



# Tax Horizon Series: Business Transformation

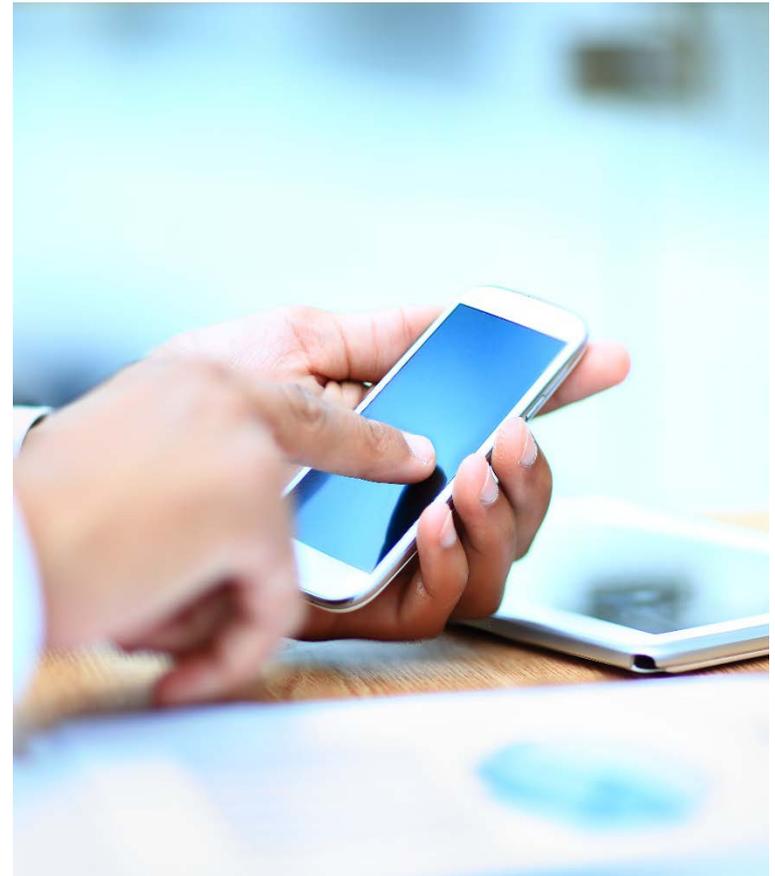
Inland Revenue, Business and Adviser perspectives

**Naomi Ferguson**, Commissioner of Inland Revenue  
**John Payne**, New Zealand Superannuation Fund  
**Rebecca Armour**, KPMG  
**Darshana Elwela**, KPMG

22 February 2018

# How much do you know about Inland Revenue's Business Transformation programme?

- A. All over it**
- B. A bit, but would like to learn more**
- C. What's Business Transformation?**





Inland Revenue  
Te Tari Taake

# Business Transformation – Inland Revenue's perspectives

Naomi Ferguson  
Commissioner Inland Revenue

# Our vision for the future of tax



To grow voluntary compliance by making it easier for people to get it right



To reduce compliance costs



To make Government policy changes faster and more cost effectively

# Our Transformation

2016 - 2017

## STAGE 1

Enable secure digital services

GST Improvements

NZ Business Number recognition

Digital registration for migrants and company entities

2017 - 2019

## STAGE 2

Streamline Tax

Income taxes for businesses and individuals

Withholding taxes

Payday Reporting (voluntary)

Accounting Income Method (provisional tax)

Automatic Exchange of Information (OECD)

2018 - 2020

## STAGE 3

Streamline Social Policy

Payday Reporting (mandatory)

Working for Families

Student loans

Child support

Kiwisaver

2019 - 2021

## STAGE 4

Complete the Future Revenue System

Paid Parental Leave

Duties and reserve schemes

Unclaimed monies

All other taxes and duties

# Our new organisation – better serving our customers

1

FROM  
**Functions**

Customer segments,  
with the rest of the  
organisation servicing  
these segments

2

FROM  
**Silos**

Working together better for  
our customers

3

FROM  
**Fixed Models**

Our people being able to  
work in more flexible ways

4

FROM  
**Tasks**

Our people being able to  
apply their skills and abilities  
more broadly

5

**Underpinning  
those changes  
with:**

- New performance measures
- New decision making frameworks and delegations
- New workflows through START
- Greater emphasis on leading and coaching
- New skills and people capabilities
- Redesigning approach to pay
- New approach to performance and recognition
- Workplace tools

TO >

SUPPORTED BY NEW TECHNOLOGY AND TOOLS

# Release 2: Accounting Income Method (AIM)

- Pay provisional tax 'as you go'
- Less uncertainty, more convenience and peace of mind
- Businesses with turnover under \$5m can use AIM
- Delivered through approved accounting software
- No Use of Money Interest for AIM users
- No tax pooling available for AIM users during the year
- Benefits for many types of small businesses

# Release 2: Payday Reporting - proposed changes

- Government has introduced legislation around more frequent reporting of PAYE information - every Payday rather than once a month
- Better processes will replace Employer Monthly Schedules – file through software or myIR
- PayDay Reporting will be voluntary from 1 April 2018, then mandatory from 1 April 2019
- All subject to legislation passing

# International initiatives

- We all have a role in promoting greater levels of transparency around tax.
- **Automatic exchange of information (AEOI)** OECD led initiative to combat global tax evasion, NZ law enacted February 2017
- Under the Common Reporting Standard we're collecting, reporting, and exchanging financial account information on people and entities investing outside the country they live in.

