2 November 2020

Inland Revenue
Te Tari Taake

Briefing to the incoming Minister of Revenue

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Welcome

Welcome to the Revenue portfolio.

The tax system is a major piece of national infrastructure, and the Revenue portfolio is both busy and interesting. The strategic value of the tax system has increased in importance with the COVID-19 crisis and response. Decisions taken in the next few years will affect the ability of the tax system to continue to raise sufficient revenue to finance government expenditure.

In your manifesto there are a number of issues that we have identified that will require Cabinet decisions, and in some cases legislation, if you wish to progress them before the end of the year. Officials will report to you immediately on the process for progressing these items.

These matters include:

- A new 39% top personal income tax rate
- Extension of the Small Business (Cashflow) Loan Scheme
- Changes to the minimum family tax credit (report in conjunction with MSD and Treasury)

We look forward to working with you over this parliamentary term.

Introduction to the Revenue portfolio

Introduction to the Revenue portfolio

As Minister of Revenue, you are accountable for the overall working of New Zealand's tax system and for protecting its integrity. You are also the responsible Minister for Vote Revenue, its appropriations, and policy priorities and direction within this Vote.

As the principal steward of New Zealand's revenue system, Inland Revenue must maintain the integrity of the tax system and the confidentiality of people's tax affairs. Inland Revenue collects over 80% of the Crown's revenue. The New Zealand Customs Service collects the majority of the remaining 20%.

Constitutionally, tax can only be levied according to laws enacted by Parliament. Decisions on tax policies delivered by Inland Revenue are made jointly by you and the Minister of Finance.

The administration of social policies makes up a significant portion of Inland Revenue's core business. Alongside collecting tax, Inland Revenue is an administrator of five social policies (Working for Families, Child Support, Student Loans, KiwiSaver and Paid Parental Leave). Inland Revenue has responsibility for distributing and/or collecting these social support payments and has shared policy responsibilities for these regimes with other departments. These roles are also administered under Vote Revenue.

In addition to tax, you will take social policy decisions jointly with other appropriate Ministers. More information about the social policy products Inland Revenue administers, and the Ministerial responsibilities relating to them, is covered in the table beginning on page 8.

The Commissioner of Inland Revenue has statutory independence from Ministers, to ensure Inland Revenue can levy tax and carry out its duties independently. The Commissioner carries prime responsibility for Inland Revenue's performance and must exercise statutory judgement to determine where resources should be focused. This is a somewhat different arrangement from other government departments, where Ministers have more ability to influence how a department should act.

Introduction to Inland Revenue

The needs and wellbeing of New Zealanders are at the heart of what Inland Revenue does. As mentioned above, in addition to being New Zealand's principal revenue agency, we also have an important role in administering social policy and other programmes, often in conjunction with other government agencies.

Inland Revenue contributes to the economic and social wellbeing of New Zealand by collecting and distributing money. Its success is reflected in three outcomes:

- Revenue is available to fund Government programmes through people meeting payment obligations of their own accord;

- People receive the payments they are entitled to, enabling them to participate in society; and
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across its external environment.

Inland Revenue is transforming to become a more customer-centric, intelligence-led and agile organisation. This transformation is making it simpler and more certain for people to pay their taxes and receive their entitlements. Inland Revenue is involved in partnerships across government and the private sector to improve outcomes for New Zealanders.

Inland Revenue takes a 'right from the start' approach, which means we support customers before issues arise. A range of activities make it easy for customers to get things right, and hard for them to get it wrong. Inland Revenue:

- acts early;
- makes it easy to meet obligations and difficult not to;
- makes processes easy for customers; and
- actively involves and engages customers and other stakeholders.

Compliance is about making sure everyone pays the right amounts, accurately files the right information, and that customers receive the right amounts or entitlements. It covers everything Inland Revenue does, from helping customers get things right from the start, through to enforcement where necessary.

