



Inland Revenue
Te Tari Taake

Transformation Briefing for the Minister of Revenue

November 2017



Executive summary

This briefing provides you with more detailed information about our transformation.

Why transform?

The shift to digital technology and greater globalisation has reshaped how businesses and individuals interact and connect, as well as their expectations of government. What was acceptable in the past no longer meets the demands of customers today.

Transformation is required to ensure New Zealand's revenue system keeps pace with change, and to protect the government's ability to continue to collect tax revenue and distribute entitlements. A modern revenue system will make it simpler, more open and certain for New Zealanders to pay their tax and receive their entitlements, and contribute to a public service that is focused on better outcomes for New Zealanders.

There is no doubt that Inland Revenue's systems need replacement to improve resilience and agility. They have reached the end of their life and are not sustainable in the medium to long term. Inland Revenue's heritage system (FIRST) is aging, extremely complex, very difficult and costly to maintain, and inflexible. Implementing policy changes, particularly those involving social policy products, has become increasingly challenging. The complexity of FIRST constrains policy and service design, results in protracted implementation timeframes, and drives additional cost.

However, transformation is far more than just updating a computer system. It will re-shape the way Inland Revenue works with customers, including improvements to policy and legislative settings. Transformation will simplify how services are delivered by changing how customers interact with a digitally-based revenue system. Government will be able to leverage its information asset to better understand and meet customers' circumstances and needs.

In March 2013, Cabinet accepted that there was a "case for change". The programme business case presented a number of potential investment options, ranging from "do

nothing” through to an all-of-government solution. Cabinet agreed to invest in modernising the revenue system through business process re-engineering, supported by new technology (known as Option 3B). Design activity commenced, and delivery partners (Accenture and FAST Enterprises) were secured to support Inland Revenue.

In November 2015, Cabinet agreed to invest in the implementation of New Zealand’s future revenue system. A multi-year funding envelope was approved, together with a financial delegation of \$1,870 million to complete all four stages of transformation as, once started, it must be completed. The funding envelope comprises new funding from the Crown of between \$800 million and \$1,005 million, with the balance of funding provided by Inland Revenue through administrative savings and capital reserves. A contingency is held by the Ministers of Finance and Revenue. To date, transformation is tracking well within the approved funding envelope, and there has been no need to access the contingency held by Joint Ministers.

What transformation will mean for New Zealanders

A modern, digital revenue system will serve the needs of all New Zealanders. The revenue system will fit seamlessly into people’s lives and will help them get their tax and social policy payments right first time, avoid errors, and give them a clearer view of what they have paid and what they owe during the year. It will be simple to comply with and responsive to customers’ changing circumstances. This will make it easy for customers to get things right and difficult to get them wrong. Customers will spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements, as tax will be withheld correctly and assistance provided at the time it is needed.

Integration with private and public sector delivery partners will increasingly be a key feature of the revenue system. Inland Revenue is partnering with the software industry to enable third-party software applications to connect with Inland Revenue. This will make it much easier for customers, particularly businesses, to meet their tax obligations. Customers of Xero and MYOB can already file their GST returns through their accounting software. This option will be available to many more customers as more products and services are moved to new systems and processes over the next four years.

Increasingly, customers will not have to do anything, as their information will be provided to Inland Revenue on their behalf. Information will be checked when it is received and errors fixed wherever possible. Customers with less complex needs will use automated, straight-through digital services that take less time and are more efficient. Customers who do need to provide information will use their own systems and processes to do so as part of their everyday activities.

More complete information will be available to us earlier, which will lead to greater accuracy and mean fewer under- or over-payments for customers. Government will be able to make policy changes more quickly and cost-effectively, and there will be more opportunities to leverage the information we hold.