# How we'll deliver tax in the future

Linking our systems  
across government and  
the private sector

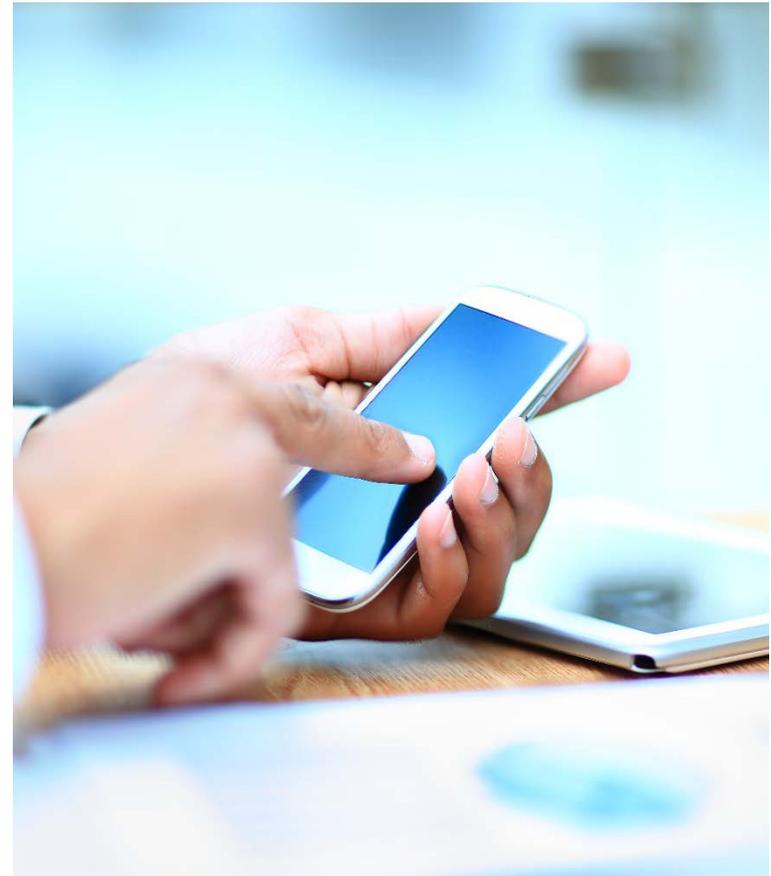
Fitting tax seamlessly  
into people's lives

Making more intelligent  
use of information



# How does your organisation view Inland Revenue's Business Transformation?

- A. A whole lot of costs for little or no benefit**
- B. The costs and benefits are difficult to quantify**
- C. Using it as an opportunity to streamline systems and operations**
- D. The business is not engaged**





**A business perspective**

John Payne

# Disclaimer

Personal view only not attributed to Guardians of  
New Zealand Superannuation or the Corporate  
Taxpayers Group

# Outline

- Recap from June 2014 Tax Admin Conference – what did we (business) want?
- Current environment considerations.
- Progress since June 2014.
- Unfinished Business.
- Taxpayer Tax Technology solutions.



# 2014 - Setting the scene

## The three Cs.....

- Certainty
- Compliance Costs
- Competitiveness



# The three Cs...

Certainty	Compliance Costs	Competitiveness
BBLR	No nickel & dime taxes	No nickel & dime taxes
GTPP and post-implementation reviews	Enhanced relationships	Statutory thresholds
IR “As One” / trust and accountability	Provisional tax, penalties & UOMI	DTA network
Remedial fixes	Legislative drafting and simplification	Tax policy – facilitative and nimble / mind set cultural change needed
Application of GAAR, penalties and UOMI	NRCT and FBT	Innovation needed
Binding rulings	Care and management	NZ as a business destination –” NZ Inc story ”.
Enhanced relationships	Administrative solutions / precision Vs reasonable proxy / safe harbours	
Care and management		

# 2014 - Conclusion

- True self assessment is the key to an efficient tax system
- Transform is about more than just efficient processing
- Need equal focus on tax system management & tax policy



# Environmental Considerations

## General:

- Un-precedential disruption and rapid change. Expect the unexpected.
- Political, economic and social upheaval. Change in “World order”.
- Technological – new industrial revolution (on steroids).
- Information and data flows – social media , data leaks / theft , “fake news?”
- Inequality, transparency, population and climate change.
- Globalisation vs Protectionist.
- Gender equality.
- How and when we work.

