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Inland Revenue report: Transformation status update: May 2019

Date:	11 June 2019	Priority:	Medium
Security level:	In confidence	Report number:	IR2019/201

Action sought

	Action sought	Deadline
Minister of Finance	Note the contents of this report	None
Minister of Revenue	Note the contents of this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone
Greg James	Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA

11 June 2019

Minister of Finance
Minister of Revenue

Transformation status update: May 2019

Executive summary

1. This report summarises the progress and highlights of transformation for May 2019. The revised order of content has been retained for this month's report, as the automatic issuing of refunds and bills to pay is now well underway.
2. As at 7 June 2019, more than 506,000 refunds had been issued, totalling more than \$218 million. Approximately 75,000 tax bills were issued, totalling \$27.1 million. Just over 208,000 tax bills were written-off.
3. We are continuing to see high volumes of customer interactions across phones, in our offices, and via our online services. Demand for myIR is at unprecedented levels. Daily usage has increased from 200,000 to over 300,000, with some days in excess of 400,000 and even 500,000. While there have been some short periods when login times have been longer than acceptable, or the service has been unavailable, these have been resolved very quickly.
4. While high volumes are continuing to stretch our systems and people, overall issues are being actively managed and resolved.
5. The system is working effectively. From 26 April to 2 June 2019, approximately 2 million returns were processed, and more than 856,000 Working for Families payments were made. Approximately 170,000 employers had filed payday returns from 1 April 2019 to 2 June 2019.
6. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown in table 1 below). The status of some keys has changed since the last transformation status update (IR2019/145 refers).

Table 1: Transformation's RAG status

	Overall	Scope	Risk	Issues	Inter-dependencies	Schedule	Resource	Stakeholder Engagement	Delivery Partners	Financials	Benefits
CURRENT	Amber	Light Green	Light Amber	Light Amber	Light Green	Light Amber	Amber	Light Green	Light Green	Green	Light Amber
PREVIOUS	Amber	Light Green	Amber	Light Amber	Light Green	Light Amber	Amber	Green	Light Green	Green	Light Amber

7. The risk key has improved to light amber following the successful go-live of Release 3. The stakeholder engagement key has deteriorated slightly to light green as a result of some pressure on our internal subject matter experts in two areas – solution design reviews for Release 4 and the replacement of our enterprise support services platform.

Recommended action

8. I recommend that you **note** the contents of this report.

Noted

Noted

Greg James

Deputy Commissioner, Transformation

11 June 2019

Hon Grant Robertson

Minister of Finance

/ /2019

Hon Stuart Nash

Minister of Revenue

/ /2019

Automatic assessment of individuals' income tax position for the 2018/19 year

9. Survey results from research completed before the automatic assessment process showed us that 73% of individuals were aware of the changes being made to simplify the tax process. Awareness was higher amongst people who had previously requested a personal tax summary, at 83%. Customers had a high awareness of the specific changes affecting them; with 70% saying they know they'll be informed if they've paid the right amount of tax, and 80% aware the process is now automatic. These results show that our communications and marketing activity is hitting the mark.

10. Over an 8-week period from 20 May to mid-July 2019, approximately 2.5 million individuals are being progressively informed whether they have a tax refund or bill for the 2018/19 year.

11. We have now completed the first six runs (of sixteen in total) for 1,054,507 customers. As at 7 June 2019, 851,372 assessments had been completed:

- 506,017 refunds were issued totalling \$218,079,440 at an average of \$431 per customer
- 59,701 refunds were less than \$1 and will be held until the amount reaches \$1 (total value of \$16,853 with an average of \$0.28 per customer)
- 208,552 bills for tax to pay were less than \$50 and will be written-off (total value \$1,421,173 at an average of \$7 per customer)
- 75,424 bills for tax to pay of more than \$50 were issued (total value \$27,073,217 at an average of \$359 per customer)
- 1,678 were nil assessments (people paid exactly the right amount of tax)

12. We sent 267,453 requests for more information to customers, for example, asking them about other income or deductions they may be able to claim. Customers have 45 days to provide any additional information required. Approximately 64,000 customers have already responded and are included in the refunds and bills to pay numbers above.

13. Our latest estimates, based on 2017/18 tax year data and including portfolio investment entity income,¹ are that in total:

- 1.4 million refunds will be issued; 1.1m automatically and 279,000 once the customer has provided their bank account
- 177,000 customers will have very small refunds (less than \$1) carried forward and paid out once the amount exceeds \$1;
- 306,000 bills for tax to pay will be issued – approximately 124,000 customers will have additional tax to pay for the first time; and
- 630,000 bills for tax to pay will be written-off as they will be below \$50.