There are significant benefits for customers and the Crown

The changes being delivered by transformation will:

- Provide confidence in the continued collection of tax revenue and distribution of entitlements.
- Improve the government's ability to make policy changes faster and more cost-effectively.
- Grow voluntary compliance by making it easier for people to get it right.
- Create an information asset to deliver improved outcomes for New Zealand.
- Deliver cumulative additional Crown revenue of \$2,880m to \$6,175m¹ by 2023/24.
- Deliver cumulative compliance-cost savings (economic benefits) for small and medium-sized enterprises (SMEs) in particular, until 2023/24, of between \$1,330m to \$2,265m. Transformation will deliver savings to all businesses; however, smaller businesses are expected to benefit to a greater degree.
 - Approximately 90% of New Zealand businesses have five or fewer employees and, typically, compliance tasks are performed by the

¹ All financial benefits include inflation.

owner/operator. This benefit has been monetised on the basis of the value to the owners of these businesses of the time saved (measured through Inland Revenue's SME compliance survey).

- Enable Inland Revenue to realise administrative savings of \$495m to \$580m by 2023/24. The measure is financial benefits released as a result of transformation.

Transformation will make a significant contribution to improving digital interactions with government, to improved cross-government outcomes and to a growing, healthy economy.

Completing transformation as quickly as possible will minimise risk

Although the opportunities and benefits of transformation are considerable, transformation is complex and challenging. It is inherently high risk and, accordingly, Inland Revenue has placed considerable emphasis on developing the capabilities required to manage and mitigate risks and issues. Inland Revenue has a rigorous programme of independent quality assurance, which is regularly reviewed and agreed with the Corporate Centre. Reviews have concluded the programme is well managed and governed.

Maintaining the pace of transformation is important. Any delay part-way through implementation will increase operational risk and costs, because of the need to manage customers' information across two systems (FIRST and START).

Operational risk has increased due to the co-existence of these two systems, and will remain high until transformation is completed. The co-existence of business functions and technical capabilities is one of the most complex challenges to be managed for customers, third parties and Inland Revenue.

Completing transformation as quickly as possible is critical in order to limit the time that the core systems need to co-exist, reduce operational risk and minimise confusion or disruption for customers.

Transformation involves far more than an upgrade of our technology

Transformation is an opportunity to fundamentally review how the revenue system is administered, and consider what changes may be needed to policy, processes and systems. Delivering New Zealand's future revenue system involves:

- simplifying policy and legislative settings
- making more intelligent use of information to proactively ensure customers get it right from the start
- fitting revenue processes seamlessly into people's lives
- creating an organisation that works together better to improve outcomes for customers, and
- implementing a modern technology platform (START) that is digitally based and highly automated.

To administer a modern revenue system, Inland Revenue will have to change the way it works and make more intelligent use of information. In the future, enhanced analytics capabilities will enable Inland Revenue to work with other agencies to better understand customers' circumstances and needs across wider government, and to identify policy and service design opportunities to improve outcomes for New Zealanders.

To support these changes, Inland Revenue will need a different set of capabilities than it has today. Fundamental shifts are required to support new processes, tools and ways of working. In the future, Inland Revenue will be a smaller organisation, working in partnerships and alliances across government and the private sector—for example, with software developers. The workforce will be more knowledge-based, supported by greater analytical capability. The department's infrastructure also needs to be modernised to support a new and more efficient operating model.

New technology will be a major catalyst for the modernisation of the revenue system. Only by implementing a new core platform can customer experiences be significantly enhanced.

The current platform (FIRST) and processes have become extraordinarily complex over time. Maintaining Inland Revenue's business as usual services while transitioning to a new platform and new processes is challenging.

Both FIRST and START will need to be supported during the transition. The co-existence of business functions and technical capabilities is arguably among the most complex challenges to be managed, involving:

- Migration of complex data containing information that needs to be profiled, analysed and understood and then prepared for migration to START.
- Management of change for customers and staff, including training.
- Development of solutions and processes to allow the old and new platforms to co-exist and continue to provide services to customers.
- Integration with other applications.