Inland Revenue also has new analytical tools and capabilities, which allow us to approach compliance more strategically. We can now better understand our customers and their reasons for not getting it right, develop more tailored and efficient interventions, and respond faster when we see deliberate non-compliance. Firm action is taken to address deliberate non-compliance through a range of enforcement activities including audit, litigation and prosecution.

As at 30 June 2020, Inland Revenue had approximately 4,700 people on permanent or fixed-term agreements. s9(2)(g)(i) [redacted] This reduction is a result of the cessation of time-limited funding, and continuing to realise the savings Inland Revenue committed to in return for the Government's investment in Business Transformation. This is covered in more detail in the *Inland Revenue – People* section on page 24.

Introduction to the tax and transfer system

Inland Revenue's role in the tax and transfer system

New Zealand's tax system is robust and provides reliable sources of revenue to fund Government programmes. As well as having coherent tax policy, the tax administration must also function well; this is critical because both policy and administration must be working well for the tax system to be effective.

The New Zealand tax system operates through customers meeting their tax obligations voluntarily. There are three fundamental beliefs that underpin voluntary compliance and are vital to upholding the integrity of the tax system. It is important that New Zealanders believe that:

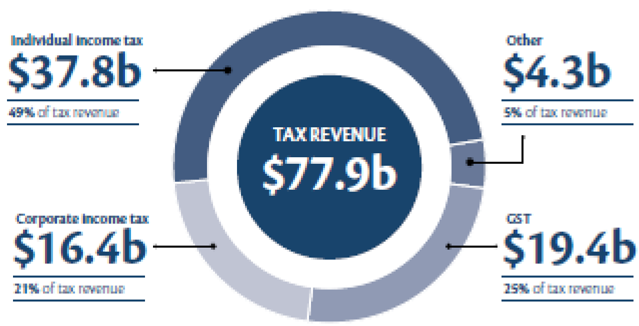
- when I pay my tax, I'm doing a good thing (and that's what people like me do);
- when I'm trying to do the right things, Inland Revenue will help me; and
- when someone else is trying to do the wrong thing, Inland Revenue will find them.

Inland Revenue plays a vital role in maintaining and enhancing the integrity of the tax system by making sure it is clear, consistent and simple.

Alongside the Treasury, Inland Revenue provides advice to the Government on tax policy and the social policies we administer. Inland Revenue also provides advice to the Government on international tax issues and is involved in the development and implementation of New Zealand's international tax legislation.

Compared to most other countries, New Zealand's tax base is very broad and neutral. In New Zealand there are three major tax bases: personal income tax, company income tax and Goods and Services Tax (GST). Over 95% of the tax revenue Inland Revenue collects is from these three main taxes and those that support them (for example resident withholding tax – the tax on interest and dividend income).

The following chart shows the source of New Zealand's tax revenue for the financial year ended 30 June 2019, as reported in Inland Revenue's Annual Report 2019[1].



[1] Please note the revenue figures for the year ended 30 June 2020 have yet to be approved by Audit NZ.

Size and scope of Inland Revenue's activities

Inland Revenue provides services to a wide range of customers. These include employees, employers, the self-employed, companies, not-for-profit organisations, trusts, Māori authorities, tax agents, parents, students, savers and investors, and people who live overseas but have tax affairs or social policy obligations in New Zealand.

Alongside the tax products mentioned in the previous section, Inland Revenue also administers a number of other products (particularly relating to social policy) in collaboration with other government departments. The table below shows a list of these products, the departments we collaborate with, and the current distribution of Ministerial responsibility for these policy areas.

