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Better Administration of PAYE and GST
C/- Deputy Commissioner
Policy and Strategy, Inland Revenue
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19 February 2016

Dear Sir

KPMG submission - “Making Tax Simpler: Better Administration of PAYE and GST”

KPMG is pleased to make a submission on the Government Discussion Document, *Making Tax Simpler: Better Administration of PAYE and GST* (the “Discussion Document”).

We welcome the opportunity for continued engagement on Inland Revenue’s Business Transformation project. It is pleasing the Government recognises that a “big bang” approach to reform is not feasible.

While the aim of a more efficient and responsive tax system is laudable, the changes to the administration of PAYE and GST should recognise the many different types and sizes of businesses as well as the potential compliance costs involved in the transition for taxpayers. These businesses should be given time to transition, rather than being compelled into the new rules from a specific date.

We provide below our high level comments on the Discussion Document. Our responses to the specific questions raised in the Discussion Document are contained in the Appendix.

Integrating tax requirements into businesses processes using software

We are supportive of the Government’s initiative to integrate tax requirements into business processes using software, as such a change can be expected to reduce compliance costs for businesses in the long term. However, there will be short-term considerations that will impact uptake.

We have three areas of concerns with the Government’s initiative.

First, changes to business processes will involve short-term compliance costs for businesses. There are also inherent risks for businesses with basing PAYE on real-time payroll information transfers. Complying with the current PAYE rules is not straightforward. This will not substantially change with a move to an electronic information transfer model. For example, the calculation of PAYE and other deductions – e.g. ACC earner’s levy and KiwiSaver contributions – depends on the exact nature of the cash payment (e.g. redundancy payments vs

other extra pays). This requires a level of manual intervention and judgement by taxpayers. Employers can and will get these classifications wrong. Similar problems can arise with PAYE calculations when there is a fluctuation of income, such as those who earn commissions in addition to their salary and wages. For these reasons, we consider the Government should provide appropriate incentives, such as relaxing the penalties rules, for businesses to easily and more willingly adapt to change.

Secondly, we are concerned about situations where there are errors in the payroll information provided by an employer's systems to Inland Revenue, or the system takes time to update for a change in an employee's status. For example, payroll information may not contain the same information as an individual's employment contract (particularly, if contracts change but the payroll is not simultaneously updated). Similarly, if an employee becomes a non-resident, their payroll information may not be updated to reflect this in a timely manner – i.e. they may continue to be treated as resident for PAYE purposes (and vice versa). When payroll information is updated to correct errors and changes in an employee's residence status, employers should be able to "self-correct" this on a go forward basis (that is, in future pay periods) without any imposition of penalties. This flexibility is key as errors in payroll systems and processes will be inevitable. We believe that such error correction should not be limited to minor errors (i.e. constrained by a \$ figure).

Finally, there should be an onus on Inland Revenue to respond to employers in a timely manner to allow them to update their payroll information. For example, when an employee undertakes an offshore assignment and subsequently becomes a non-resident, currently there can be a significant time lag until that employee receives a 0% special tax rate certificate from Inland Revenue, leading to an over-withholding of PAYE in the interim. These delays should not be acceptable in the "future state". If employers are expected to update their systems and processes to interact with Inland Revenue in real-time, approval should be available in real-time.

Alternatively, employer/employee self-assessment of the employee's status should be allowed. We note that in a real-time world Inland Revenue will have the ability to intervene more quickly. Further, employees typically prefer to receive a refund than pay more tax. This reduces the risk of rates which are too low being self-assessed.

PAYE – Modernising the PAYE rules

We are supportive of proposals to modernise the existing PAYE rules, such as secondary tax, extra pay and holiday pay. On balance, we support greater simplicity over complexity, particular for smaller employers. However, a more accurate option (for calculating tax on extra pays) for employers who have more sophisticated payroll systems should be available. This recognises that there is no "one size fits all" solution. We also support legislative clarification of the treatment of holiday pay, rather than operational guidance from Inland Revenue.

PAYE – Modernising how information is provided

We support the proposal to use an employer's payroll software to advise Inland Revenue about changes in employment or employer status – e.g. becoming or ceasing to be an employer, or starting or ceasing employment.

We believe that Inland Revenue should be able to receive information from an employer in order to validate or verify the identity of an employee. However, on balance, we do not believe that information collected by employers should include the employee's date of birth (i.e. by legislating to allow employers to specifically collect date of birth information). We have concerns that this may leave some employees in a vulnerable position where their employment rights may be at risk.

