



Briefing for the Incoming Minister of Revenue

October 2017



Contents

Opening letter from the Commissioner of Inland Revenue

Introduction

- Executive summary
- Your role and how we can support you
- Your priorities
- What we do for New Zealand
- What we do for our customers
 - Individuals
 - Businesses

Part One – Our vision and strategy

- Our operating environment
- Our outcomes
- Our strategic objectives
- Our contribution to a joined-up Government
- *IR for the Future*

Part Two – Tax policy

- Introduction to tax policy
 - Working with The Treasury
- New Zealand's tax system
 - Broad-based, low-rate framework
 - Generic tax policy process
- Tax policy work programme
 - Influences on future tax policy

- Why transform?
- What transformation will achieve
 - Maintaining momentum while managing risk
 - Policy
 - Funding
- Overview of transformation
 - Implementing transformation
 - Transforming our organisation
 - Providing assurance

Appendix

- How Inland Revenue works with the supports the Minister of Revenue
- Key issues and decisions in the first 100 days
- Our structure
- Leadership team

Part Three – Transformation

Opening letter from the Commissioner of Inland Revenue

Dear Minister Nash

Welcome to your portfolio, and your new role as Minister of Revenue.

We understand that you have key priorities for tax and social policy administered by Inland Revenue including Manifesto Commitments. These include your Families Package, the establishment of a Tax Working Group that will consider among other things a capital gains tax and land taxation, other housing taxation changes to be introduced ahead of the Tax Working Group process, and a Research and Development (R&D) tax credit.

We are looking forward to working with you and meeting to discuss your priorities for the portfolio as well as Inland Revenue's role, the work we have underway and the opportunities and challenges we face. We are ready to support you in any way we can.

I look forward to meeting and working with you.

Naomi Ferguson

Commissioner and Chief Executive of Inland Revenue

Introduction

Executive summary

This briefing introduces you to your portfolio, your role and Inland Revenue. This document “sets the scene” to the work we do and how we can support you, and outlines the strategic context of our work and the major transformation project we have underway.

Your role and how we can support you

As Minister of Revenue, you are accountable for the overall working of New Zealand’s tax system, for Inland Revenue as a government department, and for protecting the integrity of the tax system (details [here](#)). You are also responsible for policy direction and priorities, and decisions on Inland Revenue’s overall budget.

Decisions on tax and social policy delivered by Inland Revenue have historically been made jointly by the Minister of Revenue and the Minister of Finance, or the appropriate Minister in the case of social policy.

As the Minister of Revenue you are likely to receive correspondence on a diverse range of issues, often issues that have had recent media attention. These topics include: child support, student loans, secondary tax, GST, capital gains tax, the cost of doing business, organisational design, KiwiSaver, charities, and base erosion and profit shifting (BEPS).

How we can support you

We are responsible for supporting you to carry out your ministerial functions, and servicing the aims and objectives you set. We do this by advising you on policy and strategy, implementing government policy, and carrying out the day-to-day functions of the department. We provide you with written and verbal advice, and meet with you as required. We draft responses to the correspondence you receive, and can also provide you with private secretary support to liaise with us. We look forward to discussing your preferences in working with us.

Complementary roles: the Minister and the Commissioner

The Minister of Revenue and the Commissioner of Inland Revenue have important and complementary roles in providing a good tax and social-policy system. Tax can only be levied according to the laws enacted by Parliament. Inland Revenue has an obligation to levy tax in accordance with the law to the best of its ability.

The Commissioner has statutory independence from Ministers, to ensure Inland Revenue can levy tax and carry out its duties independently. The Commissioner also carries primary responsibility for Inland Revenue's performance.

The Tax Administration Act 1994 imposes the responsibility to protect the integrity of the tax system on the Minister of Revenue as well as on Inland Revenue. Protecting the integrity of the tax system includes protecting taxpayers' trust in Inland Revenue; their right to confidentiality; and their right to have their tax determined fairly, impartially and according to the law.

Your priorities

As noted in the introductory letter and the Appendix, we understand that you have a number of key priorities for tax and social policy. We look forward to working with you on the detail of these policies and to understand your relative priorities and timeframes. The Appendix has a list of matters that you may want to consider in your [first 100 days](#). This includes what we understand to be the Government's 100-day plan.

What we do for New Zealand

Inland Revenue plays a critical role in improving the economic and social wellbeing of New Zealanders. We do this by collecting and distributing money—we collect over 80% of the Crown's revenue, and collect and distribute social support payments. The money we collect helps pay for services that all New Zealanders benefit from, including healthcare, education, justice, housing and roads.

Our vision is to be a world-class revenue organisation recognised for service and excellence. We are in the middle of a large-scale transformation that will enable us to

better serve all New Zealanders and the government. Our transformation is not only about a change in IT platforms, but is also about how our people, processes and structure deliver greater value to our customers.

Although the opportunities and benefits from transformation are significant, the transition process is complex and requires careful sequencing to manage operational risk and ensure that our customers continue to receive high-quality services. The good news is that we are on track.

By April 2019, a major milestone will have been achieved: all tax products will have been migrated to our new system, and the Government will have more ability to make timely changes to the tax system. We propose to transition the remaining social policy products progressively to new systems and processes, completing transformation by 2021, within the agreed timeframe and budget. There are options for sequencing these changes, and we welcome the opportunity to brief you in more detail on the options available to ensure we can address your priorities.

Transformation creates the opportunity to rethink our policy settings to make it simpler and more certain for customers to meet their tax obligations. There are a number of significant policy initiatives underway and now is also a great time to refresh the tax policy work programme to reflect your priorities.

