

# Making tax easier

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*A government discussion document*

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# CHAPTER 1

## Introduction

- 1.1 Many taxpayers find complying with tax obligations onerous. Often, taxpayers are concerned they haven't got the right answer to their tax questions – even after talking to Inland Revenue. This creates uncertainty which can affect investment and innovation decisions by businesses and, ultimately, New Zealand's prosperity.
- 1.2 Sometimes taxpayers can feel they work for Inland Revenue, when Inland Revenue should be working for them.
- 1.3 The Government's goal is for a tax system that supports innovation and growth, and without imposing unnecessary compliance costs on taxpayers. Such a tax system would provide certainty and quick responses to taxpayers, provide value for money for the Government, and build trust and integrity in the community. It is also one that is internationally competitive. This discussion document looks at how new technology might be used to realise this goal.
- 1.4 The proposals in this document focus on tax being integrated into business processes so Inland Revenue can concentrate on providing services to taxpayers, rather than on back-office functions such as processing paper tax returns. The resulting increase in certainty for taxpayers, and lower compliance and administration costs, are expected to create significant benefits for both taxpayers and the Government. The proposals also envisage a new or expanded role for specialist tax businesses to reduce costs for taxpayers and Inland Revenue, and new opportunities provided by technology.
- 1.5 This document also raises for consideration a possible major change to the taxation of individuals by making PAYE a final tax for some individuals and proposed changes to the rules around privacy of information.
- 1.6 For the proposals in this document to work, change will be required from almost everybody involved in the tax system. The main proposal is to build on the increased comfort people have in working online by shifting the majority of their contacts with Inland Revenue to electronic channels.
- 1.7 The document also focuses on proposed changes to the PAYE system, following similar reforms to the administration of the student loan scheme. The proposed PAYE changes are an example of plans to transform the tax system. In the future, similar changes could be made to simplify other parts of the tax system.

- 1.8 The Government sees real merit in progressing these types of reforms and seeks feedback on the general direction of the changes described. Readers may also wish to access the online forum ([www.ird.govt.nz/makingtaxeasier](http://www.ird.govt.nz/makingtaxeasier)) that has been launched in tandem with this document. The forum includes short videos which show the current position and a possible future for interactions with Inland Revenue.

### **Summary of proposals**

- 1.9 The key proposals in this consultation are:
- reducing the use of paper forms in administering the tax system and increasing online services and technology;
  - reforming the PAYE and personal tax summary process (including the possible option of making PAYE a final tax for many); and
  - a new framework for sharing appropriate information with the necessary safeguards with other government agencies.
- 1.10 The proposed changes will affect nearly all taxpayers.

#### ***Individuals***

- This group would self-manage most of their tax and social policy affairs through their own secure area on Inland Revenue's website much like internet banking. The goal is to provide individuals with a faster and more certain tax system with fewer compliance costs.
- There would be fewer errors in the PAYE system through better technology being used by employers and that technology being supported by Inland Revenue.
- There would be a possible new approach to the taxation of individuals under which, for some, PAYE would be treated as a final tax. This approach would not apply to groups of taxpayers when the PAYE rules may give inaccurate outcomes. Taxpayers who receive additional income – for example, from rents, will still square-up their non-wage and salary income at year-end.
- Inland Revenue would share tax information with other government agencies to reduce the need for individuals to provide the same information multiple times. Privacy issues would be an important consideration in any changes that were to be made.

#### ***Businesses, employers and the non-profit sector***

- These groups would have software which takes care of routine PAYE compliance tasks such as the need to separately file an employer monthly schedule, by automatically communicating with Inland Revenue. The software could have an option of providing information to Inland Revenue payday basis.

- Information about an employee's PAYE obligations would be provided by Inland Revenue directly to the employer's payroll software, after appropriate validations, to help employers get things right.
- Businesses, employers and the not-for-profit sector would move towards providing information electronically rather than by paper. The Government is raising for discussion whether mandating the use of electronic communication is acceptable and, if so, when.
- Businesses and not-for-profits organisations can expect better service from Inland Revenue as resources are freed up from checking errors and processing paper as a consequence of the proposals outlined here.
- Not-for-profit entities often have a high staff turnover, so having software which manages more of the routine processes and supports better use of other software will be of particular value.

### *Software developers*

- Resources would be devoted to supporting software developers so they can develop improved, more capable products for their clients. Inland Revenue would form strategic partnerships with these groups, starting with payroll businesses.
- A key element to the proposed new capabilities is that the software will be able to deal with routine tax compliance tasks, such as providing PAYE information directly into Inland Revenue systems without the need to access them separately.
- The Government is seeking the views of software developers on how this strategic partnership might work and how employers could be encouraged to move from paper-based systems to an electronic environment.

### *Privacy*

- A new framework is being proposed for sharing PAYE information collected by Inland Revenue with other government agencies, and more specifically, with the Ministry of Social Development.

## **Legislation required**

- 1.11 Provided there is support for the reforms, legislative change will be required to provide more flexibility around the PAYE rules, to give Inland Revenue the ability to mandate electronic filing, to make PAYE a final tax for some and to allow Inland Revenue to share information more widely with other government agencies.

## How to make a submission

- 1.12 The Government invites submissions on the matters raised in this discussion document. Submissions should be made by **23 July 2010** and be addressed to:

Making tax easier  
C/- Deputy Commissioner, Policy  
Policy Advice Division  
Inland Revenue Department  
PO Box 2198  
Wellington 6140

Or email [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz) with “Making tax easier” in the subject line.

- 1.13 Submissions should include a brief summary of major points and recommendations. They should also indicate whether it would be acceptable for Inland Revenue and Treasury officials to contact those making the submission to discuss the points raised, if required.
- 1.14 Submissions may be the subject of a request under the Official Information Act 1982, which may result in their publication. The withholding of particular submissions on the grounds of privacy, or for any other reason, will be determined in accordance with that Act. Those making a submission who consider there is any part of it that should properly be withheld under the Act should clearly indicate this.

## CHAPTER 2

### The Government's economic vision

- 2.1 The Government's economic vision is for a tax system that supports and strengthens economic growth by:
- improving incentives to work, save and invest;
  - improving the fairness, coherence and integrity of the tax system by reducing opportunities to avoid tax (and unduly accessing social assistance); and
  - promoting a tax system that supports New Zealand's competitiveness globally and in a sustainable manner.
- 2.2 Surveys suggest the key regulatory burden most businesses face is tax compliance. However, increased government investment in infrastructure, education, skills and business assistance is funded by tax.
- 2.3 The Government began the reform of the tax system in Budget 2010, by introducing a package of tax policy measures to rebalance the tax system. This discussion document focuses on the underlying tax administration and processes that interact with taxpayers.
- 2.4 The Government has also identified better, smarter, public services as one of its priorities. This includes taking a whole of government approach in which the focus is on a better connected public service. From Inland Revenue's perspective, the Government sees this challenge as being one of providing a service to taxpayers at a level expected of an efficient government department. Further, this vision means a system whereby Inland Revenue's information can be leveraged as a government-wide resource, making interactions easier and eliminating the duplication of information and activities across different government agencies. Privacy concerns would need to be considered as part of any proposed changes in this area.
- 2.5 A tax administration that supports the Government's economic vision should deliver:
- Benefits to taxpayers, including:
    - certainty so individuals know their obligations and entitlements;
    - timely interactions with Inland Revenue; and
    - low compliance costs.
  - Benefits to the Government:
    - value for money; and
    - trust and integrity.

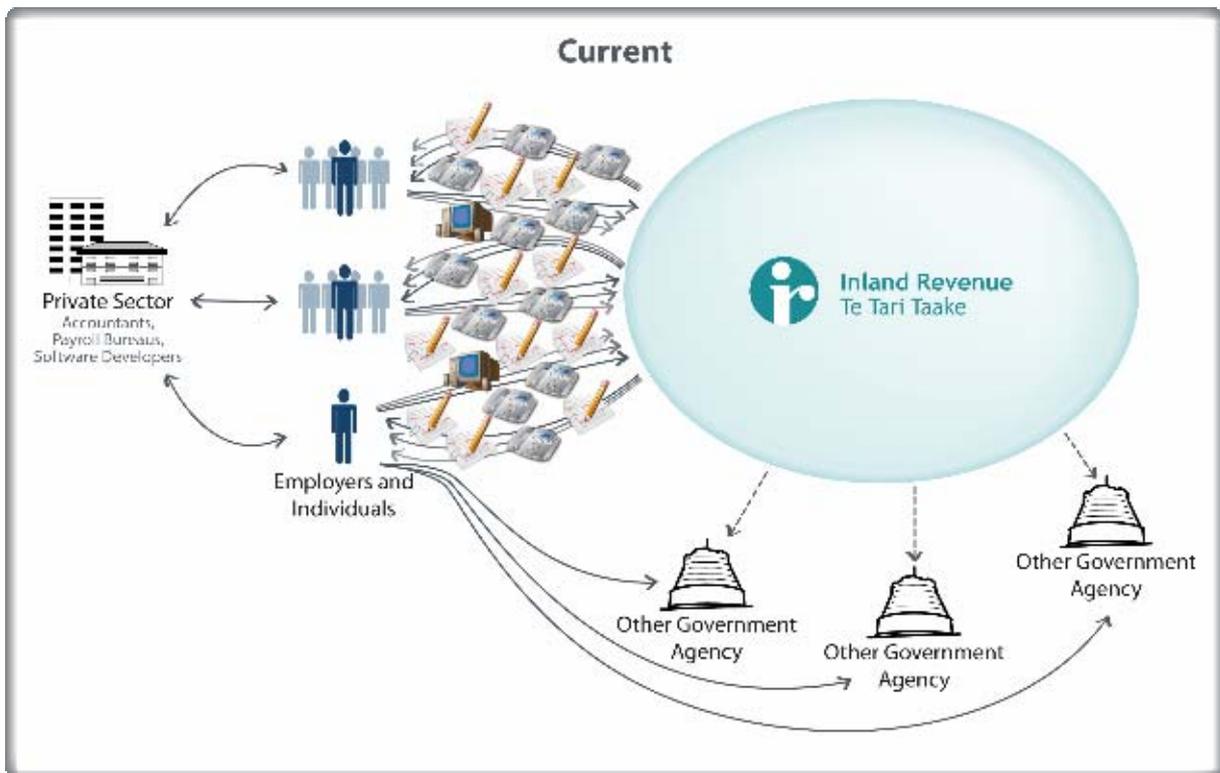
- 2.6 In the past, significant effort has gone into reducing compliance costs – for example, by simplifying forms and changing thresholds. The next step is to enhance taxpayer interactions with Inland Revenue through greater use of technology that integrates tax with normal commercial activities. This will allow taxpayers to resolve uncertainty online, without having to wait for an answer from Inland Revenue.
- 2.7 Reform will also help to ensure the Government receives the revenue it needs, and at the lowest administrative cost.
- 2.8 However, reform is not just a challenge for the tax administration. The current system works because of the support of individuals, businesses, employers, tax agents, payroll firms, financial institutions and software developers, among others. Improving the system by introducing new technology will require the support of those affected by the problems with the current system.