We believe there are other types of information already available to employers that can be used to verify employees' identities with Inland Revenue if there is uncertainty – for example, the physical address or other contact details of the employee, or use of other verification tools (such as *RealMe*). At a minimum, there should be a hierarchy whereby date of birth information is only collected if other identifiable information is not available or incomplete.

We consider transferring payroll information by using payroll software should reduce compliance costs for employers in the longer term. However, any changes to existing payroll systems are likely to involve time, effort and transitional costs for employers in the short-term. We would like to see this explicitly acknowledged, particularly as one of the proposals is to remove the current cash-flow benefit to employers from holding PAYE until payment is required (which we strongly disagree with – see below).

We are supportive of information sharing between Inland Revenue and other Government agencies as long as the recipient agency's officers are subject to the same secrecy requirements as Inland Revenue officers. If information is taxpayer-sensitive, consent should be obtained prior to its release.

PAYE – Implementing change

We recommend the voluntary-first approach rather than a legislated or review approach to implementing the PAYE changes. There will be a range of employers with different levels of capability that will need to be accommodated. Equally, PAYE technology solutions will need time to develop and gain buy-in. Therefore, we believe the review period should not be time constrained.

Employers, particularly smaller employers, need to be comfortable and understand the long term benefits of implementing change. The voluntary option, in our view, provides the best opportunity for creating the right incentives to encourage voluntary uptake by employers.

We note the proposed \$50,000 threshold for the electronic PAYE proposal is much lower than the current \$100,000 threshold for e-filing. This will capture a number of small employers who may not have the capability to file electronically. We believe a better proxy for payroll sophistication is the number of employees. We submit the proposal should apply to employers with annual PAYE of more than \$100,000 and more than 3 employees.

PAYE – Aligning payments

We see no need for the timing of PAYE payments to be aligned with when salary and wages are paid to employees. This proposal provides a cash flow benefit to the Government at a (potentially significant) working capital cost to businesses. This, when employers are also being

asked to shoulder transitional costs from the proposals. This is likely to adversely impact on uptake, in our view, and is not supported.

Further, aligning payments would not allow sufficient time for any error correction, thereby exposing employers to potential penalties. This is on the basis that even if the PAYE information transfer is in real-time, there may be subsequent adjustments necessary, e.g. due to changes in employees' status, meaning PAYE is under or overpaid. Therefore, if the proposal to align the payment of PAYE with when employees are paid proceeds, there needs to be certainty that PAYE payments cannot be re-assessed upwards, after the fact (and with the application of penalties).

GST – Modernising how information is provided

We are generally supportive of the proposal to submit GST returns electronically and via reference to businesses' accounting software. We agree that full automation of GST processes could result in issues with adjustments (e.g. correction of errors and unusual transactions) and, therefore, complete automation is not feasible. We also strongly agree that current GST payment timeframes should be retained. We do not believe that electronic filing should be mandated for payers above a certain threshold (we believe that electronic filing will increase as the relevant technology develops).

We support the proposal for GST refunds to only be made by direct credit unless it would cause undue hardship or is impracticable. However, this should not need to be a New Zealand bank account (which is a new requirement in order for a non-resident to obtain an IRD number and has imposed significant compliance costs and delays).

Access to information

The Discussion Document is not clear what information will be sourced from business' payroll and accounting systems. We have assumed that the references to "PAYE information" and "GST information" refers to information that Inland Revenue collects at present (and information needed to verify employees' identifies, which will be used only for that purpose). We have taken the statement on page 15, that businesses would control how their software passes data to and from Inland Revenue and what is transferred as supporting this view.

We would have serious concerns if the proposals allowed Inland Revenue unfettered access to underlying employee and business data (particularly, given the exchange of information proposal in the Tax Administration Discussion Document). We believe this would not engender the required trust in the future system to encourage uptake and would be a backward step.

Accuracy, precision and timeliness

Our detailed comments and our submission on the proposed Tax Administration Act changes highlight a tension between getting it right and speed.

Broadly, the Income Tax Act focuses on getting it right through the assessment process. That generally occurs after the fact and with the benefit of hindsight. A PAYE system that is focused on the commercial operation of a payroll will, in our view, never get it right.

Achieving a real-time right tax therefore requires an acceptance that the taxable income is that produced by the payroll system. We see no evidence of that being accepted so that there remains a principle that the right tax liability is based on the Tax Act and not the payroll system.