Statistics are for the tax year
ended March 2016



Individuals: nearly 3.7 million people paid PAYE or filed a personal tax return.

What we do for our customers

In the most recent financial year, Inland Revenue collected \$70.1 billion to fund government services for communities, families and businesses.

Individuals

Income

Inland Revenue deducts tax on income from salary, wages, benefits and taxable pensions under the PAYE (pay as you earn) system. We also deduct the ACC earners' levy on some income ("personal effort" income). If people have earned income that has not had tax deducted, or if they have not paid the correct amount of tax during the year, they can file a personal tax return so we can deduct the correct amount of tax or issue a refund.



Working for Families Tax Credits: with the **Ministry of Social Development**, we distributed \$2.4 billion in entitlements to support working families.

Working for Families tax credits

We administer Working for Families tax credits, which are made up of: family tax credits, in-work tax credits, minimum family tax credits and parental tax credits.

Inland Revenue holds overall responsibility for administering Working for Families tax credits. However, customers receiving a benefit from the **Ministry of Social Development** (MSD) may also have their Working for Families entitlement paid by MSD.



Child support: we collected \$468 million from over 166,000 liable parents who pay child support, and distributed \$279 million to carers.

Child support

Inland Revenue's role in administering child support is to calculate entitlements and/or obligations, generally using the standard formula set out in legislation, and to collect and distribute payments as they are received.

Carers receiving a sole-parent benefit are required to apply for child support through Inland Revenue, and their entitlement is paid to the Crown. This is so financial contributions from liable parents help to offset the cost of benefits that support their children.



Paid parental leave: We made \$274 million in payments to 28,400 parents.

Paid parental leave

We administer paid parental leave on behalf of the **Ministry of Business, Innovation and Employment**. Paid parental leave payments were extended to a maximum of 18 weeks from 1 April 2016.



KiwiSaver: We transferred \$5.6 billion to scheme providers. At 30 June 2017, 2.8 million people were enrolled in KiwiSaver.

KiwiSaver

Inland Revenue administers KiwiSaver on behalf of KiwiSaver providers and employers by collecting employer and employee contributions and transferring them to scheme providers for investment, processing enrolments and opt-outs, and paying out the member tax credits (MTC).



Student loans: We had 733,000 student loan borrowers, and collected almost \$1.36 billion in repayments.

Student loans

Inland Revenue jointly administers student loans with the **Ministry of Education** and **StudyLink** (part of the **Ministry of Social Development**). The **Ministry of Education** is the Government's lead advisor on education policy, and students apply for a student loan to **StudyLink**. The **Minister of Education** has overall responsibility for any policy decisions regarding student loans.

A focus for Inland Revenue is collecting student loan debt from borrowers who live overseas. There have been some high-profile arrests of student loan borrowers trying to leave New Zealand. This has resulted in a significant increase in repayments and contacts from borrowers in debt who are living overseas.

Charitable giving

The tax system encourages charitable giving by offering tax benefits for donations to approved charities. People can donate directly to the charities or make payments directly from their wages (payroll giving).

Payroll giving allows employees to receive immediate tax credits, which Inland Revenue administers on behalf of **Charities Services** (part of the **Department of Internal Affairs**). By doing this, we help **Charities Services** to encourage the effective use of charitable resources. Charitable organisations are also exempt from income tax if **Charities Services** approve them to be added to the Charity Register.



Employers: nearly 203,000 employers filed over 2 million employer monthly schedules with PAYE deductions for employees.



Filing GST: 633,000 registered customers filed over 3 million GST returns.



Companies: 396,000 company tax returns were filed.

Businesses

Employers

Employers are responsible for making the correct deductions from employees' pay for income tax (PAYE), KiwiSaver contributions, child support payments and student loan payments, which we then administer for employees.

GST

We collect goods and services tax (GST): a 15% tax added to the price of most goods and services in New Zealand, including most imported goods and some imported services.

Companies

We collect tax at the rate of 28% on companies' profits.

OUR VISION and STRATEGY

Inland Revenue's vision is to be a world-class revenue organisation recognised for service and excellence.

Our operating environment

Inland Revenue is well on the way to achieving our vision of being a world-class revenue organisation recognised for service and excellence. We are facing the same challenges and compare well to other tax administrations, and our transformation is recognised as leading in our field.

We have faced challenges in the last year, but still achieved 45 out of 52 of our performance targets for 2016-17. Our performance results reflect the hard work and effort our people put in for our customers.

This section explains the environment we are operating in. We continually evaluate this environment to identify existing and emerging trends, risks and opportunities. This is so Inland Revenue can be ready to respond, ensuring the sustainable and successful delivery of our services and the achievement of our vision and mission.

The increasing complexity of global business means that there are good reasons for Inland Revenue to be actively involved in international solutions to protect revenue. An example is our participation in the work led by the Organisation for Economic Cooperation and Development (OECD) on base erosion and profit shifting (BEPS) by multinationals. The decisions that you will make, will determine our involvement in future work led by the OECD.

We need to keep pace with rapid technology changes, the expectations of our customers, and their increasing digital literacy and access to mobile devices. To do this, we will enable customers to manage their own affairs in a more cost-effective way through digital channels. New Zealand's population is changing, with increasing numbers of migrants who have different needs. We are always seeking to understand these population changes and develop the capabilities, skills and organisational culture required to meet our customers' changing needs.

We hold a large amount of information. This information is an important asset that can help improve how we deliver our services to New Zealanders, and make a positive contribution towards public-sector performance. We are improving the way we manage, analyse and use information to develop intelligence. This will help us and other

government agencies to better understand our customers, make evidence-based operational and policy decisions, and use our resources more effectively to ensure the tax system is fair. We continue to work closely with other government agencies and the private sector to link our systems and deliver seamless customer services.

