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Our ref 150525KPMGSubDigitalServices

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Dear Sir

KPMG submission - Making Tax Simpler: Better Digital Services

We appreciate the opportunity to provide our comments on the Government Discussion Document, *Making Tax Simpler: Better Digital Services*, and an extension of time for making a submission.

We are still considering our response to the *Making Tax Simpler: Tax Administration* discussion document. We note that decisions made on New Zealand's Tax Administration will establish the framework for digital services.

This potentially makes the response to the *Better Digital Services* document premature. However, we have made some comments of principle and detail in response.

General comment

The current environment makes it a necessity that as much as possible is done through the use of technology. This means there is little choice for Inland Revenue but to pursue a digital strategy that meets the needs of taxpayers and itself. We therefore agree:

1. That tax administration has to change to meet modern needs, and better digital services are a critical part of achieving Inland Revenue's "Business Transformation" goals. Inland Revenue will also need to support multiple digital service platforms and across different taxpayer types.
2. With the over-arching principle that "services must be designed for the customer" and the three principles supporting this. The "no one size fits all" principle is particularly important in the design of the future state – see our comment below on different roles of a "customer".

We also acknowledge that Inland Revenue will still need to offer traditional delivery channels as not all customers will be able to use or have access to technology.

Chapter 6 asks whether there may be a case for forcing uptake of digital services where customers could move to digital services, but choose not to. There may be valid reasons for this

reluctance. We believe the response needs to be carefully considered, as this could have a significant negative impact on voluntary compliance.

Unlike other interactions, interacting with Inland Revenue is not optional. Therefore, our strong preference is for “assisted digital” support for taxpayers that have the capacity, but are uncomfortable with interacting digitally. It may well be that some non-digital (i.e. traditional) services will always be needed and this cost will need to be factored in to the design process.

Different roles of a “customer” require different services

The use of taxpayer, or “customer”, to describe someone who has obligations under the Tax Acts may hide the reality of their place in the tax system. A person may be a taxpayer in their own right, collect tax on behalf of the Government, and provide information to Inland Revenue (which assists in establishing either their own or others’ tax obligations).

When properly analysed and considered these different roles may require different approaches to both what is required and sanctions for failure to comply. It is unlikely that there will be a “one size fits all” answer.

Inland Revenue’s consideration of what digital services might be provided should, in our view, take into account the different roles and, therefore, the different needs when interacting with the tax system, for the same customer. Importantly, we note that the direction that Inland Revenue is taking is focused on the efficient collection of information as much as it is on the filing of tax returns and payments. That distinction needs to be more explicitly recognised. Ultimately, for Inland Revenue’s Business Transformation objectives to succeed, current informational asymmetries will need to be addressed.

We illustrate this below in our comments on digital services that might be provided.

Current and future state

Page 22 of the discussion document presents in diagram form the current and future state of the system. The focus is on the interaction of customers with Inland Revenue through their accounting software. Although we appreciate that this is a simplified view, we think this view needs to be tested. (We think this focus comes from the current paradigm of returns and assessments driving interactions with Inland Revenue.)

If, instead of a focus on accounting software, there was a focus on the actual events or transactions, this might clarify the point at which interactions with Inland Revenue might be best made, and the timing of those interactions. This may in turn provide a different and possibly better answer to what digital services might be provided, and when and how. This is because an event may have a tax effect in advance of the customer’s accounting system recording that transaction. Relying on accounting software to trigger a digital service response will not be efficient in these circumstances.

For example, consider a business which hires a new employee. At that point, the employee has to provide their tax details, including IRD number and a tax code to the employer. The question is whether Inland Revenue can provide a (digital) service to the employer or employee to

confirm a valid IRD number (or to generate an IRD number, if the employee is a new migrant) and tax code at that point rather than when the employee is paid.

Such a service would not be connected to a “return”, an “assessment” or a “payment”, in current tax administration speak, but is likely to improve the quality of the employer’s and employee’s subsequent interactions with Inland Revenue.

We have recently liaised with Inland Revenue on behalf of a custodian client. (We expect custodians and other intermediaries, such as banks, to be a key source of information for Inland Revenue in the future state.) That interaction also suggests to us that being able to confirm details with Inland Revenue as part of the customer on-boarding or verification process may be useful.

