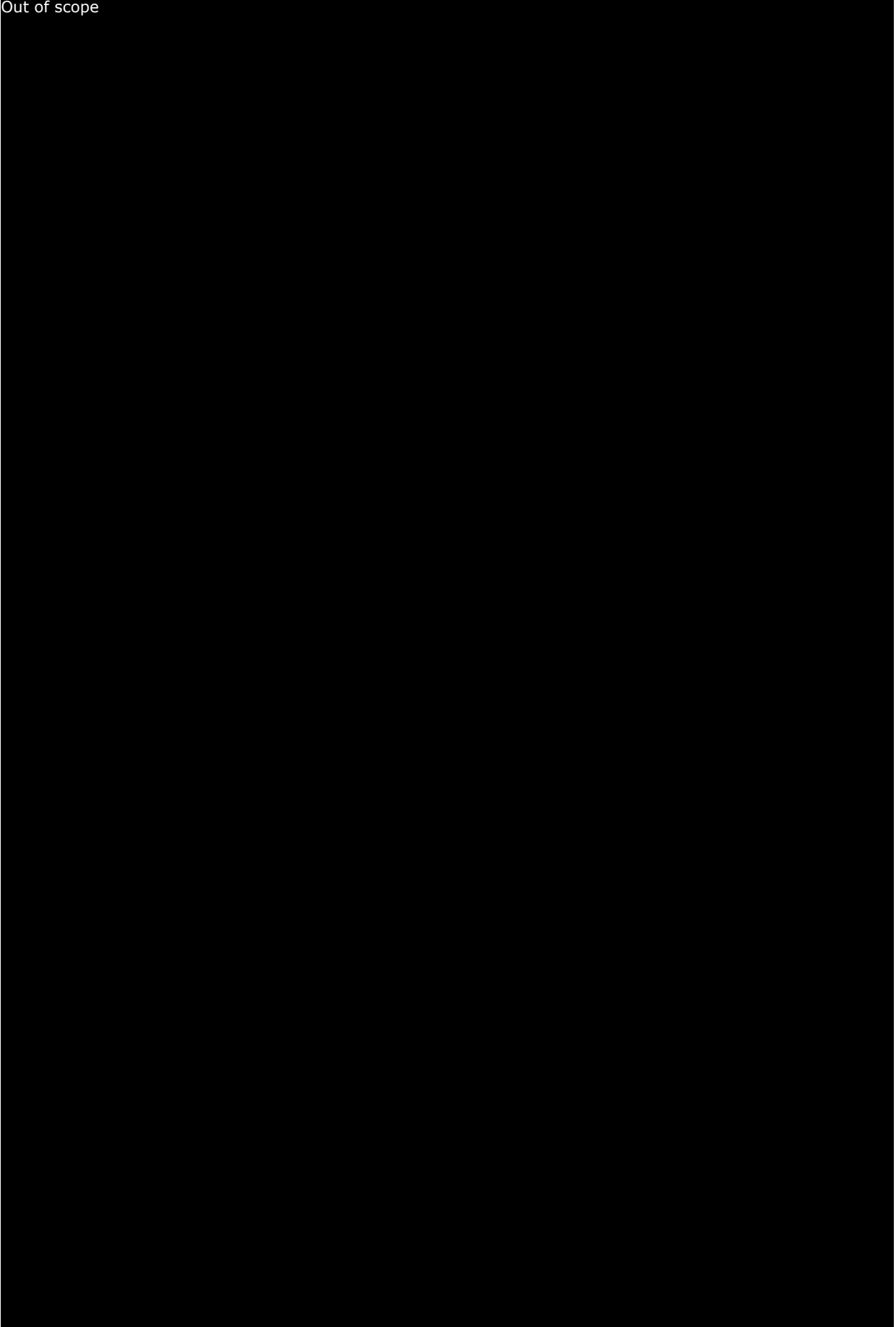


¹ Figures for 2015.

Out of scope

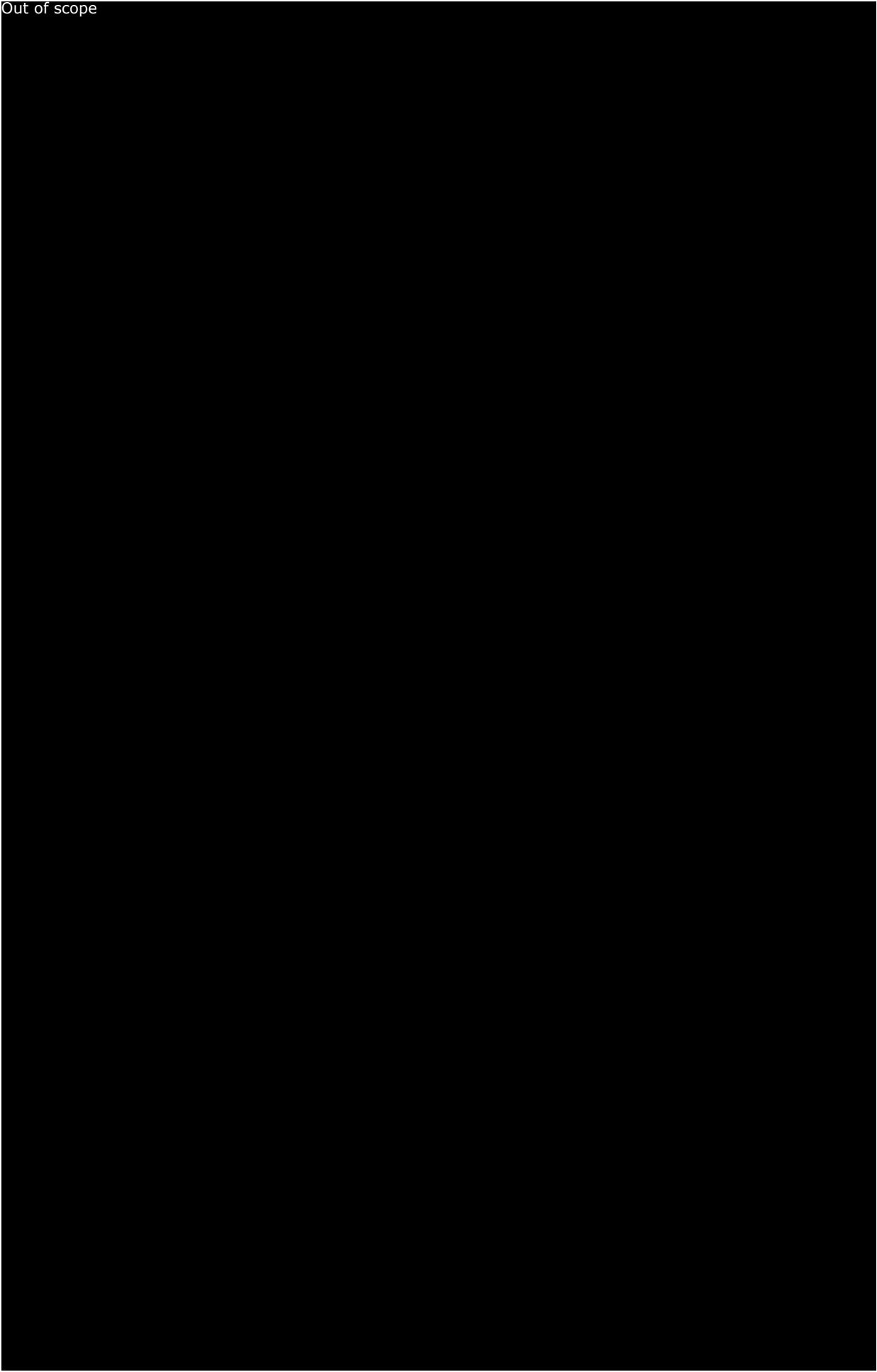


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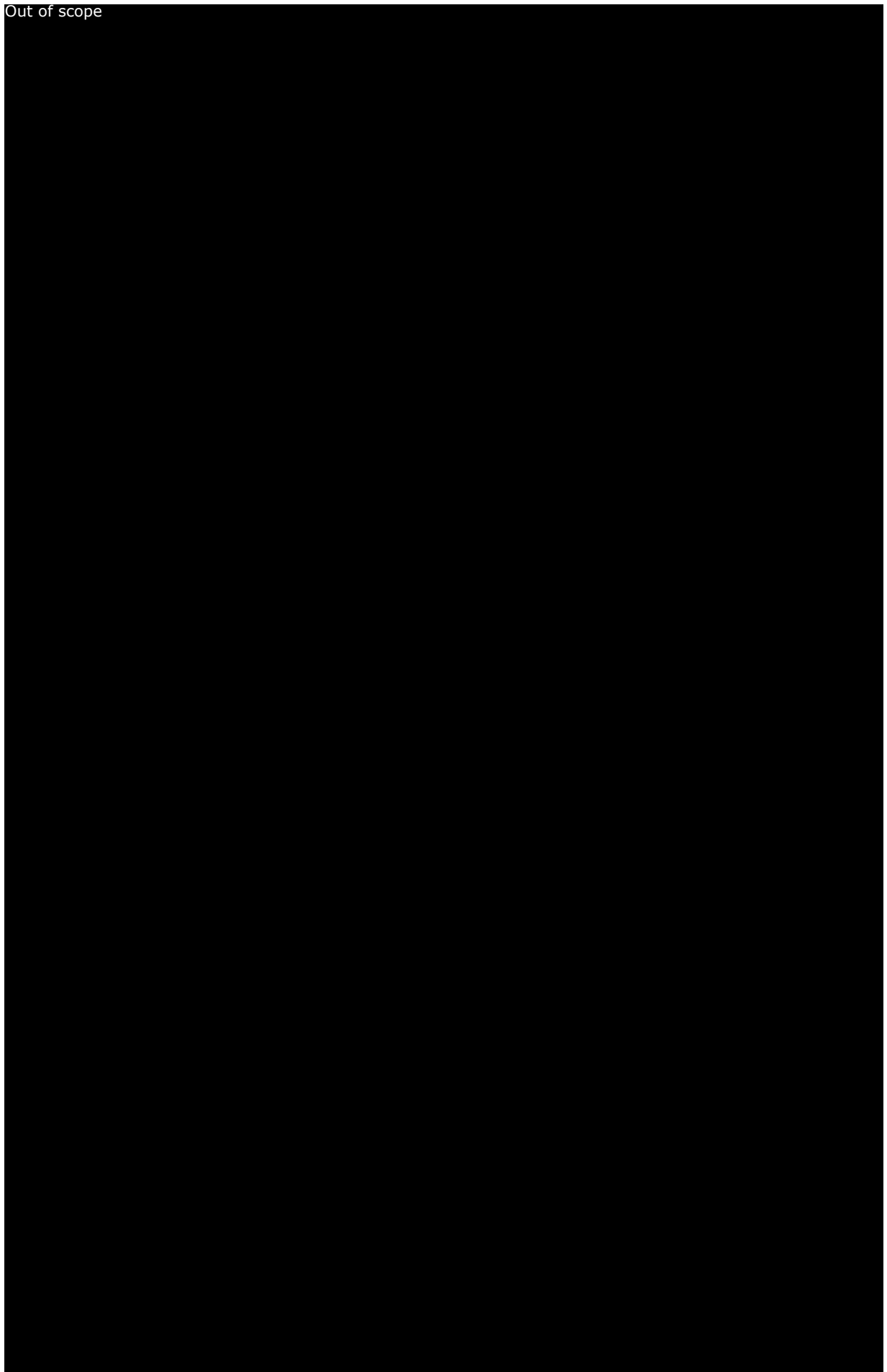


² Page 7 refers.

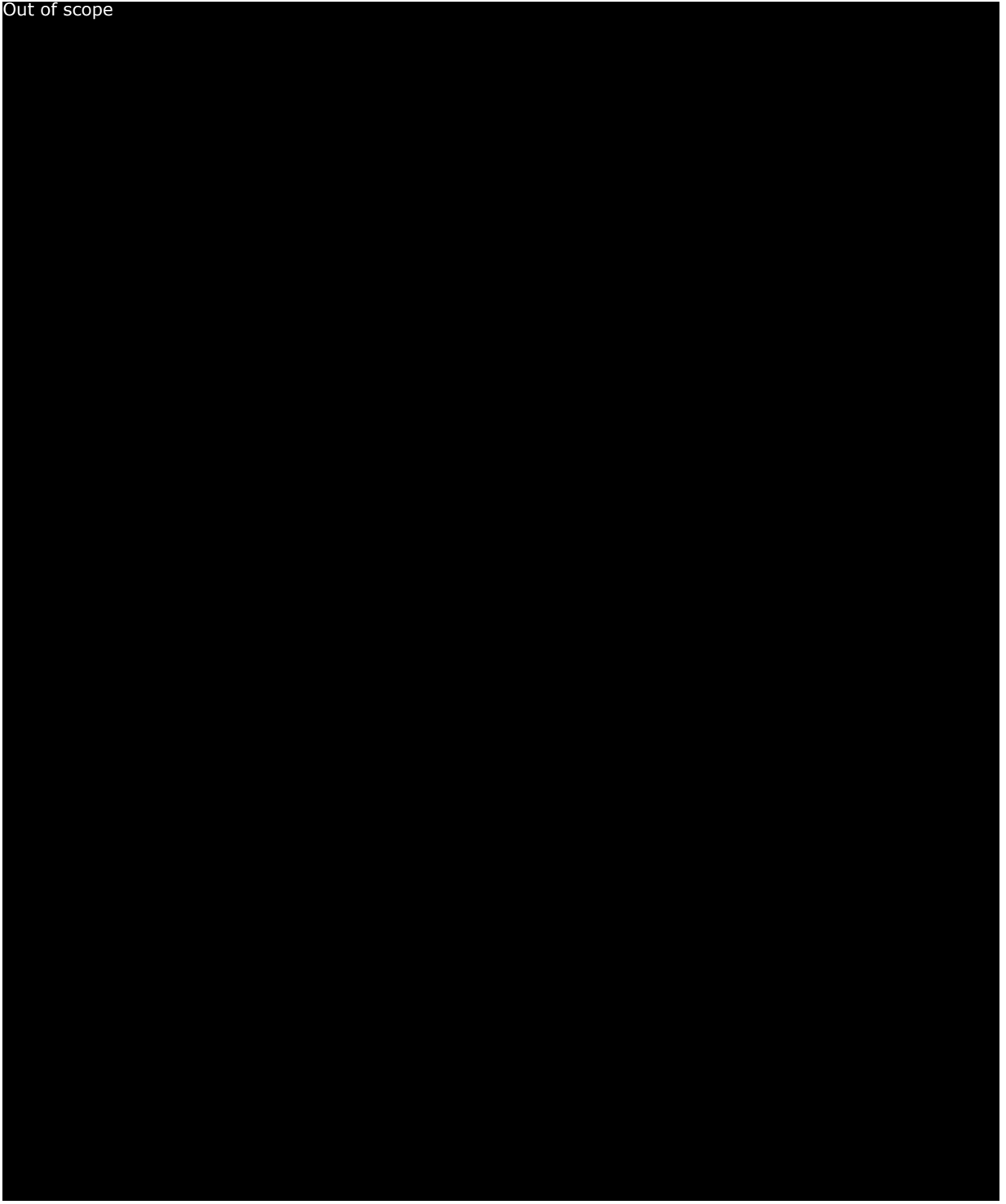
Out of scope



Out of scope



Out of scope



Better Administration of PAYE and GST

63 In June 2016, Cabinet approved a number of decisions arising out of the Inland Revenue's Business Transformation project *Making Tax Simpler - Better Administration of PAYE and GST*. The decisions were made by the Cabinet Economic Growth and Infrastructure Committee on 15 June 2016 [EGI -16-Min-0136 and CAB-16-MIN-0283].