Our strategic objectives

Inland Revenue has three strategic objectives in our foundation document, *IR for the Future*:



The objectives have a long-term focus, but are also flexible and responsive to the changing external environment.

Our contribution to a joined-up Government

Inland Revenue plays an important role across the public sector by working towards our mission of contributing to the economic and social wellbeing of New Zealand by collecting and distributing money. We do this by ensuring that:

- people receive the payments they are entitled to, enabling them to participate in society
- New Zealanders benefit economically and socially by Inland Revenue working collaboratively across our external environment; and
- revenue is available to fund government programmes by people meeting payment obligations of their own accord.

We achieve these outcomes through joint development and delivery with other government agencies and the private sector, and by sharing information. For example, we are one of the four contributing agencies to the development of *SmartStart*, the first product built around life events, not agencies. *SmartStart* has all the government information and services for new and expectant parents, and *Te Hokinga ā Wairua—End of Life*, makes it easier to access information and services about bereavement and death.

Examples of our information sharing include an Approved Information Sharing Agreement (AISA) with the Ministry of Social Development, a large range of data sharing with Statistics NZ, which forms the backbone for their Integrated Data Infrastructure, and sharing information with New Zealand Police to help combat serious crime.

We are closely involved in the Digital Government Partnership Framework, which provides new opportunities to support the broader public sector by putting people and businesses at the centre of design and delivery of digital services.

IR for the Future

Our foundation document, *IR for the Future*, sets out how we will achieve our strategic objectives, mitigate our risks and meet Government expectations.

The six strands of our corporate strategy, set out in *IR for the Future*, are: customer; people; digital; external collaboration; policy agility; and information and intelligence.

We can provide you with a copy of *IR for the Future*, and talk through our corporate strategy and the attributes and behaviours we have agreed are the most important in how we work, if that would be useful to you.

TAX POLICY

Introduction to tax policy

Your decisions on tax policy shape the tax system. The primary purpose of a tax system is to raise revenue to fund government expenditure. In conjunction with the transfer and welfare systems, the tax system also has an important role in redistributing income.

Working with The Treasury

New Zealand is unusual in that both The Treasury and Inland Revenue are involved in providing first-opinion tax policy advice. In New Zealand, much of the tax policy resource is provided by Inland Revenue, while in most other countries, the Treasury leads tax policy. An advantage of Inland Revenue having a lead role in tax policy is that implementation can better inform policy design.

New Zealand's tax system

Our tax system has been designed to:

- act neutrally regarding economic activity
- minimise the economic burden, relative to the revenue being raised, that taxes impose; and
- treat taxpayers fairly, so that different taxpayers with similar amounts of income pay similar amounts of tax. The tax system is progressive, so that those who are better off pay a greater proportion of their incomes in tax.

We consider that New Zealand is starting from a strong place – we have a good tax system, with sound tax administration and good tax policy.

Two key features contribute to New Zealand's tax policy settings. The first is our [broad-based, low-rate](#) (BBLR) framework. The second is our [Generic Tax Policy Process](#) (GTPP).

Broad-based, low-rate framework

New Zealand's personal and company income tax and GST settings have been based on a broad-based, low-rate (BBLR) framework. New Zealand has much broader bases than most other countries, at tax rates which in most cases are below the OECD average. We will shortly publish a benchmarking document showing how New Zealand's settings compare with those in other countries. A copy is attached for your information.

New Zealand's BBLR framework provides a coherent way of designing a tax system. We levy tax on a very broad range of income and expenditure at rates which are designed to "stick" and not easily be structured around. Good tax design requires having a clear idea of what it is we want to tax, and then levying tax on the appropriate tax bases as consistently as possible. Our BBLR framework has been important in supporting a coherent approach to taxation.

Broad bases help ensure that taxes are fair and efficient, and impede economic growth as little as possible. They also allow a government to collect the revenue necessary to fund its spending at as low rates as possible. This, in turn, provides a benefit in promoting fairness, efficiency and growth.

Our BBLR framework has wider benefits as well. A coherent and consistent approach to tax policy helps courts to decide what is, and what is not, tax avoidance. Tax avoidance is very difficult to define unless there are clear principles underlying tax reform. A coherent and consistent approach also supports healthy consultation on tax policy issues. Discussions can be framed around whether or not tax policy is consistent with a framework, rather than whether or not one group is getting a bigger tax break than another.

Reviews of New Zealand's tax system, including the McLeod Review in 2001 and the Tax Working Group in 2010, have strongly endorsed our BBLR framework.

Although tax bases are broad, an apparent exception to our "low rate" approach is our company tax rate, which at 28% is now above the OECD average. However, having only small differentials between the company rate, the trust rate and the top personal rate has been important in constraining the ability of high-income individuals to shelter their

income from higher rates of personal tax. It also helps with the integrity of the tax system.

Other countries have been cutting their company rate, and at some stage the question will arise of whether New Zealand should follow suit. Cutting the company rate would promote investment and tend to support labour productivity. However, other options could have similar effects, including considering whether there are any areas where depreciation deductions are too slow and discourage investment, or whether there are asymmetries in the tax system that can discourage risky investment. We would be keen to talk to you about these options.

While New Zealand's income tax base is broad, a possible exception is our lack of a general capital gains tax. Introducing a general capital gains tax could be a way of broadening New Zealand's base. However, the question of how best to introduce a capital gains tax is complex, and the pros and cons of a general capital gains tax would depend on its design. The proposed establishment of a tax working group will provide a good way of working through these issues. A tax working group also creates the opportunity for a broader set of tax areas to be considered.