# Environmental Considerations

## Specific:

- 5 different Revenue Ministers
- Change of Government – New Government more “hands on” and living standards framework adopted.
- Tax Working Group established – considering “fairness”
- Increased tax transparency from Corporate sector
- Large Audit adjustments few and far between – cash effective tax rate close to statutory rate. Increased disputes over boundary issues e.g. Capital vs Revenue and GST apportionment.

# Environmental Considerations

## Specific:

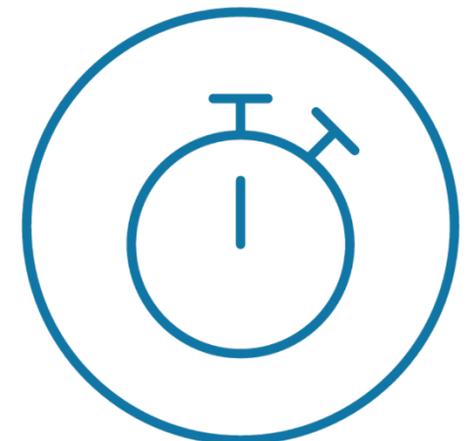
- Large corporate sector paying their “fair share”. Notwithstanding Politicians / Media assertions to the contrary.
- Focus on the tax gaps.
- Policy resource stretched with BEPS and BT work streams.
- GTTP under pressure process breaking down generating “ill-will” and straining relationships.
- Compliance costs increasing and very complex legislation emerging (80:20 rule should be used when designing laws – you can’t / shouldn’t try to catch every dollar). Policy Officials less willing to embrace practical or pragmatic solutions.

# Progress Since 2014

- Acknowledge “huge” effort to date by CIR and her Team.
- New Flexible IT System up and running “Mytax / MyIR” with GST migrated. **(Benefits should not be underestimated in terms of providing data, profiling taxpayers, testing assumptions, data mining and enabling policy change).**
- Customer facing organisation restructure (difficult) but now in place from February 2018.
- Stage two to occur in April 2018 with PAYE, FBT, AIM provisional tax system.
- Significant policy work has commenced.
- TICAL established and working well
- **However still a long way to go to truly transform and deliver full potential.**

# Unfinished Business

- Migration of remaining taxes and systems to MyIR.
- Reorganisation of remaining parts of IR primarily Policy and Legal / Technical resources.
- **Certainty / Compliance Costs:**
  - Remedial fixes (dedicated unit)
  - Shortfall penalties and UOMI / Provisional tax reform.
  - Enhanced relationships (beyond pilot and informal arrangements).
  - Care and Management:
    - Use of determinations / regulations (with checks and balances)
    - Application dates for law changes e.g. TrustPower.



# Unfinished Business

- Increased Trust loosing *paranoia* and believing Taxpayers especially when subject to third party verification.
- Access to secret body of law – Private Rulings and Adjudication decisions.
- Improved GTPP and Legislative drafting.
- Self correcting adjustments.
- Materiality considerations.
- Administrative solutions / precision versus reasonable proxy ( 80 / 20 rule) / genuine safe harbours (i.e. not prisons).
- Innovative solutions e.g. AIM for larger taxpayers, AMT based on audited financial statements, integration of corporate tax base.



# Unfinished Business

- Acknowledgement one size does not fit all.
- Complete review of *Nickle and Dime* taxes e.g. FBT, AIL and Entertainment ('fairness' vs compliance costs).
- Alignment of IR performance measurement to new customer centric model i.e. providing certainty and keeping compliance costs to a minimum. Not about maximising adjustments.
- **Forgotten C – Competitiveness :**
  - Innovation “making the boat go faster”.
  - Review of NZ’s current internationally high corporate tax rate.
  - Modernise DTA network with major trading partners.

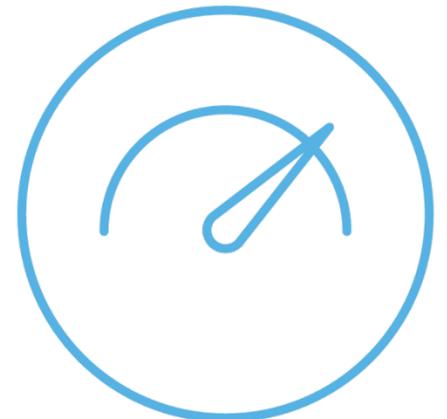


# Unfinished Business

- Review and increase current statutory thresholds.
- **Tax Policy / GTPP – “is the current model still fit for purpose?”**
  - Needs a comprehensive review of how we do things?
  - Should this still be with the tax collector (can hijack correct policy framework decisions for short term revenue gain)?
  - Needs to be facilitative and nimble / mind set cultural change needed here?
  - National interest (NZ inc) and more obvious alignment with other Government policies vs World Police / OECD capture.
  - Innovative – take calculated risks, use pilot programmes.

# Unfinished Business

- Agility - ability to move quickly.
- Use outside expertise to help – not just academia to sense check frameworks / decisions.
- Held to account with actions and timeframes included in annual work plan.
- Need to use existing tools rather than add more complexity and “nice to haves”.
- Beware of “scope creep” by overzealous officials seeking perfection. Wasting limited resource on all sides.
- Simplification.
- Post implementation reviews e.g. CFC regime.
- Recognise one size doesn't fit all.