### **Problems with current tax administration**

- 2.9 The Government is concerned the administration of the tax system (including the costs of collection and administration by companies, individuals and Inland Revenue) is showing stress. This is mainly due to the additional requirements that social policy initiatives, such as KiwiSaver, are putting on businesses and Inland Revenue. Businesses sometimes have the feeling they work for Inland Revenue because of the amount of time they have to spend doing their taxes rather than running their business. Businesses and individuals also find current tax processes confusing and time-consuming.
- 2.10 The Government considers the tax administration system needs to change if it is to keep supporting New Zealand into the future.
- 2.11 A number of general problems and weaknesses with the system have been identified:
- **Lack of certainty:** The current tax system cannot provide the sort of certainty the Government wants taxpayers to have, mainly because of the large number of predominantly paper-based processes involved. One source of taxpayer dissatisfaction is the inability to directly manage or control straightforward tax interactions. Another is the time it takes to resolve tax technical questions, which is caused by the pressures the current system imposes.
  - **Slow response times:** The public sector has been directed to seek ways to provide better, faster access to government services largely within existing resources. Despite significant improvements to Inland Revenue customer services, the volume of tax returns and contacts is increasing so Inland Revenue's service delivery standards are under pressure.

- **Value for money:** The expanded products and services Inland Revenue administers as a result of its increasing role in social policy delivery have added considerably to pressures on Inland Revenue, and have markedly increased taxpayers' expectations of service.
- **Trust and integrity:** Inland Revenue's aging systems mean there may be pressure on one of the core strengths of New Zealand's tax system, which is the trust people have in the integrity of New Zealand's tax system. Once lost it may be hard to regain.

2.12 The chart below is a not an unreasonable representation of the current system.



## CHAPTER 3

### Moving to an improved tax administration

- 3.1 There are two broad options for reforming the tax administration. The first option, and the one the Government wants to progress, is to develop a new business model for Inland Revenue with stronger technology capabilities. This option means the dominant channel for communication with Inland Revenue would be electronic (with some exceptions) and reflects the increasing comfort people have in managing their personal and business matters online. The second option is to continue with the current administrative framework and technology, which will be increasingly costly and inefficient.

#### A new approach for Inland Revenue

- 3.2 Inland Revenue has started providing more electronic services to taxpayers. Over the next few years it will increase its focus on providing greater certainty and quicker responses through electronic channels. This approach will require substantial changes to Inland Revenue's traditional interactions with taxpayers.
- 3.3 Under the proposed changes:
- **Tax would be embedded in business processes.** Information reporting and tax payments would be part of a businesses standard accounting processes rather than, as is currently the case, a separate process. For example, a GST package used by an accountant would be able to meet filing and paying obligations, without the business having to separately think about GST rules, due dates for payment and when they have to file a return. Inland Revenue would respond quickly to confirm the correct thing had been done.
  - **The way taxpayers send and receive information would change.** Inland Revenue would build on increased public use of electronic services and online tools to send and receive more information electronically.
  - **Taxpayers would get help to get it right.** Inland Revenue would require only the information needed to administer the tax system. This information would be provided electronically and not require manual intervention. The information would allow Inland Revenue to tailor its compliance activities and communication with taxpayers so they get the right information and quickly.

## **New and improved technology capabilities for Inland Revenue**

- 3.4 The complexity and age of Inland Revenue's computer systems are affecting performance, particularly as they have been being adapted for roles they were never intended to fulfil. This is affecting Inland Revenue's ability to respond to taxpayers in a timely way. This can result in uncertainty for taxpayers in managing their tax affairs.
- 3.5 The Government has already made initial steps to improve Inland Revenue's technological capability – for example, the technology being adopted to administer the new student loan system.
- 3.6 The new student loan system will:
- provide the flexibility needed to deliver policy changes to the scheme in a timely and cost-effective manner;
  - improve customer service through more integrated delivery of services to borrowers, in conjunction with the Ministry of Social Development;
  - enhance online services, increasing borrowers' ability, particularly overseas-based borrowers, to self-manage their loan account; and
  - allow administrative resources to be used more effectively.
- 3.7 Under the proposed changes to the tax administration system, it is expected this type of technology will be used more widely by Inland Revenue to improve the timeliness and certainty of taxpayer services.
- 3.8 However, just as the introduction of GST required businesses to change their processes, and resulted in benefits for businesses such as better and more regular financial information, reform of the tax administration system can only be achieved when sufficient individuals and businesses move to an electronic environment.

### **Questions for submitters**

Submissions on any of the issues outlined in this chapter are welcomed, including whether the outlined reform is the right direction for the Government and Inland Revenue to proceed.

## CHAPTER 4

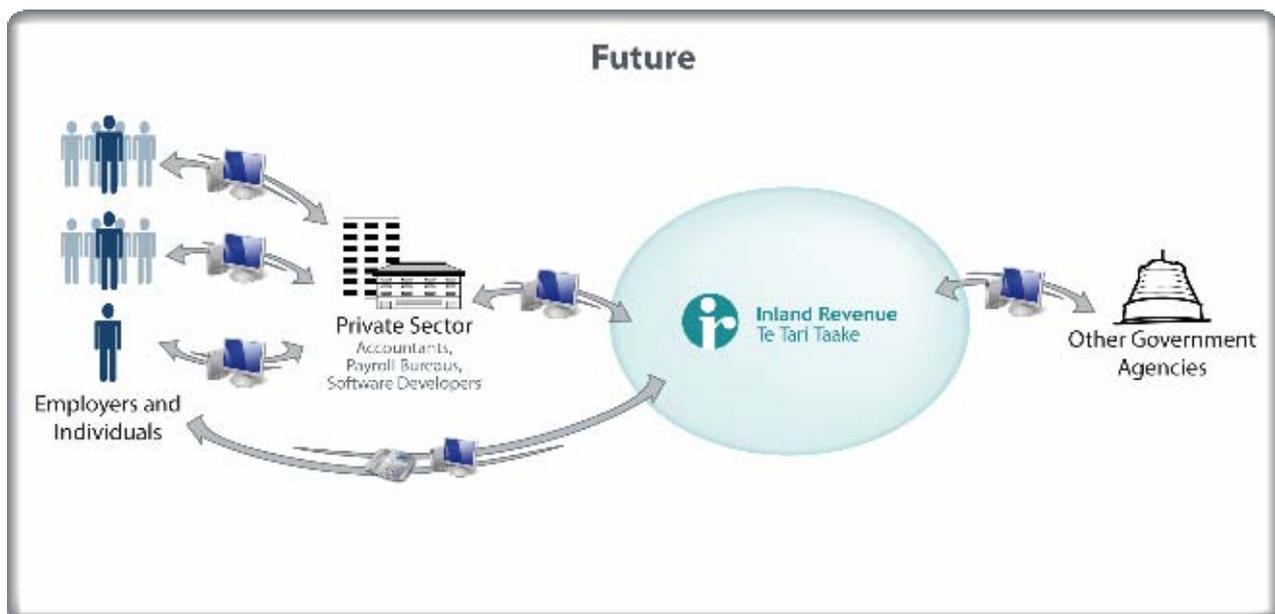
### Moving to an electronic environment

4.1 Currently Inland Revenue sends out over 30 million envelopes and 76 million pages to be read, including nearly 9 million statements and notices annually. An electronic environment would:

- allow Inland Revenue to meet taxpayer's expectations of good service levels;
- provide certainty with real time or near-real time electronic services that ensure taxpayers have instant confirmation of transactions by Inland Revenue;
- provide simplicity and flexibility for taxpayers so they can self-manage their obligations and reduce their compliance paperwork; and
- provide services that are available and responsive to taxpayers at any time.