Generic tax policy process

Tax changes are developed through a consultative process called the Generic Tax Policy Process (GTPP). This interactive process helps ensure that tax policy changes are well thought-out and workable in practice. The key element of this process is public consultation. Consultation works well, as New Zealand's private sector is particularly well informed on tax policy issues.

Consulting with the public does increase the time it takes to develop and implement tax policy. However, we believe the GTPP is a valuable and essential part of building and maintaining a good tax system.

It is important that we keep evolving and improving how we consult, to ensure that GTPP stays ahead of the game and adapts to new opportunities. We look forward to discussing these opportunities with you.

The effectiveness of BBLR and GTPP has, to a large extent, been possible due to trusted

relationships with our stakeholders. We rely on stakeholders to identify issues and help us to refine tax policy. No one group has a monopoly of wisdom on tax reform, and it is important that tax policy continues to benefit from the input of tax practitioners and the wider New Zealand community. At times, there will be disagreements on tax policy, but GTPP helps to ensure that any changes are well informed and carefully considered.

Tax policy work programme

You set the tax policy work programme. The tax policy work programme establishes the priorities for tax policy reform and will need to be updated to meet your priorities. It is updated regularly to take into account changing government priorities, new interpretations of the law, innovations in business practices, key stakeholders' concerns, and tax policy developments in other countries.

We support you to update the programme using the GTPP, which includes consultation with a large number of stakeholders.

Influences on the tax policy work programme

In recent times, the tax policy work programme has been grouped under three themes:

- business transformation
- international, including base erosion and profit shifting (BEPS), and
- improvements to tax and social policy within the BBLR framework.

As noted above, the tax policy work programme will need to be updated to reflect your priorities. There are important projects in progress within the three areas noted above that we recommend be carried forward, and we look forward to discussing these with you.

Transformation

The Government has the opportunity to shape and frame how tax and social policy is administered as Inland Revenue's business transformation programme progresses. The changes associated with transformation will improve the administration of the system and taxpayers' compliance by simplifying rules and processes, and integrating tax responsibilities into taxpayers' normal business activities. This applies not only to the tax system, but also social policies administered by Inland Revenue, such as Working for Families.

Discussion documents have been issued that look at ways to improve the Tax Administration Act, the tax system for individuals, Working for Families, child support and student loans. We will report to you on the submissions we received.

For individuals, the main proposal is that people who only receive income that is reported to us, for instance by their employer or financial institutions, and has had tax withheld from it would no longer have to provide year-end income information or file income tax returns. We would automatically calculate and issue refunds or request payment of tax owed, above agreed thresholds.

For Working for Families and child support, the main proposals are to use up-to-date information about actual income, instead of an estimate, to determine payments. For student loans, the proposal is to help borrowers to stay on top of their loans by making regular payments throughout the year, rather than a big payment at the end of the year. When we report to you on the submissions received, you will have the opportunity to make decisions on the policy design.

Other initiatives relating to business tax and penalties and interest are in development. We would like to discuss the priority of these initiatives with you. Various issues will arise where there is a need to align the legislation with the tax system, especially, and as discussed later, while our old and new IT systems coexist as we transform.

International tax

One part of the tax policy work programme is negotiating double-tax agreements with other countries. These agreements help to ensure that New Zealand's tax systems integrate well with tax systems in other countries, which make it easier for businesses to operate across borders.

New Zealand is participating in the OECD's base erosion and profit shifting (BEPS) initiatives, while remaining mindful that we want New Zealand to be an attractive place to do business in. We are implementing relevant features of the OECD's BEPS action plan. Current initiatives focus on improving our tax settings regarding transfer pricing and permanent establishments, hybrid instruments and interest limitation. We will brief you on the results of consultation on these policies, and the development of appropriate legislation to seek your direction on how we proceed.

Improvements to tax and social policy within broad-based, low-rate settings

We work on issues that we have identified as weaknesses, or that stakeholders have raised because they think the current settings produce unfair or inefficient outcomes. Important projects include the work on employee share schemes, to ensure share-based remuneration is taxed appropriately. Most of the proposals for dealing with this issue have been taken forward into legislation which has been referred and partially considered by the Finance and Expenditure Committee.

Business groups have been particularly concerned that there are instances where our tax rules fail to provide deductions for valid business expenses. An example is black-hole feasibility expenditure, where businesses feel they should be able to claim more of the early exploratory work involved in testing whether a proposal should proceed. Work is being progressed on this issue and we are keen to seek your direction.

TRANSFORMATION

**A modern, digital revenue system
will serve the needs of all
New Zealanders**

Why transform?

Our transformation is a key investment for the Government. Given the scale of this investment, we would like to meet with you on key elements as the programme progresses.

Transformation will enable Inland Revenue to better serve all New Zealanders and the Government.

Transformation will modernise New Zealand's revenue system; it is far more than just an upgrade of technology. Transformation will mean the revenue system fits seamlessly into people's lives. It 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.

The systems that support Inland Revenue's business processes and services to customers have reached the end of their life and are not sustainable in the medium to long term. Our heritage system (FIRST) is aging, extremely complex, difficult and costly to maintain, and inflexible to respond to our changing environment and Ministerial priorities. In November 2015, Cabinet approved a financial delegation of \$1,870 million to complete transformation, with Inland Revenue agreeing to contribute between 40–50% of the programme's costs through re-investment of administrative savings, re-prioritisation of baseline funding and by drawing on capital reserves.

