



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

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<b>Date:</b>	1 May 2017	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2017/276

**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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1 May 2017

Minister of Finance  
Minister of Revenue

## **Business Transformation programme: Status update for joint Ministers – April 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 April 2017'.

### **Summary**

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2. We formally exited Stage 1 of the Business Transformation programme on 31 March 2017. The systems continue to work as expected and uptake of improvements remains strong:

- more than 43,000 customers had set up direct debits, enabling them to file and pay their GST at the same time
- more than 6,500 GST returns had been amended online by customers, saving them from having to contact Inland Revenue to arrange this
- more than 2,400 instalment arrangements had been set up online.

3. Full focus is on Stage 2 which will likely be delivered in a series of releases throughout 2018 and 2019, reflecting the annual tax cycle. Compared with Stage 1 it is significantly larger, more complex, and affects a much greater number of New Zealanders.

4. Immediate tasks are completing Stage 2 detailed design and sharing with staff a proposed organisational design to support the next stages of transformation. Consultation starts 9 May 2017 and runs until 29 May.

5. Highlights in the coming weeks include:

- Withheld under s18(c)(i) of the OIA
  
- Paper on Stage 2 scope, costs (to June 2018) and benefits ('Stage 2 of transforming New Zealand's revenue system') is expected to be considered by SEC on either 3 or 10 May. The paper includes results from Stage 1 go-live, and will replace the July transformation update.

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

7. As at the end of March 2017 we are tracking under budget for the Stage 2 Solution Delivery phase, which began in this month. Actual spend to date is \$19.54m, an underspend of \$5.76m against a pro-forma budget (excluding contingency). The underspend is driven by changes in the expected timing of expenditure, and some later contract initiation with teams still being established. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking to plan.

## Highlights

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8. Stage 2 is the next step towards modernising New Zealand's revenue system, making tax simpler and helping contribute to improved digital interactions with Government and the Government's Business Growth Agenda. It spans the following areas of work:

- the end-to-end implementation of tax products, the Accounting Income Method (AIM) for calculating provisional tax, and the Automatic Exchange of Information (AEOI) with international tax treaty partners in START, including enhanced customer interaction and case management capabilities
- implementing enabling technology and capabilities
- implementing a new organisational model for Inland Revenue
- preparing for future stages, including social policy.

### *Programme*

9. Stage 2 design - This is progressing well and we are putting considerable effort into taking lessons from Stage 1 and applying them to Stage 2 design and delivery planning. This includes:

- proactively gathering staff and customer feedback
- reviewing the critical points in design timelines where external feedback will improve outcomes
- addressing tax agent feedback, such as notifying them of changes earlier and improving the usability of the new system - for example making the due dates and payment notifications clearer. Improvements will go live in the coming months.

10. From 24 April to 5 May a group of officials will be visiting FAST and FAST clients in the United States, as well as suppliers Oracle and Accenture, and the Finnish tax administration (Vero) in Finland. The group comprises Deputy Commissioner Transformation, Greg James; Chief Technology Officer, Gary Baird; Lead Solutions & Applications Architect, Withheld under s18(c)(i) of the OIA and Technical & Architecture Lead, Withheld under s18(c)(i) of the OIA

11. The purpose of the trip is to better understand:

- the customer service improvements that FAST and agencies expect to introduce in the next 5 to 7 years, as well as emerging technologies
- how others manage systems and performance in a production environment
- 'lessons learnt' from Stage 1. Vero also uses the FAST product and started their implementation about a year ahead of us. Discussions on go-live experiences will inform how we approach Stage 2.

### *Policy and legislation*

12. Policy and legislative highlights for the month:

- The Taxation (Annual Rates for 2017-2018, Employment and Investment Income, and Remedial Matters) Bill was introduced on 6 April and is awaiting its first reading.
- 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>
- A draft of the social policy discussion document and communications strategy will be sent to Joint Ministers soon for their consideration.
- <sup>Withheld under s18(c)(i) of the OIA</sup>
- A report on the submissions on the discussion document 'Proposals for Modernising the Tax Administration Act' was sent to Joint Ministers on 20 April 2017.
- A report on the potential scope and approach for Business Tax 2 will be sent to Joint Ministers for their consideration shortly.

