Impact Summary: Changes to the PIE regime

Section 1: General information

Purpose
Inland Revenue is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by or on behalf of Cabinet.

Key Limitations or Constraints on Analysis

Timing

The system development and testing required to make changes to the Inland Revenue tax administration system START mean that decisions need to be made in advance of the time these changes take effect from. In order for the proposed changes to be able to take effect for the 2019-20 tax year, it is necessary to include any changes in a tax bill at the earliest opportunity.

The Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill (the KiwiSaver Bill) is currently before the Finance and Expenditure Committee (FEC) and submitters have raised the issue of non-refundability of overpaid PIE tax under the current rules.

To ensure that policy decisions are taken, and legislation passed in this timeframe, this has created a constraint on the time available to analyse options. Despite this, officials are confident that the proposed approach would be the most effective option to address the problem definition.

Consultation and testing

Inland Revenue has undertaken targeted consultation with PIEs (mainly KiwiSaver scheme providers) in relation to a related proposal already in the KiwiSaver Bill. However, as a result of time constraints, wider public consultation has not been carried out.

Assumptions underpinning impact analysis

Assumptions have been made in estimating the number of people who are likely to change their prescribed investor rates (PIRs) as a result of Inland Revenue's administrative actions. These assumptions have been based on the amount of PIE tax an investor has over- or underpaid and general behavioural assumptions.

Responsible Manager (signature and date):
Mike Nutsford Policy Lead Policy and Strategy Inland Revenue 18 September 2019

2r4hxlcklw 2020-01-12 19:02:06

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

The PIE tax rules apply to collective investment vehicles where investors combine resources to make different types of passive investments, for example a managed fund. There are several types of PIEs, each with different tax requirements. In practice most PIEs are multi-rate PIEs. A multi-rate PIE attributes income, losses and tax credits to investors. The tax rate applied to these types of PIEs varies from investor to investor. There are locked-in PIEs where the funds are locked into the scheme (for example all KiwiSaver PIEs and some other locked-in retirement schemes and superannuation funds) and other PIEs that are not locked in.

Under current law, a person investing in a multi-rate PIE elects a tax rate, referred to as their PIR, which approximates their marginal tax rate based on (the lower of) one of the previous two tax years. A person's marginal tax rate is the tax rate that applies to the last dollar they earn. If a person earns more than $70,000 their marginal tax rate would be 33%. However, while marginal income tax rates can be up to 33%, PIE rates are capped at 28%. The investor notifies their elected PIR to their PIE providers. The PIE provider pays tax on the investment income of each investor based on the PIR the investor has notified. If an investor does not provide their PIE with their elected PIR, they default to the highest PIR of 28%.

There are three PIRs: 10.5%, 17.5% and 28%. To determine the correct PIR, an investor in a PIE needs to look at what their taxable income and their PIE income were for the last two income years before the tax year in which the PIR is to be applied. If they have considered the two previous income years and would qualify for two different rates, the PIR is the lower rate. The following table outlines how to work out the PIR to be applied to PIE income:

Taxable income (in either of the last two income years) was…	**and the total income** Taxable income plus PIE income (in either of the last two income years) was…	before the relevant tax year for …	the **PIR** is …
$0 – $14,000	$0 - $14,000	Either year	10.5%
$0 – $14,000	$14,001 - $48,000	Either year	10.5%
	$48,001 - $70,000	Either year	17.5%
$14,001 – $48,000	Up to $48,000	Either year	17.5%
$48,001 or more	Over $48,000, but under $70,000	Both years	28%
Any amount	$70,001 or more	Both years	28%

When the correct PIR has been used or where a too high rate has been used, the income from PIE investment is excluded income[1], which means it is a final tax and the PIE income does not flow through to the investors' individual income tax return and assessment.

[1] Certain types of income are expressly treated as "excluded income" by specific provisions of the Income Tax Act 2007. Excluded income is omitted from a person's calculation of income tax for an income year.

Therefore, where an investor has elected a rate that is too high, or they have defaulted to the highest PIR but could have elected a lower PIR, the overpaid tax on their PIE income can't be refunded. To use a PIR below 28% and therefore potentially be affected by the non-refundability, people must have had taxable income of less than $48,000 in at least one of the two previous income years.

However, where tax on PIE income has been underpaid because the investor has notified a rate that is too low, the PIE income ceases to be excluded income and is required to be included in the investor's income. It is taxed at the investor's marginal tax rate. A tax credit is given for the PIE tax that has already been paid. This is intended to incentivise the investor to notify the correct PIR as they can be subject to a marginal tax rate of up to 33%, while the top PIR is capped at 28%.