64 Following further consultation by Inland Revenue with stakeholders, I am now recommending the changes below:

- I recommend that the requirement that employers provide PAYE information on a pay period basis with a minimum period of a week, should be rescinded and replaced with a requirement that employers provide such information on a payday basis. Large employers frequently do ‘ad-hoc pays’ and the proposed change would require information from these payments to be provided at the time the payment was made rather than being held over and included with the next regular payroll. The recommended change would eliminate a minimum reporting period, allow for better integration with payroll software, and simplify the process of reconciling PAYE information and payments. It may be necessary to make special arrangements for some taxpayers who pay on a daily basis such as the Ministry of Social Development; such variation is permissible under current law.
- I further recommended that the due date for PAYE information, from payroll intermediaries, employers at or above the electronic filing threshold and employers using payroll software, should be changed from one day following payday to the second working day following payday. This change would better allow employers and payroll intermediaries with complex payrolls to update their payroll systems for errors and adjustments arising from the pay and as a consequence would improve the accuracy of the information sent to Inland Revenue. It is not considered necessary to change the filing due date for employers below the electronic filing threshold and not using payroll software as these employers are unlikely to deal with complex payrolls.

65 The effect of these changes to the PAYE rules should reduce compliance costs on employers and PAYE intermediaries as the timing of the requirement better integrates with payroll software and should improve the accuracy of the information sent to Inland Revenue.

Consultation


66 The Treasury was consulted on the proposed changes recommended in this paper. 



Out of scope

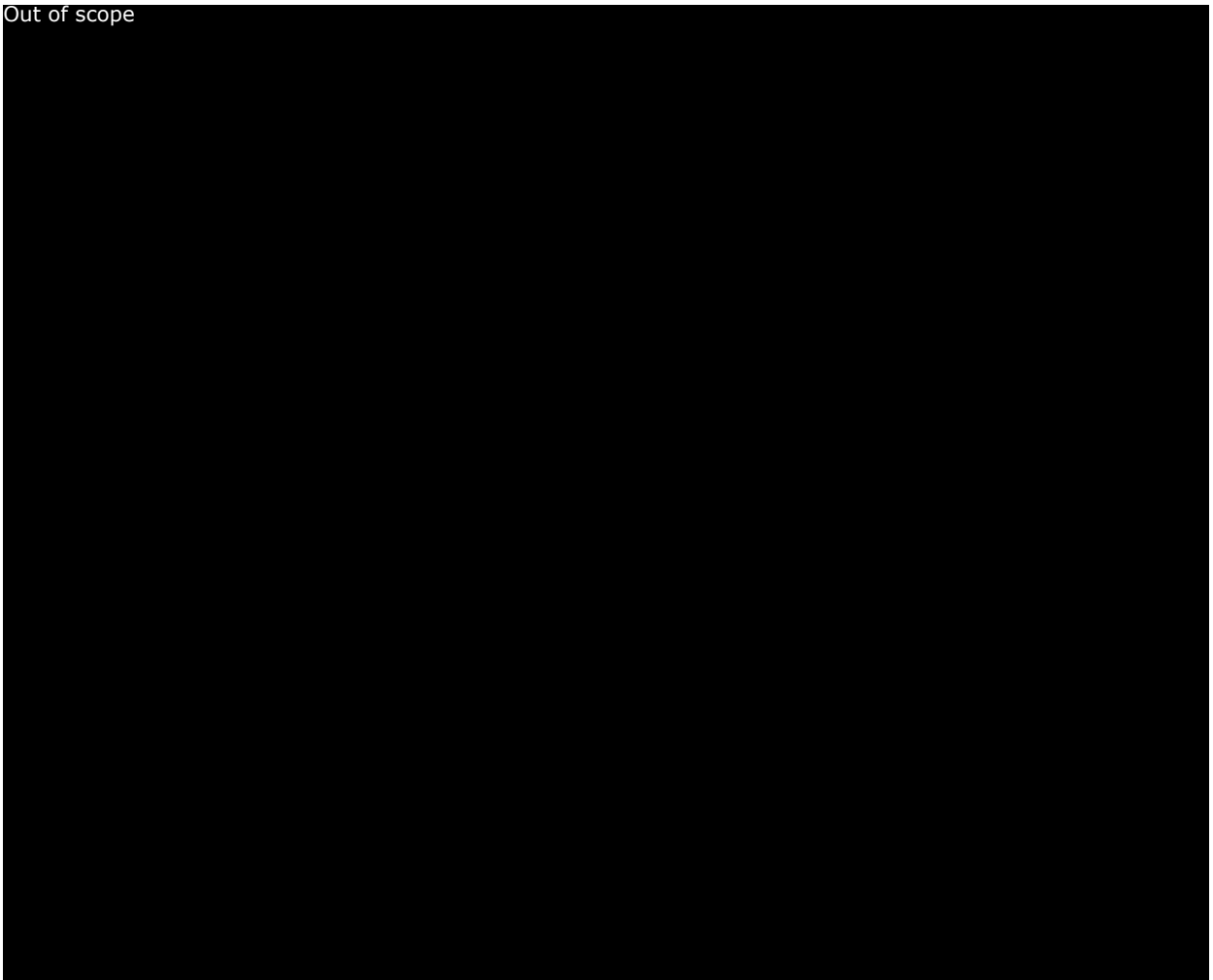


Out of scope




Financial implications

Out of scope



Compliance cost implications

Out of scope



Administrative cost implications

71 No material administration impacts arise from the measures I am recommending in this paper. Apart from my recommendation to change the timing when PAYE information is provided to Inland Revenue by employers and PAYE intermediaries, the measures for inclusion in the first taxation bill for 2017 do not impact on Inland Revenue's Business Transformation programme. Out of scope

Economic impacts

72 The measures I am recommending in this paper are intended to improve the efficiency of tax legislation by reducing compliance and administration costs. No other economic impacts, apart from those already mentioned in this paper, have been identified.

Human rights

73 The changes I am recommending in this paper are not inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Legislative implications

74 Implementing the changes in this paper requires changes to the Income Tax Act 2007, the Tax Administration Act 1994 and the Goods and Services Tax Act 1985. I recommend that the necessary amendments be included in the next omnibus taxation bill, which is scheduled for introduction in early 2017.

Regulatory impact analysis

Out of scope

78 The remaining policy items recommended in this paper do not require a RIS. The changes are either machinery in nature or do not have material impacts.

Publicity

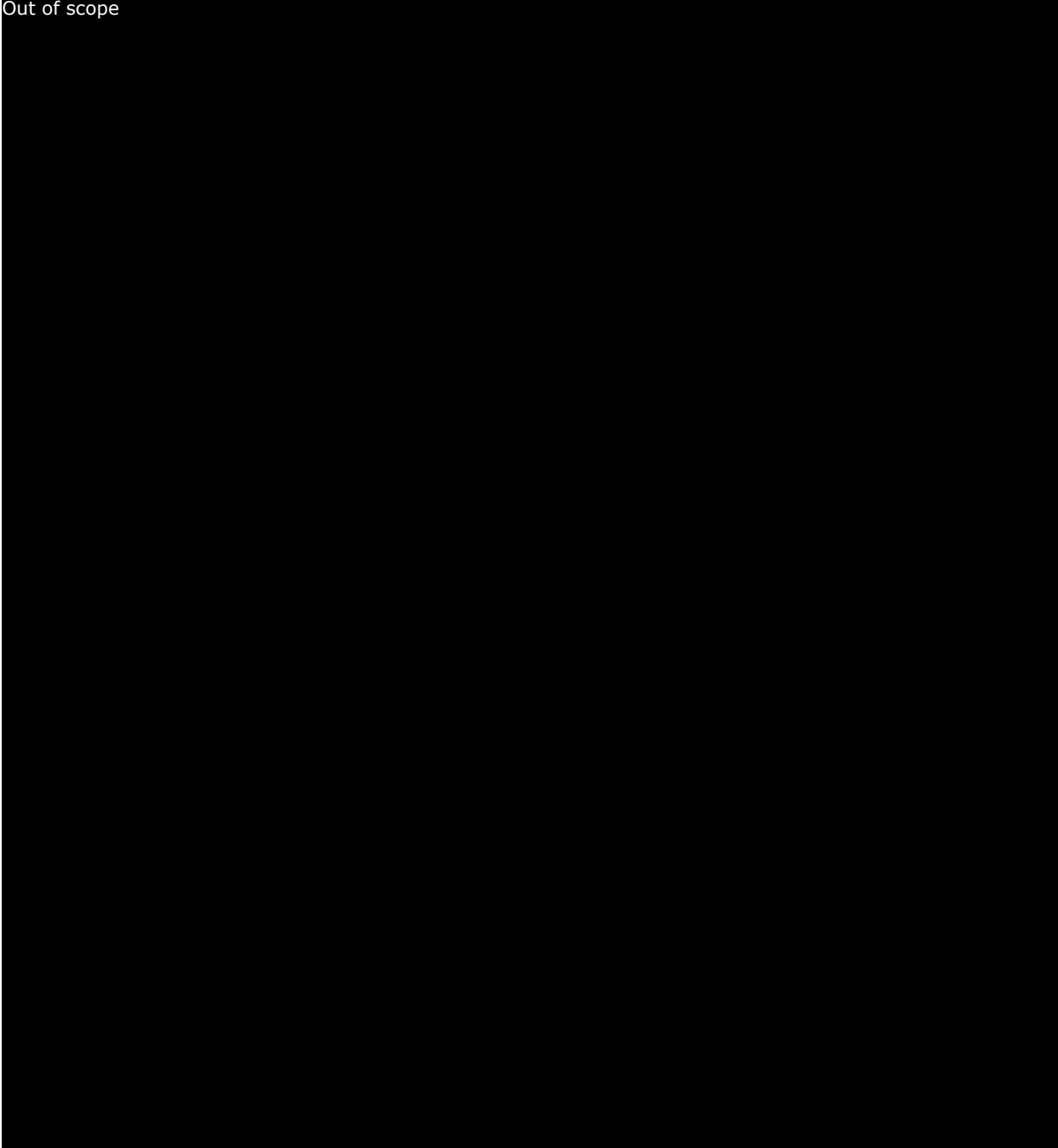
79 I propose to mention the changes to the administration of PAYE at the New Zealand Payroll Practitioners Association in early November 2016.

80 I will make an announcement on the contents of the proposed omnibus taxation bill for early 2017 when it is introduced in the House. A *Commentary* on the bill explaining the changes recommended in this paper will be released at the same time. Inland Revenue will publish details of the new legislation in its *Tax Information Bulletin* series once the bill is enacted.

Recommendations

81 I recommend that the Cabinet Economic Growth and Infrastructure Committee:

Out of scope



11. Rescind recommendations 3 and 5.1 of EGI -16-Min-0136 [CAB-16-MIN-0283]:

3. *agreed that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:*

3.1. *payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;*

3.2. *employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;*

5. *agreed that payroll software specifications include the following:*

5.1 *the requirement that PAYE information is provided on the day following payday.*

12. Replace recommendations 3 and 5.1 of EGI -16-Min-0136 [CAB-16-MIN-0283] with:

3. *agree that all employers be required to provide PAYE information on a payday basis, as follows:*

3.1. *payroll intermediaries, employers at or above a threshold, and those employers using payroll software, are required to submit that information digitally by the second working day following the payday;*

3.2. *employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;*

5. *agree that payroll specifications include the following:*

5.1. *the requirement that PAYE information is provided by the second working day following payday.*

Out of scope



14. Note that the other changes recommended in this paper do not have a fiscal effect.

15. Agree that legislation to give effect to the changes recommended in this paper be included in the next omnibus taxation bill, which is scheduled for introduction in early 2017.

16. Invite the Minister of Revenue to instruct Inland Revenue to draft the necessary amendments to give effect to the changes recommended in this paper.

Authorised for lodgement

Hon Michael Woodhouse
Minister of Revenue

____/_____/2016

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- The regulatory impact statements are available at <http://taxpolicy.ird.govt.nz/publications/2017-ris-arejirm-bill/overview>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

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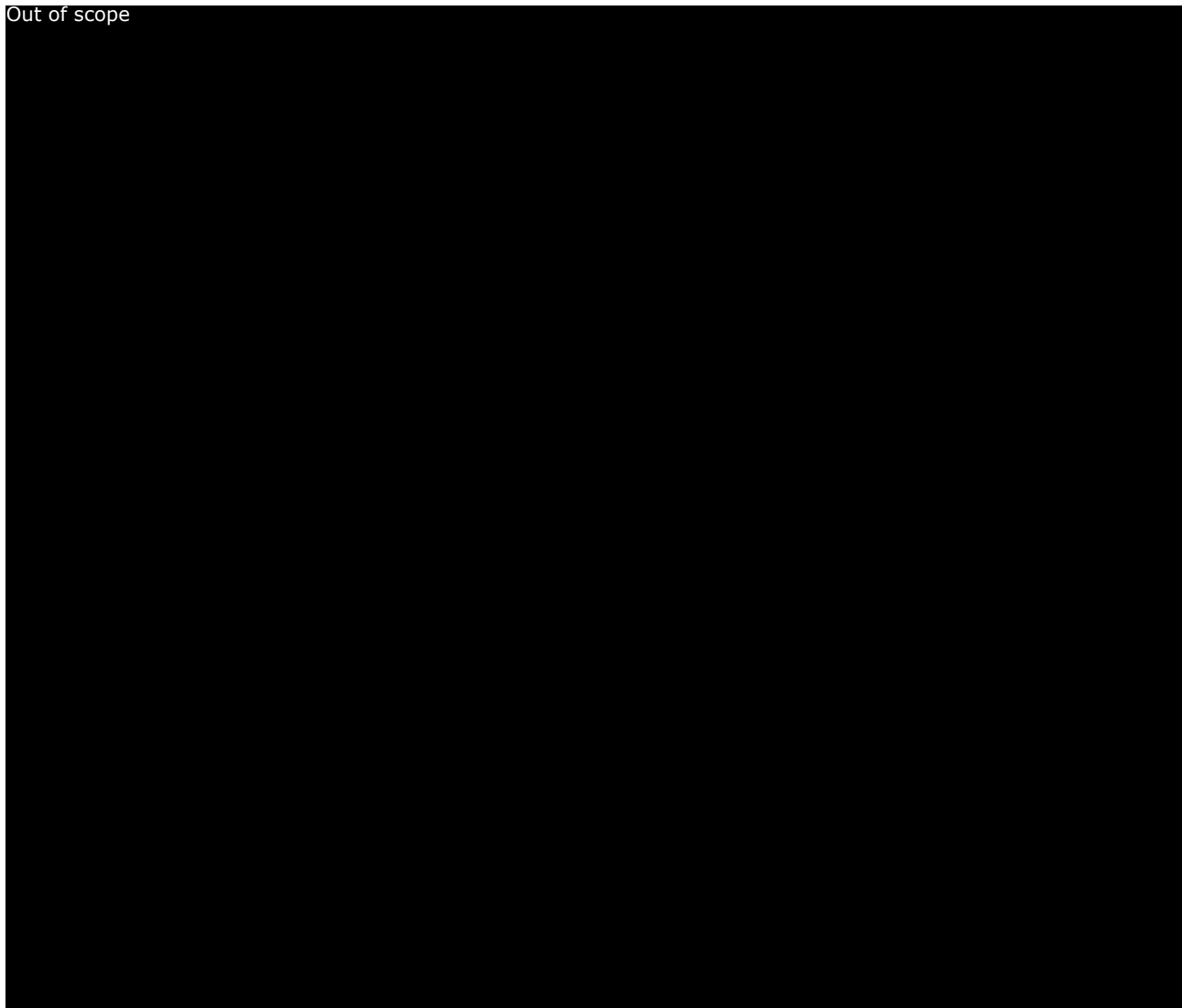
First 2017 Omnibus Tax Bill: Miscellaneous Items