During the period of co-existence there will be considerable information and process flows split across FIRST and START. For example:

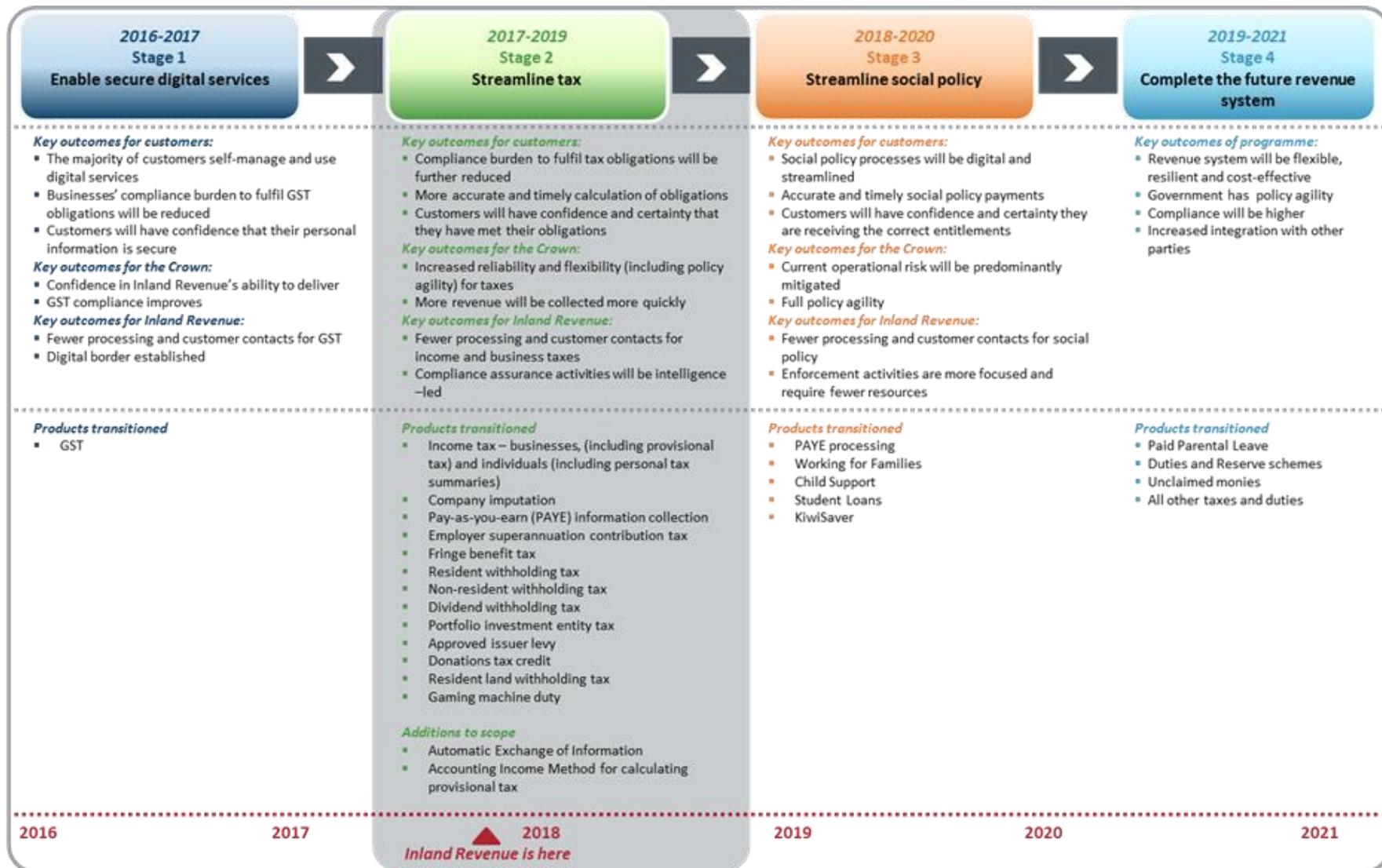
- Customer information may exist across both systems and both systems will require access to read and update it.
- Products may be administered within multiple systems and payments will need to be allocated and directed to the appropriate system.
- Debts may exist on either system, and debt will be managed at a product rather than a customer level.
- Customer compliance history and obligation due dates will exist in two systems meaning customer interest and penalty calculations will need to access both systems.