¹ These figures now include portfolio investment entity income so differ from figures previously provided (BN2019/148 refers). Without PIE income the estimates are 1 million refunds issued automatically and 320,000 once the customer has provided their bank account, 195,000 small refunds which will be held, 240,000 bills for tax to pay issued including 86,000 for the first time, and 620,000 bills written off.

14. From the analysis we have completed to date, it appears a significant number of customers are using an incorrect prescribed investor rate for income earned through portfolio investment entities. As a result, it is likely that these customers will have tax to pay for the 2019 income tax year.

15. For the 2020 income tax year, we will be proactively contacting these customers to ensure they have the correct rate. In future years, we will be able to proactively contact customers during the year if we identify they are using an incorrect rate.

16. Over time, we expect the average value of end-of-year refunds or bills to reduce. Most wage and salary earners will pay what they need to and get what they're entitled to during the year, rather than having to wait until the end of the year.

Maintaining services for customers

17. We are continuing to see high volumes of customer interactions across phones, in our offices, and via our online services. While this is continuing to stretch our systems and people, overall issues are being actively managed and resolved.

18. All Stage 1 and Release 2 products have continued to operate successfully. New tax types and Working for Families migrated in Release 3 are working as designed and there has been no disruption to Working for Families payments. From 26 April to 2 June 2019, approximately 2 million returns were processed, including approximately:

- 831,000 employment information returns
- 343,000 GST returns
- 672,000 individual income tax returns.

19. In addition, more than 856,000 Working for Families payments were made.

20. As at 2 June 2019, approximately 170,000 employers had filed payday returns since 1 April 2019. Many are filing digitally, with around 45% of employers filing their payday return using software.

21. This leaves approximately 35,000 employers who are yet to file a payday return. It is important to note that not all employers are required to file employment information every month. We expect this to be around 10% to 15% of employers in any given month.

22. There remains a small portion of employers who may be required to file a payday return but, as yet, have not done so. We have sent a reminder e-mail to employers who may have been required to file a payday return in April 2019 and are continuing to proactively phone selected employers to understand if they require any assistance to file. Micro businesses are a particular area of focus as we help them adjust to the new requirements.

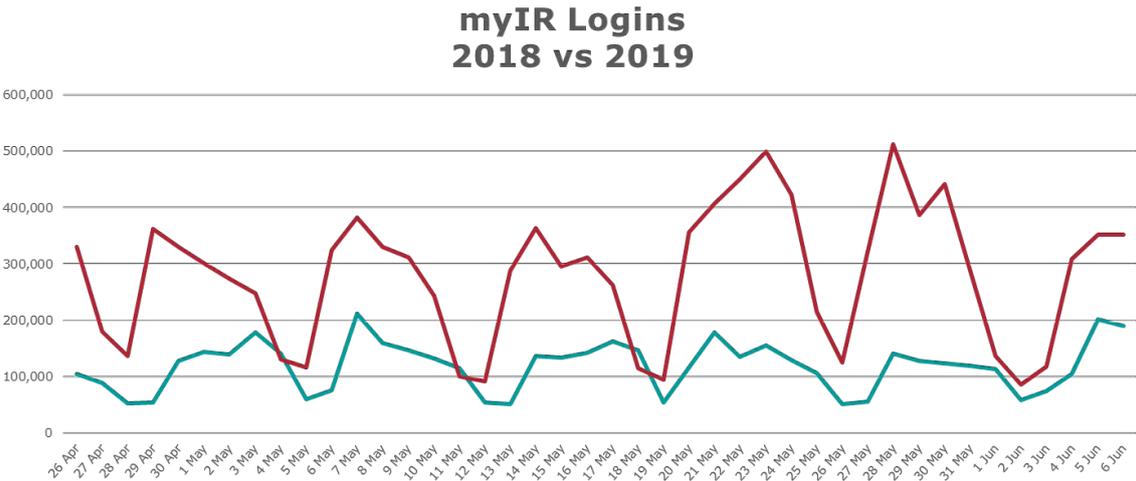
23. Although there are a number of issues affecting customers and tax agents, these are primarily small teething problems which we are focused on resolving. Tax agents have signalled increasing concern about the compound effect of a number of small issues. We are taking this seriously and are working with tax professional bodies to identify and agree

the top priorities so the right mix of support can be provided to tax agents. The top 20 issues have been identified and we have set up a dedicated team to resolve them.

24. There has been a massive increase in online registration and usage which has placed some stress on our IT infrastructure. While there have been some short periods when login times for myIR have been longer than acceptable, or the service has been unavailable, these have been resolved very quickly. We are constantly monitoring and fine-tuning all our infrastructure including 0800 number capacity, the kiosks in our offices, firewalls, authentication services, email processing, and our new website.