Portfolio Revenue

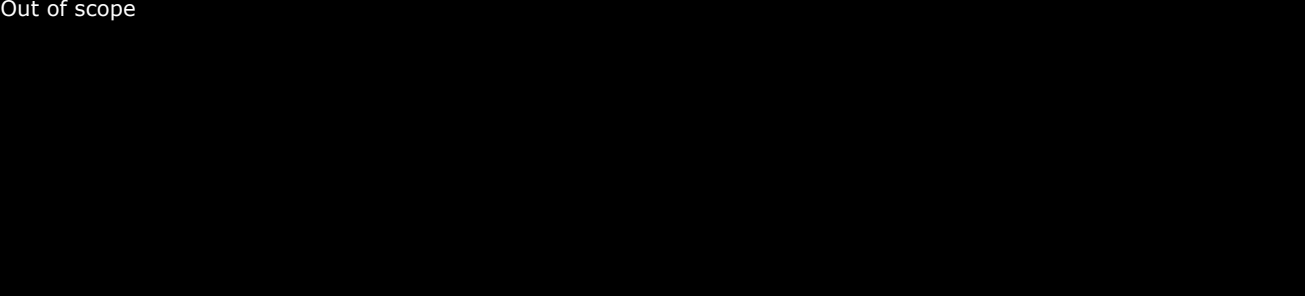
On 2 November 2016, the Cabinet Economic Growth and Infrastructure Committee (EGI):

Proposed amendments to tax legislation

Out of scope



Out of scope



Pay period reporting and due date for filing PAYE information

7 **noted** that on 15 June 2016, EGI:

- 7.1 agreed that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:
 - 7.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;
 - 7.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 7.2 agreed that payroll software include the requirement that PAYE information is provided on the day following payday;

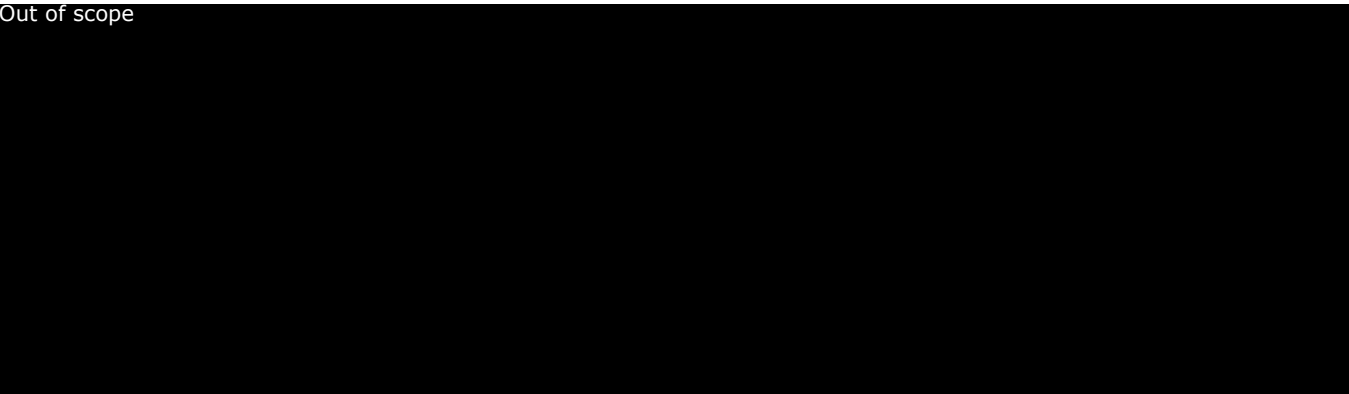
[EGI-16-MIN-0136, paragraphs 3 and 5.1]

8 **agreed to recommend** that Cabinet rescind the decisions referred to in paragraph 7 above; and instead

- 8.1 agree that all employers be required to provide PAYE information on a payday basis, as follows:
 - 8.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, are required to submit that information digitally by the second working day following the payday;
 - 8.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 8.2 agree that payroll specifications include the requirement that PAYE information is provided by the second working day following payday;

Financial implications

Out of scope



- 10 **noted** that the other changes proposed in the paper under EGI-16-SUB-0297 do not have a fiscal effect;

Legislative implications

- 11 **agreed** to include the above proposals in the next omnibus taxation Bill, which is scheduled for introduction in early 2017;
- 12 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above paragraphs.

Janine Harvey
Committee Secretary

Present:

Hon Bill English (Chair)
Hon Steven Joyce
Hon Amy Adams
Hon Simon Bridges
Hon Dr Nick Smith
Hon Nathan Guy
Hon Michael Woodhouse
Hon Maggie Barry
Hon Craig Foss
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith

Officials present from:

Officials Committee for EGI

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Melleny Black, PAG, DPMC
Minister of Foreign Affairs
Legislation Coordinator



Cabinet

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

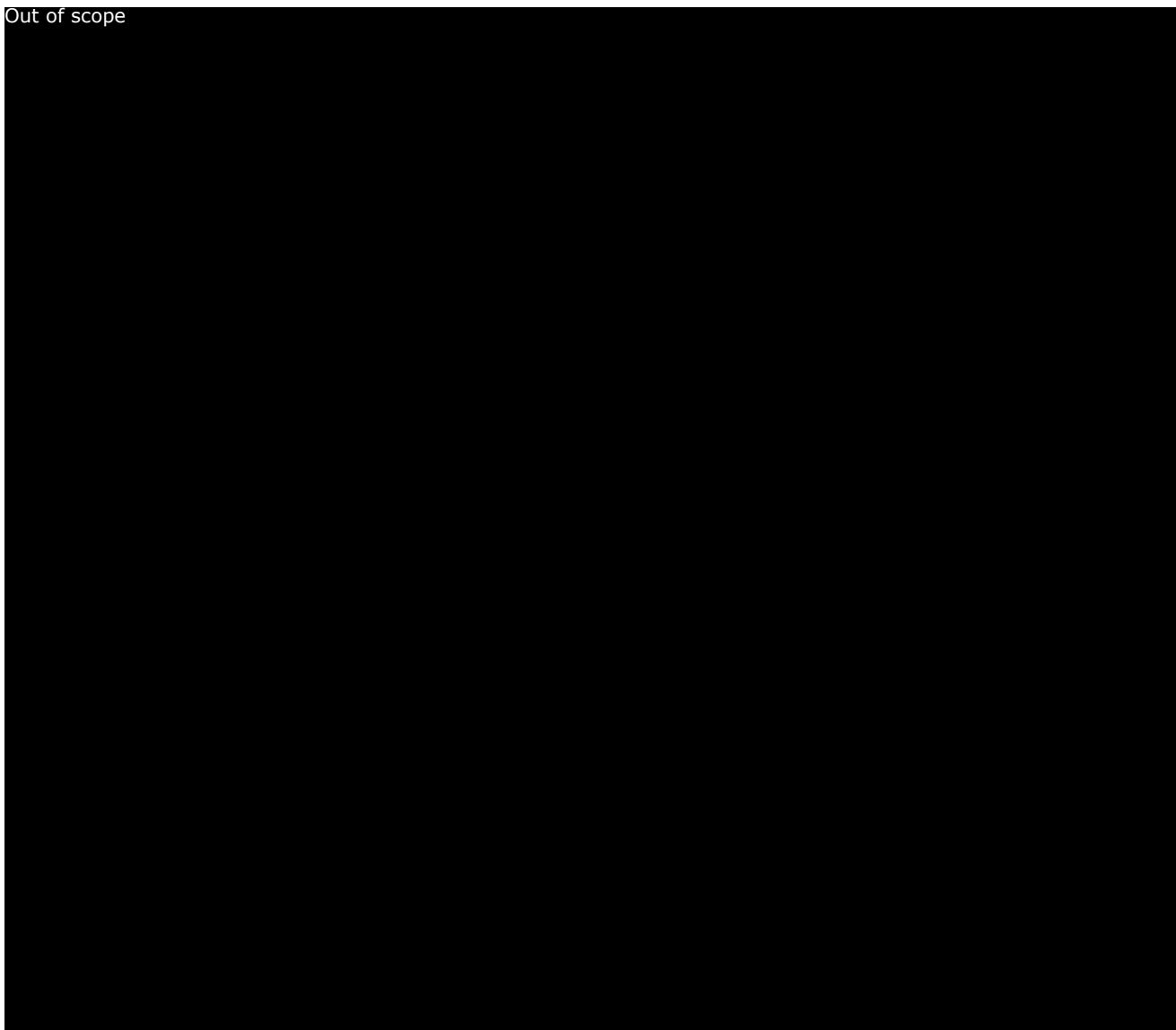
First 2017 Omnibus Tax Bill: Miscellaneous Items

Portfolio **Revenue**


On 7 November 2016, following reference from the Cabinet Economic Growth and Infrastructure Committee (EGI), Cabinet:

Proposed amendments to tax legislation

Out of scope



Out of scope



Pay period reporting and due date for filing PAYE information

7 **noted** that on 15 June 2016, EGI:

- 7.1 agreed that all employers be required to provide PAYE information on a pay period basis, with a minimum pay period of once a week, as follows:
 - 7.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, be required to submit that information digitally on the day following the payday;
 - 7.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 7.2 agreed that payroll software include the requirement that PAYE information is provided on the day following payday;

[EGI-16-MIN-0136, paragraphs 3 and 5.1]

8 **rescinded** the decisions referred to in paragraph 7 above; and instead

- 8.1 **agreed** that all employers be required to provide PAYE information on a payday basis, as follows:
 - 8.1.1 payroll intermediaries, employers at or above a threshold, and those employers using payroll software, are required to submit that information digitally by the second working day following the payday;
 - 8.1.2 employers below that threshold not using payroll software, and employers unable to access digital services, be required to submit that information by the 7th working day following the payday;
- 8.2 **agreed** that payroll specifications include the requirement that PAYE information is provided by the second working day following payday;

Financial implications

Out of scope



- 10 **noted** that the other changes proposed in the paper under EGI-16-SUB-0297 do not have a fiscal effect;

Legislative implications

- 11 **agreed** to include the above proposals in the next omnibus taxation Bill, which is scheduled for introduction in early 2017;
- 12 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft the necessary amendments to give effect to the above proposals.

Michael Webster
Secretary of the Cabinet

Secretary's Note: This minute replaces EGI-16-MIN-0297. Cabinet agreed to a recommendation from EGI to rescind an earlier Cabinet decision (paragraph 7).

Hard-copy distribution:

Prime Minister
Minister of Finance
Minister of Energy and Resources
Minister of Foreign Affairs
Minister of Revenue
Minister for the Community and Voluntary Sector



Cabinet Economic Growth and Infrastructure Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Investment Income Information: Release of Discussion Document

Portfolio	Revenue
Purpose	This paper seeks agreement to the release of the attached discussion document <i>Making Tax Simpler: Investment Income Information</i> (the discussion document) and to the launch of accompanying online consultation.
Previous Consideration	On 21 October 2015, EGI noted that the submissions received on two earlier consultation documents relating to <i>A Government Green Paper on Tax Administration</i> (the Green Paper) and <i>Better Digital Services</i> will be used to shape the detailed discussion documents proposed for release in the future [EGI-15-MIN-0108].
Summary	<p>A number of discussion documents in the <i>Making Tax Simpler</i> series have previously been released. The attached discussion document builds on the concepts set out the Green Paper and on the submissions received in the earlier discussion documents.</p> <p>This discussion document includes proposals to improve the collection of information about investment income. Investment income includes interest, dividends, portfolio investment entity (PIE) income, and royalties. In addition, income distributed by Maori Authorities to their members, while not investment income, is subject to Resident Withholding Tax (RWT) and has been included in the scope of the discussion document. No changes are proposed for royalties.</p> <p>The proposals would give Inland Revenue a more accurate picture of an individual's income during a year, allowing tax returns to be pre-populated with more information. This in turn should increase voluntary compliance by making it easier for people to get their tax right.</p> <p>The proposals include:</p> <ul style="list-style-type: none"> • requiring payers of investment income to provide Inland Revenue with taxpayer specific withholding information on a monthly basis (or in line with the business process of paying the income if that occurs less often than monthly); • removing the need for payers of withholding tax to provide end of year tax certificates to their customers who have provided their IRD number;

- increasing the “non-declaration rate” for RWT on interest, and for tax on PIEs to 45 percent;
- creating a database of taxpayers holding certificates of exemption from withholding tax;
- requiring all taxpayers seeking to receive their investment income not subject to withholding tax to obtain a certificate of exemption.

The discussion document does not include the possibility of withholding systems being used to more efficiently to collect underpayments of tax, eg through variable withholding rates – it is considered that the compliance costs required to implement this proposal would far outweigh any gains.

Agency and sector comments are in paragraphs 37-45.

Regulatory Impact Analysis	Not required.
Baseline Implications	None from this paper.
Legislative Implications	None from this paper.
Timing Issues	The discussion document will be released in early June 2016 for a six-week consultation period.
Announcement	<p>The Minister of Revenue will issue a media release.</p> <p>The release of the discussion document will be accompanied by the launch of online public consultation. The material will be published on the <i>Making Tax Simpler</i> website and on the standard Tax Policy website.</p>
Proactive Release	None.
Consultation	<p>Paper prepared by Inland Revenue. Treasury, the Privacy Commissioner, DIA and TPK were consulted. DPMC, MBIE, Justice and SSC were informed. Corporate taxpayers group, large banks, share registries, some investment companies, Te Tumu Paeroa (a Maori Authority service provider), a custodian business, and some accountants servicing SMEs were also consulted.</p> <p>The Minister of Revenue indicates that the Minister of Finance was consulted, and that discussion is not required with the government caucus, or with other parties represented in Parliament.</p>

The Minister of Revenue recommends that the Committee:

- 1 note the contents of the government discussion document, *Making Tax Simpler: Investment Income Information* (the discussion document), attached to the submission under EGI-16-SUB-0105, which will consult on proposals to:
 - 1.1 require payers of investment income to provide Inland Revenue with taxpayer specific withholding information on a monthly basis (or in line with the business process of paying the income if that occurs less often than monthly);
 - 1.2 require payers of investment income to provide Inland Revenue with information on each owner of joint investments;
 - 1.3 require payers of investment income to provide information about customers who are subject to approved issuer levy;
 - 1.4 require payers of investment income to provide information about customers who receive income that is exempt from withholding tax;
 - 1.5 remove the need for payers of withholding tax to provide end of year tax certificates to their customers who have provided their IRD number;
 - 1.6 increase the “non-declaration rate” for resident withholding tax on interest, and for tax on portfolio investment entities to 45 percent;
 - 1.7 create a database of taxpayers holding certificates of exemption from withholding tax;
 - 1.8 require all taxpayers seeking to receive their investment income not subject to withholding tax to obtain a certificate of exemption;
- 2 agree to the release of the discussion document and to the launch of accompanying online consultation on its contents;
- 3 authorise the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;
- 4 invite the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Deputy Chief Executive, Policy, DPMC
Melleny Black, PAG, DPMC

Chair
Cabinet Economic Growth and Infrastructure Committee

Release of discussion document – *Making Tax Simpler: Investment Income Information*

Proposal

1. This paper seeks the agreement of the Cabinet Economic Growth and Infrastructure Committee to the release of the Government discussion document, *Making Tax Simpler: Investment Income Information*, and the launch of accompanying online consultation. These discuss potential changes to the timing and quantum of information that payers of investment income (such as interest and dividends) are required to provide to Inland Revenue and are part of Inland Revenue's Business Transformation programme.