As much as possible, changes to FIRST will be minimised and made by exception only. This is to reduce the complexity of co-existence, and the migration of products and services. The more complexity added to FIRST now, the more complex the migration to START will be later.

We will implement transformation in four stages

When Cabinet agreed to invest in transformation in November 2015, it noted that delivery would be achieved in four overlapping stages across a five-year period, as illustrated on the next page. The stages are:

- Stage 1: Enabling secure digital services 2016 to 2017 *Completed*
- Stage 2: Streamline income and business tax processes from 2017 to 2019 *Underway*
- Stage 3: Streamline social policy delivery from 2018 to 2020
- Stage 4: Complete delivery of the future revenue system from 2019 to 2021.



Stage 1 (GST) has been successfully delivered. However, GST was not the only improvement that Inland Revenue delivered as part of Stage 1.

Since February 2017, new migrants have been able to register with Inland Revenue as part of their visa application process. This helps to ensure that migrants are ready for work when they arrive, making it easier for them to settle into New Zealand. In September 2017, Inland Revenue implemented RealMe as an option for customers to use when identifying themselves to the department.

Some of the foundations that improve the resilience of systems that support service delivery operations were also put in place. These included new data centres and the workflow management system used by customer contact centres.

New gateway services were also implemented as part of Stage 1, enabling customers to file their GST returns directly from their accounting software. Beginning with a pilot in December 2015 for customers of Xero and MYOB, the number of returns filed through software grew to more than 150,000 at the end of September 2017. In November 2017, a third software provider, Accomplish, began piloting an additional gateway service, enabling customers using their software to file their GST returns. Assuming the results of the pilot are as expected, this service will be made more widely available as part of Release 2.

Complexity increases significantly from here, as the remaining stages are substantially more complex than Stage 1. To manage this complexity and reduce risk, delivery of Stages 2 to 4 will be managed through a series of smaller steps, or releases. Our current release plan is summarised in the image on the next page.

2016/17	2017/18	2018/19	2019/20	2020/21
Stage 1 Enable secure digital services	Stage 2 Streamline tax	Stage 3 Streamline social policy	Stage 4 Complete the future revenue system	
<p>Major Release 1</p> <p>Customer experience</p> <ul style="list-style-type: none"> Self-service for GST <p>End-to-end solution</p> <ul style="list-style-type: none"> GST Foundational technology 	<p>Major Release 2</p> <p>Policy</p> <ul style="list-style-type: none"> Accounting Income Method (provisional tax – 1.4.18) Payday reporting (voluntary – 1.4.18) ** <p>Customer experience</p> <ul style="list-style-type: none"> Digital submission of employer information <p>End-to-end solution</p> <ul style="list-style-type: none"> Withholding taxes Fringe benefit tax Payroll subsidy Gaming machine duty Automatic Exchange of Information 	<p>Major Release 3</p> <p>Policy **</p> <ul style="list-style-type: none"> Payday reporting (mandatory – 1.4.19) Reduction in PAYE electronic filing threshold Investment income filing (voluntary – 1.4.19) New annual income tax process Individuals' income tax (tbc – 1.4.19 proposed) <p>Customer experience</p> <ul style="list-style-type: none"> Digital submission & improved self-service for income tax Improved self-service for PAYE <p>End-to-end solution</p> <ul style="list-style-type: none"> Income tax, including provisional tax Imputation taxes Working for Families Independent earner tax credit 	<p>Major Release 4</p> <p>Policy **</p> <ul style="list-style-type: none"> Investment income filing (mandatory – 1.4.20) Social policy changes (tbc – release 4 or 5) <p>Customer experience</p> <ul style="list-style-type: none"> Improved digital submissions for KiwiSaver providers Improved self-service for KiwiSaver and Student Loans <p>End-to-end solution</p> <ul style="list-style-type: none"> PAYE KiwiSaver Student Loans 	<p>Major Release 5</p> <p>Policy **</p> <ul style="list-style-type: none"> Social policy changes (tbc – release 4 or 5) <p>Customer experience</p> <ul style="list-style-type: none"> Improved self-service for child support Full customer view available <p>End-to-end solution</p> <ul style="list-style-type: none"> Child Support

