Inland Revenue's Business Transformation – transforming business?

Inland Revenue's multi-stage Business Transformation project is a significant financial commitment for the Government. It has broad ramifications for New Zealand taxpayers' interactions with the tax system, but how well do New Zealand businesses understand these implications? Importantly, will Business Transformation deliver not just the forecast administrative benefits and policy flexibility for Inland Revenue and the Government, but compliance cost reductions for New Zealand businesses? And is business ready for these changes? Or is transformation required in business's own tax functions? These were some of the issues discussed at KPMG's Tax Horizons breakfast on 22 February 2018, with the Commissioner of Inland Revenue, Naomi Ferguson and John Payne (Head of Tax at Guardians of New Zealand Superannuation and Chair of the Corporate Taxpayers' Group) sharing their insights.

Inland Revenue's vision for Business Transformation is to make the tax system easier for taxpayers to access and get right, to reduce the costs associated with compliance, and to help facilitate faster introduction of key tax policy changes by the Government of the day. Much of this is based on Inland Revenue's new IT platform, called START. It will however take time for the tax system to be fully migrated from the existing FIRST system. This started with GST in early 2018, with business income tax to follow from April this year, and the remaining tax types during 2019-20.

Surveying our clients, what is clear is that across New Zealand business there is wide variance in the level of both engagement with Inland Revenue on Business Transformation and the understanding of what these changes will mean.

Unsurprisingly, business values a tax system that is easy to engage with, is cost effective and which produces certainty. One of the suggestions put forward was an "80:20 rule" when designing tax law and policy. That is, recognition that absolute precision is not always required or desirable and some flexibility is needed for the tax system to be "able to breathe". Interestingly, the Inland Revenue view is not too far from the business view although, in our experience, the current approach is inconsistent and there is a risk of this being lost in translation.

The pace of technology advances also means that the need for transformation is not limited to Inland Revenue's own programme. In our survey, the vast majority of respondents highlighted pressure by their organisation to transform the finance/tax function. The drivers include the need to add value to the business (such as providing access to insights and value beyond basic compliance and regulatory functions) or to cut costs. Interestingly, in a related question, some of the constraints identified included lack of budget to implement improvements and/or no or little engagement from the rest of the business in the transformation project.

It is an easy assumption to make that the larger the organisation, the more sophisticated their processes and systems. Based on our polling, this is not necessarily the case. Many New Zealand businesses still have some way to go in embracing change to existing processes and systems. Meeting Inland Revenue's new compliance timeframes and obligations will be a challenge unless businesses are well prepared and undertake the necessary steps to get "future ready" now.

Take Inland Revenue's new electronic PAYE information reporting requirements for employers that will apply from 1 April 2019 (and 2018 for early adopters). Under current arrangements, there can be multiple stages involved in getting payroll information out of your payroll system and transmitted (or filed) with Inland Revenue. Often manipulation of the data is required in order to get the PAYE or disclosures right, particularly when dealing with cross-border employees, employee share schemes, KiwiSaver and various allowances and benefits which have different tax treatments. From 2019, the reporting of PAYE information will need to be automated and provided to Inland Revenue within 2 working days of the payroll process being run. The reasoning for "payday" reporting is understandable; if payroll is run on a regular basis, why should Inland Revenue wait until the 5th or 20th of the month to receive that information?

However, as a result of these changes the time available to "cleanse" or correct payroll data will substantially decrease. This will necessitate implementation of robust processes and systems, and effective communication between the different business units (e.g. payroll and finance/tax), as well as with third parties (that may hold relevant information, e.g. in relation to employee share grants), to ensure the right information can be sourced and provided in time.

This is more likely, than not, to require a focus on technology. Business should be taking the opportunity to look at available technology solutions to both meet their compliance obligations and, more importantly, leverage the opportunities that such technology allows. This can be a daunting exercise. To help business make sense of the various solutions for optimising, elevating and innovating your tax function, KPMG has released *Tax, data and analytics – moving from control to transformation* to help get you started thinking about your own business transformation journey.

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