Product	Activity	Joint Minister / Portfolio
Working for Families tax credits	Inland Revenue, with the Ministry of Social Development, distributed $3.19 billion in entitlements for Working for Families tax credits during the 2019-20 year.	Policy responsibility: shared with the Ministers of/for Finance and Social Development. Administrative responsibility: shared with Minister for Social Development.
Child support	Inland Revenue collected $449 million from more than 161,000 parents who pay child support and distributed $297 million to carers during the 2019-20 year. The difference is retained by the Government to help offset the cost of the sole parent and unsupported child benefits paid to receiving carers.	Policy responsibility: As Minister of Revenue, you have sole responsibility. Administrative responsibility: As Minister of Revenue, you have sole responsibility. Note: consultations may be required with other Ministers – typically the Ministers of/for Finance, Social Development, and Children.
KiwiSaver	Inland Revenue administers the KiwiSaver scheme by collecting contributions and transferring them to scheme providers for investment. Inland Revenue transferred $8 billion to scheme providers during the 2019-20 year. As at 30 June 2020 there were 3.1 million people enrolled in KiwiSaver.	Policy responsibilities: Minister of Finance - policy decisions likely to have major fiscal or economic impacts. Minister of Commerce and Consumer Affairs - withdrawal rules and scheme provider administration. As Minister of Revenue, you have responsibility for membership rules and contributions.

Student loans	Inland Revenue jointly administers the Student Loan Scheme with the Ministries of Education and Social Development (StudyLink). Inland Revenue has more than 692,000 student loan customers and collected $1.4 billion in repayments during the 2019-20 year.	Policy responsibilities: Minister of Education – Student Loan Scheme as a whole. Minister of Social Development – administration of lending. As Minister of Revenue you have responsibility for the collection of repayments.
R&D Tax Incentive	Inland Revenue is the lead administrator of this scheme, working in conjunction with Callaghan Innovation. The Ministry of Business, Innovation and Employment has policy responsibility for all R&D initiatives. Firms can claim a tax credit for eligible expenditure incurred from the start of the 2019-20 income year.	Policy responsibilities: The Minister of Research, Science and Innovation is responsible for an appropriation in Vote Revenue for the 2020/21 financial year for the Research and Development Tax Incentive and makes the overall policy decisions. As Minister of Revenue you have responsibility for technical decisions. Administrative responsibility: Inland Revenue.
Best Start	As at August 2020, since the inception of Best Start in mid-2018 over $181.5 million has been paid to 79,500 New Zealand families, supporting over 92,900 children.	Policy responsibility: Shared with Ministers of/for Finance and Social Development. Administrative responsibility: shared with Minister for Social Development.
Paid Parental Leave	Inland Revenue has delegated authority from the Ministry of Business, Innovation and Employment to process Paid Parental Leave applications and to make payments. Inland Revenue made $420 million in payments to 47,810 carers during the 2019-20 year.	Policy responsibility: Minister for Workplace Relations and Safety Administrative responsibility: Inland Revenue

Te Tiriti o Waitangi, the Treaty of Waitangi

Inland Revenue understands the importance of meeting its Tiriti o Waitangi obligations as a government agency. Inland Revenue's Māhutonga programme seeks to integrate te

Tiriti o Waitangi and Māori principles, concepts and practices into the way it works. Māhutonga sets out the direction we want to take with our organisational culture and our Māori customers.

The current landscape

Inland Revenue has had a significant focus on the response to the global COVID-19 pandemic. We have shared our analysis of the impact of COVID-19 on the economy and society, along with our approach to services and operations with public sector agencies to support New Zealand's collective response to COVID-19.

Inland Revenue has taken a highly supportive and empathetic approach to help customers through this period, assisting them to find the best way to manage their obligations and receive the right entitlements. Our new analytical capabilities are shaping how we support customers to pay and receive the right amounts across a range of areas.

These capabilities have significantly improved our ability to identify and address new risks and compliance opportunities, to better understand our customers, and how we can help them get it right and shift their behaviour. We are rethinking the balance of interventions and skills required to achieve this, complemented with greater automation, more sophisticated risk analysis and better targeting. Our improved analytical capability presents significant opportunity, which we can discuss with you further at the appropriate time.

Inland Revenue's performance has been, and will continue to be, affected by prioritisation decisions made to support the Government's response to COVID-19. Inland Revenue's performance against the targets set for the 2020/21 financial year will reflect the impacts of responding to COVID-19. More information about Inland Revenue's performance will be provided in a separate briefing.

