

Making tax simpler – a vision for NZ’s tax administration

The Government has started the conversation to bring New Zealand’s tax administration into the 21st century. It has released a “green paper” outlining its vision and a discussion document on better use of digital services by Inland Revenue. These documents are available [here](#).

What does a 21st century tax administration look like?

The green paper identifies what the changes will mean for Inland Revenue’s “customers”, including:

- **Employers and business** – streamlined collection and payment of PAYE, GST and withholding taxes integrated into business’ processes. Simplifying provisional tax and the rules for small business are also on the agenda.
- **Individuals** – more effective use of technology, such as Inland Revenue providing online pre-populated tax statements for individuals to confirm or correct, and to manage refunds and tax debts.
- **Social policy recipients** – fit-for-purpose delivery of social assistance to provide more timely payments, reduce or eliminate social policy debt, and make it easier to access entitlements.

A more detailed analysis of the proposal is attached as an appendix to taxmail.

What are the expected benefits and costs?

The Government envisages that a more efficient tax administration will result in:

- lower compliance costs and greater predictability for taxpayers;
- a cheaper and more flexible system for Government; and
- less debt and easier access for social assistance recipients;

However, there will be a one-off transitional cost for business, and other intermediaries, from changing their systems. This is because the Government’s vision relies heavily on Inland Revenue being able to use business’ processes and systems to access the information it needs. Business should take note.

How will the reform be phased?

At this stage the actual implementation dates are unclear, but the phasing of consultation on the various changes is known. We would expect implementation to largely follow this sequence. A discussion document on changes to the PAYE and GST systems is due later this year, followed by proposals on the withholding tax regime (also this year). Proposals on changes to business and individual taxation systems are slated for release in 2016, and social policy for 2017.

It is often easy for business to ignore tax proposals until there are concrete changes

Business needs to sit up and take note now and influence the change process. Once the future direction is set, it will be too late to complain that desirable and achievable benefits for business have not been met

What does business need to do?

In a nutshell, keep up to date with developments and be prepared to engage in the consultation process. Submissions on the green paper are due by **29 May**.

Business plays a significant role in the tax system. It collects tax for the Government from employees, investors and consumers. It also pays significant amounts of tax. Inland Revenue's business transformation will put much more focus on how business actually does this. It will also increase the demand for business to provide Inland Revenue with real time information. Greater use of technology is a given to achieve this objective. The more important question for business will be the changes to its rights and obligations (and sanctions if things don't go to plan).

Business is used to confirming and controlling the returns that it provides to Inland Revenue. These are back-end processes. If information is provided in real time, and electronically, the confirmation and control will need to be front-end processes. If a business gets this wrong it will have unhappy employees and customers to contend with, as well as Inland Revenue.

It is often easy for business to ignore tax proposals until there are concrete changes. Business needs to sit up and take note now and influence the change process. Once the future direction is set, it will be too late to complain that desirable and achievable benefits for business have not been met.

Further information

If you would like to discuss the *Making tax simpler* green paper in greater detail, please contact your regular KPMG advisor or:

John Cantin
Partner – Tax
Wellington
Phone: +64 4 816 4518
E-mail: jfcantin@kpmg.co.nz

Darshana Elwela
National Tax Director
Auckland
Phone: +64 9 367 5940
E-mail: delwela@kpmg.co.nz

kpmg.com/nz

twitter.com/KPMGNZ

© 2015 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.

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.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Appendix - summary of the *Making tax simpler* 'green paper' proposals

System	Proposal	Benefits	KPMG comment
PAYE	<p>Integrate PAYE and GST directly into normal business processes with a focus on real time collection of data.</p> <p>Review existing PAYE rules to consider whether:</p> <ul style="list-style-type: none"> The way different types of remuneration are taxed can be rationalised. (E.g. if fringe benefits, superannuation contributions, employee share scheme income can be included in PAYE?) Withholding can be extended other 'employment-like' income (e.g. payments to contractors and in certain industries)? 	<ul style="list-style-type: none"> Avoiding duplication (e.g. the current employer monthly schedule is standalone from payroll) and allowing business systems to "talk" directly to Inland Revenue's system. Easy amendment and correction of tax codes. Real-time validation of employee information. Up front verification of information to reduce risk of tax underpayment. 	<p>As first "cab off the rank", business will need to consider how their existing payroll and GST systems will be impacted.</p> <p>A rationalisation and extension of the PAYE rules will mean that business' tax withholding functions will increase.</p> <p>An important aspect of this system will be the ability to correct errors, notwithstanding real time information. Accuracy will not be achieved 100% of the time as reality in business and life is messier than the theoretical world.</p>
Business	<p>Review the provisional tax rules, having regard to:</p> <ul style="list-style-type: none"> Aligning tax payments with when business generates their cash flows. The impact of use of money interest (UOMI) and penalties on business. Reducing compliance costs to make it easier to comply. Encouraging compliance and providing high levels of predictability. <p>Consideration could be given to "on-account" tax payments (based on accounting income) or some proxy (e.g. turnover), and reviews of the UOMI safe harbour rules and tax pooling arrangements.</p>	<p>Reduce:</p> <ul style="list-style-type: none"> Use of money interest risk for businesses from the need to estimate annual tax liabilities. Compliance costs from estimating liabilities in advance. Cash-flow difficulties from terminal tax squaring up. 	<p>We welcome the focus on the provisional tax regime and how this can be better aligned with how business earns its income.</p> <p>The proposals to link income tax to accounting income and/or turnover are a bit 'back to the future', in that these options have been considered previously. The ability to achieve this is likely to require taxable income to equal accounting income. This would eliminate many of the minor adjustments which reverse over time and may have a fiscal cost for Government. A fresh look is warranted.</p>