# Blue sky thinking & tax technology



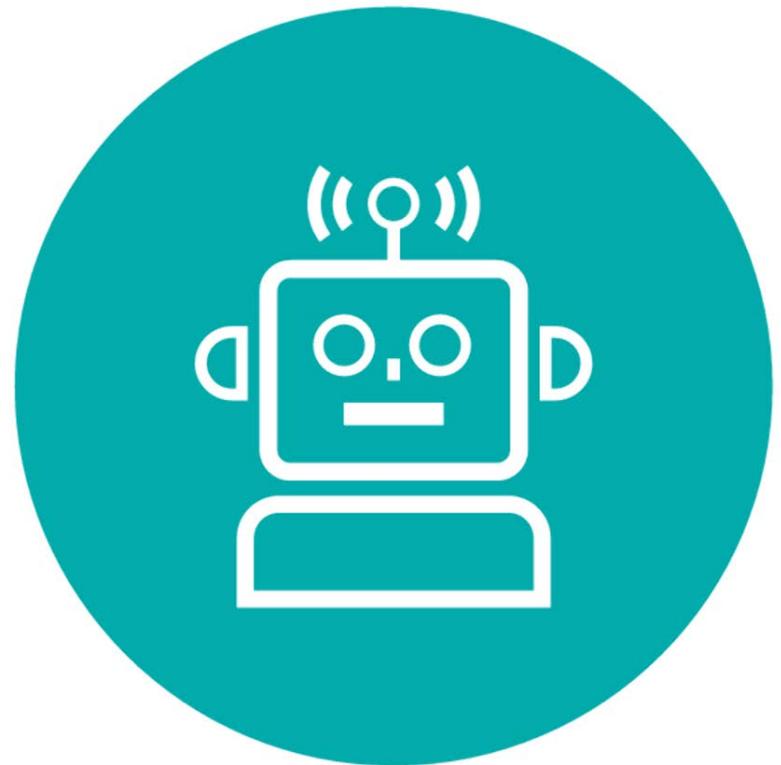
# Tax Technology Solutions

- **Drivers for Tech solutions:**

- Partly push (from Taxpayers) and pull (from Revenue Authorities).
- Data requests / provisions – C by C reporting, FATCA, ad hoc enquiries etc.
- Added complexity in tax law.
- Limited resources or decreased resources. Ability to relocate Human Resources.
- Reduce chance of error.

- What are we seeing?

- Automation / mapping solutions.
- Machine learning / robotics



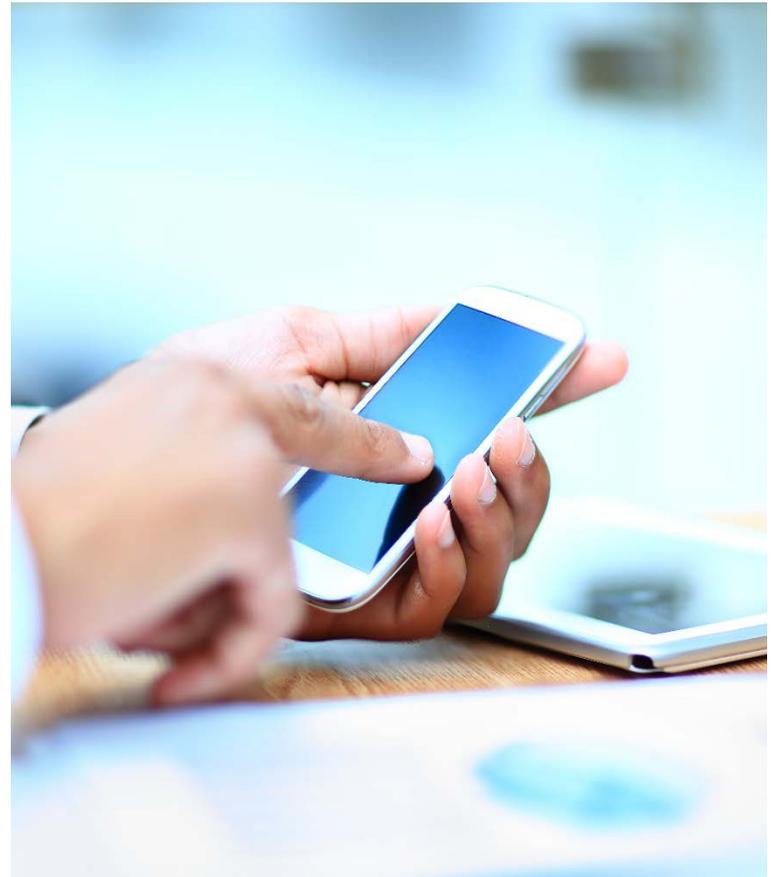
# Tax Technology Solutions

NZ Market (some Leaders – far out front):

- GST
- FBT
- Entertainment classification
- Fixed assets
- GST apportionment
- Tax investment classification
- Provision of C by C / FATCA information
- Payroll – pay day reporting