The difference between the treatment of over- and underpaid PIE tax raises equity concerns, in particular in relation to the non-refundability of overpaid tax on PIE income.

Data analysis enabled by Inland Revenue's new technology platform START estimates that approximately 1.5 million people have used incorrect PIRs for the year ended 31 March 2019. Inland Revenue is working on a range of administrative initiatives to help ensure people are on the correct PIRs. This involves proactively contacting investors who are on an incorrect rate and suggesting they contact their PIE provider to change their rate.

Under current legislation Inland Revenue has the power to notify a PIE provider of the PIR that should be used where someone has notified the wrong rate. However, because of the way the legislation is worded, this is limited to people who have notified their PIE provider of their rate as opposed to people who have not provided a rate and therefore have defaulted to a 28% rate. Inland Revenue is unable to determine from the information held in its systems, whether a person on a 28% rate has notified that rate or defaulted to it and therefore cannot notify PIE providers of the PIR for anyone on the 28% rate.

Change currently proposed in the KiwiSaver Bill

A legislative change proposed in the KiwiSaver Bill, which is currently being considered by the Finance and Expenditure Committee, would allow Inland Revenue, when it holds sufficient information about an investor's income for the previous two income years, to directly notify the PIE provider of the PIR that should be used in all cases where an incorrect PIR is being used. This proposed change would apply from 1 April 2020.
This change will not remove the issue that overpaid PIE tax is not refundable. Inland Revenue advising the PIE provider directly to change to a correct rate where Inland Revenue systems identify that an incorrect PIR is used is expected to significantly reduce the numbers of people on a wrong rate (too high or too low). However, there will still be some situations where an incorrect PIR is used resulting in over- or underpayment of tax.

For example, where people who have to provide income information to Inland Revenue have an extension of time to provide that information, they may not be required to provide that additional information until 31 March of the following year. This information could be received too late to allow Inland Revenue to take it into account when providing PIRs to PIE providers. This could mean that their PIR was only based on the earlier of the two relevant previous. If they earned less income in the more recent year, they might be entitled to use a lower PIR than the one Inland Revenue might be able to provide. Without legislative change Inland Revenue would not be able to provide a refund in those cases.

Also, for new members of PIEs , there would have to be one incidence of using a wrong PIR for the new investor, before Inland Revenue could determine that the rate used is incorrect and can notify the PIE of the correct PIR.

When an investor exits a PIE, this triggers a calculation and payment of their PIE tax at that time. There is a risk that some investors could exit from their PIE investment before the correct rate had been able to be provided by Inland Revenue and could over- or underpay PIE tax.

There is also a small risk that Inland Revenue could provide an incorrect PIR if it held incorrect information. This should only happen when a person has not provided required information.

2.2 Who is affected and how?

Inland Revenue
Inland Revenue cannot currently refund overpaid PIE tax and has limited ability to provide correct PIRs to PIE providers.

PIEs
PIEs are not currently provided with correct PIRs by Inland Revenue. They are often not notified of their investors' PIRs and therefore have to use the 28% default rate.

PIE investors
PIE investors are currently required to notify their PIE provider of their correct PIR. This requirement is not effective for a large number of PIE investors. Rather than changing PIE investor behaviour, it is more effective to widen Inland Revenue's ability to directly provide PIRS to PIE providers and for PIE providers to use the provided rate.

2.3 Are there any constraints on the scope for decision making?

No constraints were identified.

Section 3: Options identification

3.1 What options have been considered?

The following criteria were used to assess the options considered:

- *Equity*: the option should ensure that all PIE investors pay the correct amount of tax on their PIE income.
- *Sustainability*: the option should ensure that the PIE regime is certain and predictable for both PIE providers and investors. The PIE regime should be seen as being fair for investors.
- *Compliance*: compliance cost should be minimised for investors and PIE providers as far as possible.
- *Administration*: implementation and administration costs for Government departments should be minimised as far as possible.

Option 1: Status quo

Should the proposed legislative change already in the KiwiSaver Bill be enacted, this would enable Inland Revenue to advise PIE providers directly to change to a correct rate where Inland Revenue systems identify that an incorrect PIR is used. This is expected to significantly reduce the number of people on a wrong rate (too high or too low).

Some PIE investors would still have incorrect PIE tax deducted before Inland Revenue could determine the PIR used is incorrect and advise the PIE provider of the correct PIR to be used for their investors.