In both these examples, we appreciate that raising the possibility does not mean that such services can or should be provided. There are privacy and other issues which need to be considered. However, they do illustrate the potential scope of services from taking a view which is not constrained by the current return/assessment/payment model.

The need to reflect the use of technology to comply in the development of the law

Chapter 7 outlines the potential legislative barriers to Inland Revenue delivering digital services. In our view, the required legislative changes are likely to be more extensive than simply removing provisions requiring non-digital communication in the Inland Revenue Acts.

Inland Revenue’s Business Transformation project is aimed at making tax simpler through leveraging technology. This means that the rules that apply must be able to be operationalised as business rules in business systems.

As an example, the *NRWT: related party and branch funding* issues paper includes a proposal to deem financial arrangement income to be interest subject to withholding tax. The proposal comes with a requirement for detailed calculations and thresholds. Enacting these rules would be relatively straight forward. However, this belies the difficulty that business will have in automating these rules. It is more likely that manual interventions will be required to be able to comply if the proposals proceed.

The point is that the automation of compliance with any new rules (new tax policy or tax administrative measures) should be a key consideration for their design. If the rule is not easily automated, it is unlikely to be suitable for a withholding-type tax.

The further point is there is a role for tax policy in simplifying administration and legislation. For example, the discussion document focuses on using businesses’ accounting systems. This suggests that the accounting system output should be relied upon wherever possible. In turn, this means there needs to be a good justification for a tax rule which is different from the accounting rules. For example, is there actually a need for the 63-day holiday pay rule which applies to all employees or can the accounting accrual for holiday pay be relied upon? Aligning tax rules with their commercial implementation will make digital services easier to provide.

KPMG survey of digital services

KPMG has over 900 people working across 6 locations in New Zealand. In preparing our response, we asked for their feedback on the questions at page 24 of the discussion document:

- Whether they would move to digital services for tax interactions, if high-quality digital services which met their needs were offered?
- Whether there were any situations where they would not want to interact digitally with Inland Revenue?
- What Inland Revenue could do to create an environment to encourage uptake of digital services?

We asked them to consider these questions from their own personal tax perspective as well as the use of those services from their work at KPMG. We received many responses. The key themes as well as the suggestions received for digital services are summarised below.

The key themes

Use of digital services personally and for work

As expected, increased use of digital services was broadly welcomed. However, the assumption is that there would be a safe and secure system in place. That is an important pre-condition to use of digital services.

They were keen to see a “customer” centric rather than tax product based access to digital services. As with their other electronic applications, a single point from which they could see their tax position across the various taxes was desired.

Many already use *MyIR* and electronic filing. However, some commented on the clunky forms and processes. Better design of processes would in their view increase the use of digital services.

Concerns were expressed with the ability of a digital system to keep up with legislative changes and with the response time to on-line requests. 15 working days is considered too long.

Responses noted 24/7 access that was available from banks and other providers and also the availability of “live” responses to queries.

Interactions where digital was not preferred

The consistent theme across personal and work use was the inability of digital services to deal with more complex issues, including:

- Sensitive issues which require traditional methods.
- The ability to talk to someone who knows what they are doing, understands your issue, and is able to resolve problem.
- Disputes.

- Complex interactions may be better solved over the phone rather than by e-mail.
- Subjective or fact-specific scenarios.
- Complex actions such as Foreign Investor Tax Credit transfers (but this may not be a problem if the digital service properly processed such actions).
- Audits and other personal interactions breaks down barriers and allows more efficient resolution.

There was a view that Inland Revenue would need to be able to provide support to customers where the digital service did not provide the answer.

There was also a response which raised the question of whether taxpayers would be happy to have tax paid at source. For example, the use of tax pooling rather than direct provisional tax should still be available.

One of the concerns could be generalised as one which goes to who has responsibility for information and how the validity of that information is confirmed. Before returns are filed, taxpayers have their own process for confirming the correctness of that return. If a taxpayer's bank information or other accounting system is directly accessed by Inland Revenue, taxpayers would be reluctant to accept liability for that information if they have no opportunity to confirm its correctness.

A related issue is the ready ability to correct errors. The reality is that, particularly with withholding taxes, the required information to make the correct decision is not available at the taxing point. In some cases, this is due to the operation of tax legislation (for example, tax residency applies retroactively), in other cases, this is simply the way matters arise in the commercial world. The ability to easily and without penalty correct errors is critical to the implementation of digital services.