### *Our new organisation*

13. In early April, we advised staff that a consultation period on the proposed structure of our three new organisation groups would take place from 9 to 29 May 2017.

14. This is a major milestone in our work to build a different, and smaller, organisation than we are today: one that is more customer-centric, intelligence-led and agile, designed around customer segments, more flexible ways of working and broader-based jobs and roles.

15. We will hold staff presentations in each of our locations on 9 May, to launch the consultation period. The consultation document will provide detailed information on the proposed new structures for each group, roles, transitions and change management processes.

16. Subject to consultation, people would move across into their new roles in the three groups (Customer and Compliance Services – Individuals; Customer and Compliance Services – Business; and Information and Intelligence Services) in January 2018.

17. We will be sending the Minister of Revenue background information for her to refer to if needed, including key messages, in early May.

### *Implementing Stage 2 tax products and customer improvements*

18. Automatic Exchange of Information (AEOI) – we are actively working with financial institutions to help them prepare for the new global reporting standard and the start of their account due diligence process, required to start in July.

- We had very useful feedback from reference group meetings held at the end of March, including input into planned website content. The website is due to go live shortly.

- The group was also briefed about the targeted public awareness campaign. This includes social media, a short video, advertisements in different ethnic publications (includes translation into Mandarin), pamphlets and articles in industry newsletters. The campaign will be launched at the start of June and will run until mid-July.
- Financial institutions have been advised of the updated Common Reporting Standard (CRS), and have been informed of the website and awareness campaign launches.
- The AEOI call for submissions on reportable jurisdictions has closed and we are now developing the Order in Council.
- Work continues on final guidance on the CRS for financial institutions as well as reference guides. Both incorporate feedback from industry groups.

19. Tax Agents' Web Service (TAWS) – as the current TAWS system needs to be replaced with modern web services, we are talking with tax agents to define their needs. The system enables software providers to package transactional data for tax agents. We have also involved software developers in discussions.

- Since Stage 1 go-live, GST information has been available in myIR but not in TAWS. The feedback from tax agents on the change has been minimal.

20. Software developers - helping them prepare for Stage 2:

- Working with Withheld under s18(c)(i) of the OIA particularly on the AIM and income tax changes.
- Reminding payroll software developers about the PAYE administration changes going through the legislative process, and inviting them to register their interest if they would like to work with us on payday reporting software and implementation.

## **Key risks and issues**

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

22. As at 13 April 2017, the Programme had a total of 48 open risks, of which 15 are reported to the Portfolio Governance Board (PGB). These were rated as either 'High' or 'Medium', with the exception of a risk relating to unforeseen legislative changes identified post high-level design (BTR-742). This has a current risk level of 'Very High', and is residually rated as 'High'. Managing these risks is a key focus of the programme and the PGB.

## What's coming up

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23. Key activities over the next two months include:

### May 2017

- Stage 2 paper confirming scope, costs (to June 2018) and benefits, and providing an update on Stage 1 go-live, considered by SEC
- Organisational design consultation begins
- Engagement: presenting to Xero and Reckon clients, and continuing MBIE small business roadshows
- Increased engagement with industry groups (eg New Zealand Bankers' Association and the CA ANZ Corporate Tax Group) and government agencies

### June 2017

- Withheld under s18(c)(i) of the OIA
- Focus on completing Stage 2 solution design
- Reviewing staff feedback on proposed organisation design
- Engagement: AEOI forums, MYOB SME workshops, CA ANZ fraud conference and NZ Bookkeepers' conference

## Recommended action

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

Noted

Noted

Acting Deputy Commissioner, Transformation  
Inland Revenue  
1 May 2017

**Hon Steven Joyce**  
Minister of Finance  
/ /2017

**Hon Judith Collins**  
Minister of Revenue  
/ /2017