Tax policy

Introduction to tax policy

The primary purpose of the tax system is to raise revenue to fund government expenditure. This should be done in a way that is efficient, fair, simple, coherent and collects the tax that is due, on time and in full. The decisions you take with the Minister of Finance on tax policy shape the tax system.

The tax system is a major piece of national infrastructure. Its strategic value has increased in importance with the COVID-19 crisis and response. The ability of the tax system to raise funds to be used in response to the crisis, and (when and if appropriate) contribute to eventual fiscal consolidation, is a role that no other national infrastructure can play. As such, decisions in the next few years that affect the ability of the tax system to continue to raise substantial amounts of revenue are even more important than usual.

In the past, some Ministers of Finance and Revenue have established a memorandum of understanding setting out how they want to work together on the tax portfolio and outlining the division of responsibility. If this is of interest, we can discuss this with you further.

Reflecting the joint responsibilities between you and the Minister of Finance, you will receive joint tax policy advice from Inland Revenue and the Treasury.

As mentioned in the Introduction to the Tax and Transfer System section, Inland Revenue is also an administrator of Working for Families, Child Support, Student Loan, KiwiSaver and Paid Parental Leave social policies, and has shared policy responsibilities for these regimes with other departments. We can discuss with you the possibility of setting up regular engagement with Ministerial colleagues who share responsibility for these social policy regimes.

New Zealand’s tax and transfer system

New Zealand’s current tax system has evolved through decisions made over many years. Past decisions have been guided by the following principles:

- Neutrality with respect to economic activity, so that particular sectors are neither favoured nor penalised by the tax rules.
- Minimising the economic burden, relative to the revenue being raised, to lessen any distortions to economic activity that taxes might cause.
- Fairness, so that different taxpayers with similar amounts of income pay similar amounts of tax.
- Progressivity, so those who are better off pay a greater proportion of their income in tax.
- Considering the tax and transfer system as a whole, by thinking about how different policies interact, rather than looking at policies in isolation.

There are two important consequences of following this approach. The New Zealand tax system raises the bulk of its revenue from three tax bases: personal income, company income and GST, and New Zealand does not have some of the more distortionary taxes, such as stamp duties, that are found in other countries.

New Zealand's tax system is underpinned by a "broad-based, low-rate" (BBLR) framework. In a BBLR tax system tax bases are kept broad and tax rates are kept as low as possible while remaining consistent with the Government's distributional objectives.

A BBLR helps ensure the revenue base is stable and works well because taxes are applied fairly and with few exemptions. For instance, compared with other OECD countries, New Zealand raises a high amount of consumption tax revenue from its GST (as a proportion of GDP) despite the GST rate being in the middle of the range. The broad approach to what is being taxed makes Parliament's intention clear and helps courts decide what is, and what is not, tax avoidance.

The interaction between the way individuals and entities, such as companies, are taxed is also very important to ensure that the tax system achieves its efficiency and fairness objectives. Changing income tax rates requires considering implications for the coherence of the system as a whole, and the incentives for individuals to work and save.

How attractive New Zealand is as a destination for international investment is affected by the corporate tax rate. Coordinating the interaction between the individual and entity tax rates is an important aspect of the design of the tax system, which helps address the tension between the alignment of rates and international competitiveness.

Tax policy settings need to be supported by good tax administration. As mentioned, the New Zealand tax system is underpinned by the concept of voluntary compliance. This means ensuring taxpayers can readily comply with their obligations, that they are able to seek support when they need help in meeting such obligations, and that Inland Revenue takes appropriate enforcement action where there is non-compliance. Together, good tax policy settings and good tax administration make a great tax system.

Developing the Tax Policy Work Programme

One of the first steps for the new Government is to develop a revenue strategy that is effectively linked with its economic strategy. The revenue strategy sets out the Government's objectives for the tax system and tax policy, in the context of its economic and fiscal strategies. The next stage is developing a tax policy work programme that gives effect to the revenue strategy.