Executive summary

2. Ultimately the *Making Tax Simpler* proposals are about making it easier for people to get their tax right, and harder to get things wrong. To achieve that the *Making Tax Simpler* series of consultation papers make a number of proposals, with these main underlying principles:
 - Improve information flows to Inland Revenue and use the information received to prepopulate information for taxpayers to simplify the requirements for those taxpayers that have to, or choose to, file a tax return;
 - Increase the use of digital services to bring that information together;
 - Use the information to help ensure that people are on an appropriate tax rate and therefore that the tax deducted during the year does not result in large end of year debts or refunds.
3. The discussion document *Making Tax Simpler: Investment Income Information* proposes:
 - requiring payers of investment income to provide Inland Revenue with taxpayer specific withholding information on a monthly basis (or in line with the business process of paying the income if that occurs less often than monthly);
 - taxpayer specific information would include:
 - the amount of income paid to the customer;
 - the amount of tax withheld (if any), or imputation credits attached;
 - the customer's IRD number (if held);
 - the customer's name;
 - the customer's address;
 - the customer's date of birth (if held);
 - if the investment is a joint investment, information on each owner of the investment;
 - if the payer is paying approved issuer levy, details of the relevant customers;
 - if the payer is paying interest that is exempt from withholding tax, details of the relevant customers;
 - removing the need for payers of withholding tax to provide end of year tax certificates to their customers who have provided their IRD number;

- increasing the “non-declaration rate”¹ for resident withholding tax (RWT) on interest, and for tax on portfolio investment entities (PIEs) to 45%;
 - creating a database of taxpayers holding certificates of exemption from withholding tax; and
 - requiring all taxpayers seeking to receive their investment income not subject to withholding tax to obtain a certificate of exemption.
4. The proposals in this document will affect a wide range of payers of investment income including banks, all companies that pay dividends, PIEs, Māori Authorities and individuals paying withholding income such as interest.
 5. The key trade-off underlying the proposals is the benefits to customers in being able to access pre-populated information about their income from investments, to Inland Revenue in receiving better information sooner, and to the Government in being able to redesign social policy programmes to take advantage of more detailed and frequent information about investment income, versus the increased compliance costs on payers (albeit partly offset by benefits to those payers).
 6. A copy of the discussion document is attached.

Background

7. *Making Tax Simpler: Investment Income Information* is one in a series of consultation documents setting out the Government’s proposals for the transformation of tax administration in New Zealand. The components of the Business Transformation consultation timeline are set out below:



8. This discussion document builds on the concepts set out in the *Making Tax Simpler: A Government Green Paper on tax administration* (the *Green Paper*) which outlined the likely scope of the review of tax and social policy administration. Most but not all of the issues relating to investment income information raised in the *Green Paper* are addressed in this discussion document. The one item mentioned in the *Green Paper* which is not included in this discussion document is the possibility of withholding systems being used to more efficiently collect underpayments of tax, for example through variable withholding rates. This is not included in the discussion document as officials think the compliance costs to implement such a proposal would far outweigh any gains. Inland Revenue already has the ability to issue deduction notices to banks and others to collect tax debts.
9. Submissions received on the *Green Paper* and the *Making Tax Simpler: Better Digital Services* discussion document have informed the discussion and proposals in *Making Tax Simpler: Investment Income Information*.

Comment

¹ The “non-declaration rate” is applied when a customer does not provide the payer with their IRD number.

10. New Zealand has an aging population and as people move further into their working lives and on into retirement they typically earn a greater proportion of their income from the investment of capital that they have built up. Income from the investment of capital such as interest and dividends is therefore expected to form a greater proportion of the income that the average person earns in the future and means that having efficient and effective withholding tax systems for these types of income is vital to the integrity of the tax system.
11. Investment income can take a number of different forms, for example:
 - interest;
 - dividends;
 - royalties; and
 - income derived by PIEs.

In addition, income distributed by Māori Authorities to their members, while not investment income, is subject to RWT and has been included in the scope of the discussion document. No changes are proposed for royalties.

12. The discussion document proposes that payers of investment income provide more information more often on income from the investment of capital so that Inland Revenue can use that information to provide better services to people, and can ensure taxpayers are complying with the law. To reduce the compliance cost impact of this approach, the document contains options for providing information more easily and removing some types of payer obligations.
13. It is necessary for Inland Revenue to obtain withholding information on a timelier basis to enable the pre-population of that information onto tax statements, which will mean that taxpayers will be able to access their PAYE (currently pre-populated) and withholding tax information from one source. This will make it easier for people to get an accurate understanding of their tax position.
14. Payers of RWT are currently required to provide end of year tax certificates to the recipients of the income. These certificates set out the amounts and types of income and the amounts of RWT deducted. Taxpayers currently need to gather various pieces of correspondence about interest, dividends, Māori Authority distributions and any other income and add the relevant amounts to their PAYE income that is shown on their Summary of Earnings (“SOE”), Personal Tax Summary (“PTS”) or online IR3 tax return. Unless taxpayers are relatively well organised this process can be seen as being too hard or alternatively relevant information can be missed and an incorrect return can be filed. By increasing the amount of information that is pre-populated Inland Revenue will be saving taxpayers’ time and reducing the risk that they will file incorrect returns. Incorrect filing can expose a taxpayer to risk of penalties.
15. If this information was able to be pre-populated into tax returns by Inland Revenue it would be appropriate to remove the requirement for the payers to send out the end of year certificates. This would only be appropriate for recipients who had provided their IRD numbers to the payer of the income (as Inland Revenue would not be able to prepopulate information that could not be matched to an individual).
16. Obtaining withholding information during the tax year would also make it possible for Inland Revenue to advise payers of errors in the information they are providing or the rate choices that have been made by their customers. There would then be an opportunity for the payers to remediate these errors during the tax year and avoid creating taxpayer debt.
17. Better withholding information would enable Inland Revenue to construct a more complete picture of an individual’s income and the time at which it is earned. This would allow for a more accurate determination of the social assistance a taxpayer is entitled to during the income year and create options for more timely government assistance. It is considered that

this would in turn reduce issues relating to end-of-year square-ups and debt, as Inland Revenue would be able to adjust an individual's entitlements during the year rather than undertaking one square-up at year-end.

18. The proposals in this discussion document will increase the amount of information that Inland Revenue will be able to pre-populate for taxpayers and for large numbers of taxpayers will mean that all of their taxable income information is available in one place. Taxpayers that receive income from a number of other sources that will not be able to be pre-populated such as foreign sourced income and rental income will still need to provide information on that income to Inland Revenue. To the extent that income is not able to be allocated to individual taxpayers due to limitations in the information reported (such as where people have not provided their IRD numbers to the interest payers) there will also be gaps in what Inland Revenue can pre-populate.
19. A later policy project in the *Making Tax Simpler* series will look at social policy entitlements and obligations. Making changes to how Inland Revenue could administer the social policy programmes, in a way that has a real beneficial impact on people, will require Inland Revenue obtaining more information during the year.
20. The discussion document includes a section on payment dates and the possibility of linking these to the dates on which payments of withholding income are made in some circumstances. This is most likely to be useful in situations where the payments are infrequent such as annual or six monthly distributions. Changes to the monthly RWT payment obligations for regular interest payers are not proposed.
21. The discussion document includes a proposal for Inland Revenue to provide a live certificate of exemption list or a searchable database to enable payers of withholding income to confirm on a regular basis that recipients have a valid certificate of exemption. Recipients of withholding income who are exempt from income tax under Acts other than tax Acts are also able to receive their investment income without tax being deducted, but are not required to obtain a certificate of exemption. The discussion document contains a proposal which would require all taxpayers seeking to receive their investment income that is not subject to withholding tax to obtain a certificate of exemption. This would mean that all exempt taxpayers would be included on the certificate of exemption list or database, which would enable payers of investment income to use this to confirm all exemptions in their systems are valid.
22. The proposals in this discussion document will potentially have an impact on all companies (big and small), PIEs, Māori Authorities and any other individuals and entities that pay withholding income such as interest. While banks are the largest withholding tax payers, a wide range of organisations have withholding obligations. The range of organisations involved means a one size fits all approach will not be appropriate. Instead, a range of return requirements and possible information transfer methods will need to be provided to suit the capability of the different types of withholding tax payers².
23. Inland Revenue's Business Transformation computer system upgrade will include changes to how information can be received. This will make it easier for payers of investment income to file information with Inland Revenue electronically. A key change for RWT, Non Resident Withholding Tax ("NRWT") and Approved Issuer Levy ("AIL") will be a gateway to upload information (similar to that used by PIEs to file returns).
24. In addition to the electronic gateway, there will be an option of an online form. Inland Revenue's new computer system will be able to accept attachments filed with the online forms. This option may be particularly useful for smaller withholding taxpayers as it would

² 97% of the 16,601 interest payers in 2015 who filed interest withholding tax certificates filed detailed information for 10 or less recipients, while 10 filed more than 50,000 certificates. Similarly, more than 99% of companies have 10 or less shareholders whereas some listed companies will have more than more than 50,000 shareholders.

enable them to attach calculations that are done in a format that does not meet the electronic gateway criteria.

25. Investment income payers of different types and sizes will have different levels of ability to file information electronically (whether by data transfer through a gateway or via online forms). The administrative impact for Inland Revenue will vary by how much information is provided to it electronically. The key risk of allowing all information to be provided by paper channels would be the significant disruption to the pre-population of investment income information if Inland Revenue received significant numbers of records in paper form and had to manually enter them into its computer system.
26. The document sets out a range of options relating to potentially requiring some or all payers to file information electronically. These include:
 - Continuing to allow all payers the option of filing electronically or on paper:
 - subject to a review after a period of time; or
 - until a given future date.
 - Requiring some payers to file electronically straight away based on the number of recipients they pay investment income;
 - Require most payers to file electronically straight away, with some exceptions (e.g. for those with no internet access).
27. Requiring some investment income payers to file electronically based on the number of recipients they pay investment income to would ensure that large and reasonably large payers would be required to file electronically while most payers of investment income would still be able to choose their option. Over 80% of interest certificates are filed by interest payers who file more than 10 certificates.
28. Companies do not currently provide detailed information about their shareholders to Inland Revenue. The information that companies would be required to provide to Inland Revenue is information it must already hold in order to pay dividends and send shareholder dividend statements to its shareholders.

Potential challenges

Challenges relating to the recipients of the income

Joint accounts

29. Currently Inland Revenue only gets one IRD number in relation to each joint investment. To pre-populate return information for individuals Inland Revenue needs to allocate income earned on jointly owned investments to the individual owners. Allocating the income could potentially be done on a pro-rata basis provided there was a mechanism to allow the individual owners to re-allocate the income if the investment ownership was not equally distributed among the owners.

Challenges relating to the payers of withholding income

Non-filing payers

30. To the extent that payers of withholding income fail to file returns and pay tax Inland Revenue will be unable to pre-populate that income. As a result there will inevitably be some

gaps in the information for some taxpayers and they will be likely to still need to provide that information themselves.

Payers who file returns on paper

31. Some payers of withholding income will not have the technological capability to file electronically or may be unwilling to do so. For payers that continue to file paper returns it will not be possible to make efficiency gains to offset potentially increased compliance costs.

Increasing the non-declaration rate

32. The document proposes to increase the non-declaration tax rate for RWT and PIE investments to 45% (from 33 and 28% respectively), aligning it with the non-declaration rate for PAYE. The non-declaration rate is the tax rate used when a taxpayer does not provide their IRD number to the payer of investment income. Associating income information with the right taxpayers is vital for pre-population of tax statements, and ensuring that taxpayers are receiving or paying the correct amount of social policy entitlements or obligations.

Impact on compliance costs

33. Requiring payers to provide more information, more often, is likely to result in an increase in compliance costs for payers (with a potential reduction in compliance costs for recipients of withholding income). This increase for payers could, however, be offset by making the interaction between payers and Inland Revenue more efficient. With the exception of the PIE tax regime, the processes currently in place for the transfer of information between withholding tax payers and Inland Revenue are very manual, requiring physical transmissions of information and a number of interactions between RWT payers and Inland Revenue. It is envisaged that improved technology and greater digitalisation will enable payers to transfer information and make payments to Inland Revenue more easily.
34. To the extent that payers use the electronic gateway, there will be some initial set up cost to ensure that their system is producing the appropriate reports to feed into the Inland Revenue system but officials do not expect the ongoing costs to be significant. If, however, payers do not use the electronic gateway, and file either electronically (by completing an online form), or by paper then officials expect that the initial set up costs would be smaller but there would be an ongoing increase in the cost to comply.
35. If, after consultation, Cabinet agrees to proceed with these proposals it will be important to ensure that timeframes for changes to reporting requirements are realistic, as payers of withholding income will not be confident to make system changes until the requirements have been enacted. The discussion document seeks feedback on timeframes that would be sufficient to make any system changes.
36. A number of other regulatory changes will also require system development, including the international Automatic Exchange of Information which is expected to require financial institutions to begin conducting due diligence and meeting reporting requirements on all new accounts from 1 July 2017.

Consultation

37. Officials have consulted with the Treasury, the Department of Prime Minister and Cabinet, the Ministry of Business, Innovation and Employment, the Department of Internal Affairs, the

State Services Commission, the Ministry of Justice, the Office of the Privacy Commissioner and Te Puni Kōkiri.