Although the opportunities and benefits from transformation are significant, the transition process is complex and requires careful sequencing to manage operational risk and ensure that customers continue to experience high-quality services.

What transformation will achieve

People will need to spend far less time and effort to ensure they meet their obligations and receive their correct entitlements, as tax will be withheld correctly, and assistance provided when it is needed.

Transformation has significant benefits for customers and the Crown. This investment will:

- provide confidence in the continued collection of tax 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 tax right
- create an information asset to deliver improved outcomes for New Zealand
- deliver cumulative additional Crown revenue of \$2,880m–\$6,175m¹ by 2023/24
- deliver cumulative compliance cost savings (economic benefits) until 2023/24 of between \$1,330m to \$2,265m, and
- enable Inland Revenue to realise administrative savings of \$495m–\$580m by 2023/24.

Maintaining momentum while managing risk

We took a significant and public step forward with the successful implementation of the first stage of transformation in February 2017, when GST was migrated to new systems and processes.

Inland Revenue is now operating two core systems, FIRST (the old system) and START (the new system), and operational risk has increased due to the co-existence of these systems. The plan is to transition all our products and information from FIRST to START in a sequenced way, to create as little disruption to customers as possible. Any delays are likely to increase operational risk and costs. Completing the migration of all tax and social policy products and services to START as quickly as possible is the best way to manage risk and minimise disruption for our customers.

Although we can make changes to FIRST (our legacy system, still in use for all tax types

¹ All financial benefits include inflation.

except GST), any changes now will also need to be repeated later in our new system, START.

Policy

Transformation has provided an opportunity to review policy and legislative settings to ensure they support better outcomes, and to synchronise the delivery of policy changes with the programme's roadmap.

As discussed in the Policy section, we will need to update the tax policy work programme to reflect your priorities. There are also a number of policy and legislative proposals that await your consideration, and public consultations that we look forward to gaining your direction on.

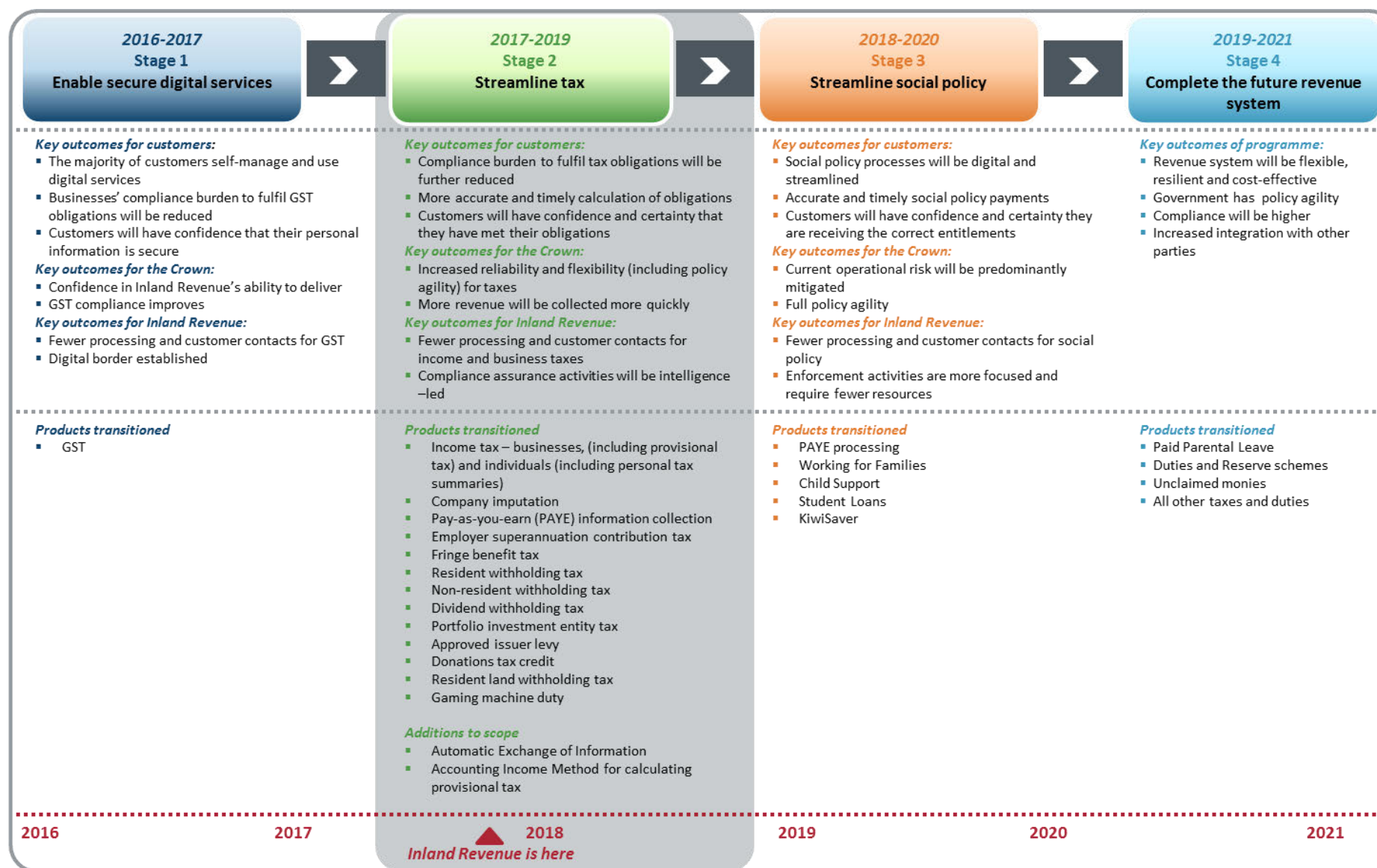
Funding

Transformation is funded partially by the Crown and partially by Inland Revenue. A contingency is held by the Minister of Finance and the Minister of Revenue. To date, the programme is tracking to be delivered within budget of the \$1,870 million approved by Cabinet.