We believe the right approach is to accept that PAYE is a means of collecting the ultimate tax liability. The tax assessment system is the place to correct the taxable income.

Provided that the PAYE is broadly in line with the ultimate tax liability, absolute precision and accuracy and therefore the need for retrospective corrections are unnecessary. This will provide employers with the required flexibility to operate a real-time PAYE system with some comfort that they will not be unduly penalised or that compliance will be unduly complicated.

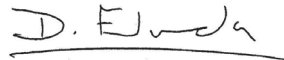
Further information

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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Appendix – KPMG’s detailed responses to the questions asked

	Questions	KPMG comment
3.1	Do you support the Government’s vision for reducing existing pressure points around secondary tax through improved administrative intervention during the year, as a result of Inland Revenue receiving more timely PAYE information?	The PAYE proposal should result in a more accurate amount of PAYE being withheld on behalf of taxpayers during the year. Communication around special tax codes by Inland Revenue to an employee should be done electronically in a timely manner and the employee should be given an option to use the special tax code based on the prior year’s basic tax rate (see below).
3.2	While maintaining our current income tax rate structure, do you have any better suggestions for reducing pressure points around secondary tax by improving the accuracy of withholding tax at source?	Taxpayers should be given an option to elect a special tax rate based on the prior year’s basic tax rate. While this may have a degree of inaccuracy, e.g. where a person’s income changes year-on-year, in most cases we believe this will provide the best compromise between reducing complexity and getting it right.
3.3	What do you think is more important – making the method for calculating tax on extra pays simpler for employers, or making the method for calculating tax on extra pays more accurate, to reduce instances of too much tax being withheld for employees?	We consider making the method simpler for employers is more important as the degree of accuracy should not outweigh the associated compliance cost. Our view is particularly informed by the makeup of employers in New Zealand, with the majority likely to be small to medium business (i.e. having less than 5-10 employees). However, depending on the employer’s payroll sophistication a more accurate method for calculating tax on extra pays should

		<p>be available. Therefore, we support optionality (with the simpler method as the default). This is discussed in more detail below.</p>
<p>3.4</p>	<p>How do you think the amount of tax to be deducted from an extra pay should be determined? Do you think the current method is acceptable, or can you suggest a better alternative?</p>	<p>We consider the current method of deducting PAYE on extra pays, based on the marginal tax rate calculated by annualising the previous four weeks' pay, is broadly appropriate. This calculation rule is relatively straightforward and employers with less sophisticated systems should be able to apply it. In terms of accuracy, there will always be omissions, not least because an employer will not be party to all information relating to their employee. This is where Inland Revenue's Business Transformation project should embrace technology developments to build a better picture of taxpayers' income earning profiles.</p> <p>In the long term, as technology develops, we expect employers will be able to use payroll software that can cope with a more complex extra pay formula. Such payroll software should, over time, become accessible to small business. However, in the interim, if a business has the payroll software capability already (i.e. is running a complex payroll), a more accurate extra pay formula should be accommodated.</p> <p>For this reason, we consider the PAYE rules should allow two options for employers – the current method and the more complex but accurate proposed method.</p>
<p>3.5</p>	<p>What do you think about the idea of introducing two options – a simple method or a complex, but more accurate, method – that an employer could use to determine the amount of tax to be withheld from an</p>	<p>We support the idea of two options. The simple method could be the current method of calculating all PAYE income payments made to the employee in the period starting four weeks before the payment date.</p>

	extra pay? If you like this idea, what do you think the two calculation methods should be?	The more complex but accurate method could be modelled on Australia's complex method. This is on the assumption that the appropriate rules and triggers can be designed and embedded in payroll systems (such that separate employer intervention is not needed).
3.6	Are you unclear about when holiday pay should be treated as an extra pay and when it should be treated as salary or wages?	No. However, if submitters in the previous consultation round have expressed concerns about the distinction, clarification should be provided.
3.7	If you think clarifying the tax treatment of holiday pay is desirable, do you think it should be clarified by legislation, or do you think clarification in an Inland Revenue publication would be sufficient?	We believe that any clarification should be legislative in nature, to provide the necessary certainty (rather than operational guidance, which is not binding on the Commissioner and potentially open to interpretation by different Inland Revenue Officers).
3.8	Do you think a mechanism should be introduced for withholding additional amounts of tax from employees' salary or wages in years when an extra pay day will occur?	Yes, if an appropriate rule could be developed.
3.9	If you think that a mechanism should be introduced, which of the options outlined would you prefer?	It should be optional for employers whose employees have specifically requested to withhold additional amounts.
3.10	Do you think that legislated rate changes should be applied in the same way across PAYE-related tax types/products?	Yes. We support consistency in the treatment of different amounts.