The Tax Policy Work Programme (TPWP) sets out what Inland Revenue's policy focus will be over the next 18 months. Its development involves consultation with a wide range of stakeholders. It is approved by you and the Minister of Finance, and reflects your priorities. An updated version of the TPWP was released in August 2019 – we will provide you with a copy of this work programme.

The TPWP is generally made public, attracting strong interest from the tax and business communities, to whom it provides greater certainty and an understanding of the Government's direction in tax policy. We will report to you and the Minister of Finance on possible measures for inclusion in the TPWP.

Influences on the Tax Policy Work Programme

During 2020, a significant amount of policy resource was diverted to the COVID-19 response, which required a number of tax and social policy measures to be delivered in a short period of time (policy measures that Inland Revenue has implemented as part of the COVID-19 response to date are set out on page 20). The focus has mainly been on the initial phase of responding to COVID-19, which relates to short-term measures aimed at supporting households and firms, and alleviating hardship.

Over the next 18 months, tax policy measures associated with COVID-19 will continue to be a high priority. This would involve longer-term measures helping to rebuild the economy. This could involve consideration of whether current tax settings are making the right trade-offs between supporting economic efficiency, productivity and growth on the one hand, and Government fairness and distributional goals on the other.

In practice, tax policy work aimed at rebuilding the economy is not necessarily separate from the majority of the TPWP, which is aimed at ensuring that tax is raised fairly and efficiently, and that tax policy responds quickly and appropriately to new developments. Keeping tax policy up to date and relevant, often through a number of smaller initiatives, is critical in ensuring that New Zealand has, and continues to have, a good tax system.

Potential issues requiring decisions and or discussion with you before the end of the year

In your manifesto there are several issues that we have identified that will require Cabinet decisions, and in some cases legislation, before the end of the year. Officials will report to you immediately on the process for progressing these items. These matters include:

- A new 39% top personal income tax rate
- Extension of the Small Business (Cashflow) Loan Scheme
- Changes to the minimum family tax credit (report in conjunction with MSD and Treasury)

Before the end of the year we will also discuss and seek direction from you on:

- Your availability to attend and open the CAANZ annual tax conference in Auckland on 19 November 2020
- Legislative Bill bids for 2021
- Budget 2021 work
- Next steps following the reinstatement of two tax bills - both will need to be passed prior to 31 March 2021 s9(2)(f)(iv) [redacted]

Key issues for the TPWP over the next 18 months

Alongside the issues identified above, the key issues for the TPWP over the next 18 months are outlined below.

- Rebuilding the economy - whether current tax settings are making the right trade-offs, considering the advantages and disadvantages of possible reform.
- Issues related to the misalignment of the top personal tax rate and the company rate.
- The role of environmental taxes and what an environmental tax framework should look like.
- Improving data analytics – to further enhance insights from data and information to provide better informed policy interventions.
- International tax settings – includes work being progressed by the OECD on taxing the digital economy (referred to by the OECD as Pillar One and Pillar Two proposals). Ensuring the tax system does not act as an undue impediment to inbound capital investment and imported skills, while not creating integrity or equity risks.
- Improving tax administration.
- Potential changes to Working for Families and broader welfare overhaul.
- Allocating sufficient resource to business as usual issues to ensure a robust tax system, maintaining its integrity.
- Testing policies in the tax system (and applicable parts of the welfare system) are working as Parliament intended, and helping to ensure regulatory systems are fit for purpose.

Generic tax policy process

The process of developing tax policy is also important. Tax changes are developed in accordance with the Generic Tax Policy Process (GTPP). This is a defined process that emphasises consultation throughout the policy development process. The GTPP contributes significantly to tax policy changes being well thought through and workable in practice.

There are two particular benefits from the GTPP. Tax is complex and nobody has a monopoly of wisdom on tax matters. External parties help us identify potential problems and improve the workability of policy.

The GTPP also fosters a trusted relationship between officials and stakeholders. It means New Zealand has a private sector that is well informed about tax policy and can provide advice based on what is best for the tax system rather than what is solely in their interest. International commentators comment favourably on the constructive and inclusive way tax policy is developed in New Zealand compared with other countries.