# Where do you think your organisation sits in the spectrum of adopting tax tools?

- A. At the front of the pack**
- B. Looking around, but haven't yet implemented**
- C. Not relevant for my business**
- D. No engagement from the business or budget to implement**

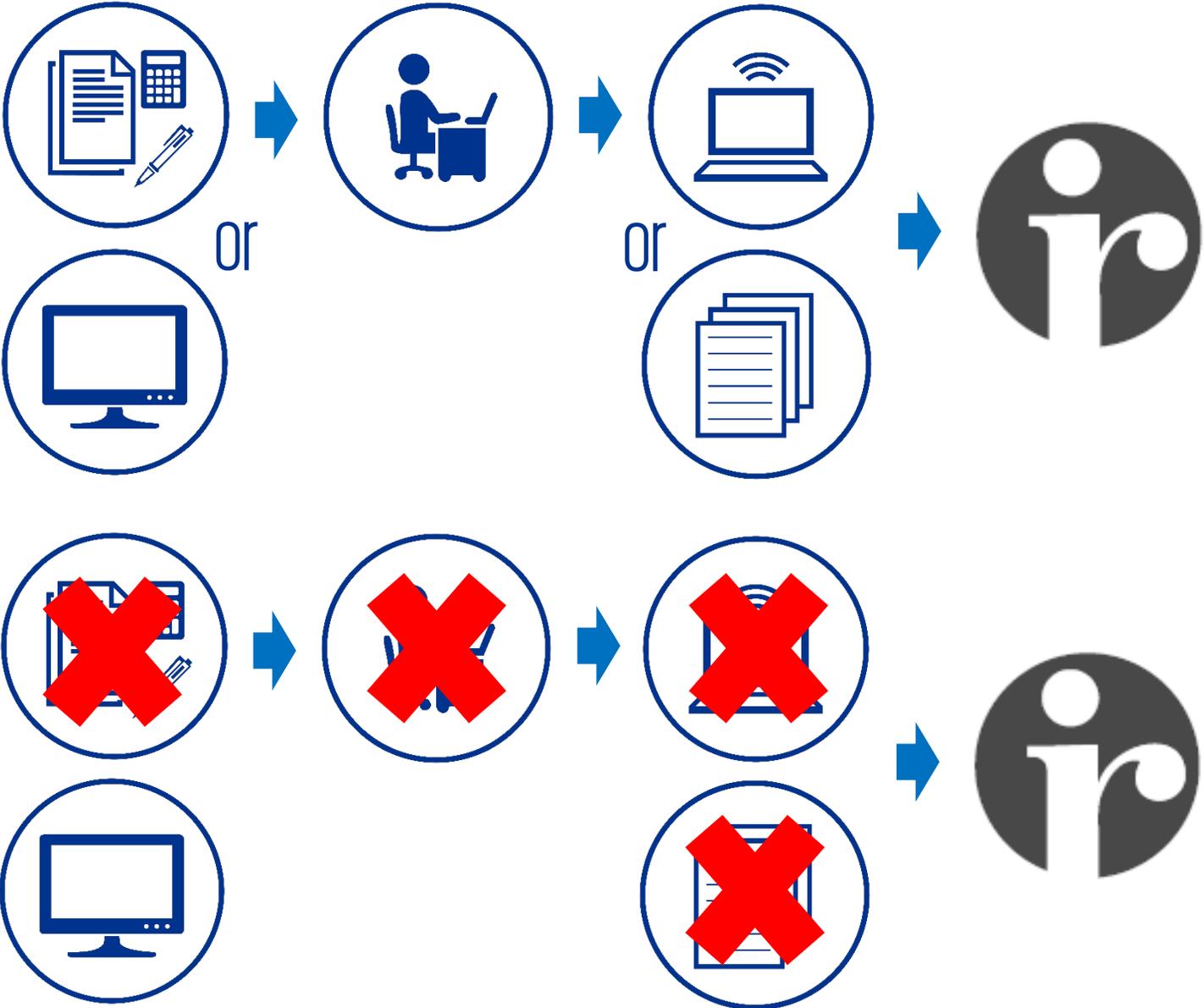


# An adviser perspective

Rebecca Armour and Darshana Elwela, KPMG



# PAYE information reporting

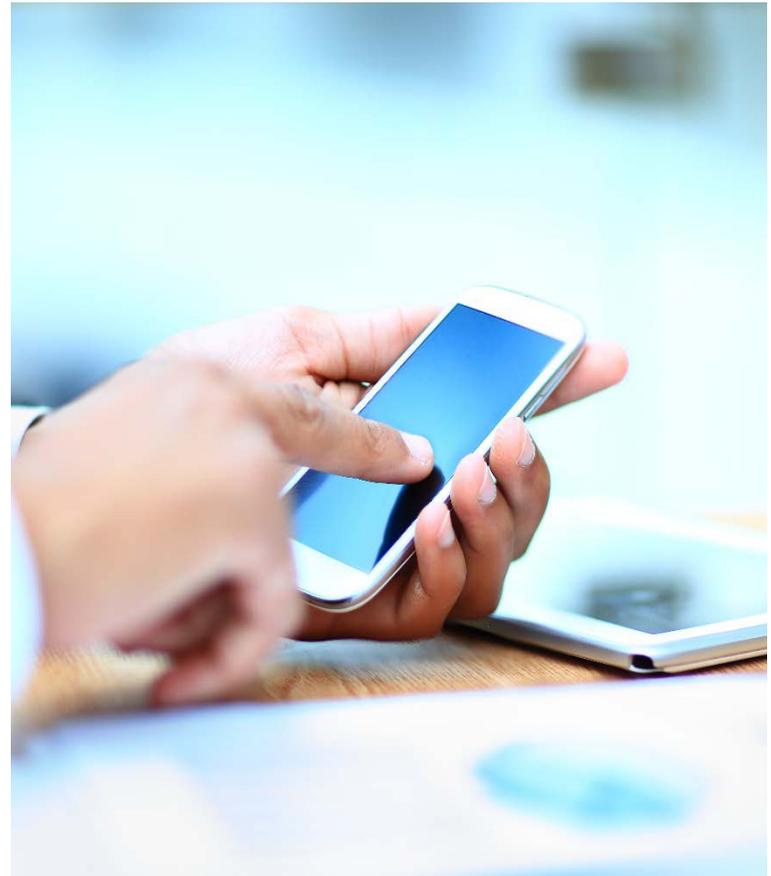


Current State

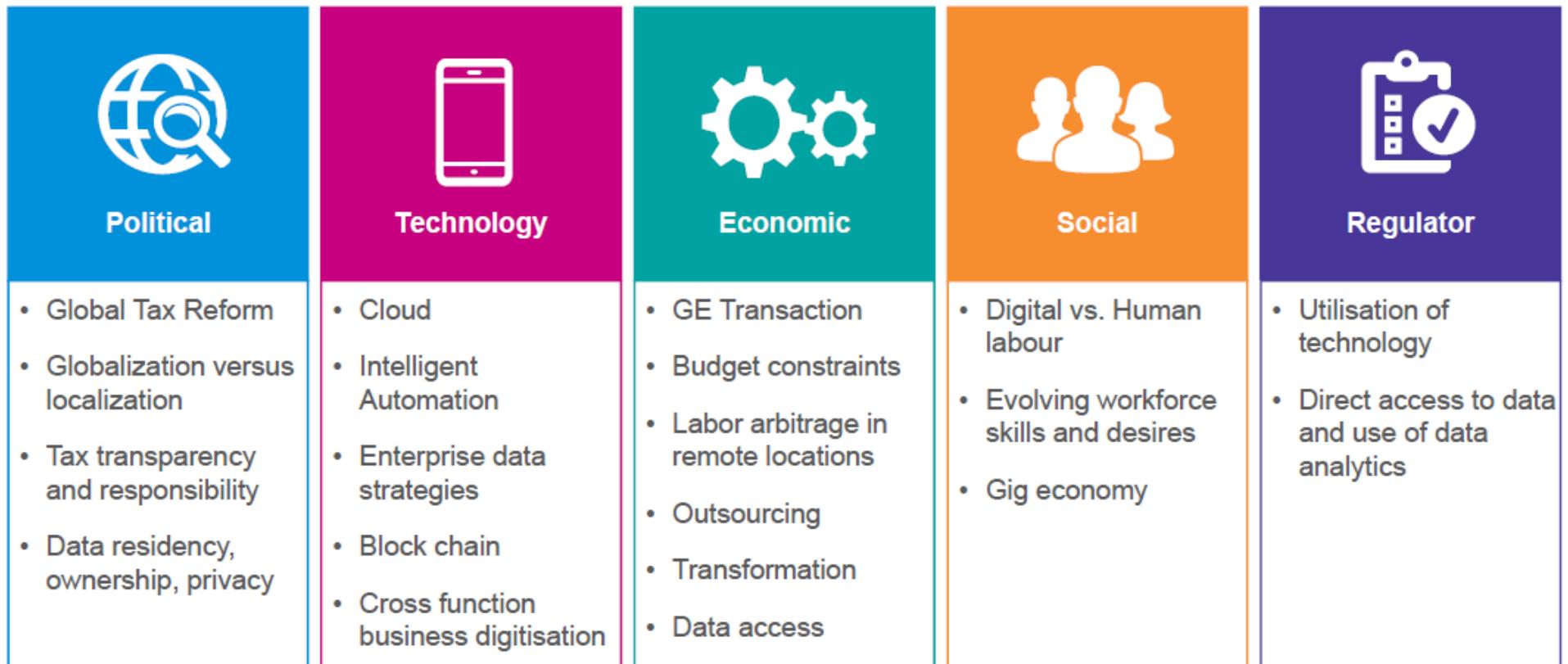
From 2019

# Is there pressure in your organisation to transform the finance/tax function?

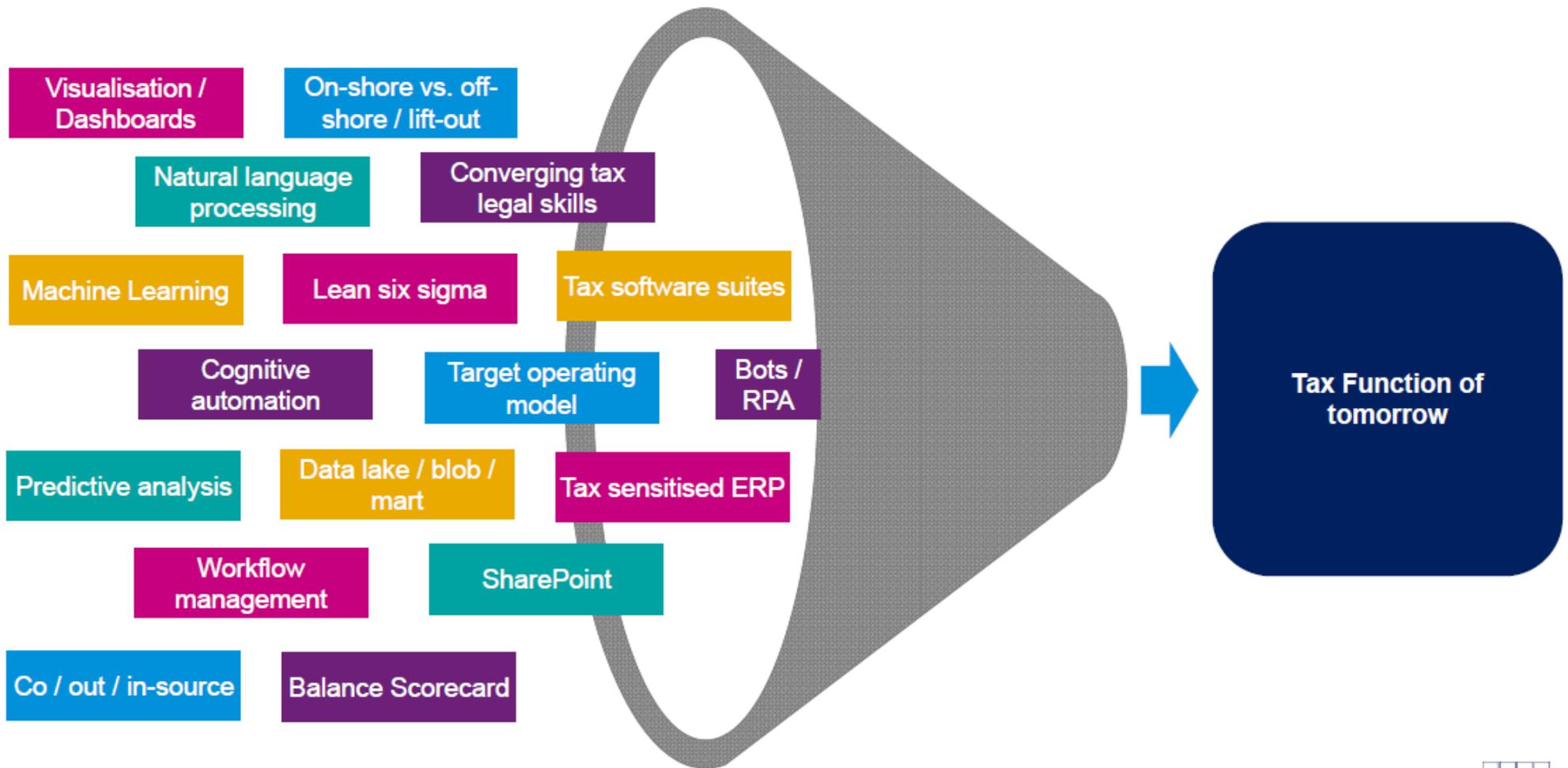
- A. Yes – no longer viewed as just a compliance function; needs to add value to the business**
- B. Yes – but mainly to cut costs**
- C. No – its business as usual**



# Global trends impacting the tax function



# Making sense of all the solutions for your tax function



# Please take a copy of...



## Tax, data and analytics – moving from control to transformation

A roadmap for creating a platform of tax knowledge that can help you better meet your compliance KPIs, increase revenue, enhance margins and optimise supply chains.

[kpmg.com/nz](https://kpmg.com/nz)

## Link to publication



**Tax authorities both globally and in New Zealand are using data and advanced analytic techniques to help provide insights into compliance with accelerating speed and efficiency.**

Inland Revenue's multi-stage Business Transformation is well underway and will streamline its processes and access to data. Many forward thinking enterprises are applying similar analytical techniques to extract value from the information provided to regulators. While business processes for collecting tax data may be sound, transforming that data into insights and process and pricing improvements remains challenging.

What does it take to move beyond compliance and regulatory functions to mine this hidden value and enhance the performance of your business overall? KPMG has produced the following publication to help guide business down this confusing path.