3.11	Do you think that a pay date approach is the best option for alignment?	Yes. On the expectation that tax rate changes are unlikely to be frequent, and will generally apply from the start of a tax year, the pay date approach seems reasonable.
4.1	<p>Feedback from employers has identified the following concerns with the current PAYE information process:</p> <ul style="list-style-type: none"> • difficulties in setting up new staff; • problems changing deductions; • difficulty in making changes to information already filed; • problems with understanding and reconciling the information Inland Revenue makes available to employers; and • concerns about the time it takes Inland Revenue to process employer monthly schedules and action amendments. <p>Are these the key areas of concern with the PAYE information process from an employer's perspective?</p>	<p>Based on our discussions with employers, we believe these are an accurate summation of the key concerns with the current PAYE system.</p> <p>In our view, the current inflexibility of the PAYE system, such as the need to re-file prior period employer monthly schedules to correct errors (and the issues therein) needs to be addressed in the future state.</p>
4.2	Are there other aspects of the process of providing PAYE information that are significant sources of frustration/wasted time that should be rectified?	Where there are errors in the PAYE information, significant resources can be spent trying to correct these errors, at present. An ability to self-correct these errors would increase efficiency in the system.
4.3	Do current PAYE processes cause other problems for employees that should be addressed?	The calculation of PAYE and other deductions is not straight forward. In particular, the ACC earner's levy and KiwiSaver

		<p>contributions depend on the exact nature of the cash payment (e.g. redundancy payments vs other extra pays). It can be easy for businesses to get these wrong (i.e. there is a human error component in payroll).</p> <p>Also, when an employee undertakes an offshore assignment and subsequently becomes a non-resident, there can be a significant time lag until that employee receives a 0% special tax rate certificate from Inland Revenue, leading to an over-withholding of PAYE. The overpayment of tax is generally only corrected at the end of the year when the person's IR 3 return is filed.</p> <p>It would be helpful for PAYE refunds to be received during the year, when a person's status is updated in their employer's payroll system, rather than waiting until after the end of the year for the person to square up.</p>
4.4	Do you support the proposal that employers should notify Inland Revenue of a decision to commence, temporarily cease or permanently cease to be an employer?	Yes, if this can be done via a simple online process.
4.5	Should these requirements be included in legislation?	Yes.
4.6	Do you agree with the proposal that employers should be able to use their payroll software to provide relevant employee details to Inland Revenue at the time those details are entered, changed, or removed from the payroll system?	Yes. It is imperative however that once employee details are provided via the payroll system, Inland Revenue is pro-active in updating its records and responding where the information may be incomplete or incorrect (e.g. IRD numbers and tax codes). The current process of providing information to Inland Revenue and waiting for a response is not acceptable.

4.7	<p>Would using payroll software to provide Inland Revenue with details of new employees before they are first paid and being notified of deductions as set out above reduce or increase compliance costs? If you can quantify the effect, please do so.</p>	<p>We would expect that using payroll software to automatically notify Inland Revenue would reduce compliance costs. However, any benefit would be dependent on how proactive Inland Revenue is in response and employers not having to separately notify the Department (as is the case presently).</p>
4.8	<p>Do you support the proposal that Inland Revenue should continue to communicate any change of employee obligations or details to the employee?</p>	<p>Yes. Ultimately, the employee is responsible for their tax position and so should be informed of any changes to their obligations.</p>
4.9	<p>Do you agree with the proposal that employers should obtain date-of-birth information and provide this information about new employees to Inland Revenue?</p>	<p>We agree that employers should be able to obtain information necessary to validate an employee's identity with Inland Revenue. We do not agree that this information should be a new employee's date-of-birth due to concerns about how such information could be used adversely in an employment context.</p> <p>We would expect that employers would already have other information that can be used for verification purposes with Inland Revenue, such as the employee's physical address or other contact details (e.g. their telephone and email). Date-of-birth should only be collected as a last resort, if no other identifying information is available.</p> <p>Moreover, we note that the Government is encouraging the use of tools like <i>RealMe</i> to share personal information safely and securely (including with Government agencies, such as when renewing a passport). This provides other avenues for Inland Revenue to explore to confirm identity details.</p>