Inland Revenue and the Treasury publicly released the *Tax and social policy engagement framework* in August 2019. This sought to formalise enhancements to consultation processes and reflect how the GTPP has evolved over time. Key enhancements outlined in the framework are placing a greater emphasis on outcome focused policy development through earlier and more frequent engagement, engagement with a wider range of stakeholders, and engagement with Māori.

New ways of working put in place in response to COVID-19 reflected the move towards earlier and more frequent engagement. In particular, the hosting of regular focus groups with stakeholders to discuss issues relating to specific tax areas. These processes received positive feedback from stakeholders and will inform how the GTPP operates moving forward.

Engagement with stakeholders

Due to the GTPP's emphasis on consultation and engagement throughout the policy development process, Inland Revenue has well established relationships with the tax community. Inland Revenue engages regularly with stakeholders such as tax agents, professional bodies such as Chartered Accountants Australia and New Zealand (CA ANZ) and Accountants and Tax Agents Institute of New Zealand (ATAINZ), and industry groups such as the Corporate Taxpayers Group. These groups may seek to regularly engage with you over significant issues within your portfolio.

Traditionally the Minister of Revenue opens the conferences of CA ANZ and the International Fiscal Association (IFA). This year the CA ANZ conference is scheduled for 19 November, and the IFA conference is on 25 February 2021. Officials will support you with briefings for these events.

Bills in progress

In addition to the items on the work programme, there are also a number of taxation bills before Parliament at any given time. Currently, two Bills have been introduced and should be progressed. These Bills are the Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill and the Child Support Amendment Bill. In order to be progressed, these Bills will need to be re-instated by the new Parliament. We are happy to discuss the content of these Bills with you in more detail.

Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill

The Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill received its first reading on 24 June 2020 and was referred to the Finance and Expenditure Committee. The main items within the Bill include the annual rates of income tax for the 2020-21 tax year, deductibility of feasibility expenditure, purchase price allocation, and amendments to the land sale rules. The feasibility expenditure and purchase price allocation amendments have attracted a large amount of interest from the private sector, with this high level of interest expected to continue as the Bill progresses.

The Bill also includes amendments relating to the application of GST on outbound mobile roaming services, the transfer of unclaimed Australian superannuation money to KiwiSaver accounts, and Mycoplasma bovis tax issues. A Supplementary Order Paper to the Bill includes amendments simplifying the administration of the Unclaimed Money Act 1971 and adjustments to the threshold for an automatic write-off of tax owing for individuals.

As this Bill contains annual rates for the 2020-21 tax year, and it is a statutory requirement for the rates to be set before each tax year, it will need to be enacted before the end of March 2021.

Child Support Amendment Bill

The Child Support Amendment Bill received its first reading on 6 May 2020 and was referred to the Social Services and Community Committee. The proposals in the Bill are aimed at supporting Stage 4 of Inland Revenue's Business Transformation programme and include amendments that would introduce the payment of financial support by compulsory deduction, limit retrospective reassessments by introducing a four year time bar, and amending the definition of income. A Supplementary Order Paper to the Bill would remove child support incremental penalties and simplify the penalty write-off provisions.

Current significant policy issues

As noted above, the TPWP will need to be updated to reflect your priorities. Summarised below are significant projects which we recommend be carried forward. We look forward to discussing these further with you.