38. Te Puni Kōkiri raised concerns regarding the impact of the changes on Māori Authorities, particularly smaller Māori Authorities, and their potential lack of capacity and systems to provide the detailed information. They have also raised concerns regarding the ability to provide beneficiary information where the ownership is held through whānau trusts. Officials are continuing to work with Te Puni Kōkiri to resolve these concerns.
39. The New Zealand Debt Management Office (“DMO”) has provided initial feedback regarding the potential impact of the possible changes on their operations. It was noted that it uses Computershare as its registry and that Computershare will have some system change costs. It also raised the potential for the additional disclosure requirements to affect investor demand where investors are investing through nominee companies. Officials will work through these points as they develop the proposals further.
40. In preparing the discussion document officials have held meetings with the five largest banks: Westpac, KiwiBank, ANZ, ASB and BNZ. All of the banks mentioned that they would need time to make technology changes if reporting requirements changed but they were largely accepting of suggestions that more detailed information could be provided more often (perhaps monthly) provided that there was an ability to correct errors in future periods. One bank suggested that more detailed information could be provided 6 monthly rather than monthly and was quite resistant to monthly detailed reporting.
41. Officials also met with AMP Financial Services and Appello Services to understand the position of organisations operating in the PIE sector. Their responses were quite different and reflected their different technology platforms and their ability to attribute income to investors and calculate their tax liability on a regular basis. Further consultation will be needed in this sector to understand the technological challenges that some of the proposals could impose.
42. Officials have also met with the two largest share registries: Computershare and Link Market Services. These organisations look after dividend distributions for most large New Zealand companies and also deal with the interest payments on a number of corporate bonds. They were accepting of the suggestions and could see benefit in some of the proposed changes although both noted that they would need to do some system development work, and one of the registries asked whether the Government would be contributing to the cost of any changes required.
43. Officials consulted with the Corporate Taxpayers Group. The Group did not think that receiving information on a monthly basis was necessary for pre-populating income tax returns, nor for all forms of social policy (as they are currently designed). The discussion document notes that in order to allow social policy to be redesigned, Inland Revenue requires more information on sources of income, such as income from investment during the year.
44. To understand the current position in the small to medium sized entity (“SME”) sector, officials have had discussions with accountants from two accounting practices active in the SME market.
45. In order to get some understanding of the potential effect of changes for Māori Authorities, officials met with other Inland Revenue staff members who deal with Māori Authorities on a day to day basis and also had discussions with Te Tumu Paeroa (formerly known as the Māori Trustee) and Te Awanui Huka Pak Limited (an administration service provider to a number of Māori Authorities). Māori Authorities range from very sophisticated businesses to small trusts holding small parcels of Māori land. Their administration models are also quite varied with some administering their own affairs while others use an intermediary such as Te Tumu Paeroa or Te Awanui Huka Pak Limited to provide their administrative services. Te Tumu

Paeroa and Te Awanui Huka Pak Limited have relatively sophisticated systems in order to deal with the large number of distributions they make; however, officials understand that one of the key issues in respect of a number of Māori Authorities will be their capability to provide the information (along with some reluctance in some cases).

Financial implications

46. Approving the release of the Government discussion document will not have any fiscal implications. Any fiscal implications resulting from the proposals will be included in final policy advice to Cabinet following consultation.

Human rights

47. I consider that the proposals contained in the discussion document are not inconsistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Legislative implications

48. The release of the discussion document will not give rise to any immediate legislative implications. Legislative changes will, however, be necessary if Cabinet subsequently decides to implement the proposals. Therefore, I propose to include any resulting legislative changes in an omnibus taxation bill.

Regulatory impact analysis

49. The regulatory impact analysis requirements apply to some of the proposals in the discussion document. The substantive regulatory impact analysis elements have been included in the discussion document at a level that is appropriate given the stage of policy development. A Regulatory Impact Statement will be prepared as part of reporting back on final policy proposals.

Publicity

50. I propose to issue a media release when the discussion document is released. If approved, officials will release the issues paper in early June with submissions closing six weeks later.
51. The release of the discussion document will be accompanied by the launch of online public consultation. This will contain a summary of the proposals and seek views on questions raised in the discussion documents. The online consultation will be on the same website that was used for the consultation on the previous documents in the *Making Tax Simpler* series. The discussion document will be available from this website, as well as the standard Tax Policy website.

Recommendations

52. I recommend that the Cabinet Economic Growth and Infrastructure:

1. **Note** the contents of the Government discussion document *Making Tax Simpler: Investment Income Information*, which will consult on proposals to:
 - 1.1 require payers of investment income to provide Inland Revenue with taxpayer specific withholding information on a monthly basis (or in line with the business process of paying the income if that occurs less often than monthly);
 - 1.2 require payers of investment income to provide Inland Revenue information on each owner of joint investments;
 - 1.3 require payers of investment income to provide information about customers who are subject to approved issuer levy;
 - 1.4 require payers of investment income to provide information about customers who receive income that is exempt from withholding tax;
 - 1.5 remove the need for payers of withholding tax to provide end of year tax certificates to their customers who have provided their IRD number;
 - 1.6 increase the “non-declaration rate” for resident withholding tax on interest, and for tax on portfolio investment entities to 45%;
 - 1.7 create a database of taxpayers holding certificates of exemption from withholding tax;
 - 1.8 require all taxpayers seeking to receive their investment income not subject to withholding tax to obtain a certificate of exemption.
2. **Agree** to the release of the Government discussion document *Making Tax Simpler: Investment Income Information* and the launch of accompanying online consultation on its contents.
3. **Authorise** the Minister of Revenue to approve editorial, presentational and other minor changes to the discussion document before its release.
4. **Invite** the Minister of Revenue to report back to the Cabinet Economic Growth and Infrastructure Committee on the outcome of consultation and final policy recommendations.

Hon Michael Woodhouse
Minister of Revenue

_____/_____/_____
Date

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- The Government discussion document *Making tax simpler - Investment income information* is available at <http://taxpolicy.ird.govt.nz/publications/2016-dd-mts-6-investment-income/overview>
- An archive of the Making Tax Simpler consultation sites is available at <http://taxpolicy.ird.govt.nz/archived-websites>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Investment Income Information: Release of Discussion Document

Portfolio **Revenue**

On 25 May 2016, the Cabinet Economic Growth and Infrastructure Committee (EGI):

- 1 **noted** the contents of the government discussion document, *Making Tax Simpler: Investment Income Information* (the discussion document), attached to the submission under EGI-16-SUB-0105, which will consult on proposals to:
 - 1.1 require payers of investment income to provide Inland Revenue with taxpayer specific withholding information on a monthly basis (or in line with the business process of paying the income if that occurs less often than monthly);
 - 1.2 require payers of investment income to provide Inland Revenue with information on each owner of joint investments;
 - 1.3 require payers of investment income to provide information about customers who are subject to approved issuer levy;
 - 1.4 require payers of investment income to provide information about customers who receive income that is exempt from withholding tax;
 - 1.5 remove the need for payers of withholding tax to provide end of year tax certificates to their customers who have provided their IRD number;
 - 1.6 increase the “non-declaration rate” for resident withholding tax on interest, and for tax on portfolio investment entities to 45 percent;
 - 1.7 create a database of taxpayers holding certificates of exemption from withholding tax;
 - 1.8 require all taxpayers seeking to receive their investment income not subject to withholding tax to obtain a certificate of exemption;
- 2 **agreed** to the release of the discussion document and to the launch of accompanying online consultation on its contents;
- 3 **authorised** the Minister of Revenue to approve any editorial, presentational and other minor changes to the discussion document before its release;

- 4 **invited** the Minister of Revenue to report back to EGI on the outcome of consultation and with final policy recommendations.

Janine Harvey
Committee Secretary

Present:

Hon Bill English (Chair)
Hon Gerry Brownlee
Hon Steven Joyce
Hon Amy Adams
Hon Michael Woodhouse
Hon Peseta Sam Lotu-liga
Hon Maggie Barry
Hon Nicky Wagner
Hon Louise Upston
Hon Te Ururoa Flavell

Officials present from:

Office of the Prime Minister
Officials Committee for EGI
Inland Revenue

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Office of the Prime Minister
Melleny Black, PAG, DPMC



Cabinet

Minute of Decision

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Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 27 May 2016

On 30 May 2016, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 27 May 2016:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
EGI-16-MIN-0105	Making Tax Simpler: Investment Income Information: Release of Discussion Document Portfolio: Revenue	CONFIRMED
Out of scope	[REDACTED]	[REDACTED]

Out of scope

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Michael Webster
Secretary of the Cabinet

Hard-copy distribution:

- Cabinet Economic Growth and Infrastructure Committee
- Minister of Health
- Minister in Charge of the NZSIS
- Minister of Education
- Minister for Social Development
- Minister of Foreign Affairs
- Minister of Police
- Minister for ACC
- Legislation Coordinator



Cabinet Economic Growth and Infrastructure Committee

Summary

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Investment Income Information

Portfolio	Revenue
Purpose	This paper seeks agreement to the introduction of a number of reforms to the collection of investment income information to make it easier for people to comply with their tax and social policy obligations.
Previous Consideration	On 25 May 2016, EGI agreed to the release of a government discussion document on <i>Making Tax Simpler: Investment Income Information</i> , and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105].
Summary	<p>“Investment income information” is information collected about resident withholding tax (RWT), non-resident withholding tax (NRWT), approved issuer levy (AIL), and portfolio investment entity (PIE) tax. These taxes are withheld from interest, dividends, PIE income and taxable Maori authority distributions.</p> <p>There are a large number of payers of investment income (eg banks, PIEs, other financial institutions, companies and Maori authorities), that make payments to a large proportion of the New Zealand population.</p> <p>Following a consultation process, a number of changes are proposed, which will:</p> <ul style="list-style-type: none"> • reduce compliance costs for taxpayers by enabling Inland Revenue to pre-populate their investment income information in their tax records; • enable Inland Revenue to use the investment income information more effectively to improve the accuracy of withholding, and help prevent individuals getting into debt; • create an opportunity for the government to improve the delivery of social policies, eg by introducing shorter periods of assessment to improve the accuracy and timeliness of payments; • link the provision of the investment income information with the payment of withholding taxes to Inland Revenue; • improve the workability of a number of aspects of the withholding tax regimes for payers of investment income.

The proposals are summarised in **paragraph 5**. A summary of the submissions received is in Appendix A on **pages 20-39**.

To date, limited feedback has been received from Maori authorities. Officials will continue to seek feedback from Maori authorities on the proposals.

**Regulatory
Impact Analysis**

A Regulatory Impact Statement (RIS) is attached. The Regulatory Impact Analysis Team considers that the RIS meets the quality assurance criteria.

**Baseline
Implications**

There will be some upfront costs for the payers of investment income, eg to upgrade their software. Administrative costs incurred by Inland Revenue will be met from within the Business Transformation budget.

The pre-population of interest income is estimated to result in between \$21 million - \$27 million in additional income tax being paid per annum, commencing in 2018/19.

**Legislative
Implications**

Changes will be required to the Income Tax Act 2007 and the Tax Administration Act 1994.

The proposals will be included in the tax Bill that is expected to be introduced in early 2017 and enacted in early 2018.

Timing Issues

The proposed changes will be implemented in Inland Revenue's new computer system (START) during stage 2 of the Business Transformation programme.

The proposed application dates (see recommendation 19 below) should provide sufficient time for investment income payers to plan and implement the required changes.

Announcement

The Minister of Revenue will make an announcement when the Bill is introduced.

**Proactive
Release**

The relevant Cabinet papers will be proactively released at that time.

Consultation

Paper prepared by Inland Revenue. Treasury, Justice and the Office of the Privacy Commissioner were informed. DPMC, MBIE, DIA, TPK and SSC were informed. A number of interested groups made submissions as part of the consultation process.

The Minister of Revenue indicates that discussion is not required with the government caucus, or with other parties represented in Parliament.

The Minister of Revenue recommends that the Committee:**Background**

- 1 note that on 25 May 2016, the Cabinet Economic Growth and Infrastructure Committee agreed to the release of a government discussion document on *Making Tax Simpler: Investment Income Information*, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105];
- 2 agree to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue's Business Transformation programme:
 - 2.1 reduce compliance and administrative costs;
 - 2.2 create opportunities for better service delivery to individuals;

Detailed recipient information

- 3 agree to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis, or for the months in which payments are made if the payment frequency is less than monthly;
- 4 agree to require payers of portfolio investment entity (PIE) income to provide investors' prescribed investor rate (PIR) details six months into the income year;
- 5 agree that payers of PIE income be required to specify whether the investor is in a "locked in" fund in the year-end detailed information they provide to Inland Revenue;
- 6 agree to require investment income payers to provide the recipient's date of birth to Inland Revenue as part of the monthly reporting, if it is held;
- 7 agree to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments, if it is held;
- 8 agree that detailed recipient information in respect of interest income subject to approved issuer levy (AIL) be required to be provided to Inland Revenue monthly for domestically issued debt, at the same time as the Resident Withholding Tax (RWT) and Non-Resident Withholding Tax (NRWT) reporting;
- 9 agree that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption be required to be provided to Inland Revenue annually, but will be allowed to be provided monthly if preferred by the interest payer;
- 10 agree that the reporting due date for interest and PIE income (excluding "locked in" schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May;

Non-declaration

- 11 agree to increase the non-declaration rate for interest subject to RWT to 45 percent;
- 12 agree that investors opening new investments in PIEs be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE;

Electronic filing

- 13 agree that investment income payers be required to file their withholding tax returns, including the detailed recipient information, electronically unless they receive an exemption from Inland Revenue;

Certificates of exemption

- 14 agree the Inland Revenue make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt;
- 15 agree that recipients that are tax exempt under Acts other than the Income Tax Act 2007 be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source referred to in paragraph 14 above, and will enable investment income payers to rely on that source of information;

End of year interest certificates

- 16 agree that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer be removed;

Error correction

- 17 agree that investment income payers be allowed to correct errors in previous withholding tax returns in their next return, subject to the following restrictions for errors being corrected in the following income year:
 - 17.1 the amount of the error must be lower than the greater of \$2,000 and 5 percent of the investment income payer's total withholding tax liability for the year; and
 - 17.2 the investment income payer must provide detailed recipient information in respect of the error, including the amount of the error for each recipient and the tax period or periods that the error relates to;

Application date

- 18 agree that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis;
- 19 agree that the legislation includes the following implementation timetable:
 - 19.1 1 April 2018: the date at which PIEs will be required to obtain the IRD number of new investors, or alternatively a self-certification that they are non-resident and do not have an IRD number;

- 19.2 1 April 2019: the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (paragraph 3 above);
- 19.3 15 May immediately following the end of the tax year : the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018;
- 19.4 1 April 2020: the date from which the following will be required:
- 19.4.1 investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis, or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20th of the month following the month in which the payment is made;
 - 19.4.2 investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
 - 19.4.3 joint ownership information to be provided by investment income payers;
 - 19.4.4 AIL and exempt recipient information to be provided;
 - 19.4.5 non-declaration rate for interest income subject to RWT to be increased to 45 percent;
 - 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
 - 19.4.7 recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income;

Fiscal implications

- 20 note that all additional revenue and reduced expenditure that accrues under the above proposals forms part of the Inland Revenue Business Transformation Programme’s business case benefit, and has already been accounted for by the government;
- 21 note that any additional administrative costs arising as a result of the above proposals will be accommodated within the Business Transformation Programme funding allocated to Inland Revenue;

Legislative implications

- 22 agree that the proposed amendments be included in the tax Bill scheduled for introduction in February 2017;
- 23 authorise the Minister of Revenue to make minor amendments of a technical nature to the measures proposed in the paper under EGI-16-SUB-0307 without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation;
- 24 invite the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above proposals;

Publicity

- 25 note that the Minister of Revenue intends to release a media statement to announce these measures when the Bill is introduced;
- 26 agree to the public release of an anonymised summary of submissions at the time the Bill is introduced.