The status quo would not remove the issue that some PIE investors would have been on the wrong PIR and may have overpaid PIE tax. Any amount of overpaid PIE tax would continue to not be refundable.

The inconsistent treatment of under- and overpaid PIE tax under the current law is not equitable and the difference potentially threatens the sustainability of the PIE tax regime can be thought of as being unfair.

The status quo does involve some increase in compliance and administrative costs compared to previous years due to Inland Revenue providing PIRs directly to PIE providers where people are on incorrect PIRs (and notifying people that their PIR has been changed) and the need for PIE providers to process increased numbers of PIR change requests.

Option 2: Mirror the existing treatment of underpayment of PIE tax for overpaid PIE tax

This option would mirror the existing legislative rules for PIE investors who have notified their PIE provider with a rate for their PIE income which is lower than their correct PIR. This would mean that if an incorrect rate had been used, either lower or higher, the PIE income would cease to be excluded income. The income would then be required to be included in the individual investors' income tax return. It would be taxed at the investor's marginal tax rate for the tax year. A tax credit would be given for the PIE tax that has already been paid.

This option would in some cases result in an inequitable outcome. This is because while the PIR approximates the investor's marginal tax rate, it is based on (the lower of) one of the previous two tax years. In some cases an investor who has their PIE income taxed at their current year's marginal tax rate because they have overpaid the tax on their PIE income using a too high PIR, may still have a tax bill when their marginal tax rate is higher than both their correct PIR and the rate used.

As well as being inequitable, the cases where a person would have to pay more tax at their marginal tax rate when they had been on too high a PIR could also reduce the sustainability of the PIE regime. Potential media coverage of such situations could reduce public and political trust in the PIE regime.

This option would be more complex to implement in Inland Revenue's systems than option 3 due to the need to identify where a person has been on an incorrect rate before making the adjustment to their taxable income. It would therefore have a level of additional administrative cost (this cost hasn't been estimated).

As with all options, there would also be some increase in compliance and administrative costs compared to previous years. This is due to Inland Revenue providing PIRs directly to PIE providers where people are on incorrect PIRs (and notifying people that their PIR has been changed) and the need for PIE providers to process increased numbers of PIR change requests.

Option 3: Ability to proactively provide PIRs to PIES effective from 1 April 2020 and a year-end square-up

a. with application of the year-end square-up from the 2019-20 tax year

b. with application of the year-end square-up from the 2020-21 tax year

This option would enable Inland Revenue to pro-actively provide PIRs for all investors to the PIE providers where Inland Revenue holds sufficient information to determine the PIR applicable for the tax year. Inland Revenue would also advise the investors that their PIR had been changed. This would mean that investors would largely be placed on the correct PIR which PIE providers would use to calculate tax during the tax year.

There would still be a risk that some investors could exit from their PIE investment before the correct rate had been able to be provided. These investors could under- or overpay PIE tax. There is also a risk that Inland Revenue could possibly provide an incorrect PIR if it held incorrect information.

An additional year-end square-up applying the correct PIRs would address any over- or underpayment of PIE tax during the tax year.

All PIE income would have the correct PIR applied to it in the year-end square-up, regardless of whether it has been correctly, over- or under-withheld during the tax year. It would not be relevant whether a correct, too low or too high PIR has been notified. This would be a change compared to the current treatment for investors who have notified a PIR that is too low, as their PIE income would no longer be subject to their marginal tax rates, but to their correct PIR.

The year-end square-up would involve Inland Revenue taking a person's PIE income and applying their correct PIR to it to determine the PIE tax payable. The PIE tax that had been deducted would be a tax credit against the PIE tax payable. Any refund due or tax payable would be added to the person's end of year tax position and would either be refunded, payable or reduce the person's tax payable.

For most individual investors the square-up would happen automatically and they would not be required to do anything. It would be an automated process similar to and alongside the year end auto-calculation process for income tax. Investors would have additional PIE information added to their income profile information.

For investors who are required to file an income tax return, the PIE income information Inland Revenue holds would be pre-populated into their income tax profile to be available when they file their income tax return. For them the PIE income calculation would happen alongside the income tax process once they have filed their tax return for the tax year.

While the timing of the PIE square-up would be aligned with that of the general income tax year-end process for each individual, the PIE square-up would be a separate process, using current PIRs and thresholds. That is, a PIE square-up would be undertaken and the difference, if any, would be included in the income tax year-end process. The difference would either increase a person's refund, reduce tax payable, reduce the refund or increase the amount payable. Refunds would be made directly to the individual investors and not to the PIEs. Similarly, PIE tax payable would be paid by the investor and not out of their PIE funds.