25. Daily average myIR usage has increased from 200,000 to above 300,000, with some days in excess of 400,000 and even 500,000. As at 6 June 2019, there have been 11.7 million logins since go-live. This is an increase of approximately 135% compared to the same time last year, which saw 5.0 million logins. Logins to myIR are regularly exceeding the previous record of 289,000 logins in a day. In the 42 days since go-live, logins to myIR have exceeded last year's record on 23 days. The graph below shows volumes this year compared to last year.

Graph 1: Daily logins to myIR – this year compared to last year



26. While it is pleasing to see customers adopt digital channels, high call volumes remain a challenge. We are looking into whether customers are calling in addition to using online services to seek reassurance and, if so, what we can do to reduce these 'comfort calls'. It will take time for customer behaviour to change as we work to build their trust in our online services.

27. Our Pou Whirinaki (extended support period) team continues to monitor impacts to our customers, business, staff and systems, and report on them daily. The daily "In the Know" reports are published on our intranet to provide transparency. Please refer to annex A for an example report.

28. At the date this report was written, there were no major issues to report.

Release 4

29. All design teams, including the test preparation team, are tracking behind schedule, as early life support for Release 3 remains the priority for key subject matter experts. As a result, the business function definition (which describe what the solution needs to do for a particular activity, for example register a customer) phase will be extended until the end of July 2019. This has a flow-on impact to business systems testing (making sure START works as expected) which has been extended by one month to ensure adequate time for solution development and verification prior to testing. This will not impact our end date for testing, as we are able to absorb the extra month into the contingency window. We expect to finish testing in March 2020.

Key risks and issues

30. The programme's risk profile remains amber, with a future trend of amber. An amber profile means risks and mitigations are reasonably defined and understood, and support is needed from senior leaders to actively manage specific issues in defined areas.

31. No new issues (risks that have been realised) were reported to the Portfolio Governance Committee (PGC) during the month.

32. As at May 2019, the programme had a total of 52 open risks,² of which 15 are reported to the PGC.

33. One risk reported to the PGC was closed during the month. This risk related to performance testing for Release 3 potentially impacting customers' ability to use our online services. As Release 3 has gone live, this risk has been closed. We are considering how we approach performance testing for Release 4 so that this risk does not recur.

34. A new risk was raised and reported to the PGC during the month. There is a risk that continued pressure on our wider business and competing priorities mean that we will be unable to commit the resources needed to Release 4 between now and November 2019. This risk is currently rated as high; the likelihood of this risk occurring is possible, with moderate consequences if it did. This risk is related to the risk below and will be re-assessed in mid-June 2019 once we have a clearer view of how customers are responding to the new automatic income tax assessment process.

35. One existing risk was escalated to the PGC during the month. This risk relates to the planned go-live date for Release 4 not being met. As reported last month (IR2019/145 refers), there is some resource contention as people required for Release 4 remain focused on early life support for Release 3. This risk will be re-assessed in mid-June 2019, as the probability of people being freed up to work on Release 4 is increasing. It is currently rated as very high; the likelihood of this risk occurring is possible, with major consequences if it did.

² The number of open programme risks has declined by one; four risks were closed during the month including one reported to the PGC, and three new risks were opened, one of which is reported to the PGC.

36. The status of the risk relating to our ability to respond to a major incident has improved since the last status update (IR2019/145 refers). The current rating for this risk has improved from extreme to very high. The likelihood of this risk occurring is currently possible, with major consequences if it did. Prior to go-live we completed a 'mock dry-run' of a major incident and have established a proactive monitoring and change control team. While we have experienced some isolated issues with our online services since go-live, we have resolved them promptly.

37. In response to the Minister of Revenue (IR2019/145 refers), the rating for the two risks reassessed last month is medium. The likelihood of both risks occurring is currently rare, with major consequences if they did. These two risks related to Government's confidence in Inland Revenue's ability to deliver and contingency funding being applied to competing pressures/priorities.

38. The top risks for transformation are support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, timing of benefit realisation, and meeting the planned go-live date for Release 4 (an addition to this list following escalation to the PGC). Mitigations are in place for all risks.

Finances

39. The overall budget (excluding the contingency held by the Commissioner) for the transformation programme, from 1 July 2018 until 30 June 2019, is \$182.3 million for operating expenditure and \$93.45 million for capital expenditure.

40. From 1 July 2018 to 30 April 2019, operating expenditure was \$18.9m under budget and capital expenditure was \$2.5m under budget. Based on current forecasts, we expect to complete the delivery of Release 3 within budget (including the contingency held by the Commissioner).