Janine Harvey
Committee Secretary

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Deputy Chief Executive, Policy, DPMC
Melleny Black, PAG, DPMC

Chair
Cabinet Economic Growth and Infrastructure Committee

MAKING TAX SIMPLER: Investment Income Information

Proposal

1. This paper seeks the Cabinet Economic Growth and Infrastructure Committee's agreement to the introduction of a number of reforms to the collection of investment income information that will make it easier for people to comply with their tax and social policy obligations. The proposals are part of the Government's plans to modernise the revenue system through business process and technology change being implemented by Inland Revenue's Business Transformation programme. The measures will:

- reduce compliance costs for taxpayers by enabling Inland Revenue to pre-populate their investment income information in their tax records;
- enable Inland Revenue to use the investment income information more effectively to improve the accuracy of withholding and help prevent individuals getting into debt;
- create an opportunity for Government to improve the delivery of social policies – for example, by introducing shorter periods of assessment to improve the accuracy and timeliness of payments;
- link the provision of the investment income information with the payment of withholding taxes to Inland Revenue;
- improve the workability of a number of aspects of the withholding tax regimes for payers of investment income.

2. These proposals would be included in the next omnibus taxation bill, likely to be introduced in the first quarter of 2017.

Executive summary

3. Investment income information is the information collected about resident withholding tax (RWT), non-resident withholding tax (NRWT), approved issuer levy (AIL) and portfolio investment entity (PIE) tax. These taxes are withheld from interest, dividends, PIE income and taxable Māori authority distributions. There are a large number of payers of investment income (including banks, PIEs, other financial institutions, companies (large and small), Māori authorities and some individuals) making payments to a large proportion of the New Zealand population.

4. The proposals take advantage of modern digital technology to reduce compliance and administrative costs. By reducing errors and improving timeliness, digital systems allow government agencies to make better use of income information – for example, to ensure that benefits and other assistance are not overpaid or underpaid. Better quality and more timely investment income information supports future improvements to social policy, such as better determining entitlements and obligations.

5. The proposals for the reform of investment income information are made up of the following measures that will take effect from 1 April 2020 unless otherwise noted:

- Payers of interest, dividends and taxable Māori authority distributions will be required to provide detailed recipient information to Inland Revenue on a monthly basis or for the months in which payments are made if the payment frequency is less than monthly. Payers may elect to file monthly from 1 April 2019 but will be required to file monthly from 1 April 2020.
- Payers of PIE income will be required to provide investors' prescribed investor rate (PIR) details to Inland Revenue six months into the income year and will be required to specify whether the investor is in a "locked in" fund such as a KiwiSaver fund in the year-end detailed information they provide to Inland Revenue.
- To help ensure that identity is correctly assigned, investment income payers will be required to provide the recipient's date of birth to Inland Revenue as part of the detailed recipient information reporting if it is held. This information is typically collected from new investors under anti money laundering rules.
- To enable jointly earned income to be split between the joint owners, investment income payers will be required to provide detailed recipient information regarding each of the owners of jointly owned investments if it is held. This will be provided either in the investment income payer's main return files or alternatively in a separate report to the main withholding tax returns.
- Detailed recipient information in respect of interest income subject to AIL will be required to be provided to Inland Revenue monthly for domestically issued debt (at the same time as RWT and NRWT information is reported).
- Detailed recipient information about interest income that is exempt from RWT (because the investor has a certificate of exemption) will be required to be provided to Inland Revenue annually but will be allowed to be provided monthly if preferred by the interest payer.
- From the tax year beginning 1 April 2018, the reporting due date for interest and PIE income (excluding "locked in" schemes) year-end information will be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May.
- The non-declaration rate for interest subject to RWT will be increased to 45% to encourage non-declared interest recipients to provide their IRD number to their interest payer.
- Investors opening new investments in PIEs will be required to provide their IRD number (or a declaration that they are non-resident, do not have an IRD number and providing their foreign tax identification number) within six weeks of making the initial investment if they are to remain a member of the PIE.
- Investment income payers will be required to file their withholding tax returns including the detailed recipient information electronically unless they receive an exemption from Inland Revenue.

- Inland Revenue will make a source of information available to investment income payers that enable them to confirm whether or not recipients have certificates of exemption.
- To ensure that all exempt recipients are included in the information source discussed above (which will enable investment income payers to rely on that source of information), recipients that are tax exempt under Acts other than the Income Tax Act 2007 will be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers.
- To reduce compliance costs for interest payers, the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer will be removed.
- To reduce compliance and administration costs, investment income payers will be allowed to correct errors in previous withholding tax returns in their next return subject to restrictions for errors being corrected in the following income year.

6. The above measures will contribute to the achievement of Government's Better Public Service Results 9 and 10. They will make investment income and withholding tax deduction information available on a timely basis for New Zealanders receiving investment income. As well as the compliance and administrative cost reductions and changes to social policy identified in this paper the information will create opportunities for future improvements in services as information is shared more effectively across government.

7. There will however be upfront costs to upgrade software, particularly for payers of investment income making payments to large numbers of recipients, and there will be some on-going compliance costs for payers that don't automate reconciliation processes. Therefore, I expect that there will be some resistance to the recommended changes. However, the continuation of the status quo limits the opportunities for those who want to benefit from more modern ways of interacting with Inland Revenue and it limits what we can do to provide better services to individuals, including changes to social policy.

8. Most Government agencies will be relatively unaffected by these proposals. The Debt Management Office pays large amounts of interest; however, it outsources the registry processes for debt issues to a registry services provider that will have to make any changes required. The registry services provider could increase its charges to the Debt Management Office to recover the costs of the changes but any such increase would be expected to be spread across all of the provider's customers.

9. There will be additional administrative costs for Inland Revenue associated with the transition but these will be accommodated within Inland Revenue's Business Transformation programme. The package I am recommending will give rise to additional revenue of \$21-27 million per annum in respect of interest income and further fiscal savings relating to social policy abatement (the fiscal savings are currently unable to be quantified due to the lack of investment information provided under current settings). This revenue and the savings form part of the Business Transformation programme business case which has already been included in Government revenue forecasts.

10. I propose to include these measures in a bill to be introduced in early 2017. This bill is not expected to be passed until early 2018. The application dates proposed should allow sufficient time for investment income payers to design and make the necessary changes to their systems.

Background

11. The Government's objective for the tax system is that it should be simple to comply with, making it easy for customers to get things right and difficult to get wrong. It should serve the needs of all New Zealanders, put customers at the centre and help them from the start, rather than waiting until things go wrong.

12. Inland Revenue's Business Transformation is a long-term programme to modernise New Zealand's revenue system. It will simplify how services are delivered by changing how customers interact with a digitally-based revenue system, simplifying policies and making better use of data and intelligence to better understand taxpayers. Inland Revenue will facilitate compliance by providing assistance at the beginning so customers get it right from the start.

13. Business Transformation is far more than just a new computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings and enabling more timely policy changes.

14. In March 2015 the Government released two documents, *Making Tax Simpler: A Government green paper on tax administration (Green Paper)* and *Making Tax Simpler: Better digital services – a Government discussion document (CAB Min (15) 915)*. Feedback on those documents informed *Making Tax Simpler: Investment Income Information – A Government discussion document* (the discussion document) which was released in July 2016 (CAB-16-MIN-0236). This set out the Government's proposals for improving the administration of investment income information and creating opportunities for better delivery of social policy in future.

15. Submissions from a range of parties expressed support for changes to improve the flow of information on investment income between payers and Inland Revenue and the better use of technology by Inland Revenue to match and pre-populate investment income data. However, all of the submissions expressed concerns over compliance costs and doubts over whether the benefits would justify the costs. These concerns were raised mainly about monthly reporting and joint account information provision.

16. Limited feedback has been received from Māori authorities and their advisors to date. I have instructed officials to continue to seek feedback from Māori authorities.

17. As expected, the submissions received were largely from investment income payers, advisory firms and industry organisations. The major benefits of this project are expected to flow to the recipients of investment income. As such, the tenor of the submissions may not reflect the wider reaction to the proposals.

18. The payers of investment income are required to deduct tax from the payments of investment income that they make (unless they pay less than a threshold amount or the recipient is eligible to be treated as exempt). The amount of the deductions is determined by the choices and circumstances of the recipients. For example, a non-resident earning interest can elect AIL or will be subject to NRWT at the rate applying for the country they are resident of, while a resident can select from a range of RWT rates if they have provided their IRD number to the payer. The payer then pays (remits) the deductions and submits a summary return (usually a paper form showing the total income paid and the total tax deducted) to Inland Revenue, usually in the following month. In the case of interest and PIE income the payer also provides detailed recipient information to Inland Revenue after the end of the tax year.

19. Payers of investment income also have obligations to report payment information to the recipients of the investment income. Companies have to provide shareholder dividend statements and Māori authorities have to provide Māori authority distribution statements when payments are

made. PIEs provide PIE investor statements and interest payers provide interest certificates after the end of the tax year.

Comment

20. The measures I am recommending enable compliance and administrative cost savings and improvements to service delivery, including for social policy. The compliance cost savings will be achieved through the greater use of digital services and the pre-population of investment income to allow recipients to see as much of their tax information as possible in one place and to use it to meet their tax and social policy income calculation obligations. The use of digital forms will allow payers of investment income to a few recipients to save time and money by filing online rather than having to file paper returns. Some measures to improve the fairness and workability of the rules regarding investment income information are also included.

21. I am not recommending that payers of investment income be required to remit RWT, NRWT, PIE Tax and AIL to Inland Revenue any more often or any earlier. Rather, I am recommending that the payers of investment income align the process of providing detailed investment income information to Inland Revenue with their business processes for paying investment income and withholding the relevant tax.

22. Payers of investment income that make payments to large numbers of recipients have developed systems to calculate and deduct withholding taxes. These systems will need to be altered or redesigned to meet the proposed requirements and there will be upfront costs to achieve these changes. These payers are also likely to have some on-going costs to reconcile the information that they will be required to provide each month although they may be able to minimise these costs by automating their reconciliation processes.

23. Further information on each measure is provided below. The proposals have been grouped under the following themes:

Getting it right from the start

- Requiring detailed recipient information to be provided on a monthly basis for most interest, dividends and Māori authority distributions.
- Increasing reporting on interest to include AIL (where the instrument has been issued from New Zealand) and interest income that has been treated as exempt.
- Increasing the non-declaration rate for RWT on interest income to 45%.
- Requiring new PIE investors to provide their IRD number to the PIE.
- PIEs to provide the PIR of their investors six months into the income year and to include locked in status in the detailed reporting at the end of the year.
- Date of birth information to be provided if held by the investment income payer.
- Joint owners' identity details to be provided by investment income payers.

Making the investment income rules work better

- Mandating digital filing.
- Bringing the due date for end of year returns forward to 15 May (from 31 May) for interest and PIE income (excluding locked-in PIE funds). Bringing forward the date for interest income is an interim measure until monthly reporting is in place.

- Making an information source of valid certificates of exemption available to investment income payers.
- Requiring recipients of investment income to have a certificate of exemption in order to be treated as exempt.
- Removing the requirement for interest payers to provide end of year interest certificates to recipients who have provided their IRD number.
- Allowing error correction within the same income year and also in the following year subject to thresholds.

Getting it right from the start

24. These measures will enable Inland Revenue to proactively intervene during the year where recipients are on inappropriate tax rates and will create opportunities for the improved delivery of social policy and other government services.

Requiring detailed recipient information to be provided monthly

25. Legislation currently requires payers of interest subject to RWT or NRWT and payers of PIE income to provide detailed recipient information to Inland Revenue after the end of the tax year. No detailed recipient information is required to be provided for dividends, Māori authority distributions and interest subject to AIL or that is treated as exempt.

26. The receipt of the detailed recipient information well after the year end and the lack of information for some types of investment income means that investment income is unable to be easily associated with the recipient's other tax records (as personal tax summaries have been prepared before the investment income information that Inland Revenue does receive has been able to be processed). It also means that Inland Revenue is unable to proactively adjust tax rates during the tax year to reduce debts or refunds due at the end of the year.

27. Receiving more complete information and receiving it sooner and more frequently would enable better administration of investment income information and improved delivery of social policies, such as *Working for Families* tax credits. In addition, Inland Revenue is often the source of income information for other Government agencies and these proposals could therefore enable reforms to the delivery of other services provided by Government.

28. It would also create opportunities to improve the design of social policy – for example, by reducing the annual period for *Working for Families* to allow periods to better match times of need. The previously released *Green Paper* set out the Government's early thinking in this area. A consultation document on social policy, which will set out how these changes might work, is scheduled for release in 2017.

29. A number of frequency options for the provision of investment income information were canvassed in consultation. Feedback provided by the payers of investment income who make payments to large numbers of recipients showed that they preferred annual provision of information or if more frequent information was required quarterly provision of information. Some submitters did, however, note that if more frequent provision of information was required it would make little difference if it was required monthly or quarterly as the same systems changes would be required.

30. A group of interest payers pay withholding tax to Inland Revenue less often than monthly. These are interest payers that make interest payments of more than \$5,000 per annum and withhold less than \$500 per month. They are required to pay the tax they have withheld every two months if they withhold more than \$500 every two months, but only every six months if they withhold less

than \$500. There are approximately 23,500 payers who filed 6 or less RWT returns in the year ended 31 March 2015. Under the monthly reporting proposal these payers would have to file investment income information each month but will remain on the same payment basis.

31. Monthly information has been proposed as the preferred option as it allows the best matching of information for possible future changes to social policy calculation periods. For example, if the social policy period was changed to quarterly and the investment income was reported quarterly there would be a 3 month lag. This is because income calculations for social policy are completed before the beginning of the period and investment income reporting is done after the end of the period. This means that for the quarter beginning 1 July the social policy income calculation will be completed by 30 June while the investment income information for the quarter ended 30 June will not be provided until 20 July so the information for the quarter ended 31 March would have to be used. If the investment income information was provided on a monthly basis the information for the month ended 31 May would be available for inclusion in the social policy income calculation to be completed by 30 June. Reducing the delay allows assistance to be better targeted to periods of need.

32. While there may be some additional compliance costs with monthly provision of detailed investment income information, I consider that the benefits of monthly provision of detailed investment income information to the wider system justify the proposal.

33. A small group of submitters (made up of some very large payers of investment income) requested a period of three years from the enactment of the legislation to make and implement systems changes. This would suggest an application date for the proposed changes of 1 April 2021. This was endorsed by the New Zealand Bankers Association when I met with them. Inland Revenue have discussed possible application dates with these submitters and on the basis of those discussions recommended an application date of 1 April 2020 to me. While I am recommending a 1 April 2020 application date, I am willing to consider this further based on submissions made during the select committee process.

34. I also note that a number of financial institutions have just undertaken systems changes in relation to FATCA (recently completed or at remedial system development stage), are making systems changes for AEOI (now until second reporting date June 2019) and will also need to make changes for PAYE (by 1 April 2019). They are, therefore, expending considerable resources on overlapping tax related regulatory changes as shown by the following diagram:

	Late 2016	2017	2018	2019	Early 2020
FATCA	Remedial				
AEOI	System Development				
PAYE		Design	System Development		
Inv Income		Design		System Development	

35. Some types of investment income are only likely to be paid sporadically such as dividends and Māori authority distributions. Where this income is paid less often than monthly I recommend that detailed investment income information is only required for the months in which investment income is paid.

36. During consultation some investment income payers have expressed interest in piloting the new requirements. I recommend that the legislation is amended so that investment income payers

can, on a voluntary basis, provide detailed investment income information on a monthly basis from 1 April 2019.