Issue	Summary	Next steps
Loss continuity	It has been publicly announced that changes to relax the loss continuity rules (applying when there is a change in a company's ownership) would apply from the 2020-21 income year.	Policy decisions on the detailed design of these changes still need to be made and legislative amendments must be passed before these changes can come into effect.
Permanent loss carry-back	A temporary loss carry-back measure applying to losses incurred in the 2019-20 or 2020-21 income years has already been implemented as part of the COVID-19 response. It has been publicly announced that there is an intention to develop a permanent loss carry back mechanism to replace the temporary measure.	Policy decisions on the design of the measure still need to be made, in addition to decisions on how the measure should be funded. Legislative amendments must also be passed before these changes can come into effect.
Taxing the digital economy	A major international tax focus is addressing concern about the low levels of income tax paid by large multinational companies. Work is being undertaken at the OECD on a multilateral solution to this issue, with the OECD releasing a report in October 2020 and work expected to be on-going in 2021. New Zealand officials are contributing to the OECD process. Another option is for New Zealand to implement a unilateral digital services tax (DST). Exposure draft legislation for a DST has been prepared but has not been released publicly.	Ministers will need to make a decision about the suitability of any OECD multilateral solution for New Zealand and whether to progress a unilateral DST in the meantime.

Issue	Summary	Next steps
Self-employed compliance initiatives	This project aims to address the issue of self-employed taxpayers having lower levels of compliance than employees by adding new industries to the schedular/withholding payments regime.	We are planning to report to you with a draft officials' issues paper on new industries to add to the regime in the first quarter of next year.
Land review	A review of the tax rules applying to land is underway, to ensure that the current tax settings are fair, balanced and support productive investment while discouraging speculation. As noted above, certain amendments to the land sale rules have already been included in a taxation omnibus bill, further work is now underway on a general review of the tax rules applying to land.	We are planning to report to you on the land review in the new year.
Environmental taxes	A major focus is working towards producing a framework on when to apply environmental taxes.	We are working initially with other government agencies on an across-agency framework. An update report to Ministers is planned for late 2020, with a consultation document in 2021.
Welfare Overhaul and review of the tax credit system	The cross-agency work programme for overhauling the welfare system has re-started. Officials are considering how the work programme could shift to focus more on the challenges arising from the effects of the COVID-19 pandemic. These challenges include addressing changes in income support following increased levels of unemployment, desire for longer term structural changes to the tax and transfer system, and a potentially smaller fiscal envelope in the next forecast period.	We are working with government agencies on reviewing the fundamental frameworks with a plan to report to Ministers in late 2020 - including a scoping note on a review of Working for Families and related tax credits.

Issue	Summary	Next steps
s9(2)(f)(iv) [redacted]	[redacted]	[redacted]
Charities and not-for-profits	Charities and not-for-profits receive a range of tax concessions. These tax concessions are being reviewed to ensure they operate coherently and fairly, and to ensure the integrity of the tax system is protected.	We are planning to report to you in the new year outlining options for potential public consultation.

COVID-19 response measures

Outlined below are tax policy measures that have been implemented as part of the COVID-19 response to date. As a number of the measures are temporary, it is important to consider what will happen when these measures expire. In addition, as the permanent measures were implemented rapidly, it may be necessary for them to be reviewed.

Measure	Summary	Application period
Temporary measures		
Temporary loss carry-back	Allows businesses to estimate losses for the 2019-20 or 2020-21 income year and offset these losses against profits made in the prior year.	Effective for 2019-20 and 2020-21 income years.
Small business cashflow (loan) scheme	The scheme entitles businesses employing 50 or fewer people to receive a loan from the Government of up to $100,000 – a base of $10,000 plus $1,800 per employee. The interest rate is 3% and the maximum loan term is 5 years. No repayments are required for 2 years, and loans paid back within 12 months will be interest free.	Loan available 12 May to 31 December 2020.
Use of Money Interest (UOMI) remission	Inland Revenue may remit UOMI for taxpayers that have had their ability to make a tax payment on time significantly adversely affected by COVID-19. Inland Revenue may also remit UOMI for provisional taxpayers that have underpaid a provisional tax instalment due to COVID-19 making it difficult to accurately forecast their income.	Applies to late tax payments due on or after 14 February 2020. Ability to remit UOMI expires after 24 March 2022 unless extended by Order in Council. Remitting UOMI for underpayments of provisional tax instalments applies to the 2020/21 income year.
Administrative discretion flexibility	Gives Inland Revenue greater flexibility to modify timeframes, due dates or procedural requirements for taxpayers who are impacted by COVID-19.	Effective from 17 March 2020, applying for an 18-month period.