Creating a supportive environment

There were quite a few suggestions in response to this question. We have not sought to confirm the validity of these comments as they are an indication of different users' experience of the system. The comments included:

- Publicity for the services.
- Digital as the default service option.
- A self-service portal for all services, including an easy access app and personal website.
- Quicker response time for digitally transmitted information.
- Help/online customer assistance as needed.
- Easier to use electronic forms.
- A reliable, intuitive and accessible system.
- Improve the interface.

- Support all services on-line (e.g. donation tax credits).
- Personalised/directed access to relevant forms for a user.
- Simplified processes, badly designed forms and processes are an impediment to use of digital services.
- Consolidation of Government services into one place (Inland Revenue/ACC/Companies Office/Statistics/Other Regulators).
- An easier sign in process – resetting the online password is a hassle.
- An attractive platform with information/how-to hover buttons.
- Keep the tax system simple.
- Create an Android app.
- Currently, confirming a personal IRD login requires a telephone call within business hours which does not fit with when people are available (i.e. not working). Either a 2 point check or extended hours are required.
- An online filing discount should be available.
- Make available information available sooner and pre-populate.
- A simpler way to ask questions including anonymous questions.
- Better search functionality.
- Have live chat available.
- Have online approval function rather than print/scan/send.
- Take into account all available information. (E.g. the GST registration period takes into account a balance date request which has not yet been processed. This example also raises the question of whether a balance date request can itself be automated.)
- A system which provides status updates (e.g. return filed, letter received) which would save telephone call follow ups. If this was linked to a filing portal so that outstanding returns could be easily completed this would also assist.
- Ensure that products are trialled from a taxpayer perspective as well as from an Inland Revenue perspective.
- A tax agent portal which lists their clients and the tax types for which they are linked. The related suggestion is that Inland Revenue's system should be integrated with the agent's system. Currently, a lot of time and effort is wasted reconciling Inland Revenue's record of filing and status with the agents system. (Controls on changes and confirmations would be required).
- Information is entered in a pre-determined way with Inland Revenue's system automatically calculating the tax with returns deemed to be made.

The following comments are focused on taxpayer interaction with Inland Revenue – to provide specific information (returns in the current environment) and payments. In brief, they suggest:

- Taxpayers want a customer rather than tax type view from Inland Revenue’s portal.
- Forms and processes need to be modernised.
- A bank style access to the portal and to the provision of information and the ability to transact is required. This should lead to Inland Revenue focusing on whether the current focus on returns and periods (which affect filing penalties, late payment penalties and interest) is the best way for the system to operate.

This question has also led us to consider how Inland Revenue might be able to use the information provided to it. If Inland Revenue proceeds to collecting information through digital services it will have a significant and powerful database. It should consider ways in which that can be used. These uses could include (from a broad to more specific uses):

- We are aware that Inland Revenue already provides some statistical information which is available on its website. It should consider whether further statistical information can be provided. For example: benchmark tax information (by industry) could be made available to taxpayers and agents to assist with their own business analysis. This would need to be in a readily downloadable form which is easy to manipulate.
- Inland Revenue is often best placed to see how a business is doing – it can see whether payments are made regularly and on time. We assume that Inland Revenue analyses this information to determine whether earlier intervention would assist businesses to comply. A wider view of this information would suggest that Inland Revenue could publish its view of a business’s tax credit history. This would assist creditors in their dealings with those businesses.
- A digital customer view should mean that where there is a change of control (e.g. by virtue of a change in shareholding or the appointment of a receiver or liquidator) then the full history of the business would be available to the new controller.

Concluding comments

The suggestions and comments made in response to the *Digital Services* discussion document all raise fundamental questions regarding the role of Inland Revenue and taxpayers in the tax system.

In our view, there is a shift from taxpayers assessing and filing returns to providing information. That changes the nature of the relationship and of taxpayer obligations which requires a review of the Tax Administration Act to make sure that it properly reflects what is required.

From a design perspective, regard must be had to the whole process, not just the point at which an interaction with Inland Revenue is currently required. In our view, this requires Inland Revenue to focus on the efficiency and effectiveness of its proposed digital solutions as it should make clear whether its expectations of business’s systems match the reality.



*Inland Revenue Department
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Further information

Please do not hesitate to contact us, John Cantin on 04 816 4518, or Darshana Elwela on 09 367 5940, if you would like to discuss our submission in greater detail.

Yours sincerely

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