4.10	Should the requirement on the employee to provide date-of-birth information be included in legislation?	No. Refer our concerns above with the collection of date-of-birth as an identifier.
4.11	If your payroll software could send payroll information to Inland Revenue at the time the staff are paid, would it increase or reduce your compliance costs? If you can quantify the effect, please do so.	<p>We consider any compliance cost saving will depend on how "final" the information provided by a payroll system will be for PAYE purposes.</p> <p>There seems to be an underlying assumption that real-time PAYE information transfers will be 100% accurate. In the real world, this will not be the case. Changes in employees' status (and how long it takes to confirm this), omissions and general human error will mean that corrective action will be needed to payrolls. The question is how such remedial action will be expected to be reflected in the PAYE "future state" – whether this can simply be rolled forward to future pay periods (our preferred option – see below) or whether prior period information will need to be re-calculated and stated (which is the situation now and the source of current frustration for employers). Also, the application of the penalties regime in these situations needs to be considered.</p> <p>The Discussion Document refers to an employer's payroll system. In practice, an employer may run different payroll systems for different business units (in the case of large corporate groups) or for different types of employees (e.g. senior management versus general employees). Therefore, the future state needs to take into account that an employer may have multiple payroll systems that Inland Revenue's IT system will need to communicate with.</p> <p>Also, it is common for employers to operate "shadow payroll" systems, e.g. for employees who may be on assignment. Often</p>

		<p>the shadow payroll will be for administrative convenience rather than being used to calculate a PAYE liability. Inland Revenue's systems will need to be smart enough to make these distinctions, and not trigger errors and enforcement action (or penalties).</p>
4.12	<p>If payroll software could calculate the information required to amend payroll records and could be used to send that information to Inland Revenue at the time payroll records are amended, would that increase or reduce your compliance costs? If you can quantify the effect, please do so.</p>	<p>Our strong preference is for error correction to be automatically embedded in amendments to future payroll (i.e. a self-correction mechanism), rather than requiring re-statement of PAYE information already electronically filed.</p>
4.13	<p>Do you prefer one or other of the two options outlined above for the information to be provided when PAYE information is amended?</p>	<p>See above. If our submission above is not accepted, we prefer the option of advising the change required to income and deductions for each pay period in which the error occurred.</p>
4.14	<p>Do you think there is a need for legislation to explicitly provide for the correction of minor errors in a subsequent pay period? If so, at what \$ value should the threshold be set?</p>	<p>We consider legislation should provide an ability for employers to correct errors in future pay periods via self-assessment. This should not be limited to "minor errors" (however, this is defined) as the entire premise of the electronic PAYE proposal is that PAYE should follow employers' normal payroll processes. Therefore, if an employer makes an error and squares this up in the following period's pay (or in the pay for a future period), this adjustment should also be reflected for PAYE purposes in that future pay period (without re-stating information already filed, and triggering a historic PAYE liability). The penalties regime should only be used if an employer has deliberately under-declared salary and wages to avoid a PAYE liability. In practice, we believe there will be appropriate commercial tensions to ensure that employees are not deliberately underpaid.</p>

		<p>For example, we consider employers should be able to correct overpayments of PAYE if an employee becomes a non-resident for tax purposes and the payroll system is not updated in time. Where employers have over-deducted PAYE in such situations, the payroll system may be able to be adjusted to “recover” the overpayments via instalments or a lump sum payments to the employee. However, for tax purposes, overpayments are not able to be recovered from Inland Revenue until that individual completes their IR 3. We consider these types of errors should also be able to be self-corrected in subsequent tax periods when they are corrected via payroll.</p> <p>Our preference is for a self-correction regime for employers, rather than a provision like existing section 113A of the Tax Administration Act 1994, which requires Inland Revenue’s approval.</p>
4.15	<p>Would the following attributes of the proposed new PAYE processes be of value? If you can quantify the effect, please do so.</p> <ul style="list-style-type: none"> • faster processing of PAYE information by Inland Revenue; • greater access to your PAYE information; • the ability to filter and drill into your PAYE information; and • the ability, if necessary, for you and an Inland Revenue staff member to see the same information. 	<p>We consider all of the attributes of the proposed new PAYE processes to be of value.</p>