### Contacts

**Rebecca Armour  
Partner, Tax**

T: +64 9367 5926  
M: +64 212 254 946  
E: [rarmour@kpmg.co.nz](mailto:rarmour@kpmg.co.nz)

**Darshana Elwela  
Partner, Tax**

T: +64 9367 5940  
M: +64 212 437 952  
E: [delwela@kpmg.co.nz](mailto:delwela@kpmg.co.nz)

**Nick Hope  
Director, Tax**

T: +64 9363 3210  
M: +64 211 616 838  
E: [nhope@kpmg.co.nz](mailto:nhope@kpmg.co.nz)

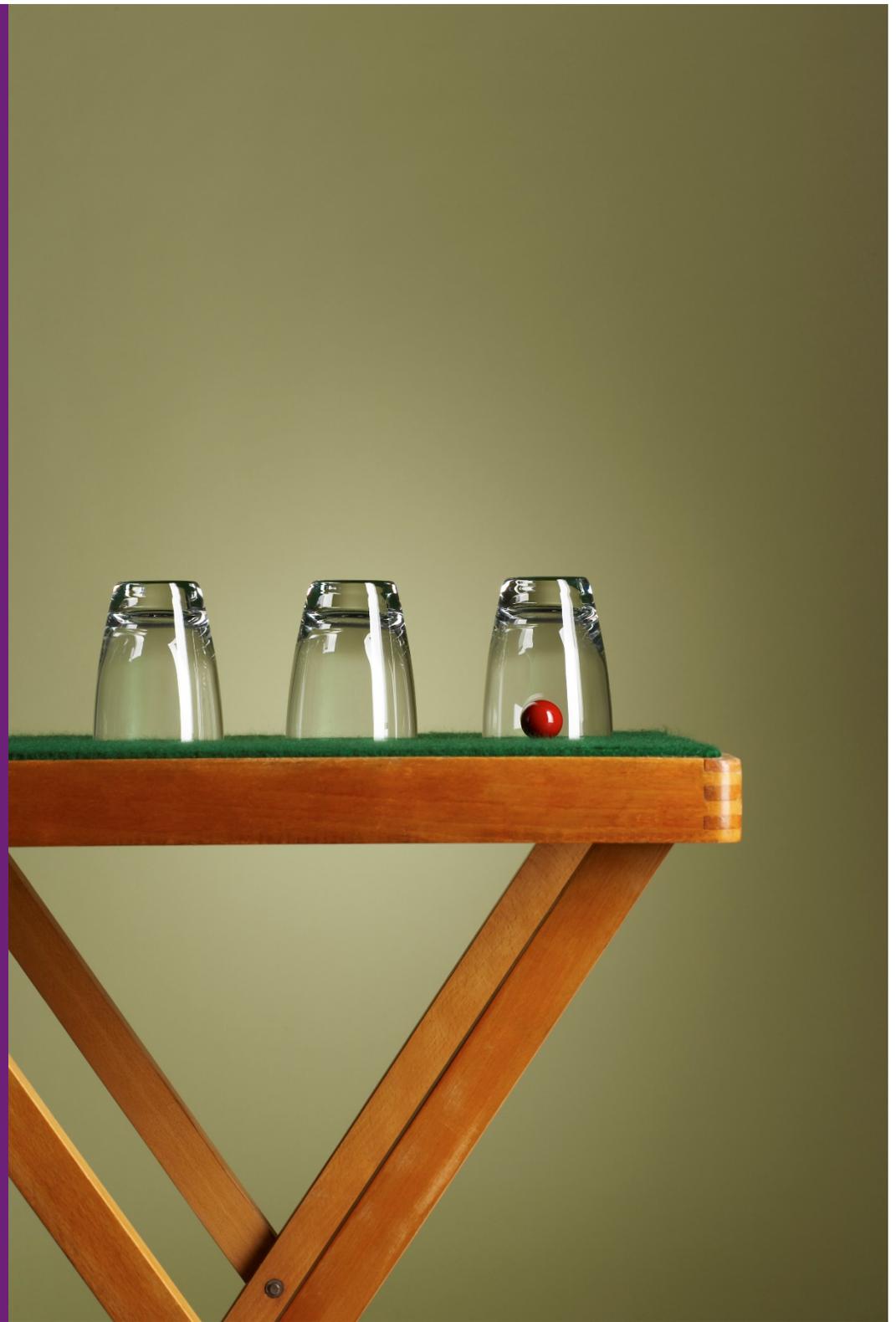
<https://goo.gl/FTFtkJ>



Copyright: © 2018 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in New Zealand. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity. 02417

**KPMG**

Q&A



# Thank you



**Rebecca Armour**  
**Partner, Tax**  
**T: +64 9 367 5926**  
**E: [rarmour@kpmg.co.nz](mailto:rarmour@kpmg.co.nz)**



**Darshana Elwela**  
**Partner, Tax**  
**T: +64 9 367 5940**  
**E: [delwela@kpmg.co.nz](mailto:delwela@kpmg.co.nz)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG, a New Zealand partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.

[kpmg.com/nz](https://kpmg.com/nz)