Other updates

Enterprise support services

41. The first group of functions went live in our new enterprise support services platform on 7 February 2019. This was timed to be well-ahead of go-live for Release 3 and moved budgeting and forecasting into the new system.

42. We had planned to shift finance, procurement, and some of our HR functions onto the new platform on 1 July 2019. However, due to a number of data issues, we have been unable to successfully complete our third mock data conversion. This involves testing the migration of data into the new system. The data migration needs to be complete and clean before we can test payroll integration. This delay is not cause for concern.

43. The PGC has approved a delay in go-live to give us time to resolve the outstanding issues. The new go-live date will be determined at the PGC meeting in June 2019.

Making more intelligent use of information

44. With the analytical capability available to us in START, we have the ability to track people's movements throughout myIR and there are alerts built in to let us know when anyone is attempting to do anything untoward. For example, we were able to move quickly to shut down a scam where bank accounts appear to have been misused to generate fraudulent transactions.

45. In addition, our new data intelligence platform brings together data from many different places so that our people can quickly access more information and insights about our customers and help them to get it right from the start.

46. This capability has helped us to be more responsive to customer feedback following go-live of Release 3. The new platform is able to analyse the notes our contact centre people put in START when talking to customers and lets us know the common themes or issues that are popping up. This has enabled us to adjust our communications approach, for example, creating new social media posts or revising website content to address these issues.

Coming up in the next two months

47. Key activities over the next two months include:

June 2019

- Continuing to prioritise and respond to requests for support.
- Continuing to communicate with individual customers about their outcome for 2018/19 year from the new year-end process.
- Exit the hyper care phase of the extended support period for Release 3.

July 2019

- Complete the automatic tax assessment process for 2018/19 for individuals.
- Begin business system testing for Release 4.
- Finalise the July 2019 Transformation Update for consideration at the Cabinet Government Administration and Expenditure Review Committee on 25 July 2019.

Annex A – Example of the daily “In the Know” report

Thu 30 May 5:14PM

Pou Whirinaki: 30 May 2019

Key metrics

- Yesterday we had 387,000 logons to myIR, down from 512,000 on Tuesday.
- The following metrics reflect the number of returns processed through the system yesterday, and are indicative of processing, rather than the total returns reported in official documents.
 - 1,786 GST returns
 - 21,726 Employment Information
 - 145,738 Individual income tax returns
 - 1,777 Non-Individual income tax returns
 - 2,180 Donation Tax Credits

Customer

- Nothing new to report today.
- Similar themes from tax agents and responses to the new automatic assessment.

ATAINZ

Here's a copy of some feedback from the ATAINZ group:

"The general consensus from the members regarding myIR was that the system gets an 8 out of 10 so far.

Additional comments were:

They are busy familiarising themselves with the different look of INC.

They are not administering WFTC on behalf of clients despite the increased access to WFTC information and services.

They realised that there would be a number of problems with the system and so are understanding of the problems encountered to date.

They are glad we rolled out the new system in stages as it gave them the chance to become familiar with the system with GST prior to INC being moved."

People

- Naomi met had her regular catch up's with PSA and TAXPRO this week. Part of their feedback about release 3 was concern for people's well being. She fed that back to the Pou Whirinaki team and we are working through next steps.

Business

- As expected, high demand continues across all our channels. Great news is that our self service options (MYR and IVR self service are also seeing huge uptake and usage!)
- Front of House is busy across the regions, with Manukau consistently receiving a high number of walk-ins, and Invercargill had a record 100 customers through the door in a day. The themes remain consistent with our other channels, including updating customer details, Working for Families payments and customers coming to sites because they can't reach us through other channels (e.g. voice).
- Using the DIP (data intelligence platform) to understand the feedback from our auto calculation process over the past two weeks we are only seeing a 3% contact rate from those in each select.
- We have pulled together a great networked response to feedback raised from tax agents. We are already getting positive feedback from the workshop this week. Thank you to everyone that is helping with this response.

Technical

- 47 changes (including 1 P2) were migrated into PROD last night. The P2 fix (ISS0040522) was for START Returns - File Noticing Output (from START Production to E-File) - due date information was incorrect.
- Yesterday we experienced slow performance for MyIR over a 30min period in the later afternoon due to inefficient processing caused by one of our intermediaries running clean up work in their workspace. We expect this to be permanently resolved with a fix tonight.
- There are 10 changes, including 2 P2s planned for this evening subject to change readiness approvals.
- We currently only have 3 open P2s, 1 is a major issue coordinating our response to tax agents, 1 is expecting to have a fix in Production tonight and 1 is a work in progress.

IN CONFIDENCE