Developing a Green Paper | Pepa Kākāriki

Tax administration in a digital world — Whakahaere Tāke i roto i te ao matihiko

This document sets out the core ideas we want to explore with you about the future of the tax administration system.

A dominant factor impacting on tax administrations around the world is the growth in digital channels and shifts in the way data is used. Inland Revenue is already plugged into these channels through its Business Transformation programme which has enabled many aspects of tax processing to be based on data and a greater use of analytical tools. This evolution provides opportunities to change the approach to tax administration. Compliance can be built into business processes and taxation can be moved closer to taxable events. This will reduce the compliance burden of taxation.

The shift to a more digital world has created opportunities to rethink some of the more traditional aspects of tax administration such as tax calculation and the end of year return. Many of our current rules were designed in the world of paper where access to data was limited and expensive.

The focus on changes stemming from the growth in digitisation will influence the scope of the green paper. We are more interested in the role of external partners, for instance, because new digital products and services are changing the ecosystem in which Inland Revenue operates, compared with, say, the disputes process, which is less affected by the digital and data developments.

The proposed green paper will focus on tax administration — the "how" of the tax system. It will not touch on matters regarding the tax base or rates; that is, what is taxed and at what rate.

Officials are working on a green paper that will present a direction of travel with examples of what measures might look like, with scope for people to express views that will influence subsequent decisions. A green paper provides considered but uncommitted Government views about specific topics. It does not represent a decided policy position.

Framework

This project will be guided by a set of core pillars. These are consistent with principles adopted by the Tax Working Group in its 2019 report, which in turn were informed by the Living Standards Framework. These are:

Fairness: This underpins the concepts of social licence and voluntary compliance which are the bedrocks of our tax system. To support voluntary compliance, taxes have to be understandable, with the tax administration being aware of different circumstances but still applying the rules consistently to different taxpayers.

Integrity: The tax system has to collect the taxes that Parliament has mandated and minimise tax gaps. Integrity also incorporates the concepts of coherence of the tax system and of providing certainty to taxpayers as to what their tax obligations are.

Efficiency: Efficiency means least overall cost for the system. For taxpayers this includes monetary costs and time, as well as non-monetary costs such as stress. For Inland Revenue it means the costs incurred administering the system as well as ensuring we are maximising the benefit of the government's investment in Business Transformation.

[1] *Future of Tax: Final Report*, Tax Working Group, 21 February 2019, https://taxworkinggroup.govt.nz/resources/future-tax-final-report-vol-i

Policy direction

The policy direction is towards a move from a tightly defined tax system in which Inland Revenue is the core, to a broad and more complex ecosystem in which Inland Revenue forms one portion. It will mean we shift from a landscape that was static and well understood involving a small number of distinct entities to one that is more diverse, complex, and ever-changing.

These new opportunities involve roles for external partners in three areas (some entities and their services may straddle these categories).

- Entities that help taxpayers with their tax payments or social welfare entitlements. They involve some traditional external participants (accountants and tax agents) as well as newer entities (such as employment matching platforms where tax is a by-product of other business models).
- Entities that undertake some of the functions of the tax administrator. Tax administration involves a series of steps: registration, enrolment, filing, payment, checking, and assessment. These roles can be done by Inland Revenue or another entity. Other entities already operate within the tax system (for example tax agents or tax poolers). The question is how these non-Inland Revenue roles can or should change to achieve a more efficient system or to improve integrity.
- Entities that facilitate other (non-tax) functions. There may be an indirect link to a better tax system, but primarily it is about facilitating a more efficient economic system.

Key issues

Underpinning these changes will be decisions about external parties gaining access to Inland Revenue systems to supply data or access data held within Inland Revenue systems. Such changes will require consideration of:

Control of data: Inland Revenue does not own the data that pertains to a taxpayer but does have stewardship obligations. How should it fulfil these?

Confidentiality: how do we respond when customers want us to share their tax data or taxpayers don't want their data shared? What obligations would be placed on entities with whom we share this data?

Transparency: how will Inland Revenue deal with external parties in a way that maintains a level playing field amongst private sector entities? Is it better to have the rules that govern this in primary legislation, or should it be left to terms and conditions made by the Commissioner?

Accountability: what responsibility does Inland Revenue have with respect to other entities involved in the ecosystem? What obligations does Inland Revenue place on them? Does Inland Revenue have a policing role (for instance relating to how partner entities charge customers) or do we rely on market mechanisms to police these issues?

Where costs fall: lower costs for Inland Revenue may be worthwhile but possibly not if it shifts costs to other parties.