The PIE square-up would not affect a person's provisional tax liability. This is because any PIE tax payable or refundable would be added after the calculation of the person's residual income tax (which is the basis for a person's provisional tax liability).

The first measure would get most people onto the correct PIR before any PIE tax is deducted during the tax year. In situations where this did not occur the second measure, the year-end square-up, would ensure that the person still only paid the correct amount of PIE tax. The combination of the two measures, therefore, gives the most equitable outcome.

This option would preserve the current PIRs based on one of the previous two tax years, including the maximum tax rate for PIEs being 28% and the current thresholds for investors in these PIEs. It would also ensure that all people are taxed at their correct PIR so would give consistent and understandable outcomes. These factors support the sustainability of the PIE regime.

This option would involve some initial compliance costs as the PIE providers would have to adjust their systems to be able to receive and apply PIRs from Inland Revenue in more situations than just for corrected PIRs where the rate the investor had notified is incorrect. This is not expected to be materially greater than the additional compliance costs that would be caused under the status quo and option 2 by Inland Revenue providing PIRs directly to PIE providers where people are on incorrect PIRs and notifying people that their PIR has been changed and the need for PIE providers to process increased numbers of PIR change requests.

There would be some one-off administrative costs in developing the year end square-up which Inland Revenue will absorb within existing Business Transformation baselines.

Option 3 a

This sub-option would ensure that these benefits would apply to the current tax year (2019-20). Inland Revenue's current efforts to notify people that they are on incorrect PIRs would reduce the number of PIE investors on an incorrect PIR but would still leave a large number of people on incorrect rates during the 2019-20 tax year. Officials have estimated that approximately 830,000 people would still be on a rate that is too high.

The proposed year-end square-up would have a one-off fiscal cost if applied from the 2019-20 tax year. This is because it would correct the PIE tax position for the 830,000 people estimated to be on a rate that is too high. This sub-option would have immaterial fiscal costs for the following years as the changes already in the KiwiSaver Bill that would allow Inland Revenue to inform PIE providers of the correct PIRs for their investors would mean that almost all PIE investors will be on the correct PIR in the 2020-21 tax year.

Option 3 b

This sub-option would mean that approximately 830,000 people (who have earnt less than $48,000 of taxable income in one of the two previous income years) would pay too much PIE tax in the 2019-20 tax year without the ability to get the overpaid tax refunded. As such it is less equitable than sub-option 3 a.

If the PIR changes are enacted with application from 1 April 2020, Inland Revenue would be able to significantly reduce the number of PIE investors on an incorrect rate for their PIE income during the 2020-21 tax year. This would mean that the application of the year-end square-up to that tax year would not have an effect on many people and therefore would have immaterial fiscal costs.

3.2 Which of these options is the proposed approach?

The preferred approach is option 3 a which:

- Provides Inland Revenue with the ability to proactively provide PIEs with their investor's PIRs during the tax year where Inland Revenue holds sufficient information to determine the PIR applicable for the tax year.

- Square up all PIE income at the end of the tax year using the PIE investors' correct PIR based on the information Inland Revenue holds about the previous two income years with application from the 2019-20 tax year.

Of the considered options, option 3 a would be most effective in assuring that people are on the correct PIR and refunds of overpaid PIE tax for people on PIRs that were too high are allowed.

It is also the most coherent and equitable option as it will ensure that most investors have the correct amount of tax deducted from their PIE income from the start. All investors will pay the correct amount of tax on their PIE income through a year-end square-up process, including those who have over- or under-paid tax during the year.

Option 3 b would mean that approximately 830,000 people (who have earnt less than $48,000 of taxable income in one of the two previous income years) would pay too much PIE tax in the 2019-20 tax year without the ability to get the overpaid tax refunded.

Option 3 a would address unfairness concerns for the current tax year, however it does have a one-off fiscal cost.

It is the option that is the least complex and is therefore easiest to understand for investors, as all PIE income, whether correctly, over-, or undertaxed, has the same year-end process.

It is the option that is easiest to implement in Inland Revenue systems.