** Subject to legislation being enacted and further discussion with Ministers regarding priorities

As shown, Stages 2 and 3 will run concurrently for a period, given the strong inter-dependencies between them.

Release 2, in 2018, will set the scene for the more comprehensive changes being introduced in Release 3 in 2019. Improvements to how PAYE and investment income information is collected,² and the implementation of the Automatic Exchange of Information with international tax treaty partners, will be made progressively.

Release 2 in April 2018 will include:

- Introducing the Accounting Income Method (AIM) option for calculating provisional tax.
- Implementing Automatic Exchange of Information.
- Enabling employers to send their information to Inland Revenue digitally and on payday if they choose to do so.³
- Moving withholding taxes, fringe benefit tax, payroll giving and payroll subsidy, and gaming machine duty to new systems and processes.
- Collecting income information in the new system, START, so that the pre-population of individuals' information can begin.

Based on current thinking, the first release in Stage 3, Working for Families tax credits, will be included in Release 3 in April 2019. Release 3 will move all income tax products and Working for Families to new systems and processes. Calculations of Working for Families tax credits are highly dependent on information about family circumstances and family income.

Subject to legislative changes, reporting requirements for PAYE will become mandatory, and payers of investment income will be able to send recipient information to Inland Revenue if they choose to do so.⁴ Customers will be able to enrol digitally for products and services.

Receiving income information from employers and payers of investment income more

² Subject to legislation

³ Idem

⁴ Idem

frequently will help Inland Revenue to ensure that the right amounts are deducted from individuals to meet their obligations, and to determine their social policy entitlements more accurately. In addition, Inland Revenue will be able to react more quickly when people's circumstances change to ensure they pay and receive the right amounts, and minimise the likelihood of customers getting into debt.

From 2019, it will be easier for customers to understand what their obligations and entitlements are and why, and they'll be able to self-help the majority of time. This will reduce the time and effort customers need to spend meeting their obligations, and will mean that there is little need for them to interact with Inland Revenue.

Once Release 3 has been implemented in April 2019, all taxes will be administered in START. This will provide the government with significantly improved agility for tax products. START would be the delivery vehicle for any changes recommended by the Tax Working Group.

Following that, our current plan is that KiwiSaver and Student Loans products will move to the new system in April 2020, and Child Support in 2021. Alternative sequencing is possible as we learn and become more experienced, as new opportunities are identified, and as government priorities change. By late 2018, Inland Revenue will have completed a more detailed analysis of how these products will work in START. This analysis will further inform consideration of how best to balance risk, while managing impacts on customers.

We welcome an opportunity to understand your priorities, and any implications they may have for sequencing.

Ideally, policy changes will be aligned with the transformation roadmap

Transformation includes modernising policy and legislative settings for the tax system and the elements of social policy that we administer. Our aim is to improve the administration of the revenue system and reduce customers' compliance efforts by simplifying rules and processes, and integrating tax responsibilities into customers' normal business activities.

A number of policy initiatives are underway that support transformation and the realisation of improved outcomes for customers. The timing of the legislation is important so that the changes align with system changes, helping to minimise costs and impacts on customers.

The Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Bill was before the Finance and Expenditure Select Committee at the time that Parliament was dissolved, and was reinstated on 8 November 2017. Officials will be recommending that this Bill should be enacted by 31 March 2018, given that the Bill contains a number of measures that have application dates in early 2018, which would be delivered through transformation. The Bill contains the following provisions:

- Employers will file PAYE information on a payday basis voluntarily from April 2018, and will be required to do so from April 2019.
- The electronic filing threshold will be reduced from 1 April 2019, moving more employers to file electronically.
- From 1 April 2019, payers of investment income will be able to voluntarily file detailed information about recipients each month, or the months in which payments are made. From 1 April 2020, payers of investment income will be required to file this information.

Officials will brief you in more detail on the items in the Bill, and provide details on the issues raised by submitters, in separate tax policy reports.

In addition, there are two public discussion documents that officials are planning on reporting to government about later this year, following the receipt of public submissions. These discussion documents concern individuals' income tax and the administration of social policy products (Student Loans, Working for Families, and Child Support).

If the Government wishes to progress these proposed changes, their implementation would, ideally, align with system changes. Officials will brief you in more detail on the alignment options.

We are changing our organisation design and investing in our people

The first wave of our new organisation design will be implemented in February 2018. This is focused mostly on customer-facing areas, and is an important step in becoming more agile, intelligence-led, and built around the needs of customers.

Our new organisation design will enable people to:

- Apply their skills more broadly to a range of work.
- Work together more closely.
- Provide better services to customers.
- Make the most of a new and evolving working environment, supported by technology.

Changes are being made to our working environment to support the new organisation design, including:

- A new decision-making model and broader delegations, so people are clear about what decisions they can make and how to get help if they need it.
- New internal organisation measures that show the impact of the changes being made.
- Workflows that provide people with work relevant to their customer segment, skills and abilities.
- Programmes for new leaders and tailored, ongoing support for leaders at all levels.
- Redesigned performance, recognition and pay approaches.

New delegations, combined with broader roles, mean that customers will have their queries responded to more quickly, and will be able to talk to one person to get more of their queries resolved. We will coach and train people to be able to provide better service to customers.

The new, broad roles focus on the outcomes that need to be achieved and the capabilities required for a role. Capabilities are a person's unique mix of skills, knowledge, experience and attitudes.

We have identified 12 people capabilities that describe what is important for the future. Supported by their leader, our people will grow and build their capabilities over time, mostly as they gain experience in their role. The most significant part of people's learning and development will be on the job. We will provide tools to support people to do that, and have already made resources available to give people more information about the capabilities and how they can be developed.

Extensive stakeholder engagement will continue to be critical to success

Transformation has implications for many stakeholders, and there is considerable interest among business groups, employers (including Crown organisations), tax agents and payroll intermediaries. These stakeholders will need to adapt their systems and processes to ensure they continue to meet their obligations and/or their customers' needs. Any costs and benefits to Crown organisations, and other stakeholders in making changes to their systems and processes, were not included in the government's investment in transformation.

An extensive stakeholder engagement programme is in place, working with groups to ensure they are ready for change and that changes are designed to meet their customers' needs. Active engagement with key stakeholders and industry groups continues and will step up over in 2018, presenting opportunities for you to engage with these groups if you wish to do so.

Our ability to respond to changes in government priorities

Transformation will provide government with greater agility to design and implement policy. Agility increases as implementation progresses.

From April 2019, once all tax products and Working for Families tax credits have been migrated, some agility will be possible for achieving wider social policy outcomes, as income information collection will have been transitioned to START. However, the complex inter-relationships between income and social policies (which will still be on FIRST) will place some limits on agility. Full policy agility will be provided once transformation is complete in 2021.

Although agility increases, transformation means that Inland Revenue has limited capacity to implement additional changes. Any changes will need to be assessed on a case-by-case basis. Factors that we will need to take into consideration when considering new opportunities are:

- capacity to deliver further reforms in our heritage system, FIRST
- the ability of customers to absorb further changes, and
- transformation costs and timelines assume that the delivery of policy changes are aligned with the roadmap.