37. To ensure that detailed investment income information is available on a much timelier basis for all recipients I further recommend that the legislation should require all payers of investment income consisting of interest, dividends and Māori authority distributions to provide detailed investment income information on a monthly basis from 1 April 2020.

Interest income subject to AIL and investment income that is treated as exempt

38. Investment income payers have submitted that they may be unable to provide detailed reporting in respect of debt subject to the AIL regime that has been issued offshore. This is because these debt issues are often managed by paying agents in foreign jurisdictions who may be prevented from providing detailed recipient information by the laws in the other jurisdiction. I, therefore, recommend that the detailed reporting requirement does not apply to debt instruments issued outside of New Zealand where the interest payments are subject to AIL.

39. The reporting of detailed information in respect of interest paid to recipients that have been treated as exempt from income tax is a compliance measure. In order to reduce compliance costs I recommend that this information is only required on an annual basis but that investment income payers are allowed to provide it on a monthly basis if they choose to do so.

Increasing the non-declaration rate on interest income to 45%

40. Non-declaration of a person's IRD number makes it much more difficult for Inland Revenue to associate income with the recipient's tax records. The current non-declaration rate for RWT on interest income is 33% and is equal to the top marginal tax rate; however, people can have higher effective marginal tax rates. If a person was on the 33% tax rate and had a student loan their effective marginal tax rate on their investment income could actually be 45%. The 33% non-declaration rate provides no incentive for people on the 33% tax rate or for people who also have social policy entitlements or obligations and may therefore have an effective marginal tax rate of more than 33% to provide their IRD numbers to their interest payer.

41. Submissions on the proposed 45% non-declaration rate for interest were mixed, however, around 20% of the end of year interest certificates relate to interest recipients who are non-declared. This equates to around 1 million non-declared interest certificates each year. Inland Revenue will work with banks to try to reduce the number of non-declared accounts. However, in order to encourage the remaining non-declared recipients of interest income to provide their IRD numbers to their investment providers, I recommend that the non-declaration rate for RWT on interest is increased from 33% to 45%.

42. Increasing the non-declaration rate will not be effective on its own. It is important that people who are non-declared are aware that they are non-declared. Inland Revenue will work with interest payers to try to obtain IRD numbers from non-declared recipients and to make them aware that they will be taxed at a higher rate unless they provide their IRD number to their interest payer before the proposal comes into effect.

Requiring new PIE investors to provide their IRD numbers to the PIE

43. The level of non-declaration is relatively low for PIE investments (about 2%) and PIEs have indicated during consultation that they would prefer to require all new PIE investors to provide their

IRD numbers when they sign up than to have a higher non-declaration rate. In addition, providers and Inland Revenue would try to obtain IRD numbers for the currently non-declared investors.

44. I recommend that PIEs are required to obtain IRD numbers from new investors with an exception for investors that certify they are non-resident, don't have an IRD number and provide their tax identification number from the country in which they are resident (this exception would require the collection of details that are consistent with Automatic Exchange of Information requirements).

PIEs to provide the PIR of their investors six months into the income year and to report locked in status as part of detailed year end information

45. Currently PIEs only provide detailed recipient information after the end of the tax year and do not indicate in that information whether the PIE invested in is a locked in PIE or not. PIE income in a locked in PIE (such as a KiwiSaver fund or a retirement savings scheme with complying withdrawal restrictions) is not counted for social policy income calculation purposes.

46. As PIEs do not provide detailed recipient information until the end of the year Inland Revenue is unable to proactively check the PIR selected by the investors. Also, because PIEs do not have to declare whether the PIE is a locked in PIE or not on the detailed investor information, Inland Revenue is unable to easily determine whether the PIE income should be counted in the investor's social policy income calculation.

47. I recommend that payers of PIE income are required to provide investors' prescribed investor rates (PIRs) six months into the year, and in the end of year return include information on whether the fund the recipient has invested in is locked in. These changes will allow Inland Revenue to proactively adjust PIRs within the tax year and will allow Inland Revenue to appropriately allocate relevant PIE income to social policy income calculations.

Date of birth information to be provided if held by the investment income payer

48. Date of birth information is often used to confirm identity and the discussion document proposed that investment income payers provide date of birth as part of their detailed recipient information where it is held. This would apply for all types of investment income including interest income, dividends, PIE income and Māori authority distributions.

49. The date of birth information would be used as a further identification data point to help to ensure that income information was pre-populated to the correct person's tax records. It would be particularly helpful where a person's investment is non-declared, the person has provided an incorrect IRD number or where a person uses multiple names. It could also be used to help with data matching when information is shared between Government agencies.

50. Some submitters expressed concerns that it would be difficult to obtain this information from recipients, although limiting the requirement to provide date of birth information to information held by the investment income payer as suggested in the discussion document would resolve this problem. I note that date of birth information is typically required to be collected from new customers as part of anti-money laundering legislation.

51. I recommend that payers of investment income are required to include date of birth information in the detailed investment income that they provide to Inland Revenue if they hold that information.

Payers of investment income to provide joint owners identity details

52. Currently interest and PIE income payers provide one IRD number for jointly owned investments. This means that Inland Revenue can only associate the income with this IRD number and is unable to associate the income with the other owners of the joint investment.

53. The discussion document considered the issue of jointly owned investments and ways in which the joint income could be pre-populated to the known owners' tax records. Submitters were very clear that they are not well-placed to separate the income between the owners and some submitters were very strongly of the view that the only solution that is workable without unreasonable compliance costs is the provision of a separate report giving the known details of joint owners for jointly owned investments. Inland Revenue would then use this information to split the income evenly between the investors.

54. I therefore recommend that joint ownership information is provided by investment income payers and that they are given the option of providing it in their main withholding tax report or in a separate report. Inland Revenue officials have noted that there are some specific technical issues that were raised by submitters regarding share registry rules around trusts which will need to be taken into account when drafting legislation in respect of this proposal.

Making the investment income rules work better

Mandating digital filing

55. Using upgraded digital services which provide information in near real-time is key to maximising the benefits available from Inland Revenue's transformation processes and submitters generally supported using improved digital services. The nature and number of investment income payers and the numbers of recipients each payer makes payments to mean that mandating digital is a logical option. There will also be a range of digital filing options from an online form designed to suit payers with only a small number of recipients to a data file transfer process designed to suit payers with hundreds of thousands of recipients.

56. Inland Revenue receives almost five million interest certificates annually and with a shift to monthly reporting this could increase to 60 million. The changes in respect of AIL reporting and reporting in respect of exempt income would also increase these figures for interest income. There would also be additional reporting from dividend payers and Māori authorities. This level of reporting strongly indicates the need to make digital reporting mandatory. In addition, these payers currently have to file paper forms when they pay investment income. Completing and submitting an online form rather than completing and posting in a paper form is likely to reduce their compliance costs.

57. The number of recipients per investment income payer is also a factor in recommending mandatory digital filing. Almost 94% of the interest payers pay 5 or less recipients. Similarly, 570,000 of the 573,000 companies registered as at 21 April 2016 had 10 or less shareholders. Because so many of the investment income payers make payments to a very small number of recipients, having a digital filing threshold based on the number of recipients would be likely to mean the vast majority of investment income payers would not be required to file digitally. If they chose to continue to file paper returns it would cause very significant administration costs.

58. When information is submitted digitally the format of the information being submitted can be validated before it is accepted so by mandating digital reporting the number of incorrect or incomplete returns may be able to be reduced.

59. I therefore recommend that investment income payers are required to file their detailed investment income information digitally.

60. I also recommend having a process for allowing an exemption to the mandated digital filing for investment income payers who would experience unreasonable compliance costs or other hardship as a result of the requirement to file digitally. An example of investment income payers that this might apply to could be people without a computer or internet connection. The investment income payer would need to apply to the Commissioner of Inland Revenue for an exemption from the digital filing requirement.

Bringing the due date for end of year returns forward to 15 May (from 31 May) for interest and PIE income (excluding "locked-in" PIE schemes)

61. As the main changes proposed may not take effect until April 2020, I recommend that the due date for the annual detailed file that is currently provided by interest payers is brought forward from 31 May to 15 May (for the year ended 31 March). This will allow Inland Revenue to include the interest information in the personal tax summaries prepared from the beginning of June each year (although joint income will not be able to be split between owners at this stage and there is likely to still be a significant number of non-declared certificates). This change would apply from the tax year beginning 1 April 2018 with the first affected returns due by 15 May 2019.

62. I also recommend that the due date for the annual return of detailed PIE income information is brought forward from 31 May to 15 May for PIEs that are not "locked in" funds. This will allow the information to be associated with the recipient where they receive social policy entitlements or have social policy obligations.

63. These changes will enable Inland Revenue to pre-populate some information for taxpayers and enhance compliance. They will also allow some of the revenue benefits that will accrue from these proposals to be accessed earlier.

Making an information source of valid certificates of exemption available to investment income payers

64. The discussion document considered whether Inland Revenue should provide a database (or other source of information) that allowed payers of investment income to check whether their customers had a valid certificate of exemption. Submitters were strongly in favour of this proposal as long as the information was kept up to date and was easily accessible and usable.

65. Issues and cancellations of certificates of exemption are published in the New Zealand Gazette on a quarterly basis. When a certificate of exemption expires at the end of one quarter and is renewed on the first day of the next quarter, the renewal will not appear in the New Zealand Gazette until after the next quarter has finished. Providing a database would allow payers to confirm exemption validity on a close to real time basis.

66. I recommend that Inland Revenue provide a certificate of exemption database (or other source of information) that enables investment income payers to confirm certificate of exemption validity on a real time or near real time basis.

Requiring recipients of investment income to have a certificate of exemption in order to be treated as exempt

67. Recipients of investment income can be exempt from income tax under Acts other than the tax Acts. They are then able to request their investment income payer to pay their income to them without withholding any tax. They are able to apply for a certificate of exemption from Inland Revenue, but they don't have to in order to be treated as exempt. Where the exempt recipient does not choose to apply for a certificate of exemption but instead asks the investment income payer not to withhold on the basis of their exempt status, this can cause compliance cost for the payer as they need to check the claim of exemption is reasonable.

68. I propose requiring any recipient that is eligible to be treated as exempt from withholding tax to obtain a certificate of exemption from Inland Revenue if they wish to continue to be treated as exempt. This will ensure that they are included in the database of valid certificates of exemption discussed above and reduce compliance costs for investment income payers. It will also enhance compliance as any recipients that are incorrectly being treated as exempt recipients will be able to be checked against the database and have their exempt status removed.

69. Investment income payers and Inland Revenue will work together to contact exempt recipients that do not have certificates of exemption to encourage them to apply for a certificate of exemption prior to the application of this requirement. The application process will be a one-off process for the affected parties and is a relatively straight forward process.

Removing the requirement for interest payers to provide end of year interest certificates to recipients who have provided their IRD number

70. The discussion document proposed removing the requirement for interest payers to send end of year interest certificates to recipients that have provided their IRD numbers to their interest payer. Submissions on this proposal were mixed with some submitters seeing this as a worthwhile cost reduction measure, some suggesting it would make little difference, and others suggesting that the end of year certificates would still be needed for interest recipients to be able to check that the interest information shown by Inland Revenue was accurate.

71. The proposal to use the current year end information to pre-populate recipients' tax records for tax years from 1 April 2018 will enable recipients of interest income to compare their year end certificate information with the information pre-populated by Inland Revenue for two years before the requirement to provide year end certificates was removed. Some interest payers have indicated that they will continue to voluntarily provide interest certificates at the end of the year to their customers even if the requirement is removed but that they would like more flexibility around those end of year certificates. By removing the requirement, interest payers that choose to continue to provide end of year certificates will be able to adapt the way that they do this (for example they could send them all out electronically therefore saving on postage and printing costs).

72. I recommend removing the requirement to provide end of year interest certificates to recipients that have provided their IRD numbers from the time that interest payers are required to provide detailed recipient information monthly. This will allow recipients some time to become comfortable with the information being pre-populated and gives Inland Revenue time to ensure that the pre-population process is operating as expected.

Allowing error correction within the same income year and also in the following year subject to thresholds

73. Some submitters noted that, if detailed recipient information is sent to Inland Revenue more quickly, there will be more errors in the information allocated to the recipients' tax records. As such there needs to be a simple means for the correction of errors. The investment income payers consulted with have expressed a definite preference for correcting errors in the period following the discovery of the error. This is currently allowed for errors found within the same income year but is not allowed if the errors related to a previous income year.

74. I propose that errors found within the same income year are allowed to be corrected in the next return. For an error to be corrected in a period in a subsequent income year to the year in which the error occurred, the amount of the error should be lower than the greater of \$2,000 and 5% of the investment income payer's total withholding tax liability (for the tax type and the tax year in which the error was made). In addition, the investment income payer would be required to provide information in respect of the error and the recipients affected.

75. The proposed thresholds are intended to ensure that minor errors do not require previous periods returns to be re-filed and also to allow for error correction by major investment income payers who can have very minor calculation errors across thousands of customers that add up to more significant sums very quickly.

Consultation

76. In June 2014, Inland Revenue, the Treasury and Victoria University of Wellington hosted a conference entitled *Tax Administration for the 21st Century*. The conference explored options for making tax easier. Following this conference, the Government issued *Making Tax Simpler: A Government Green Paper on Tax Administration*, which set out the broad direction of proposed improvements to administration of the tax system, and *Better Digital Services: A Government Discussion Document*, which outlined how digital technology could be used to improve service, reduce compliance costs and improve compliance. To encourage feedback from a wide audience, the release of these documents was accompanied by the launch of online public consultation on a dedicated *Making Tax Simpler* website.

77. On 7 July 2016, the Government released *Making Tax Simpler – Investment Income Information: a Government discussion document* (the discussion document), which outlined how changes to the rules and processes around investment income information could be used to make it easier for recipients to get their tax right and for Inland Revenue to proactively intervene to help people avoid having large tax or social policy debts or refunds at the end of the year. Once again, to encourage feedback from a wide audience, the discussion document was accompanied by the launch of online public consultation on the *Making Tax Simpler* website. A summary of the feedback provided is at Appendix A and agreement is sought to the public release of an anonymised version of this material at the time the bill is introduced or the proposals are announced.

78. Officials also consulted directly with large investment income payers, registry services providers, industry organisations, accountants specialising in the large and the small business sectors, Te Tumu Paeroa and a Māori authority service provider. Feedback from consultation has informed the development of the measures included in this paper.

79. Limited feedback has been received from Māori authorities and their advisors to date. Officials have directly consulted with Te Puni Kokiri, Te Tumu Paeroa (formerly the Māori Trustee) and a Māori authority service provider. Officials who liaise with Māori authorities have

also emailed targeted information to them. I have instructed officials to continue to seek feedback from Māori authorities.

80. The Treasury, Te Puni Kokiri, the Office of the Privacy Commissioner, the Ministry of Business, Innovation and Employment, the Ministry of Justice, the Department of the Prime Minister and Cabinet and the State Services Commission have been consulted during the development of these proposals.

Financial implications

81. All additional revenue and reduced expenditure that accrues under these proposals forms part of the Inland Revenue Business Transformation programme business case benefit and have already been accounted for by Government.

82. Inland Revenue has advised me that it is estimating that pre-population of interest income will result in between \$21-27 million additional income tax being paid per annum beginning 2018-19. It is difficult to accurately estimate other benefits arising from the proposed changes due to the limitations in the information that is currently collected.