4.2 Moving to a largely electronic environment would require a major shift in focus for taxpayers and their advisors.

4.3 The role of Inland Revenue would change, and significant resources would be applied to further support the private sector in its role of helping taxpayers with their accounting, financial management and payroll support services. This is shown in the chart below. Taxpayers would, of course, continue be able to communicate with Inland Revenue directly.



## Changing the way individuals, employers and businesses interact with Inland Revenue

4.4 Moving to an electronic environment would require significant changes for those who interact with Inland Revenue. For benefits to be fully realised the vast majority of interactions would have to be managed electronically.

Old way	New way
<ul style="list-style-type: none"> <li>Primarily paper-based systems.</li> </ul>	<ul style="list-style-type: none"> <li>Primarily electronic environment.</li> </ul>
<ul style="list-style-type: none"> <li>Inland Revenue is primarily focussed on supporting taxpayers directly (basically a model with Inland Revenue at the centre).</li> </ul>	<ul style="list-style-type: none"> <li>Inland Revenue forms strategic partnerships with intermediaries and collaborates with the private sector to help them deliver services to taxpayers (the private sector is at the centre).</li> </ul>
<ul style="list-style-type: none"> <li>Separation of tax and business processes.</li> </ul>	<ul style="list-style-type: none"> <li>Integrated Inland Revenue and software provider systems.</li> </ul>
<ul style="list-style-type: none"> <li>Inland Revenue has significant impact on the end-user functionality that can be delivered by private sector.</li> </ul>	<ul style="list-style-type: none"> <li>Inland Revenue data and processes available through software.</li> </ul>
<ul style="list-style-type: none"> <li>Software providers forced to accept shortfalls in Inland Revenue support and change processes.</li> </ul>	<ul style="list-style-type: none"> <li>Software is subject to less Inland Revenue-imposed constraints so can be better designed for end-user by private sector.</li> </ul>

### Proposals for individuals

4.5 Currently, taxpayers can log into a workspace hosted by Inland Revenue (similar to internet banking) where they provide details previously required by the paper personal tax summary (PTS) or IR 3 tax return. The workspace also gives individuals the opportunity to check their salary and wage income details, their PAYE deduction details and any child support and student loan obligations.

4.6 The Government proposes to increase efforts to move individual taxpayers from filing paper tax returns to providing information electronically. This is expected to take a number of years, but the expectation is of a future in which the majority of individuals will interact electronically with Inland Revenue

4.7 Change would not be limited to tax returns. The Government's expectation is that payments and refunds would be made electronically in the near future and paper statements would not be issued by default.

4.8 It is recognised that many taxpayers would need to be supported in the move to an electronic environment. Businesses and Inland Revenue will need to work together to provide training in this new electronic environment.

- 4.9 Not all taxpayers will have access to the electronic facilities required in the proposed new environment, or have the capabilities to use them. Support may be required. The Government is interested in receiving comments on this.
- 4.10 Alternatives may include providing options for taxpayers rather than continuing current processes. For example, Inland Revenue may continue to provide a paper return for some taxpayers but the completed return would have to be provided to Inland Revenue electronically. That is, once an employer has completed an employer monthly schedule they would need to give it to a business services firm to file electronically with Inland Revenue. It is likely the business services firm would charge the employer for this service. For individuals, it could mean using a kiosk in the local Heartland (Ministry of Social Development) office to access a social policy entitlement.

#### **Change may be compulsory for some**

- 4.11 A recent study by McKinsey & Company, *Global Survey of Tax Administration Best Practices in Management and Operations*, indicates that the gain from an electronic environment starts once 60 percent of contact is through electronic channels, but becomes significant and organisationally transforming if over 90 percent of communication is through electronic channels. The move to an electronic environment of this scale would require an increased role for the private sector and a change to an electronic environment by most taxpayers.
- 4.12 While Inland Revenue would be improving its electronic services in a way that should be inherently appealing to taxpayers, some level of compulsion to use electronic services may be required to ensure that the Government's value for money goals are achieved. The proposal is that Inland Revenue would have a general power to mandate the electronic filing of information, with penalties supporting that mandate.

## **Questions for submitters**

Submissions on any of the issues outlined in this chapter are welcomed, including:

- Should the electronic provision of information to Inland Revenue be compulsory, by a date to be determined in the future, for some tax types.
- What do you think about Inland Revenue replacing paper guides and booklets with electronic information?

### *Businesses*

- Would the ability to check your tax information online mean you would no longer need paper-based statements, or contact Inland Revenue?
- What do you think about your accounting software taking care of routine tax filing rather than doing it yourself?

### *Individuals*

- What do you think about being able to access information, receive confirmation and view your Inland Revenue information online?
- What do you think about no longer receiving paper statements and notices from Inland Revenue?

## CHAPTER 5

### The PAYE system and facilitators

- 5.1 To demonstrate the Government's proposed new direction for interactions between taxpayers and Inland Revenue, this chapter sets out an example of how the PAYE system might be reformed. The proposals outlined in this example could be applied to other tax types in the future.
- 5.2 The main tax form employers use, the employer monthly schedule, was introduced in 1999 as a result of changes proposed in the discussion document *Simplifying taxpayer requirements*. Its purpose was to provide an efficient mechanism through which Inland Revenue could interact with employers in the collection of employee information and payments.
- 5.3 The employer monthly schedule sets out the PAYE deducted from each employee's pay, as well as child support, student loan repayments and KiwiSaver contributions. Approximately 41 percent (\$22 billion) of Crown revenue is collected through the PAYE system. Of the 180,000 schedules received by Inland Revenue each month, only 30 percent are received electronically (although these schedules represent 80 percent of employees).
- 5.4 Processing paper schedules in an efficient and accurate manner requires significant resources. Further, to minimise compliance costs, Inland Revenue takes responsibility for correcting the majority of any errors found in schedules.
- 5.5 Inland Revenue has a first-generation electronic interface for employers and payroll specialists, called ir-File, which allows employers to file their employer monthly schedule electronically. The system allows only limited at-source validation. Inland Revenue therefore still has to apply extensive manual effort and reprocessing to correct information received through this system.
- 5.6 With the introduction of KiwiSaver, the employer monthly schedule was amended to collect additional information. A review undertaken by Inland Revenue on the current state of the schedule has highlighted that the collection of additional KiwiSaver information has added complexity to the form and is putting increased pressure (especially at peak times) on the existing paper-based employer monthly schedule process. Further, Inland Revenue's systems are now at capacity.

#### **An electronic PAYE system**

- 5.7 Some employers use payroll software, perhaps as part of their general accounting software or as a standalone program, to prepare their PAYE information. Some employers also use bureaus, which support employers through the entire payroll process, to prepare PAYE information. The software or bureau services these specialists provide are diverse. Some specialise while others provide a wide range of services. The manner of serving their customers can range from simple to complex web-based services, phone or fax.

- 5.8 One thing these specialists have in common is to make their processes as simple as possible for their customers. To do this many of them undertake customer research, user testing and monitoring, and provide call-centre assistance. This has a high level of positive influence on the collection of PAYE.
- 5.9 Inland Revenue has consulted with some software developers and payroll bureaus to better understand their experiences with the PAYE system. In general, they consider that Inland Revenue's systems have problems relating to reliability and speed. They are also concerned that their software can have only limited electronic interaction with Inland Revenue's systems because of its age and lack of flexibility.
- 5.10 The software developers and payroll bureaus consulted with generally felt under-recognised by Inland Revenue given the importance of their role. A significant concern was that they are restricted in their ability to act for their customers.
- 5.11 They also believe that Inland Revenue is slow to change and still designs in a paper-based rather than electronic environment. One example raised was that Inland Revenue took paper processes and simply put them online as rather than fundamentally re-designing the process in an electronic environment, with its associated benefits. There are also concerns about the cumbersome way Inland Revenue deals with exceptions or innocent errors. Their underlying concern is that Inland Revenue has significant system constraints which limit their customer service options.
- 5.12 Those consulted universally considered there are considerable opportunities to use technology to fundamentally reconstruct and automate business processes to bring benefits to their customers and Inland Revenue.

### **Integrating payroll businesses into the centre of the PAYE system**

- 5.13 Under the proposed move towards electronic tax interactions, technology and payroll businesses would be integrated into the PAYE system. This would increase certainty, speed of interactions and provide employers and employees with greater trust in the PAYE system.
- 5.14 The Government sees this approach as releasing the creativity, customer focus and efficiency of the private sector to support employers and Inland Revenue. That is, PAYE transactions would occur through services provided by the private sector rather than Inland Revenue. Employers would use software provided by a developer to manage their PAYE, in near real-time, and without the need to fill in forms. The software would be developed with support from Inland Revenue and with the ability to access Inland Revenue information. The ability to interact with Inland Revenue's systems would only be available for approved software, and with the appropriate regard for privacy.