Programme costs and timelines assume that implementation of policy changes are aligned with the four-stage roadmap (explained below). Inland Revenue's funding contribution was made on the understanding that any additional significant external imperatives (including Government policy changes) that require changes to be implemented in our legacy systems would need to be fully funded.

Overview of transformation

Transformation will modernise New Zealand's revenue system in four stages. Stage 1 has been successfully implemented, and we are well into Stage 2. The following roadmap shows our current implementation plan:



Implementing transformation

Stage 1 has been successfully implemented

Transformation Stage 1

In February 2017, GST was migrated to new systems and processes. Better digital services have given customers more control. It's now easier for customers with simple and straight-forward transactions to file and pay their GST on time. They can choose from more filing and paying options, can set up reminders for due dates and change their previous returns, all without needing to contact Inland Revenue.

Customers with more complex circumstances, particularly tax agents, have experienced some challenges. We are working with tax agents on what they have told us are their biggest challenges. Improvements have been introduced since go-live in February 2017, and more are planned between now and April 2018.

We are on track to realise the benefits committed from the implementation of GST. The benefits of Stage 1 are: improved experiences for customers, compliance cost reductions for small and medium-sized businesses, and administrative savings.

Stage 2 is significantly more complex

Transformation Stage 2

GST is a relatively simple tax. Complexity increases significantly from here, as both Stages 2 and 3 are substantially more complex than Stage 1. There are also dependencies between these stages, meaning that they will overlap and run concurrently for a period during 2018/19.

Stage 2 will be implemented in a series of releases over 2018 and 2019. Improvements to how income information is collected and used will be made progressively from April 2018:

- a new option for calculating provisional tax, the Accounting Income Method (AIM), will be introduced from 1 April 2018 (this is known as Release 2)
- customers will be able to voluntarily meet new reporting requirements from 1 April 2018 for PAYE, and 1 April 2019 for investment income, before these requirements become mandatory a year later (subject to legislative change), and

- financial institutions will be able to voluntarily report non-residents' information for the Automatic Exchange of Information (AEOI) with international tax treaty partners, before this becomes mandatory from 30 June 2018.

We plan to migrate income tax and Working for Families to new systems and processes together, to avoid splitting the administration of Working for Families across two systems.

These changes will affect a wider group of stakeholders over a longer period of time, compared to implementing GST. Business customers, employers, tax agents, and payroll intermediaries will need to adapt their systems and processes, to ensure they continue to meet their obligations and/or customers' needs.

We are working with stakeholder groups, such as software developers and small business accountants, to ensure changes are designed to meet our customers' needs.

Completing transformation by 2021

By April 2019, a major milestone will have been achieved and the Government will have more agility to shape the tax system to meet our changing environment and reflect policy decisions.

We propose to transition the remaining social policy products (KiwiSaver, student loans and child support) progressively to new systems and processes, completing transformation by 2021. This plan allows us to complete the delivery of Stages 3 and 4 within the agreed timeframe and within budget.

There are options for sequencing these changes. We welcome the opportunity to brief you in more detail on the options available for ensuring we can address your priorities.

Transforming our organisation

We have taken the first steps towards putting our future organisation in place. Our new organisation design is underpinned by five key shifts:

1. customer segments will create end-to-end customer experiences and accountability
2. teams will come together quickly from across Inland Revenue and be empowered to solve customer issues
3. people with the right skills will be close to customers, providing capability when and where it's needed
4. fewer, broader roles will allow people to deliver end-to-end customer services, and
5. there will be a greater emphasis on leading and coaching, new performance measures, new decision-making frameworks and delegations, and new workflows.

Some roles will be disestablished, and we expect our overall workforce to reduce by 25 to 30%. However, we do not expect total workforce numbers to reduce significantly until 2019/20. Transforming our organisation will take time. The customer-facing groups and some of the key capabilities that support them will be put in place first, representing approximately two-thirds of our total workforce.

All front-line staff received an offer in October 2017 to be appointed or confirmed into a role in the new customer-facing groups, commencing in February 2018. This represents about 3,300 people. There will be no reduction in frontline services, and we will maintain our presence in the communities we are working in today.

In addition, there are about 900 further positions on offer, with around the same number of positions affected. The make-up of these positions is different, with fewer management positions and more specialist roles. Selection processes for these roles are underway and are expected to be completed by December 2017.

Three new organisational groups will be established, effective from February 2018. Moving a large number of people into new structures, teams and roles, while at the same time changing the processes and systems they use to do their jobs, is not without its challenges. We are exploring alternatives if the new organisation design cannot be fully

implemented on 12 February 2018 as planned, due to some concerns raised by one of the unions about the selection processes for some of the new roles. While this will not prevent the implementation of Release 2 in April 2018, it may compromise the effectiveness of our new ways of working.

Further change is expected to take place in 2019/20 across the whole organisation. As much as possible, we will manage any reductions in the numbers of people through attrition and flexible workforce arrangements.

Nonetheless, as noted above, embedding a new organisation design, systems and processes as we seek to downsize our workforce will be challenging and will take time. During this time, clear and honest communication with our people and constructive engagement with our unions will continue to be our key areas of focus.