Officials recommend option 3 a as it gives an equitable outcome for PIE investors and has manageable compliance and administrative costs given the benefits being delivered.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties *(identify)*	**Comment**: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	**Impact** *$m present value, for monetised impacts; high, medium or low for non-monetised impacts*
Additional costs of proposed approach, compared to taking no action		
Regulated parties (*PIE providers, PIE investors*)	*PIE providers* PIE providers may have to adjust their systems to be able to receive and apply their investors' PIRs provided by Inland Revenue as opposed to current law where they would only be required to receive PIRs from Inland Revenue for those investors that have notified them with an incorrect rate or have defaulted onto the default PIR and could have elect a lower rate. *PIE investors* PIE investors will see some additional information regarding their PIE income and tax in their end of year tax calculation. This will be prepopulated by Inland Revenue so will not require PIE investors to provide additional information.	Low (one-off and ongoing) Low
Regulators (*Inland Revenue*)	This proposal does not require additional funding in relation to administrative costs. System changes to implement the proposals would be absorbed as part of Business Transformation baselines. Fiscal cost of amount of overpaid PIE tax that would be refunded in the 2019-20 tax year.	Administrative costs estimated at $1.5 million Approximately $23.2 million (one-off in relation to the 2019-20 tax year, immaterial fiscal ongoing cost from the following year going forward) This cost contains of • $22.6 million of overpaid PIE tax corrected by way of the square-up mechanism; and

IN CONFIDENCE

2r4hxlcklw 2020-01-12 19:02:06

		• $0.6 million of underpaid PIE tax corrected by way of the square-up mechanism using their correct PIR and not to their marginal tax rate as is currently the case. (option 3b - if the year-end square-up applied from the 2020-21 tax year there would be no material fiscal cost as PIE investors would, if the law change in the KiwiSaver Bill is enacted, largely be on the correct PIR during the tax year from 1 April 2020.)
Wider government	None identified.	Nil
Other parties	None identified.	Nil
Total Monetised Cost		Administrative costs estimated at $1.5 million Fiscal cost approximately $23.2 million (one-off, immaterial fiscal ongoing cost)
Non-monetised costs	Compliance costs on PIE providers	Low

Expected benefits of proposed approach, compared to taking no action		
Regulated parties (*PIE investors*)	*PIE investors* PIE income for most investors will be deducted during the tax year using the correct PIR and will no-longer be subject to over-taxation without refundability. PIE investors who are choosing a too low rate will only be moved up to their correct PIR (instead of marginal tax rate)	Approximately $23.2 million (one-off in relation to the 2019-20 tax year, immaterial fiscal ongoing cost from the following year going forward) This cost contains of • $22.6 million of overpaid PIE tax corrected by way of the square-up mechanism; and • $0.6 million of underpaid PIE tax corrected by way of the square-up mechanism using their correct PIR and not to their marginal tax rate

		as is currently the case. (option 3b - if the year-end square-up applied from the 2020-21 tax year there would be no material fiscal cost as PIE investors would, if the law change in the KiwiSaver Bill is enacted, largely be on the correct PIR during the tax year from 1 April 2020.)
Regulators (Inland Revenue)	None identified.	Nil
Wider government	None identified.	Nil
Other parties	None identified.	Nil
Total Monetised Benefit		Approximately $23.2 million (made up of amounts that will be refunded in relation to the 2019-20 tax year and amounts that will not be charged at higher marginal tax rates).
Non-monetised benefits	Increase in those PIE investors' retirement savings who will be put on a correct PIR and will no longer have overpaid their PIE tax.	Low

4.2 What other impacts is this approach likely to have?

Where an investor in a locked in PIE such as KiwiSaver went back to their PIE provider and asked to be put back on a PIR that was too high, the year-end square up would enable them to get a refund of money that should have remained in their locked-in PIE investment. While this is a cash in hand benefit for the investor it is also a future disadvantage for them as it will reduce their retirement savings and it undermines the reason for their PIE fund being locked-in.

Investors may go back and may notify a lower rate than their correct PIR to their PIE provider to receive a time value of money advantage during the year until the end-of-year square-up. Previously investors were incentivised not to notify a rate that is too low, as in those cases the PIE income becomes part of the investor's income tax assessment and is then taxed at the investor's marginal tax rate. A person's marginal tax rate is the tax rate that applies to the last dollar they earn. If a person earns more than $70,000 their marginal tax rate would be 33% (whereas the top PIR is 28%).

Notifying a lower PIR than the correct PIR would mean that more money would be paid into the person's PIE investment but also that they would subsequently have to pay more tax at the end of the year. If the PIE was a locked in PIE, such as KiwiSaver, they would effectively be making a further contribution to their retirement savings as they would have to fund the PIE tax that they would have to pay at the end of the year from their other income.