5.15 Implementing such a change would require:

- payroll businesses to be able to provide their customers with a fully electronic interaction between Inland Revenue and the payroll business if needed;
- mechanisms to ensure accurate data is sent and received by all parties in the system;
- automation of electronic payments to Inland Revenue and embedding that process in software so that it is transparent to the employer (beyond notification of the amount and timing of payment);
- validations and exceptions being addressed via the software used by the employer or payroll bureau, rather than by Inland Revenue at end of the PAYE process as is currently the case;
- an ability for payroll businesses to electronically access Inland Revenue systems (with appropriate access/management rights built in) and update information, action changes, check data and perform maintenance;
- the option of a pay period-based exchange of data and information in addition to the current employer monthly schedule so employers would have certainty faster than is currently the case; and
- structured electronic information requests from Inland Revenue to reduce ad-hoc information requests going directly to employers.

**Proposed changes for Inland Revenue, payroll specialists and employers**

*New technology for Inland Revenue*

5.16 Inland Revenue would introduce a business-to-business link that would be used by payroll specialists to transfer information to their software and to employers in real-time. The information and payment processes associated with PAYE would be integrated into employers' payroll software and effectively become "invisible" as the employer's PAYE obligations would be met automatically as part of completing their payroll requirements rather than as a separate tax process.

*Improving Inland Revenue services to payroll businesses*

5.17 Inland Revenue would work with payroll businesses to ensure the tax system is responsive to their needs, with increased tax-technical support for this group and faster responses to queries. The most significant change would be that Inland Revenue would be open to collaborating with payroll specialists on opportunities to streamline the PAYE system. For example, responding to a technology limitation identified by payroll specialists.

### *New services by payroll businesses*

- 5.18 If the proposed changes go ahead, payroll specialists would be able to start making use of the new capabilities Inland Revenue will be able to offer. For example, payroll specialists would be able to extend their software to “interrogate” Inland Revenue’s new systems to provide an employer with a tax code for a new employee in a timely and secure way. Payroll systems would need to pass integrity checks – for example, provide audit trails and not allow actions by employers that are non-compliant. Currently, some software allows employers to replace the calculated PAYE with a manually calculated PAYE amount and provide that information to Inland Revenue. This would be unacceptable as there is a high risk that the information provided in these circumstances could be wrong. The reason this option currently exists is to allow people to correct small errors. The solution is to provide a better, more accurate way for taxpayers to self-manage their tax affairs.

#### **Example**

##### *Current environment*

Jim is a payroll software developer. He identifies a market niche for a software product which would help the not-for-profit sector to calculate its payroll electronically and then file and pay PAYE. Jim is struggling to get anyone at Inland Revenue to discuss his ideas with him or to work with him so he can develop the product for sale.

##### *Future environment*

A payroll business reference group would be established to work with Inland Revenue to design a tax system with better customer functionality. Jim would work with both the payroll reference group and Inland Revenue. Inland Revenue would make a minor amendment to its technology to allow Jim’s product to deliver better information into Inland Revenue’s system electronically.

### *Quality management and improvement process*

- 5.19 A voluntary quality management system would be available to ensure the quality of software, underlying business processes and information received by Inland Revenue are correct. The proposal is for a formal set of standards which software developers and payroll bureaus would be required to meet and which can be built into their products. This would acknowledge that the standards have been met, by means of a logo or other quality assurance mark. Submissions on how this quality management process would best work for all parties are welcomed.

- 5.20 It is important to note that the objective of the proposed changes is to increase certainty without adding any undue delay or unnecessary expense to payroll specialists. Therefore, it would not be compulsory to undertake this process. Rather, payroll specialists could choose this option if it made business sense to them. However, certification as part of the quality assurance aspect of the proposed changes could have benefits to employers – for example, the removal of the risk of certain penalties for employers who chose to use certified software.

### ***Supporting the transition to an electronic environment***

- 5.21 The move from paper-based systems to an electronic environment will require significant resources and effort from both Inland Revenue and the private sector. Over the next few years, many employers would need to transition to services provided by payroll specialists. Comments are welcomed from payroll specialists on how this transition should be managed, and what timeline for this transition of employers and payroll specialists would be considered reasonable.
- 5.22 Views are also sought on the likely approaches that would significantly increase the adoption by employers of the proposed new electronic services. This includes suggestions on how incentives might be used.
- 5.23 It is appreciated that some people may not be able to make the transition to an electronic environment for a number of reasons. Comment on how the needs of this group might be managed in ways that would still provide improved services for this group, while still allowing Inland Revenue to capture efficiencies through reducing the use of paper, are also welcomed.

### **Reference group**

- 5.24 To achieve the changes proposed, Inland Revenue would establish a payroll business reference group which would work to design the technology and tools required. The work of this group would be publicly available to ensure transparency and ensure that no commercial advantage is gained. Suggestions on how this communication should be achieved are welcomed. For example, should Inland Revenue establish an online forum for payroll businesses?
- 5.25 Inland Revenue would chair this reference group, which would have no more than 10 members who would be willing to commit time and resources to achieving the Government's objectives for greater efficiencies in the tax administration system.
- 5.26 Once implementation is complete there would be continuing private sector representation in this group to ensure that the goals of the reforms are achieved.

### **Questions for submitters**

Submissions on any of the issues outlined in this chapter are welcomed, including:

- the focus on using payroll businesses as the main method of providing electronic services to employers;
- the proposal for Inland Revenue to approve software as meeting certain standards;
- how payroll businesses could support the transition to an electronic environment and the support they may in turn require; and
- the idea of a payroll reference group to oversee the development of the new technological capabilities for Inland Revenue.
- Note that there may be issues with intellectual property which we would welcome comment on.

## CHAPTER 6

### Moving employers to an electronic environment

- 6.1 This document has canvassed a number of proposed changes to the way Inland Revenue administers the PAYE system. The emphasis would be on moving away from current paper-based systems to greater use of electronic interactions with taxpayers or their tax service providers. This chapter looks how the PAYE changes could make it easier for employers to meet their obligations by interacting electronically with Inland Revenue. Similar changes could be made to other parts of the tax system in the future.
- 6.2 As well as an electronic PAYE system, further tax forms and booklets could be provided electronically.
- 6.3 A possible first step would be to more closely integrate payroll systems and reporting processes so PAYE information is provided automatically by software to Inland Revenue so employers would not need to log on to ir-File and manually upload the employer monthly schedule each month.
- 6.4 Inland Revenue systems could potentially provide information to employers' software to help calculate correct deductions. For example, for a new employee, the employer would be advised of the employee's correct tax code, recognising any student loan and child support obligations. Employees would be able to update their own tax code online when their circumstances change, and updates would be automatically forwarded to the employer's payroll software. Inland Revenue's research indicates many employers prefer not to get involved in their employees' private lives; this proposal would reduce such intervention.
- 6.5 The ease of transferring information means software could provide PAYE information to Inland Revenue each pay-day, for example, rather than by the 20th of the following month as now happens for most small employers. The current PAYE payment dates would remain but would be removed when simply providing information. The PAYE system could also provide more timely information on an employee's tax code declaration, to check that the correct amount of PAYE, child support and student loans is being deducted.
- 6.6 It is acknowledged that many small employers are happy with their current manual processes and sending a paper-based employer monthly schedule to Inland Revenue. However it is also known that they want greater certainty and quicker service from Inland Revenue. To achieve this, Inland Revenue needs to move away from paper-based processes to free up resources to provide better service. In turn this will require small employers to change from paper-based systems despite some not wanting to do so.

## **Example**

### ***Current environment***

Mika runs a fishing and outdoor supplies shop, and employs Rodger as his assistant. Rodger has two children to two different women and is liable for child support for one of them. Mika already deducts child support from Rodger's pay as per Inland Revenue's instructions. Following the birth of Rodger's second child, Inland Revenue sends Mika a letter with instructions to deduct a new amount from Rodger's pay. Mika now has to make sure he deducts the new amount correctly from Rodger's next pay, updates his payroll system and makes sure his employer monthly statement reflects the new amount.

### ***Future environment***

Mika's payroll and accounting software is integrated with Inland Revenue's systems and can calculate Rodger's deductions automatically. Mika does not need to know about Rodger's child support liabilities or any other details about his personal circumstances, as Rodger will have his own personalised and secure area on the Inland Revenue website where his personal information is stored and can be updated. When Rodger updates his details (for example, adding a dependant) in his individual area on the Inland Revenue website, Mika's software updates automatically and calculates any new deductions.

- 6.7 An electronic environment would give employers a range of choices. Some may choose to move to a software payroll package to automate their payroll and reporting processes. Some may choose to use a payroll bureau. Inland Revenue would need to provide some form of electronic service to help very small employers. Submissions on what this service should be and how it should be targeted are welcomed. For example, should Inland Revenue provide a simple software package or an online web-space?
- 6.8 In proposing these reforms the Government is also aware of limits to what can be achieved within certain timeframes and the need to manage the risks associated with these proposals. The work to support employers would also have to be done within available Government funding.

### **Questions for submitters**

Submissions on any of the issues outlined in this chapter are welcomed, including:

- Your views on the trade-off between continuing the existing paper-based PAYE system and moving to an electronic PAYE environment which provides better services but requires employers to change their PAYE systems to gain these benefits.
- Would it be acceptable to make electronic filing mandatory for all employers?
- What type of incentives should be considered to move employers towards electronic filing?
- Do you have ideas on how Inland Revenue could support employers who do not file electronically?
- What do you think about your payroll and accounting software managing your deductions by getting information on your employees from Inland Revenue?
- Do you think these proposals would reduce compliance costs for employers?
- What electronic services should be provided by Inland Revenue and for whom?