Providing assurance

A robust assurance management plan is in place for transformation, incorporating regular independent quality assurance (IQA) and Gateway reviews. KPMG is Inland Revenue's IQA provider. You will receive copies of all IQA reports, and will have the opportunity to meet with the reviewers if you wish.

We provide Cabinet with a transformation update in July and December each year. The most recent update was considered by the Cabinet Committee for State Sector Reform and Expenditure Control on 26 July 2017.

We also provide monthly status reports to you and the Minister of Finance.

APPENDIX

How Inland Revenue works with and supports the Minister of Revenue

You will have your own views about what works for you in terms of how we can support you and your office, which we look forward to discussing. For your information, we have set out below the type of support that we have provided previously.

Reports and communication

Every week, we can provide you with a status report. This includes information about Cabinet and Cabinet Committee papers, bills currently before the House, requests under the Official Information Act, media issues and Parliamentary Questions.

Meetings

We will work with you and your office to understand how, when and with whom you would like these to occur.

Staff in the Minister of Revenue's office

To assist with reports, communication and correspondence, Inland Revenue previously provided two secondees to your office: a Private Secretary [REDACTED] and a Revenue Advisor [REDACTED]. We also have a secondee in the Minister of Finance's office [REDACTED] [REDACTED] and [REDACTED] are due to finish their secondments, and we will work with you to find suitable replacements and to ensure cover over the transition. **Names are withheld under s.9(2)(a) of the OIA**

The secondees act as advisors on tax policy, tax administration and social policy matters, assist in handling media enquiries, help liaise with Inland Revenue, and manage incoming communication.

Inland Revenue staff also assist by providing draft responses to Ministerial correspondence, collating information for Official Information Act requests and Parliamentary Questions.

Key issues and decisions in the first 100 days

In addition to progressing the Government's 100-day priorities, which as we understand them are identified below, we have identified some of the things you are likely to need to consider over the next 100 days.

Topics	Reason for prioritising engagement on this topic
100-Day Plan	
1. Families Package	Inland Revenue will work with Treasury and MSD on the legislation and implementation of the proposed families package.
2. Establish the Tax Working Group	Inland Revenue will work with Treasury (with input from MBIE and the Reserve Bank of New Zealand) on the draft terms of reference and suggested membership for the proposed Tax Working Group. We would like to discuss the additional actions to reduce the incentive for speculation which includes extending the bright line test and removing the ability to offset rental losses against other income.
3. First year of tertiary education or training free	Inland Revenue will work with the Ministry of Education and Tertiary Education Commission on the legislation and implementation of the proposal. The reason we are involved is become Inland Revenue has been identified as one of the potential delivery mechanisms for this policy.
Taxation Bills and matters for consultation	
4. Taxation (Annual Rates for 2017-18 Employment and Investment Income and Remedial Matters) Bill	At the end of the last Parliament, this bill was being considered by the Finance and Expenditure Select Committee. Public submissions were heard by the Committee. The bill needs to be reinstated when Parliament convenes and needs to be enacted by 31 March 2018, as it contains annual tax rates for the 2019/2020 year. There are also a number of other measures in the bill that have application dates early in 2018. Officials can brief you on the bill and provide details on the issues raised by submitters.
5. Taxation (Income-sharing Tax Credit) Bill	This bill was introduced into Parliament in August 2010 and is awaiting its second reading. Officials can brief you on the content of this bill so that you can consider whether you would like to reinstate it.
6. Taxation (Base Erosion Profit Shifting) Bill	Ministers announced the policy decisions on a Base Erosion and Profit Shifting package in June this year. Officials have been working on the detailed design of the measures, including draft legislation. This has also involved public consultation.

	<p>It was previously announced that the legislation will be introduced at the end of 2017, in order for the legislation to be in place for application from 1 July 2018.</p> <p>Officials can brief you on the development of the legislation and the public consultation. We can also discuss the timing of any legislation with you. Any delay in start date will have fiscal implications.</p>
7. Bill bid	All Ministers will be required to provide an indication of their bill bids for 2018. We will draft a report for your consideration and sign off to meet the requirement.
8. First 2018 Taxation Omnibus Bill	<p>The next omnibus tax bill was planned for introduction in early 2018.</p> <p>Some items for this bill have been signed off by the previous Cabinet. It was also planned that a number of legislative changes needed to support transformation would be included in this bill.</p> <p>Officials can brief you on possible items for the bill, and discuss the date specific changes take effect and where appropriate, how these align with transformation.</p>
Tax policy work programme	
9. Tax policy work programme	<p>The Government's Tax Policy Work Programme will need to be updated to meet your priorities. These are the priorities we are aware of so far:</p> <ul style="list-style-type: none"> • Research and Development tax credits • Removal of secondary tax • Additional measures to ensure that multinationals pay their fair share of tax • Easing the burden for small businesses • Taxation of bloodstock • Increase penalties for corporate fraud and tax evasion <p>The programme is also usually reset at the beginning of the Parliamentary term.</p> <p>The Minister of Revenue and the Minister of Finance jointly decide on this three-year programme (also formally refreshed at the 18-month point). Cabinet has previously noted the work programme.</p> <p>Officials will discuss the current work programme with you, as well as the process for consulting stakeholders on the reset, and the announcement of the programme (generally early in the New Year).</p>
Department matters	
10. Business Transformation policy matters: <ul style="list-style-type: none"> • Individuals 	<p>There are a number of policy projects underway that support transformation. The legislation change supports and enables the system changes that are planned under Stage 2 of transformation. Currently, there are two public discussion documents that officials are planning on reporting to Government on</p>

