



**Inland Revenue**  
Te Tari Taake

**Inland Revenue report: Business Transformation programme:  
Status update for joint Ministers –  
March 2017**

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<b>Date:</b>	29 March 2017	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2017/204

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the attached status update	None
Minister of Revenue	<b>Note</b> the attached status update	None

**Contact for telephone discussion** (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Greg James	Deputy Commissioner, Transformation	04 890 3381 (wk)

29 March 2017

Minister of Finance  
Minister of Revenue

## **Business Transformation programme: Status update for joint Ministers – March 2017**

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1. This report summarises the programme's progress and highlights over the last month. A high-level view of overall progress can be found in the attachment 'BT programme status March 2017'.

### **Summary**

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2. Stage 1 of the Business Transformation programme went live on 7 February 2017 and the new system is working as expected. As at 19 March 2017, \$3.3 billion had been paid through the new system.

3. Overall feedback from customers has been positive. However, there are some groups, such as tax agents, who are experiencing challenges with the initial set up. We are providing further support to these groups and the focus is on actively resolving their issues.

4. On 23 March 2017 the Portfolio Governance Board (PGB) considered results from the final Stage 1 checkpoints of the business readiness framework. As results showed the new processes and systems have stabilised the PGB decided to formally close Stage 1. Full systems handover to day-to-day operational management will take place on 31 March.

5. Stage 2 work is progressing and momentum is expected to build as the focus shifts from Stage 1. We are now implementing new structure and governance arrangements to ensure all Stage 2 elements are fully supported and lessons learned from Stage 1 are taken into account. Detailed business design continues.

6. The programme's overall RAG (Red, Amber, Green) status for March is Amber, including both Stage 1 and 2 work programmes.

7. Stage 1 has been delivered ahead of schedule and under budget. The underspend will be made available for future stages.

## **Stage 1: GST in the new system**

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9. Performance statistics show thousands of customers are benefitting from the service improvements.

*From the 7 February 'go-live' to 19 March 2017:*

- \$3.3b has been paid through the new system
- 218,802 GST returns have been filed through the new web service
- 76% of GST returns have been filed digitally, compared to 70% for the same period last year.

*The new tax system is better than the old:*

- 37,257 people have taken up the new direct debit option, saving them having to pay separately to filing
- 1,574 people have set up a payment plan online, instead of having to call to negotiate it
- 451 attachments have been uploaded online, saving people from having to post them in.

### *Customer experience*

10. The feedback we have been receiving from customers and customer service staff has been generally positive. This is backed up by the high usage figures shown above.

11. Although most customers are working well with the new tools, some groups of customers, such as tax agents, are experiencing challenges. A report outlining the extra support we are providing customers post 'go-live' was sent to the Minister of Revenue on 10 March 2017 (*IR2017/174: Stage 1 post 'go-live' support for customers*).

12. The report noted the immediate issues for tax agents, including:

- feeling unprepared for the changes (despite pre go-live communications)
- initial set-up activities requiring more effort than expected, including delegating systems access to administrators and uploading client details
- delays in getting the support needed from Inland Revenue.

13. We are actively working to provide extra support to customers and have:

- provided more staff to respond to demand
- published further guidance, regularly updated, on our website
- set up an active communications programme that includes site visits and 1:1 sessions with customers. This is in addition to customer communications already planned and in progress.

14. The need to spend more time with tax agents preparing them for change is being factored into Stage 2 planning.

15. Other issues raised included:

- key tasks, such as GST reconciliations, taking longer to complete
  - we are working with software providers to find a solution for this

- additional effort needed to move between GST periods and to transfer GST credits to other tax types
  - this is a co-existence issue that can only be resolved in Stage 2
- START does not work with older technology (pre-2006)
  - those who do not wish to upgrade their technology can still do transactions through myIR.

16. Senior Service Delivery managers are working closely with the programme team to manage post go-live issues, including any technical issues that may arise. In the weeks since releasing our post go-live report, we have been steadily resolving the priority issues and requests for support have been trending downwards.

17. We also received some useful feedback on the new GST system at the ATAINZ (Accountants and Tax Agents Institute of New Zealand) conference on 3 March 2017, some of which was strongly expressed by several delegates. Follow-up discussions with ATAINZ indicate the majority of feedback to be generally positive.

#### *Completion of Stage 1*

18. Systems handover on 31 March is taking place a month earlier than scheduled. This is due to the successful completion of the previous month's major events (for example 28 February GST filing date and month end), and day-to-day operations being fully prepared to take over the systems and resolve residual issues. The earlier handover will further benefit Stage 2 development.