## CHAPTER 7

### Reforming the personal tax summary process

- 7.1 Most individual taxpayers' only contact with Inland Revenue is through the personal tax summary process or when claiming a rebate at the end of a tax year. This chapter looks at the possibility of reforming the personal tax summary process as part of the wider proposals to reform the tax administration system.
- 7.2 The personal tax summary was introduced in 2000 and removed the requirement for individuals who earned income solely from salaries, wages, dividends and interest to file a tax return. Instead, Inland Revenue issues a personal tax summary showing gross income, taxes deducted and any refund or payment due, but only if an individual meets one of the required criteria (such as having a student loan or receiving Working for Families tax credits) or if an individual requests one. In other words, the personal tax summary provides a means for individuals to reconcile their affairs, but only if required or requested.
- 7.3 The end-of-year square-up process is dependent on individuals accepting the accuracy of the PAYE system. For individuals who think they might be entitled to a refund, the system allows them to request a personal tax summary to verify their tax position and, if a refund is due, it is paid into their bank account. Equally however, if at the end of the square-up process they are found to owe tax, it must be paid.
- 7.4 Before the personal tax summary was introduced, about 1.2 million taxpayers were required to complete an end-of-year tax return. It was envisaged that changes to the square-up process would mean that only 400,000 of these taxpayers would need to receive a personal tax summary. Therefore, the system was originally designed so that the great majority of taxpayers would be freed from the annual obligation to square-up their tax affairs.
- 7.5 In the paper-based environment of 2000 it was envisaged that only a small minority of taxpayers would need to contact Inland Revenue. However, changes to social policy measures such as Working for Families, and the prominence of personal tax summary intermediaries in the market, has resulted in a growing number of individuals requesting a square-up at the end of the year and an increase in taxpayer interactions with Inland Revenue. Resources that could be devoted to higher-value activities (for example, answering queries from small businesses on tax matters) are being applied to providing small refunds to individuals. While these refunds are important to the individuals concerned, the question arises whether Inland Revenue's resources could be used more effectively.

- 7.6 In 2007–08, 857,000 people were issued with, or requested a personal tax summary. For 327,000 (38 percent) of this group, the error corrected was less than a \$1 a week. This resulted in refunds of \$3 million and assessing a further \$2 million for a group that had paid \$1,955 million of PAYE during the year.

### **Possible option**

- 7.7 To use tax resources efficiently, the Government is considering a new approach to the taxation of individuals, whereby PAYE would be treated as a final tax for many. In other words, the amount of PAYE deducted for a pay-period would represent an employee’s final tax liability on that income, providing certainty every pay-day that the correct amount of tax has been deducted.
- 7.8 Inland Revenue resources no longer needed for end-of-year square-ups would instead be used to ensure PAYE is deducted correctly during the year and to helping taxpayers, such as small businesses, with more complex tax matters. Improved services and products from intermediaries would also increase the accuracy of the PAYE system.
- 7.9 The concept of PAYE as a final tax would apply only to people in stable employment for 11 or 12 months of the year. Much of the inaccuracy within the PAYE system comes from those in part-year employment. Those who earn wages and salary income for 10 months or less in the tax year would continue to be able to square-up their PAYE at year’s end.

### **Example**

Margaret turned 65 in December and decided to retire. She receives New Zealand Super. In that tax year, Margaret earned \$50,000, which had \$11,300 PAYE deducted. She also received New Zealand Super of \$4,345 which had \$615 PAYE deducted.

Currently Margaret works out that her annual square-up results in a refund of \$931 (because she has not worked the full year) and requests a personal tax summary to claim it.

If Margaret were treated as being subject to the proposed final tax concept, the result would be significantly negative for her as she would be unable to claim her refund. However, as Margaret has not worked for 11 or 12 months she would still be able to claim her refund, as under the current rules.

- 7.10 The proposal would allow the 350,000 part-year earners who currently square-up their PAYE to continue to do so. However, the year-end square-up would no longer be available for the 528,000 people who receive PAYE income for 11 or 12 months of the year.

- 7.11 Of the taxpayers who had PAYE deducted, \$107 million (0.64 percent of total PAYE deducted) was taken from more than 570,000 people. This represents an average over-deduction of \$188 (or \$3.61 per week). Conversely, 890,000 people had PAYE under-deducted by \$96 million (0.57 percent of total PAYE deducted) representing an average underpayment of \$108 (or \$2.08 per week). The remaining approximately 370,000 people had PAYE correctly deducted to within \$5 for the full year. Of those entitled to refunds, about one-third did not claim their refund in 2008.
- 7.12 The final tax concept would not apply to groups such as those with employment-related deductions or those who are responsible for their own PAYE deductions. It also would not apply to groups that are subject to withholding tax such as casual agricultural workers or independent contractors. For those people, the PAYE or withholding payments deducted is approximate, therefore making such PAYE deductions a final tax could lead to over-taxation. The current system of annual filing would continue for these groups.
- 7.13 We acknowledge that ultimately the success of this approach will rely on the integrity of both the PAYE system and the employer's overall systems for determining an employees pay, and deductions. The merits of this proposal should be considered with the longer-term view of the better future PAYE system in mind.

#### *Treatment of other income*

- 7.14 Employees with other income such as rents, partnership or overseas income that has not been subject to New Zealand tax would continue to file. This is to ensure that tax is paid on income that has not had PAYE deducted. So employees know the correct amount of PAYE has been deducted when they do file an annual return, the tax credit for employment income would be the amount that should have been deducted, rather than the amount that was deducted. That is, the annual return would in effect only tax their other income at the correct marginal rate.
- 7.15 Those individuals who receive interest and dividends which might be over-taxed would still be able to or require to square-up their tax affairs at year's end. The square-up would be limited to interest and dividend income – that is, they would not square-up income from which PAYE has been deducted.

#### **Example**

Bill works full-time but also earns income from a rental property. Under the proposed final tax concept he would file a tax return and have his tax calculated as under the current system. However, rather than receiving a credit for his actual PAYE deducted because Bill worked for the full-year, he would receive a credit based on the theoretical amount of PAYE that should have been deducted from his employment income.

This would ensure the correct amount of tax is paid on his rental income but he has the certainty that the tax paid through the PAYE rules is final.

### *Social policy entitlements*

- 7.16 Employees who also receive social policy entitlements, such as Working for Families tax credits, would continue to square-up annually but for those who worked 11 or 12 months during the year there would be re-recalculation of the PAYE on their wage and salary income.

#### **Questions for submitters**

Submissions on any of the issues outlined in this chapter are welcomed, including:

- How would the concept of a full and final tax be best supported given the practical issues the PAYE system faces currently, particularly the increased reliance on information integrity the proposal assumes?
- Do you agree that compliance and administration costs should be reduced by ignoring small refunds and tax liabilities?
- What level of refund do you think people should forgo to enable Inland Revenue to help someone else?
- Whether PAYE should be treated as a final tax for some taxpayers where the PAYE system tends to be accurate?
- Do you think anybody needs to be added to the list of people who can still file to have their PAYE income squared-up at year's end? The concept of PAYE being treated as a final tax should only apply to those for whom the PAYE system is very accurate.

## CHAPTER 8

### Sharing PAYE information with other government agencies

- 8.1 This chapter's focus is on making it easier for people to deal with government agencies. Wider use of information by government would allow improved service.
- 8.2 Inland Revenue has access to a wide range of information about individuals, including (where applicable) their name, address, income, dependents, student loan details, and social policy entitlements. The new technologies and associated infrastructure, as discussed in the preceding chapters, would improve the efficiency, reliability, and accuracy of the PAYE information collected and would provide Inland Revenue with more frequent and timelier information about individuals.
- 8.3 Often, information collected by Inland Revenue is also collected by other government agencies so they can provide their services to individuals. For example, the Ministry of Social Development (MSD) requires that benefit recipients report any changes in their income so that benefit entitlements can be adjusted to correspond with that recipient's needs.
- 8.4 The Government considers there is scope to use this information to deliver a better, smarter public service, within a limited increase in public funding. To that end, the Government is considering the possibility of a new framework for sharing PAYE information with other government agencies, and in the first instance, sharing PAYE information with MSD.
- 8.5 The Government's view is that when interacting with government agencies, individuals expect to be provided with service levels similar to those they experience elsewhere. They also expect that their entitlements and obligations to be met without them having to provide the same information multiple times. The proposals to share PAYE information with other government agencies would, in certain situations, remove the requirement for individuals to provide at times complex, duplicated information to agencies that require the same PAYE information that Inland Revenue already collects. Under this proposal, PAYE information would only need to be provided to Inland Revenue, and Inland Revenue would then represent a single point of contact for PAYE information for taxpayers and other government agencies.
- 8.6 As sharing PAYE information improves timeliness and efficiency, there may be potential for lowering compliance costs and improving efficiency for businesses. Therefore, beyond service improvements, there are potential opportunities for administrative cost savings and efficiencies.

- 8.7 However, any changes regarding the use of personal information must be considered against individual privacy rights and Inland Revenue's secrecy obligations. This consideration needs to be informed by people's views on the balance of better service and a lower-cost public service against the proposal that income information Inland Revenue receives will, within limits, be given to other agencies, with resulting impacts on privacy.