4.16	Do you provide information to other government agencies that you think would more appropriately be provided to and passed on by Inland Revenue as part of the PAYE information process?	<p>There is value in reducing duplication of information requests.</p> <p>We are supportive of information sharing by Inland Revenue with other Government agencies provided the recipient agency's officers are subject to the same secrecy requirements as Inland Revenue officers. If the information is taxpayer-sensitive, consent should be obtained from the taxpayer prior to information sharing.</p>
5.1	Provided a straightforward internet portal exists, do you agree that employers with more than \$50,000 a year of PAYE and ESCT obligations should be required to file PAYE information electronically?	<p>The \$50,000 threshold is much lower than the current \$100,000 e-filing threshold and is not supported. Our concern is that this will capture very small employers and impose costs on them to upgrade. This will be a "cliff", from a compliance cost perspective, for an employer who has PAYE obligations of \$50,001.</p> <p>Our suggestion is for the threshold to be based on a combination of the current \$100,000 PAYE threshold and the number of employees (see below).</p> <p>It is also important that employers are given sufficient training on their PAYE obligations under the new rules. The provision of software alone may not be sufficient, for smaller employers particularly.</p>
5.2	If you believe the threshold for electronic filing should be based on something other than the value of PAYE and ESCT deductions, please describe how the alternative would work and where you think the threshold should be?	<p>We believe that the number of employees is a better proxy for the electronic filing requirement, as a PAYE based threshold can be arbitrary (e.g. the PAYE threshold could be met quite easily for a 1 employee business, depending on the employee's salary). We therefore believe that the electronic filing option should not apply to businesses with PAYE of \$100,000 or less or 3 or fewer employees.</p>

5.3	Are there factors, other than inability to access digital services, which should be grounds for an exemption from a requirement to file PAYE information electronically?	An exemption should be available if an employer is able to demonstrate that their payroll system is not sufficiently sophisticated to file payroll information electronically. This will not necessarily be limited to situations where there is lack of digital access (such as an internet connection or software). For example, a small business owner may simply not have the resources, and short of forcing them to outsource their payroll, at cost, the electronic filing option may not be feasible. The sophistication of the business needs to be taken into account.
5.4	How should "inability to access digital services" be defined for the purposes of an exemption to a requirement to file PAYE information electronically?	See our comments above. There should be a discretion available to the Commissioner to cover the various circumstances.
5.5	Do you think there should be a more flexible framework under which changes to the threshold for electronic filing are considered in the future?	Yes.
5.6	If you think so, which of the options outlined above do you prefer?	We prefer an Order in Council (i.e. Regulation type approach) to change thresholds as this provides greater flexibility than a legislative rule.
5.7	Do you agree that Government needs to be able to balance the employer's interest in choosing how to provide PAYE information against the wider system benefits?	We consider the Discussion Document already emphasises the wider systems benefits. However, it potentially underestimates the transitional costs on employers and potential loss of working cash flow if PAYE payments are aligned with the provision of PAYE information.

5.8	Do you think Government should require employers to use payroll software capable of providing PAYE information at the time of the business process?	This should be optional for employers. Also, the Government should create appropriate incentives (e.g. by relaxing the penalties regime and/or contributing to the cost of establishing an electronic solution) to encourage employers to take up this option.
5.9	If you prefer one or other of the outlined implementation approaches to the provision of PAYE information at the time of the business process (voluntary-first review or legislated) please identify your preferred option.	<p>We recommend the voluntary-first approach rather than a legislated or review approach to implementing the PAYE changes. There will be a range of employers with different levels of capability that will need to be accommodated. Equally, PAYE technology solutions will need time to develop and gain buy-in. Therefore, we do not believe the review period should be time constrained.</p> <p>Employers, particularly smaller employers, need to be comfortable and understand the long term benefits of implementing change. The voluntary option, in our view, provides the best opportunity for creating the right incentives to encourage voluntary uptake by employers.</p>
5.10	If you would prefer another approach entirely, please outline it.	N/A.
5.11	If you support the "review approach", how long after it first becomes possible to meet PAYE obligations by submitting PAYE information at the time of the business process should the review occur?	N/A.
5.12	If your answer to any of the above questions would vary depending on an employer's size or other	The following factors (which are non-exhaustive) could impact on the answers to the above questions:

	<p>characteristics, please outline the considerations you think are relevant.</p>	<ul style="list-style-type: none"> • Number of employees • Size and nature of the business • Number of mobile employees (e.g. inbound/outbound assignees) • Complexity of the payroll system (e.g. if multiple/shadow payroll systems are operated) • Frequency of payments other than salary and wages
5.13	<p>If you were required to provide PAYE information at the time the business process occurs, would you seek to change the frequency with which you paid your staff?</p>	<p>Our working assumption is that, in the short-term at least, it would be difficult because changing the frequency of pay periods will require changes to employees' contracts and/or internal system and process changes.</p>
5.14	<p>If you have a large payroll, what factors would influence whether you would upgrade it to take advantage of the new PAYE services?</p>	<p>We would expect employers to be wary of the transitional costs (both monetary and time as well as potential disruption to their "business as usual") to implement.</p>
5.15	<p>Does an upgrade to your payroll system to provide PAYE information at the time of the business process depend on the law being changed to make this a legal requirement?</p>	<p>There are likely to be a range of reasons for businesses upgrading payroll systems, including regulatory compulsion.</p>
5.16	<p>Do you think that financial assistance, such as the existing payroll subsidy or something else, should be available to assist employers to take advantage of the new digital services proposed to modernise PAYE information?</p>	<p>We believe financial assistance may be required to compensate for the transitional cost as well as ongoing costs (the latter particularly if employers are to lose the cash-flow benefit from holding PAYE as working capital prior to remittance).</p>

5.17	If so, what factors should any such assistance target?	Assistance could be targeted by size of business, with smaller employers more likely to be disproportionately impacted by the changes (see also above our suggestion to limit the PAYE proposals to employers with more than 3 employees).
5.18	If you run a small or medium payroll, what factors would be most influential in determining whether you would choose to upgrade to software offering the new PAYE services?	We would expect the short-term cost vs long-term benefit trade-off to be an important consideration for business.
5.19	If you run a small or medium payroll and were required to provide PAYE information at the time of the business process, what options would you consider and why?	We would expect simplicity to be an important consideration – i.e. how simple will the software be to use (particularly if the business has previously not used electronic payroll software)?
5.20	Are there additional issues beyond those identified for small and medium organisations, and those with very simple payrolls, that need to be considered when thinking about how the proposed new PAYE services would work for not-for-profit organisations?	No comment.
5.21	Are there additional issues that need to be considered when thinking about how the proposed new PAYE services would work for third parties such as bookkeepers, accountants, payroll bureaux and payroll intermediaries?	If PAYE information is to be transferred to Inland Revenue in real-time, taxpayers and their intermediaries and tax agents should be able to have access to the information in real-time. This is a key “bugbear” with the current system, which takes time to update. A simple user interface would also assist. Further, if our proposal to wash up PAYE errors in future periods is not accepted, there needs to be the facility to correct any errors in previous pay periods electronically.

5.22	<p>If there is a general requirement to provide PAYE information when the business process occurs, is it reasonable to expect employers who have an exemption, because they cannot use digital services, to nonetheless provide disaggregated PAYE (pay day) information?</p>	<p>It is not clear to us how this would differ from current requirements to provide (disaggregated?) PAYE information under the employer monthly schedule?</p> <p>However, we do not support these employers having to provide PAYE information in real-time (or at least more frequently than they currently do). The electronic PAYE proposal is facilitated by the employer not physically having to engage in the process – i.e. the information transfer will happen automatically. This will not be the case if the employer has a manual system.</p>
5.23	<p>If there is a general requirement to provide PAYE information at the time the business process occurs, is it reasonable to expect that exempt employers should be required to provide PAYE information by the 5th of the following month?</p>	<p>See above. We see no reason for reducing the time available for non-electronic filers to provide PAYE information from the 20th of the following month to the 5th.</p> <p>Also, given the increasing limitations with the postal service, the 5th of the following month would only be appropriate if this is the date by which the PAYE return is required to be submitted by the employer (rather than received by Inland Revenue).</p>
5.24	<p>Do you agree that IR.56 taxpayers should remain responsible for submitting their own PAYE information and paying their own PAYE deductions to Inland Revenue, rather than their employers?</p>	<p>We agree that IR 56 taxpayers should remain responsible for submitting their own PAYE information and paying their own PAYE deductions to Inland Revenue.</p>
5.25	<p>Do you think that IR.56 taxpayers should have to provide their PAYE information to Inland Revenue earlier (for example, by the 5th of the following month), or do you think that by the 20th of the month following payment is still sufficient?</p>	<p>We consider that 20th of the month following payment filing is appropriate (see above) for IR 56 filers.</p>