<ul style="list-style-type: none"> • Social policy • Penalties 	later this year, following the receipt of public submissions. These discussion documents concern Individuals and Social Policy.
11. Business Transformation <ul style="list-style-type: none"> • Tax Administration Act • Business tax 	<p>There has been consultation with the public on changes to the Tax Administration Act and further changes to business tax.</p> <p>Officials would like to discuss with you the scope of this work, and the timing and priority of any changes.</p>
12. GST low-value goods	<p>This project has been investigating whether GST can be levied efficiently on low-value imported goods. Customs have been asked by Cabinet to provide more information on the costs for Customs if the proposal to collect GST from registered suppliers were to go ahead.</p> <p>Inland Revenue anticipates supporting this work. We will seek Ministerial guidance on relative priorities and the timing of a discussion document.</p>
13. Double Taxation Agreements and Multi-Lateral Instrument	<p>New Zealand has already signed the Multi-Lateral Instrument entered into by New Zealand and many other countries as an expedient way of aligning our tax treaties with BEPS provisions, which now needs to be ratified. This follows an OECD timeline.</p> <p>Double Taxation Agreement negotiations are in progress.</p> <p>We will seek Ministerial endorsement of a Double Taxation Agreement strategy and priorities.</p>
14. Inland Revenue Four-year Plan 2018	<p>Inland Revenue's Four-year Plan is the department's key planning document and provides a medium-term perspective of how we will achieve our longer-term vision. Our 2018 Four-year Plan will also contain our strategic intentions.</p> <p>2018 Four-year Plans are due to Central Agencies by 15 December 2017.</p>
15. October Baseline Update (OBU)	<p>The October Baseline Update is a technical update of funding baselines for matters that do not raise significant policy issues and therefore do not require Cabinet approval.</p> <p>We will send you a memo seeking your feedback on the October Baseline Update submission, which as per current Treasury timelines is due to the Minister of Finance by Wednesday 15 November.</p>
16. Working with Inland Revenue	<p>As noted earlier, we have previously provided two secondees to your office: a Private Secretary and a Revenue Advisor, and also have a seconded in the Minister of Finance's office.</p> <p>We would welcome the continuation of this arrangement, and look forward to discussing your preferences for this and other support requirements.</p>

Speaking opportunities	
17. Chartered Accountants of Australia and New Zealand conference	<p>Each year, the Minister of Revenue is invited to attend and speak at the Chartered Accountants of Australia and New Zealand (CAANZ) annual tax conference. This also includes meeting with the tax committee for CAANZ.</p> <p>This year, the conference is on 16 November and the Minister has been invited to dinner on the night of 15 November before being the opening speaker on 16 November.</p>

Receiving more in-depth information

In addition to your priorities as we understand them and as noted above, we have also identified a number of other areas where you may wish to receive more in-depth information from us. These include:

- Business Transformation
- Organisational Design, including the transition process that is underway
- Inland Revenue financials
- Tax revenue forecasting
- Our tax policy settings and future challenges
- The strategic direction of Inland Revenue info sharing
- Inland Revenue's role in child support, student loans etc.

We look forward to discussing these and any other areas of interest with you.

Our structure

Our current business groups are:

Service Delivery

Provides taxpayer information and education, and carries out compliance activities. It is the main point of interaction for customers making payments and filing returns.

The Office of the Chief Tax Counsel

Provides technical advice about the interpretation and application of tax law for us and our customers.

Policy and Strategy

Provides tax and social policy advice to the Government with the Treasury, and leads the development of our strategy.

Transformation

Leads the work to implement a modern, digital revenue system.

Information Technology and Change

Develops, delivers, improves and supports our information technology systems.

Information, Intelligence and Communications

Helps us keep customers' needs in mind as we transform, and uses data and intelligence to help us understand and influence customer behaviour.

Corporate Integrity and Assurance

Provides independent advice, support and assurance, making sure we are doing the right things in the right way.

People and Culture

Enables us to lift organisational performance through our people.

Performance, Facilities and Finance

Provides facilities for our people, business performance analytics, financial and planning advice, and analysis.

We are changing our structure and the way we work in the coming year, organising ourselves by customer types rather than functions, and bringing our people closer to customers.

We are setting up three new groups:

- Customer and Compliance Services—Individuals,
- Customer and Compliance Services—Business, and
- Information and Intelligence Services.

These groups will be established in February 2018.

At the same time, our Service Delivery and Information, Intelligence and Communications groups will be disestablished.

Leadership team



Naomi Ferguson

Commissioner and Chief Executive

Ph: Withheld under s. 9(2)(a) of the OIA



Lara Ariell

Chief Financial Officer

Ph: Withheld under s. 9(2)(a) of the OIA



Cath Atkins

Deputy Commissioner, Policy and Strategy

Ph: Withheld under s. 9(2)(a) of the OIA



Gary Baird

Chief Technology Officer

Ph: Withheld under s. 9(2)(a) of the OIA



Mary Craig

Deputy Commissioner, Corporate Integrity and Assurance

Ph: Withheld under s. 9(2)(a) of the OIA



Mike Cunningham

Deputy Commissioner, Information, Intelligence and Communications

Ph: Withheld under s. 9(2)(a) of the OIA



Mark Daldorf

Chief People Officer, People and Culture

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Greg James

Deputy Commissioner, Transformation

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Gaye Searancke

Deputy Commissioner, Customer and Compliance Services – Business

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Martin Smith

Chief Tax Counsel

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Sharon Thompson

Deputy Commissioner, Customer and Compliance Services – Individuals

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Arlene White

Deputy Commissioner, Service Delivery

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