### **The importance of privacy**

- 8.8 Inland Revenue collects and holds different types of taxpayer information, including information about individuals as well as business and company information. The former is protected by Inland Revenue's taxpayer secrecy obligations, as well as the principles in the Privacy Act 1993. This Act controls how agencies collect, use, store and give access to personal information. Almost every person or organisation that holds personal information is an "agency" – this includes government agencies, companies of all sizes, religious groups, schools and clubs.
- 8.9 The Privacy Act is primarily concerned with good personal information-handling practices. It sets out 12 information privacy principles which govern the collection, holding, use and disclosure of personal information and the assignment of unique identifiers. The Privacy Act also regulates the practice of information matching in the public sector through authorised information-matching programmes.
- 8.10 The Government recognises there may be concerns about accuracy, unauthorised access, and the use of personal information for other purposes. In moving to meet the objective of better value for money, the Government acknowledges that an individual's privacy is important. To that end, any proposal to share information aims to encourage better use of individuals' personal information, to deliver improved public services for them, while at the same time, safeguarding their personal privacy. The Government would not implement an information-sharing framework without clear benefits that would address the public's concerns and that deliver tangible benefits to them.
- 8.11 The privacy rights of individuals and the use of an individual's tax information – such as PAYE information – must be finely balanced. Privacy protection is an essential element of voluntary compliance. If an appropriate balance is not struck, this could not only affect the effective delivery of services, but could also undermine future compliance with the tax system.

## Options for PAYE information in the future

### *Information-sharing framework*

- 8.12 In developing a new framework for sharing PAYE information in the future, the Government considers that maintaining the integrity of the tax system and promoting voluntary compliance should always be overriding factors. The administration of the New Zealand tax system relies heavily on taxpayers' voluntary compliance to operate effectively. For taxpayers to be willing to comply with the tax system, it is crucial that they have trust in Inland Revenue. In turn, to retain taxpayers' trust in Inland Revenue, it is important that taxpayers' information is not disclosed inappropriately.
- 8.13 The Government welcomes submissions on whether the proposed information-sharing framework outlined below strikes the appropriate balance between the effective use of PAYE information to deliver tangible benefits for individuals, while at the same time ensuring that current privacy and tax secrecy concerns are addressed.

### *Proposed framework for sharing PAYE information*

- 8.14 PAYE information collected by Inland Revenue would be shared with other government agencies under the following framework:

#### Provision of existing PAYE information

1. PAYE information would only be shared with another government agency if:
  - the government agency seeking access to the information had the ability and the authority to collect that information in its own right; and
  - the information is available and already collected by Inland Revenue.

#### A case is made for sharing

2. Information should only be shared and able to be accessed by another government agency if the sharing of that information is not so highly sensitive that it would likely inhibit individuals from providing accurate information in the future.

And:

- it is uneconomic for that government agency to collect the information themselves; or
- there are clear and high compliance cost benefits to individuals, for that government agency to have access to the information collected by Inland Revenue.

#### Appropriate oversight

3. The final decision about whether Inland Revenue should share information with another government agency should rest with Cabinet, through an Order in Council. The Minister of Revenue and the Minister responsible for the department seeking access to the information, in consultation with the Privacy Commissioner, would prepare a joint report seeking Cabinet's approval for Inland Revenue to share, and for the other government agency to have access to the PAYE information. The specific joint-purposes for which the information would be used would be included in the report, with a view to these purposes being included in the Order in Council to be approved by Cabinet.

- 8.15 This framework would represent a significant step towards meeting the Government's objective of delivering a better, smarter public service while still respecting the value of individual privacy. Government agencies seeking access to Inland Revenue's information would have to be already entitled to that information in their own right. Additionally, the framework recognises that Inland Revenue is able to collect PAYE information more efficiently and economically than other agencies. The proposed new technologies mean that the PAYE information Inland Revenue collects would be received on a more frequent and timely basis, and involve front-end validation so that the PAYE information received is accurate and reliable.
- 8.16 The Government recognises that the proposal outlined in this chapter would mean that PAYE information collected by Inland Revenue may not necessarily be used for the purpose for which it was originally collected. When an agency collects information, it informs individuals why their information is being collected and this consequently determines how information can be used and disclosed. As such, it is important that the purposes are specific and clearly stated.
- 8.17 Under these proposals, before any PAYE information is shared with or accessed by another government agency, the specific purposes for sharing the information would be clearly stated and widely publicised so that individuals to which the information sharing relates, know and are fully informed of the exact purpose for which their information is used. For example, the details surrounding information sharing would be readily available on each individual's online PAYE workspace. It is also proposed that the specific purposes would be listed in an Order in Council and form part of Cabinet's decision as to whether another government agency should have access to Inland Revenue's PAYE information.
- 8.18 This means that the purposes for which Inland Revenue collects PAYE information, that subsequently will be shared, would change to a joint-agency purpose. Once the joint purposes have been set, information would be collected by Inland Revenue, and used by Inland Revenue and the other agency only for those specific and predetermined purposes. This means that PAYE information shared under this proposal would be limited to information collected from individuals after the joint purposes for collection have been set (prospective information), and would not include information Inland Revenue already held about individuals before joint purposes were determined.
- 8.19 Transparency and ensuring that the public is fully informed about the way their information will be handled is an important to protecting privacy. Additionally, the ability and right for individuals to access and correct information about themselves will not change under the proposals. Rather, the personalised online workspace for individuals would allow individuals to have greater access and control over their personal information.

- 8.20 The Government welcomes submissions on this aspect of the proposal, which would enable the purposes for collecting PAYE information to be changed to a joint-agency purpose (between Inland Revenue and MSD in the first instance).
- 8.21 The Government is particularly interested in gauging whether the public considers that this aspect of the proposal would provide individuals with more tailored and improved services across the public service (or more specifically, across Inland Revenue and MSD while still protecting the privacy of individuals).

*The proposal to share PAYE information with MSD*

- 8.22 The information-sharing framework proposed in this chapter would best be applied on an agency-by-agency basis. Therefore, by applying the framework in the first instance, and focusing on PAYE information, the Government considers that sharing PAYE information collected by Inland Revenue with MSD will provide significant benefits over the current information-matching regime, in terms of speed and accuracy for individuals and government, as well as administrative efficiency.
- 8.23 Under the proposals, Inland Revenue would only share PAYE information that is already available within its systems and collected from third parties (such as PAYE information collected from payroll intermediaries). Other information, such as additional audit intelligence information acquired under section 17 of the Tax Administration Act would not be shared. Additionally, Inland Revenue would not share any information with MSD if the provision of that information is inconsistent with Inland Revenue's taxpayer secrecy obligations, or if it impacted on voluntary compliance. This means some relationship information, such as custodial information, would not be provided to MSD.
- 8.24 However, provided that MSD has the ability and authority to collect the information, the following PAYE information could be provided:
- identity and location information such as name, gender, address, employer details, employment commencement and cessation dates; and
  - financial information such as income, tax paid, debt owed, entitlements and/or assistance received.

## **Benefits of the proposal**

*Paying the correct rate:* The social assistance system is designed to respond to income needs and relies on accurate information. Recipients of benefits are required to report any changes in their income, and their benefit entitlements are adjusted accordingly. In practice, people tend to report their wages after they are received, sometimes months later, and with varying degrees of accuracy. The recipient's benefit is adjusted in response to reported income, and is subsequently adjusted again when more accurate wage information is provided. This means there may be a considerable time lag from when wages are in hand to when the benefit is reduced, which may result in a benefit debt. If MSD has access to a beneficiary's PAYE information, adjustments could be made without having to rely on the benefit recipient reporting correct income as it is earned. This would reduce benefit debt.

*Granting assistance:* There can be difficulties in establishing entitlement when an employer winds up a business and the employee does not keep wage information (for example, because the employee is initially confident of finding another job). Access to PAYE information – such as evidence on employment start and stop dates, and on rates of pay – would be useful in granting and cancelling entitlements.

Additionally, under the proposals, Inland Revenue's PAYE information could be used by MSD for various other purposes (as appropriate), including:

- avoiding fraud or evasion;
- improving the cost efficiency of both departments by removing information duplication and improving accuracy and timeliness;
- statistics and evaluative purposes; and
- developing better targeted and effective policy.

## ***Current information matching regime***

8.25 Information matching is the current regime through which government agencies (such as Inland Revenue) exchange information with other government agencies and is often used by agencies as an auditing and verification function. Information matching generally involves comparing personal information from one set of records against personal information from another set of records, for the purpose of producing or verifying information (usually a name) about an identifiable individual, generally with the aim of finding records in both sets that belong to the same person.<sup>1</sup>

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<sup>1</sup> The current information matching regime is regulated through part 10 and schedules 3 and 4 of the Privacy Act 1993.