## **Stage 2**

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19. Policy and legislative highlights for the month include:
- The Taxation (Annual Rates for 2017-2018, Employment and Investment Income, and Remedial Matters) Bill is expected to be introduced in the week of 29 March 2017. The Bill includes the PAYE and investment income information proposals.
  - The March Bill includes a proposal that we address - through regulations - the way PAYE errors are corrected, following consultation with affected parties. Officials are undertaking pre-consultation with selected employers, payroll software developers, the Corporate Taxpayers' Group and Chartered Accountants Australia and New Zealand in preparation for providing advice to the Minister on the approach that should be consulted on.
  - Banks and financial institutions will be emailed when the Bill is introduced informing them of the details and application dates of the investment income proposals. (The Government's decisions on the PAYE proposals were announced last year, but not the investment income proposals.)
  - A series of communications initiatives are planned, as per the communications strategy provided to the Minister on 17 March, <sup>Withheld under s18(c)(i) of the OIA</sup>

- Submissions on the discussion document 'Proposals for Modernising the Tax Administration Act' have closed. We are analysing the feedback for discussion with Ministers. We received a similar range and number of submissions as in previous consultations in the 'Making Tax Simpler' series. Officials will consult with key submitters before final proposals are recommended.
- A paper confirming the scope, costs (to June 2018) and benefits of Stage 2 is expected to be considered at SEC on 3 May 2017.

20. Programme leadership - In preparation for the increased focus on Stage 2, a new leaders' structure has been put in place to support the significantly larger and more complex Stage 2 programme.

- The structure is designed to reinforce the programme's 'solution integrator' delivery model, in which Inland Revenue takes clear accountability for end-to-end delivery of the solution and associated streams. Lessons from Stage 1 delivery have also been reflected in the design.
- The design includes a team of account managers to manage the overall Stage 2 impacts on segments such as financial institutions, government agencies, software developers and tax intermediaries.

21. Organisational change – we are progressing organisational design work to support an agile, intelligence-led organisation, built around the needs of our customers.

- This month, the Commissioner announced the establishment of three new positions to lead the following business groups: Customer and Compliance Services – Individuals; Customer and Compliance Services – Business; and Information and Intelligence Services.
- Work is progressing well on the next phase of detailed design looking at roles, performance measures, work flows and how we make everything happen. Consultation on the proposed design is scheduled for May 2017.
- Subject to consultation, people will begin to move across to their new roles from January 2018 ahead of Stage 2 implementation in April 2018.

22. Accounting Income Method (AIM) – officials met with a group of progressive small business accountants who are keen to remain involved as AIM moves towards implementation. These accountants work with their clients during the year towards the goal of their clients having nil terminal tax, so understand how beneficial AIM could be for some small businesses. High-level details of how AIM will work have been included in the recent MYOB small business seminar series, and in an address to ATAINZ.

23. Automatic Exchange of Information (AEOI) – we continue working with financial industry representatives to help them carry out their account due diligence, required to start in July, and build their technology solutions.

- The list of excluded entities and excluded accounts is being drafted.
- The list of countries New Zealand proposes to send information to, and receive information from, will be released for public consultation at the end of March.

- The first AEOI stakeholder reference group sessions are being held in the last week of March. Industry association representatives will test Inland Revenue's proposed public awareness campaign content; guidance materials and technology interfaces and gain their feedback.

## **Key observations**

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24. Stage 1 has been delivered over the period from January 2016 to February 2017, at a cost of \$191.80m. This was an underspend of \$20.80m against a pro-forma budget of \$212.60m driven in part by an earlier delivery date, and some of the enabling technology costs now expected to occur in later stages. The underspend will be made available for future stages.

25. Effective cost management has resulted in the majority of the contingency not being required to date. The remaining contingency needs to be transferred to later stages to manage the financial risks in the next stage of BT and forms a part of the expense transfers requested through the March Baseline Update.

26. The budget for the period from 1 March 2017 to 30 June 2018 is \$437.30m (excluding contingency).

27. Public engagement is increasing with further engagement on AEOI implementation, and the next round of discussions with government agencies on information sharing and preparing their systems and processes for Stage 2. We are also actively involved in the MBIE small business roadshows and MYOB customer seminars.

## **Key risks and issues**

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28. The Programme's risk profile is Light Amber with a future trend of Light Amber.

29. As at 10 March 2017, the programme had a total of 46 open risks, of which 13 are reported to the Portfolio Governance Board (PGB). Managing these risks is a key focus of the programme and the PGB.

30. All but one of the PGB-reported risks was rated Green. The exception (a risk relating to heritage co-existence), had an overall RAG status of Light Amber and a residual risk level of Green (low).

31. There was one change to the PGB-reported risks this month:

- risk 190 (disaster recovery plans for Heritage components) - The current status improved from Very High to High and the Residual Status improved from High to Medium. The risk improved as a review of disaster recovery plans has identified gaps and mitigation plans are in place to resolve high impact areas.

## What's coming up

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32. Key activities over the next two months include:

### April 2017

- Continued focus on Stage 2 Business Design
- Withheld under s18(c)(i) of the OIA
- Planning for the next round of KPMG quality assurance reviews (IQA6/TQA5)
- Preparing for consultation on the proposed new organisational design in May
- Participating in the MBIE small business roadshows and MYOB customer seminars

### May 2017

- Stage 2 paper confirming scope, costs (to June 2018) and benefits considered at SEC
- Organisational design consultation begins
- Further MYOB SME workshops

## Recommended action

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

Noted

Noted

### Greg James

Deputy Commissioner, Transformation  
Inland Revenue  
29 March 2017

### Hon Steven Joyce

Minister of Finance  
/ /2017

### Hon Judith Collins

Minister of Revenue  
/ /2017