			Reviews of the UOMI and penalties rules are important to ensure the rules are achieving what was intended. In our view, the UOMI rules act as a penalty rather than simply compensating Government for loss of use of funds.
Small business	Make tax less of a minefield for small business. Consideration could be given to software that helps small business correctly classify transactions, supported by changes to the penalties rules to assist small business to comply.	Make it easier for small and micro businesses to comply.	The green paper notes that simplification for small businesses is not the same as tax concessions.
Withholding	<p>Review of current resident withholding tax (RWT) rules to ensure accurate and timely withholding at source.</p> <p>Integrate RWT information requirements into existing business processes (similar to PAYE).</p> <p>Consider whether RWT is an efficient method of collecting underpaid tax.</p>	<p>Improved timeliness of information to Inland Revenue and accuracy of withholdings (compared to current RWT systems).</p> <p>Could remove the need for financial institutions to provide annual tax information to customers.</p>	<p>This will require a high degree of collaboration with financial institutions and other RWT payers to ensure the changes are feasible.</p> <p>As with PAYE, 100% accuracy of real-time information is a difficult standard to achieve. Anti-money laundering and know your client processes may help. However, withholding regimes will be affected by retrospective changes to tax positions. For example, a person may be non-resident today but because they stay in New Zealand for a further six months they could become resident. This changes the withholding liability from NRWT to RWT.</p> <p>Making reporting obligations for payers efficient and integrated is also important.</p>
Individuals	Provide a single secure online tax statement which all individuals check, confirm and can add information to. (The statement would be compiled by Inland Revenue for income from which tax has been withheld at source.)	<p>Make tax return "filing" simpler and less onerous.</p> <p>Greater fairness as refunds and tax to pay will be automatically generated.</p>	This will have the widest impact as it will bring more than a million current non-filers back into the tax return filing net after more than 15 years. Taxpayer education of their responsibilities and obligations will be key to success.

Social policy	<p>Reconsider the annual approach for social assistance delivered by Inland Revenue (e.g. payment of <i>Working for Families</i> tax credits).</p> <p>Greater use of information from other sources to ensure changes to recipients' circumstances are identified.</p> <p>Better approach to managing social policy debt (e.g. consideration given to recovery of debt from future entitlements).</p> <p>Consider different social policy delivery mechanisms for different family situations.</p>	<p>Move the delivery of social policy from being tax system driven to fit the needs of the recipient.</p> <p>Make it easy for recipients to understand their entitlements and payments.</p> <p>Minimise social policy debt by minimising the scope for overpayments.</p> <p>Allow cross-Government interaction on social policy delivery.</p>	<p>De-linking the payment and assessment of social policy entitlements from the tax cycle is sensible. Alignment of the two assumes that social assistance fits neatly into an annual cycle and that needs are uniform over a year. The reality is that circumstances change and change often.</p>
Legislative framework	<p>Consider the legislative framework underpinning:</p> <ul style="list-style-type: none"> • The roles of Parliament and the Commissioner of Inland Revenue in tax administration (such as the Commissioner's care and management responsibilities). • The role of taxpayers and the implications for their current obligations and sanctions. • Taxpayer secrecy (in the context of greater information sharing across Government agencies). 	<p>Ensuring the framework is fit for purpose to support a 21st century tax administration</p>	<p>Although these proposals may appear academic, business should take note. They will impact:</p> <ul style="list-style-type: none"> • what rights of assessment and dispute taxpayers will have; • what obligations business has when it: <ul style="list-style-type: none"> – provides information; – collects tax from others; – manages its own tax; and • the use of information provided to Inland Revenue by Inland Revenue and other Government agencies. <p>Importantly, these proposals should also address a business' ability to gain certainty that their tax position is acceptable and final.</p>