Officials propose to monitor whether people are manipulating the rules to their advantage to determine whether any specific action is required to prevent this.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

Inland Revenue has undertaken targeted consultation with KiwiSaver PIE providers around the initial proposal to widen the ability to provide PIRs for all PIE investors where Inland Revenue holds sufficient information.

PIE providers are generally supportive of the proposal to enable Inland Revenue to provide PIEs with their investor's correct PIR. As previously stated, this is widening the Commissioner's existing ability to provide the PIE with their investor's correct PIR where the investor has notified the PIE with an incorrect rate.

However, submissions by PIE providers and their representatives to the Finance and Expenditure Committee in response to the proposal on correcting PIRs already contained in the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill highlight the need for sufficient lead in time to allow PIEs to change their systems to incorporate rate changes notified by Inland Revenue.

General consultation with PIE investors has not been undertaken. However, the proposals are beneficial to PIE investors as most investors will have tax on their PIE income deducted using their correct PIR and all investors will have their PIE tax squared for a tax year using their PIR.

Media attention in mid-2019 and a Parliamentary petition also raised fairness concerns around the non-refundability of overpaid tax on PIE income. The Parliamentary petition also requests, amongst other points, to place an annual obligation on Inland Revenue to notify all KiwiSaver PIE providers what their members' PIRs should be. The main concern the petition is trying to address is that many New Zealanders (particularly those auto-enrolled into KiwiSaver) are over-taxed and unaware. At the time this Regulatory Impact Assessment was written, the petition was still open for signatures and had 348 signatures.

One submission to the Finance and Expenditure Committee on the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill suggests that a mechanism should be introduced to provide a form of refund for an over-taxed PIE investor.

The Treasury have been consulted on the proposals and support them.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?
The proposals would require amendments to the Income Tax Act 2007 and the Tax Administration Act 1994. One submission the Finance and Expenditure Committee received on the KiwiSaver Bill raises concerns that as introduced it does not contain a proposal that will enable a refund for people who have overpaid PIE tax. It was submitted that a mechanism should be introduced to provide a form of refund for an over-taxed investor. Amendments to the KiwiSaver Bill would be proposed in the officials' report to the Finance and Expenditure Committee for the Committee's consideration. However, this will not allow for public opportunity to comment. The changes would come into effect from 1 April 2020. This would align with the date the proposal on allowing the Commissioner to correct all PIRs contained in the KiwiSaver Bill as introduced which was timed to align with the transfer of the administration of KiwiSaver from Inland Revenue's FIRST operating system into its new START operating system. Inland Revenue would proactively advise PIE providers of the correct PIRs for their customers on incorrect PIRs. The PIE providers would need to be able to receive and apply the PIRs and this is likely to mean that PIE providers will need to make systems changes. Inland Revenue has begun discussions with PIE providers about how the correct PIR information could be provided and will work with PIE providers to ensure that the information is passed in a way that can be used by them. The square-up of PIE tax would apply from the 2019-20 tax year and would happen for the first time around June 2020 for individuals who do not have to file a tax return. For all others the PIE tax square-up will happen when they file a tax return and their income tax assessment is completed. The square-up would not require any change to the information that is currently being provided by PIE providers. The Minister of Revenue would make an announcement, on the proposal when the Finance and Expenditure Committee has reported back the KiwiSaver Bill. Inland Revenue would be responsible for the on-going administration of the new arrangements. Aligning implementation of the proposals with Inland Revenue's Business Transformation programme and annual income tax refresh, would mean the cost of system changes would be absorbed into existing Business Transformation baselines.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Inland Revenue would monitor the outcomes of the proposals pursuant to the Generic Tax Policy Process (GTTP) to confirm that they match the policy objectives.

Inland Revenue already collects data on PIE income and tax paid on that income. This data would be used to assess the effectiveness of the changes. The number of year-end square-ups that gave rise to an amount of PIE tax payable or refundable would show the effectiveness of the proposed changes to get PIE investors on the correct PIRs.

7.2 When and how will the new arrangements be reviewed?

The final step in the GTTP is the implementation and review stage, which involves post-implementation review of legislation, and the identification of remedial issues. Post-implementation review is expected to occur around 12 months after implementation.

In relation to KiwiSaver PIEs, all KiwiSaver scheme providers have an on-going relationship with Inland Revenue, which includes an annual meeting to discuss policy and operational issues that have arisen over the past year. This would provide an opportunity for scheme providers to give feedback about the effectiveness of the proposed approach to providing them with their investor's PIR.

2r4hxlcklw 2020-01-12 19:02:06