6.1	Should the timing and process of employers' PAYE payment obligations be aligned with the process of paying salary and wages to employees?	<p>We strongly disagree that the timing and process of employers' PAYE payment obligations should be aligned with the process of paying salary and wages to employees. This results in a timing benefit to Government and is aimed at securing the funds as soon as possible, to prevent risk of employer default. It should accordingly be acknowledged as such, rather than as a compliance cost saving for employers.</p> <p>The current cash-flow benefit to employers from holding PAYE deductions, prior to remittance to Inland Revenue, is likely to be an important working capital benefit for many businesses. It also recognises that employers are an important, but "unpaid", intermediary in the tax system.</p> <p>The loss of this benefit, particularly when employers will be required to incur transitional costs to update their payroll systems, will result in a net loss to employers and we expect is likely to create resistance to change.</p> <p>In addition, real-time payment will expose employers to potential penalties if the PAYE information is incorrect (as there will be no time for error correction).</p>
6.2	Do you think this alignment would increase or reduce compliance costs and effort? If you can quantify the effect, please do so.	<p>We consider that the compliance costs and effort would be high in order to ensure that PAYE systems and processes do not contain any errors to ensure PAYE is not underpaid.</p> <p>As per our comment above, we cannot see any net positives for employers.</p>

6.3	Do you believe that the timing of PAYE payments made to Inland Revenue is necessarily linked to when PAYE information is provided?	As noted above, we do not believe the timing of information and PAYE payments needs to be linked.
6.4	Do you think PAYE payment to Inland Revenue on a pay day basis would influence the frequency with which you will pay your staff?	We do not believe that the timing of PAYE payments to Inland Revenue is likely to influence the frequency of payment to staff. This is because other commercial factors, such as existing employee contracts, will have a greater bearing on the payment frequency. However, as noted above a pay day PAYE payments basis will come at a cash-flow cost to employers which is likely to create resistance to change.
6.5	Do you think for IR56 taxpayers the due date for payment of PAYE deductions should remain aligned with the due date for providing PAYE information to Inland Revenue?	Yes. We believe the 20 th of the following month is appropriate for PAYE payments for IR 56 taxpayers.
7.1	If you could submit GST information directly from integrated accounting software in the way described above, would this reduce or increase your compliance effort and costs? If you can quantify the amount, please do so.	In the short-term, we expect the compliance effort and costs would increase for businesses to adopt the new approach. This is because we expect many businesses may need to improve the quality of their accounting processes as well as the accuracy of information that is input into their systems.
7.2	Are there additional issues that need to be considered when thinking about how the proposed new digital services would work for third parties, such as tax agents, tax advisors, accountants and bookkeepers, in relation to the provision of GST information?	As per our general comments above, we expect that there will be issues with adjustments (e.g. correction of errors and unusual transactions etc.). Third parties such as tax agents should be able to view clients' GST (and PAYE) information and correspond with Inland Revenue on these matters (e.g. to request amendments if necessary) in real-time. We have also experienced delays in

		registering clients for GST, due to lack of understanding of clients' positions or the law (and, in some cases, Inland Revenue's own published operational practice).
7.3	Do you support the proposal that adopting the new digital services should be voluntary for GST information?	We agree that adoption should be voluntary. A compulsory requirement would impose disproportionate compliance costs on smaller taxpayers to upgrade their accounting systems.
7.4	Would you take up the new GST services? If your answer is "it depends", what does it depend on?	We believe that uptake of the new GST services will depend on whether there is any noticeable benefit for business over the current GST filing system. The short-term cost trade-off against longer term benefits (from more accurate systems) will differ by business. For example, larger business may be more accepting of this trade-off (particularly if their accounting systems are already reasonably robust) and/or have lower transitional costs. In addition, the proposed new digital services could expose taxpayers to more errors in the short-term and may disincentivise taxpayers from moving to the new digital services, especially if those errors attract penalties.
7.5	Do you support the proposal that GST refunds should only be made by direct credit into a customer's nominated bank account unless it would cause undue hardship to a customer or is not practicable?	We support the proposal that GST refunds should only be made by direct credit unless it would cause undue hardship or is impracticable. However, this should not need to be a New Zealand bank account. We note that this is a new requirement in order for a non-resident to obtain an IRD number. This has created significant delays for non-residents in registering in New Zealand.
7.6	Do you think GST-registered persons over a certain threshold should be required to submit their GST	We do not support a compulsory electronic filing threshold for GST. We expect over time, with the development of technology,

	information to Inland Revenue in an electronic format?	that the number of electronic filings will increase naturally. Compulsion is therefore not required, in our view.
7.7	At what level do you think such a threshold should be set?	No comment.