- 8.26 The current framework recognises that there are many reasons that government agencies may wish to share personal information. Information matching is an accepted, statutory mechanism for agencies to use when the information they have collected for one purpose is to be disclosed to another agency for a different purpose on a routine basis. The safeguards provided by information matching ensure that this erosion of an individual's privacy rights only takes place in an appropriately controlled, transparent environment. For example, requiring matches to be contained in primary legislation provides transparency and accountability.
- 8.27 The current regime provides a mechanism for information exchanges, and there are no limits to the number of records that can be matched in an information exchange. That is, information matching can provide a high degree of specificity by allowing one agency to access another agency's information in order to look up an individual and also to identify clients as a whole.
- 8.28 Currently, information collected by Inland Revenue – such as, PAYE information – is matched with other government agencies under specific information matching agreements. Inland Revenue currently has eight information-matching agreements with MSD – five of these involve the disclosure of Inland Revenue-collected personal information. For Inland Revenue, these agreements are prescriptive and are focused on enforcement. The current information-matching regime does not require agreements to be focused on enforcement, and Inland Revenue could broaden its information matching activities to achieve more effective and efficient sharing of PAYE information.
- 8.29 Under this option, Inland Revenue could update its current information-matching programmes. Increasing the frequency in some instances, and adding new information matches when necessary could allow more efficient use of information. This option would mean that current PAYE information would continue to be exchanged under updated information-matching agreements. However, any new information exchange or matching initiative would require a new information-matching agreement. This would need to go through the process of legislative authorisation.

### **A better, smarter public service**

- 8.30 Although the current information-matching regime is a proven mechanism for exchanging information, the Government considers that through more effective and efficient use of Inland Revenue's PAYE information, there is scope to achieve better value for money from the public service within a limited increase in public funding.

- 8.31 As noted above, there are increasing expectations on the public service to deliver services that are both efficient and individually tailored. The proposed framework outlined in this chapter would allow, within limits, PAYE information collected by Inland Revenue to be freely accessible to other government agencies. Other agencies would then subsequently be able to use the Inland Revenue-collected income information to provide services to their customers. This means that in certain cases, an individual's entitlements and obligations could be met without the individual having to provide the same information multiple times to different agencies as Inland Revenue would already have collected the information through the new electronic PAYE environment that is being proposed.
- 8.32 The Government recognises the importance of privacy and acknowledges that any framework that appears to depart from the Privacy Act must be thoroughly examined. The proposal that Inland Revenue-collected income information will, within limits, be given to other agencies has impacts on privacy. Although there is huge potential to make better use of personal information to deliver benefits to the public, this will be realised only if the public trusts the way the Government handles personal information. The Government has the responsibility to ensure that information available to it is used in the most efficient and effective way possible to achieve its goals. However, in doing so, it needs to adopt and develop a framework that is transparent and affects the privacy rights of individuals. Therefore, the Government welcomes submissions on any or all aspects of the information-sharing proposal.

## CHAPTER 9

### Releasing information for tax administration purposes

- 9.1 Inland Revenue is required to keep secret all information it collects under the tax laws. There are two main exceptions to this requirement:
- information can be disclosed when it is necessary to do so for tax administration purposes; and
  - information can be shared with other government agencies for non-tax purposes under specific statutory exceptions.
- 9.2 This chapter discusses whether the tax secrecy provisions provide sufficient flexibility for Inland Revenue to administer the tax system in an optimal way. It proposes a new framework that will help to provide a more effective tax system while providing appropriate restrictions over the use of tax information.

#### Inland Revenue's secrecy obligations

- 9.3 The effective administration of the New Zealand tax system relies heavily on taxpayers voluntarily complying with that system. In order to be willing to comply with the tax system, it is crucial that taxpayers have trust in Inland Revenue. To retain taxpayers' trust in Inland Revenue, it is important that taxpayers' information is not disclosed inappropriately.
- 9.4 At the same time, Inland Revenue must be able to disclose information to taxpayers and third parties, when it is reasonable to do so, in order to operate the tax system efficiently.
- 9.5 An appropriate balance, therefore, needs to be struck in situations where these principles are inconsistent with each other. Currently, section 81 of the Tax Administration Act governs how these principles are reconciled. This section strictly prohibits disclosure of any information relating to tax legislation except when reasonably necessary to carry into effect Inland Revenue Acts, or when a specific exception applies. Some specific exceptions relate to tax administration purposes and other specific exceptions relate to disclosure for non-tax purposes. Before disclosing individuals' personal information, Inland Revenue must also consider the principles contained in the Privacy Act.
- 9.6 The strictness of the current secrecy rules can be seen as promoting the principle that taxpayers' information is not disclosed inappropriately. However, the rules provide insufficient flexibility to administer the tax system in an optimal way.

- 9.7 When a conservative interpretation is taken, Inland Revenue can be prevented from making disclosure to administer the tax legislation – even when the disclosure provides benefits (such as efficiency or promotion of taxpayer compliance) that outweigh any costs.
- 9.8 There is a range of potential initiatives involving disclosure of information related to administering the tax system which have benefits (such as efficiency or taxpayer compliance), but which may not be necessary to administer the tax system.
- 9.9 When the benefits of disclosure for a particular initiative are sufficiently high, legislative uncertainty has been resolved in the past by adding a specific exception to the legislation clarifying that disclosure is permitted. An example of this is a specific provision introduced in 2007 to ensure that Inland Revenue can inform a taxpayer whether the person who is preparing the taxpayer's return of income is listed as a tax agent.
- 9.10 The Government proposes changes to the tax secrecy rules that would allow Inland Revenue to administer the tax system more efficiently.

#### **Proposed legislative change to the tax secrecy rules**

- 9.11 To provide administrative flexibility, while still reflecting the importance of protecting information held by Inland Revenue, the following changes to the secrecy provisions in the tax rules are proposed.

#### ***Lower threshold for release of information for tax administration purposes***

- 9.12 As noted above, Inland Revenue is currently permitted to disclose information only when it is reasonably necessary to administer the tax laws. However, this provides insufficient flexibility for Inland Revenue to administer the tax system in an optimal way. The Government proposes this threshold be replaced with a requirement that the disclosure is for a purpose that is related to the administration of the tax system (and Inland Revenue's related functions such as administration of KiwiSaver and child support). It would be clarified that "administering the tax laws" for these purposes would include measures aimed at protecting the integrity of the tax system or promoting taxpayer compliance.
- 9.13 Under this proposal, Inland Revenue could disclose information in a greater range of circumstances. Any lowering of the threshold is likely to result in concerns that taxpayer information may be released inappropriately. To mitigate this concern, the Government considers that Inland Revenue should be required to explicitly consider the integrity of the tax system and the importance of promoting compliance, especially voluntary compliance, by all taxpayers before releasing information to another agency.

***Explicit consideration of sections 6 and 6A before release of information***

- 9.14 Sections 6 and 6A of the Tax Administration Act are the fundamental guiding principles that are the basis for Inland Revenue’s administration of the tax system.
- 9.15 Section 6 requires that Inland Revenue officers must protect “the integrity of the tax system”. “The integrity of the tax system” includes, but is not limited to:
- taxpayer perceptions of that integrity;
  - the rights of taxpayers to have their liability determined fairly, impartially and according to law;
  - the rights of taxpayers to have their individual affairs kept confidential and treated with no greater or lesser favour than the tax affairs of other taxpayers;
  - the responsibilities of taxpayers to comply with the law;
  - the responsibilities of those administering the law to maintain the confidentiality of the affairs of taxpayers; and
  - the responsibilities of those administering the law to do so fairly, impartially, and according to law.
- 9.16 Under section 6A, Inland Revenue is charged with the care and management of taxes. In exercising this discretion, Inland Revenue must consider the importance of promoting voluntary compliance.
- 9.17 The Government considers that the proposed rules should require Inland Revenue to explicitly consider how a proposed disclosure will impact on the following key principles reflected in sections 6 and 6A:
- integrity of the tax system;
  - promotion of voluntary compliance; and
  - administrative efficiency.
- 9.18 The Government considers that the Inland Revenue should also consider the sensitivity of the information to the taxpayer. This would ensure that taxpayer-specific information that is more sensitive (such as information about child support payments) receives higher protection. If Inland Revenue is the only agency that holds the information, it is likely to be more sensitive.
- 9.19 The requirement would ensure that Inland Revenue could not make a disclosure, and is not compelled to make a disclosure, unless upon consideration of the factors outlined above, the benefits of the disclosure outweigh the disadvantages.
- 9.20 Higher benefits to the integrity of the tax system, the promotion of voluntary compliance, or administrative efficiency would have to be demonstrated before there was any disclosure of taxpayer information of a more sensitive nature.