Administrative implications

Inland Revenue

83. The changes proposed in this report would be implemented in Inland Revenue's new computer system, START, during stage 2 of the Business Transformation programme. It is anticipated that there will be additional administrative costs associated with implementing the recommended changes for investment income information but these are expected to be largely transitional. The administrative costs of the proposed changes will be accommodated within the programme funding.

Other government agencies

84. In addition to public consultation, Inland Revenue has consulted with a number of government agencies and note that most will not have any additional costs as a result of these changes. The Debt Management Office does issue interest bearing debt and pays interest income to recipients, however, the management of the interest payments is outsourced to a registry service provider who will be making the systems changes as part of their wider registry business. ■■■

Withheld under section 9(2)(i) of the Official Information Act 1982

Treasury comment

85. The Treasury supports the proposed changes as they will enable improved delivery of government services through more timely and useful income information.

Compliance implications

86. The proposals in this paper will enable recipients of investment income to meet their tax and social policy information requirements more easily and will reduce the risk that they will miss income out of their calculations. While the information and digital filing requirements may well reduce compliance costs for investment income payers making payments to a small number of recipients, it is expected that investment income payers making payments to large numbers of recipients will need to upgrade their systems and processes and there will be upfront costs. The proposed implementation dates with monthly reporting not being required until April 2020 are intended to give investment income payers enough time to make these changes as efficiently as possible.

87. There may also be some additional on-going costs for payers depending on their ability to automatically reconcile the payment they will be making with the information they will be providing. However, it is expected that there will be an overall reduction in both compliance and administration costs as the benefits are realised.

88. Inland Revenue will publicise the changes and will work with investment income payers to reduce the number of non-declared recipients and to identify recipients currently relying on exemptions under other Acts to reduce the number of recipients that will be negatively impacted by the proposed changes.

89. The proposed changes to the provision of investment income information will enable government agencies to intervene more quickly to ensure individuals are subject to accurate rates of withholding and are supported to avoid debt. More timely income information will also help detect fraud and overpayment earlier.

Human rights

90. There are no human rights implications. While the provision of date of birth information to Inland Revenue (where it is held by the investment income payer) as part of the detailed recipient information may cause concern to some people, a number of investment income payers routinely collect this information already in order to meet anti money laundering requirements. The proposal that date of birth information be provided to Inland Revenue to help confirm identity was accepted or supported by a majority of those who provided feedback on the subject provided that it was limited to the information already held by the investment income payer.

Legislative implications

91. The proposals contained in this package of measures would require legislative amendments to the Income Tax Act 2007 and the Tax Administration Act 1994. I also recommend that drafters be instructed to modernise the way the rules relating to investment income information are expressed in legislation.

92. It is proposed to include the amendments in a tax bill that would be introduced in early 2017. The application dates proposed take this timeline into account and should provide sufficient time for investment income payers to plan and implement the changes required.

Regulatory impact analysis

93. The Regulatory Impact Analysis (RIA) requirements apply to the proposals in this paper and a Regulatory Impact Statement (RIS) has been prepared and is attached.

94. Treasury's Regulatory Quality Team has reviewed the RIS prepared by Inland Revenue and associated supporting material, and considers that the information and analysis summarised in the RIS *meets* the quality assurance criteria.

Publicity

95. I propose to announce these measures and release an anonymised version of the summary of submissions when the bill is introduced. I also propose to proactively release the Cabinet papers relating to this matter at that time.

Recommendations

96. I recommend that the Cabinet Economic Growth and Infrastructure Committee:

1. **Note** that the proposals in *Making Tax Simpler: Investment Income Information – A Government discussion document* were previously considered by the Committee at the Committee's meeting on 25 May 2016 (CAB-16-MIN-0236).
2. **Agree** to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue's Business Transformation programme, reduce compliance and administrative costs and create opportunities for better service delivery to individuals.

Detailed recipient information

3. **Agree** to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis or for the months in which payments are made if the payment frequency is less than monthly.
4. **Agree** to require payers of PIE income to provide investors' PIR details six months into the income year
5. **Agree** that payers of PIE income will be required to specify whether the investor is in a "locked in" fund in the year-end detailed information they provide to Inland Revenue.
6. **Agree** to require investment income payers to provide the recipient's date of birth to Inland Revenue as part of the monthly reporting if it is held.

7. **Agree** to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments if it is held.
8. **Agree** that detailed recipient information in respect of interest income subject to AIL will be required to be provided to Inland Revenue monthly for domestically issued debt (at the same time as the RWT and NRWT reporting).
9. **Agree** that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption will be required to be provided to Inland Revenue annually but will be allowed to be provided monthly if preferred by the interest payer.
10. **Agree** that the reporting due date for interest and PIE income (excluding “locked in” schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May.

Non-declaration

11. **Agree** to increase the non-declaration rate for interest subject to RWT to 45%.
12. **Agree** that investors opening new investments in PIEs will be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE.

Electronic filing

13. **Agree** that investment income payers will be required to file their withholding tax returns including the detailed recipient information electronically unless they receive an exemption from Inland Revenue.

Certificates of exemption

14. **Agree** the Inland Revenue will make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt.
15. **Agree** that recipients that are tax exempt under Acts other than the Income Tax Act 2007 will be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source discussed in recommendation 13 above and will enable investment income payers to rely on that source of information.

End of year interest certificates

16. **Agree** that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer will be removed.

Error correction

17. **Agree** that investment income payers will be allowed to correct errors in previous withholding tax returns in their next return subject to the following restrictions for errors being corrected in the following income year:
- 17.1 the amount of the error must be lower than the greater of \$2,000 and 5% of the investment income payers total withholding tax liability for the year; and
 - 17.2 the investment income payer must provide detailed recipient information in respect of the error including the amount of the error for each recipient and the tax period or periods that the error relates to.

Application date

18. **Agree** that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis.
19. **Agree** that the legislation includes the following implementation timetable:
- 19.1 1 April 2018 is the date at which PIEs will be required to obtain the IRD number of new investors or alternatively a self-certification that they are non-resident and do not have an IRD number.
 - 19.2 1 April 2019 is the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (recommendation 3 above).
 - 19.3 15 May immediately following the end of the tax year will be the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018.
 - 19.4 1 April 2020 is the date from which the following will be required:
 - 19.4.1 Investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20th of the month following the month in which the payment is made;
 - 19.4.2 Investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
 - 19.4.3 Joint ownership information to be provided by investment income payers.

- 19.4.4 AIL and exempt recipient information to be provided;
- 19.4.5 Non-declaration rate for interest income subject to RWT to be increased to 45%;
- 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
- 19.4.7 Recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income.

Fiscal implications

- 20. **Note** that all additional revenue and reduced expenditure that accrues under these proposals forms part of the Inland Revenue Business Transformation programme business case benefit and has already been accounted for by the Government.
- 21. **Note** that any additional administrative costs arising as a result of the proposed changes will be accommodated within the Business Transformation programme funding allocated to Inland Revenue.

Legislation

- 22. **Agree** that the proposed amendments be included in a tax bill scheduled for introduction in February 2017.
- 23. **Delegate** to the Minister of Revenue authority to make minor amendments of a technical nature to the measures recommended in this paper without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation.
- 24. **Invite** the Minister of Revenue to instruct Inland Revenue to draft legislation to give effect to the proposals contained in this paper.

Publicity

- 25. **Invite** the Minister of Revenue to release a media statement to announce these measures when the bill is introduced.
- 26. **Agree** to the public release of an anonymised summary of submissions at the time the bill is introduced.

Hon Michael Woodhouse
Minister of Revenue

____/____/____
Date

Released in part, information withheld under section 18(d) of the Official Information Act 1982 as it is already publically available.

- *Making tax simpler - Investment income information: summary of feedback* (March 2017) is available at <http://taxpolicy.ird.govt.nz/publications/2017-other-mts-investment-income-feedback/overview>
- The regulatory impact statement *Changes to the tax administration of investment income information* (8 November 2016) is available at <http://taxpolicy.ird.govt.nz/publications/2017-ris-areiirm-bill/overview>



Cabinet Economic Growth and Infrastructure Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Making Tax Simpler: Investment Income Information

Portfolio Revenue

On 16 November 2016, the Cabinet Economic Growth and Infrastructure Committee (EGI):

Background

- 1 **noted** that on 25 May 2016, EGI agreed to the release of a government discussion document on *Making Tax Simpler: Investment Income Information*, and invited the Minister of Revenue to report back on the outcome of the consultation and with final policy recommendations [EGI-16-MIN-0105];
- 2 **agreed** to the introduction of a number of reforms to the rules in the Income Tax Act 2007 and the Tax Administration Act 1994 regarding investment income information that will, in conjunction with Inland Revenue's Business Transformation programme:
 - 2.1 reduce compliance and administrative costs;
 - 2.2 create opportunities for better service delivery to individuals;

Detailed recipient information

- 3 **agreed** to require investment income payers (payers of interest, dividends and taxable Māori authority distributions) to provide detailed recipient information to Inland Revenue on a monthly basis, or for the months in which payments are made if the payment frequency is less than monthly;
- 4 **agreed** to require payers of portfolio investment entity (PIE) income to provide investors' prescribed investor rate (PIR) details six months into the income year;
- 5 **agreed** that payers of PIE income be required to specify whether the investor is in a "locked in" fund in the year-end detailed information they provide to Inland Revenue;
- 6 **agreed** to require investment income payers to provide the recipient's date of birth to Inland Revenue as part of the monthly reporting, if it is held;
- 7 **agreed** to require investment income payers to provide detailed recipient information regarding each of the owners of jointly owned investments, if it is held;

- 8 **agreed** that detailed recipient information in respect of interest income subject to approved issuer levy (AIL) be required to be provided to Inland Revenue monthly for domestically issued debt, at the same time as the Resident Withholding Tax (RWT) and Non-Resident Withholding Tax (NRWT) reporting;
- 9 **agreed** that detailed recipient information about interest income that is exempt from RWT because the investor has a certificate of exemption be required to be provided to Inland Revenue annually, but will be allowed to be provided monthly if preferred by the interest payer;
- 10 **agreed** that the reporting due date for interest and PIE income (excluding “locked in” schemes) year-end information be brought forward to 15 May (for the tax year ended 31 March) from the current due date of 31 May;

Non-declaration

- 11 **agreed** to increase the non-declaration rate for interest subject to RWT to 45 percent;
- 12 **agreed** that investors opening new investments in PIEs be required to provide their IRD number (or a declaration that they are non-resident and do not have an IRD number) within six weeks of making the initial investment if they are to remain a member of the PIE;

Electronic filing

- 13 **agreed** that investment income payers be required to file their withholding tax returns, including the detailed recipient information, electronically unless they receive an exemption from Inland Revenue;

Certificates of exemption

- 14 **agreed** the Inland Revenue make a source of information available to investment income payers to enable them to confirm whether or not recipients are exempt;
- 15 **agreed** that recipients that are tax exempt under Acts other than the Income Tax Act 2007 be required to have a certificate of exemption from withholding tax to be treated as exempt by investment income payers. This will ensure that they are included in the information source referred to in paragraph 14 above, and will enable investment income payers to rely on that source of information;

End of year interest certificates

- 16 **agreed** that the requirement to provide end of year withholding tax certificates to recipients of interest income who have provided their IRD number to the interest payer be removed;

Error correction

- 17 **agreed** that investment income payers be allowed to correct errors in previous withholding tax returns in their next return, subject to the following restrictions for errors being corrected in the following income year:
- 17.1 the amount of the error must be lower than the greater of \$2,000 and 5 percent of the investment income payer’s total withholding tax liability for the year; and
- 17.2 the investment income payer must provide detailed recipient information in respect of the error, including the amount of the error for each recipient and the tax period or periods to which the error relates;

Application date

- 18 **agreed** that the implementation of the changes for investment income information follow a legislated approach, where the submission of investment income information on a monthly basis is initially voluntary but the legislation specifies the timeframe by the end of which employers will be required to provide investment income information on the new basis;
- 19 **agreed** that the legislation includes the following implementation timetable:
- 19.1 1 April 2018: the date at which PIEs will be required to obtain the IRD number of new investors, or alternatively a self-certification that they are non-resident and do not have an IRD number;
- 19.2 1 April 2019: the date from which it becomes permissible for investment income payers to submit investment income information on a monthly basis (paragraph 3 above);
- 19.3 15 May immediately following the end of the tax year : the due date for filing the current detailed interest and PIE income information (excluding “locked in” schemes) for tax years beginning on or after 1 April 2018;
- 19.4 1 April 2020: the date from which the following will be required:
- 19.4.1 investment income payers (other than PIEs) to provide detailed recipient information on a monthly basis, or for the month in which the payments are made where the payments are made less often than monthly. These returns will be due on the 20th of the month following the month in which the payment is made;
- 19.4.2 investment income payers to include date of birth information (if held) in the detailed recipient information they provide;
- 19.4.3 joint ownership information to be provided by investment income payers;
- 19.4.4 AIL and exempt recipient information to be provided;
- 19.4.5 non-declaration rate for interest income subject to RWT to be increased to 45 percent;
- 19.4.6 Inland Revenue to provide a database of valid certificates of exemption;
- 19.4.7 recipients of investment income to have a certificate of exemption to be exempt from withholding taxes on investment income;

Fiscal implications

- 20 **noted** that all additional revenue and reduced expenditure that accrues under the above proposals forms part of the Inland Revenue Business Transformation Programme’s business case benefit, and has already been accounted for by the government;
- 21 **noted** that any additional administrative costs arising as a result of the above proposals will be accommodated within the Business Transformation Programme funding allocated to Inland Revenue;

Legislative implications

- 22 **agreed** that the proposed amendments be included in the tax Bill scheduled for introduction in February 2017;
- 23 **authorised** the Minister of Revenue to make minor amendments of a technical nature to the measures proposed in the paper under EGI-16-SUB-0307 without further reference to Cabinet, including changes to modernise the way the investment income rules are expressed in legislation;
- 24 **invited** the Minister of Revenue to issue drafting instructions to Inland Revenue to draft legislation to give effect to the above proposals;

Publicity

- 25 **noted** that the Minister of Revenue intends to release a media statement to announce these measures when the Bill is introduced;
- 26 **agreed** to the public release of an anonymised summary of submissions at the time the Bill is introduced.

Janine Harvey
Committee Secretary

Present:

Hon Bill English (Chair)
Hon Steven Joyce
Hon Dr Nick Smith
Hon Nathan Guy
Hon Michael Woodhouse
Hon Peseta Sam Lotu-Iiga
Hon Maggie Barry
Hon Jo Goodhew
Hon Nicky Wagner
Hon Louise Upston
Hon Paul Goldsmith

Officials present from:

Officials Committee for EGI

Hard-copy distribution:

Cabinet Economic Growth and Infrastructure Committee
Melleny Black, PAG, DPMC



Cabinet

Minute of Decision

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Report of the Cabinet Economic Growth and Infrastructure Committee: Period Ended 18 November 2016

On 21 November 2016, Cabinet made the following decisions on the work of the Cabinet Economic Growth and Infrastructure Committee for the period ended 18 November 2016:

Out of scope	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

[Redacted]

Out of scope

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

EGI-16-MIN-0307

Making Tax Simpler: Investment Income Information

CONFIRMED

Portfolio: Revenue

Out of scope

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Michael Webster
Secretary of the Cabinet

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