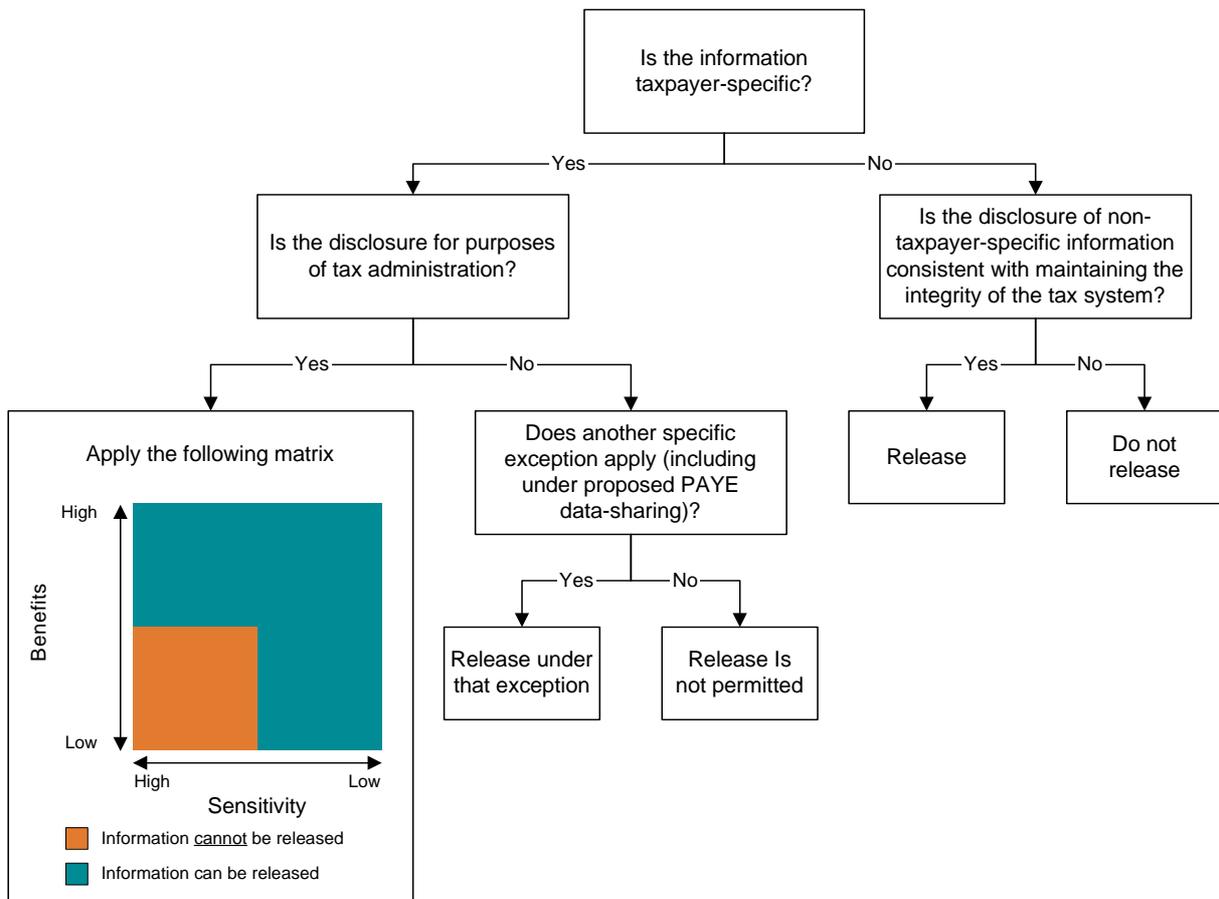
9.21 As noted above, Inland Revenue also considers the principles contained in the Privacy Act 1993 before disclosing individuals' personal information. This would not change under this proposal.

**Information that does not identify a taxpayer**

9.22 Currently, Ministerial authorisation is required before information that does not relate to an identifiable taxpayer can be disclosed for non-tax purposes. Because this imposes compliance costs for researchers studying the tax system, this rule sometimes hinders research that would assist in designing a better tax administration. The Government proposes that this requirement be removed. This means that information about Inland Revenue's processes or aggregate data about taxpayers could be released without Ministerial authorisation, as long as this was consistent with protecting the integrity of the tax system and promotion of taxpayer compliance.

9.23 The process outlined in Diagram 1 demonstrates how Inland Revenue could apply the new secrecy rules.

**Diagram 1: Proposed secrecy rules process**



9.24 Below are some examples of how the proposed rules would work in practice.

*Circumstances when information may be disclosed*

**(a) Providing a public explanation of an Inland Revenue administrative decision that involves a taxpayer**

An example of when Inland Revenue might not be able to disclose information under the current rules is when a high-profile tax investigation has been incorrectly reported in the media, and public comment on limited relevant aspects by Inland Revenue on the case would protect public perceptions of the integrity of the tax system.

In the majority of tax investigation cases, Inland Revenue should not provide any public comment. This is because an important element of protecting the integrity of the tax system is a taxpayer's right to have his or her individual affairs kept confidential. However, in some circumstances, the need to protect taxpayer perceptions of the integrity of the tax system might outweigh these confidentiality considerations. This is particularly so when the taxpayer has already commented publicly about the matter. Under the current rules, it is not clear if disclosure could be made. The proposed rules would allow Inland Revenue to provide limited, relevant public comment when protection of taxpayer perceptions of the integrity of the tax system outweigh confidentiality considerations.

Under the new rule it would be clear that Inland Revenue could release information in this situation.

**(b) Releasing the fact that a taxpayer has a tax debt to a credit reporter**

Disclosing the fact that a taxpayer has an outstanding tax debt to a credit reporter would be a possible strategy to improve taxpayer compliance. The underlying assumption is that it would encourage taxpayers to pay their tax debt to avoid their credit rating being affected. Although in certain circumstances this disclosure may be an appropriate strategy to improve taxpayer compliance, and therefore the integrity of the tax system, it is arguably not sufficiently necessary to administer the Inland Revenue Acts.

If there is good reason to believe that this type of disclosure would be an effective compliance tool in certain circumstances, under the proposed rules disclosure is likely to be a purpose that is related to the administration of the tax system. The disclosure should be made only if it is consistent with protecting the integrity of the tax system. As noted above, taxpayers' rights to have their individual affairs kept confidential is important. Other components of the integrity of the tax system, such as taxpayer perceptions of the integrity of the tax system, and the responsibilities of taxpayers to comply with the law, must be considered. Advising a credit bureau that a taxpayer has a tax debt is likely to enhance these components, as other taxpayers would have confidence

that the tax system encourages taxpayers to comply with the law. When balancing these different components, it may be appropriate to make a disclosure only in limited circumstances, such as when the debt amount is significant, overdue and not the subject of a dispute.

Under the proposed rule, it would be clear that Inland Revenue could release information in this situation. Before any release of information, the taxpayer concerned would be notified and given the opportunity to pay any arrears or raise any concerns.

**(c) Answering phone queries from a family member of a deaf or non-English speaking taxpayer**

It is not clear if the current rules permit Inland Revenue to answer phone queries made on behalf of a deaf or non-English speaking taxpayer from a relative or friend.

This is because it is not clear that disclosing information to the taxpayer's relative or friend would meet the current test of being "reasonably necessary", given that the taxpayer could make enquiries in writing. While a specific exception allows Inland Revenue to release information to a taxpayer, his or her agent or their legal representative, a friend or family member will usually not fall under this category (a taxpayer's agent or legal representative generally has associated responsibilities such as filing or fiduciary obligations).

Under the proposed rules, it would be clear that Inland Revenue would be able to answer such queries when the taxpayer has authorised the relative or friend to ring Inland Revenue on their behalf. The purpose of the disclosure is related to the administration of the tax system. When the taxpayer has authorised the relative or friend, this disclosure would be consistent with protecting the integrity of the tax system and promoting compliance.

Under the proposed rule it would be clear that Inland Revenue could release information in this situation.

***Circumstances when information would not be disclosed***

**(d) Employer wants to know whether employee has a second job**

A taxpayer's employer asks Inland Revenue whether a taxpayer has a second job. The employer suspects the taxpayer has a second job, which is in contravention of the taxpayer's employment agreement. The information is related to a specific taxpayer and the disclosure is not for a purpose that is related to the administration of the tax system. No other specific exceptions apply.

Inland Revenue should not release information in this situation.

**(e) GST refund thresholds**

A person asks Inland Revenue at what threshold GST refunds are sent automatically. This information could potentially be used to defraud the tax system. Although this information is non-taxpayer specific, its release is likely to harm the integrity of the tax system.

Inland Revenue should not release information in this situation.

***Improving legislative navigability of rules***

- 9.25 The Government considers that the large number of specific legislative exceptions to the secrecy rules should be reorganised so that it is clear which exceptions are examples of disclosures that are related to tax administration purposes, and which are disclosures that are unrelated (or not primarily related) to the administration of the tax system. This would improve legislative navigability.

***Operational guidelines***

- 9.26 The proposal would allow Inland Revenue more flexibility to administer the tax system based on an assessment of risks, benefits and costs. This means the proposed rules would require more judgement and consideration than the current rules. It will be important that the proposed rules are applied consistently by Inland Revenue to different situations. The proposed option is that Inland Revenue should develop operational guidelines, in the form of a standard practice statement, to explain how Inland Revenue would exercise its discretion and how the proposed rules would be administered in different situations.
- 9.27 The standard practice statement would categorise disclosures according to the type of information and the recipient of the disclosure. It would outline the process for disclosure and the level at which different types of disclosures would be signed off.
- 9.28 The standard practice statement would be developed in consultation with the Privacy Commissioner, and professional bodies such as the New Zealand Law Society and the New Zealand Institute of Chartered Accountants.
- 9.29 In addition, the proposed legislative provisions should not take effect until the standard practice statement has been published.

**Questions for submitters**

Do you think tax information should be shared, more broadly, if it would mean improved services and less hassle?

In what circumstances should Inland Revenue release taxpayer information for tax administration purposes?

Do you agree that information should be released in the scenarios outlined in paragraph 9.24? Are there other scenarios when Inland Revenue could release taxpayer information?

The proposed test for releasing information for tax administration purposes would require higher benefits of disclosure to be demonstrated before releasing sensitive taxpayer information. The benefits must be to the integrity of the tax system, the promotion of voluntary taxpayer compliance, and administrative efficiency). Do you agree with these criteria? Are there other criteria that should be considered?

Should taxpayer consent be a factor in whether information is disclosed?