Measure	Summary	Application period
Greater information sharing across Government	Enables Inland Revenue to share taxpayer information with other government departments to assist the efficient and effective delivery of the Government's COVID-19 response.	Effective from 17 March 2020.
Low value write-off threshold (temporary)	The low-value asset write-off threshold has been temporarily increased from $500 to $5,000 for 12 months.	Effective from 17 March 2020-17 March 2021.
Tax-write-off threshold increase	The write-off threshold has been temporarily increased from $50 to $200 for individuals whose end of year tax liability is calculated as part of Inland Revenue's automatic calculation system.	Effective for the 2019-20 income year.
Working for Families tax credits entitlement for emergency benefit recipients	Allows people on a temporary visa who would not otherwise meet the Working for Families residency criteria to qualify for Working for Families if MSD has granted them an emergency benefit.	Effective 17 March 2020.
Removing GST from COVID-19 wage subsidy and leave payments	Confirms that payments to businesses of the wage subsidy and leave payment are not subject to GST.	Effective 17 March 2020.
Tax treatment of payments to New Zealanders stranded overseas	Ensures an individual in receipt of a COVID-19 New Zealander Stranded Overseas payment is subject to the same tax treatment, Working for Families entitlements, and student loan and child support obligations that apply for their normal benefit, pension or supplementary assistance payment.	Effective 20 April 2020.
Permanent		
Refundability of R&D credits	Application of broader refundability rules for the R&D tax credit was brought forward a year.	Effective for 2019-20 and later income years.
Depreciation on non-residential buildings	Depreciation on non-residential buildings has been restored.	Effective for 2020-21 and later income years.
Low value write-off threshold (permanent)	After the temporary measure outlined above ends, the low-value asset write-off threshold is permanently increased to $1,000.	Effective 17 March 2021.
Removal of the hours test for the in-Work Tax Credit	Removal of the in-work tax credit eligibility requirement for recipient families to normally be working at least 20 hours per week as a sole parent or a combined 30 hours per week as a couple.	Effective from 1 July 2020.
Changes to the grace period for the In-Work Tax Credit	Introduction of a grace period means families would continue to receive the In-Work Tax Credit for up to two weeks as they transition between jobs, are unpaid for a period, or leave employment.	Effective for the 2021-22 and later income years.

Introduction to Inland Revenue

Inland Revenue is organised around its customers. Our people work collaboratively across business units, sharing information, combining skills and knowledge to improve outcomes for customers. The table below provides a summary of each of Inland Revenue's business groups.

Policy and Regulatory Stewardship provides tax and social policy advice to the Government, alongside the Treasury. Deputy Commissioner: David Carrigan.
Customer and Compliance Services—Individuals (CCS-I) makes tax compliance simpler by giving guidance and support to individuals, families and micro business customers, including non-profit organisations. This helps ensure everyone pays and receives the right entitlements and gets it right from the start. Deputy Commissioner: Sharon Thompson.
Customer and Compliance Services—Business (CCS-B) provides customers with certainty and accuracy around complex and global tax compliance arrangements with small-medium enterprises, including non-profit organisations and significant enterprises. CCS-B connects with a range of business and delivery partners, representative bodies and international agencies to deliver joined-up services and reduce costs to customers. CCS-B also provides tax technical and legal support for Inland Revenue. Deputy Commissioner: Cath Atkins.
Transformation provides professional services to enable the delivery of the tax system for the 21st century. This includes leading Inland Revenue's Business Transformation programme, which is working with all parts of Inland Revenue and external stakeholders to completely transform the way we interact with customers. Deputy Commissioner: Greg James.
Enterprise Design & Integrity supports Inland Revenue's Commissioner and its Executive Leadership Team to lead and govern Inland Revenue effectively and efficiently. This group facilitates integrated business architecture and design, prioritisation and investment across Inland Revenue, and safeguards its integrity and reputation. Deputy Commissioner: Mary Craig.
Enterprise Services supports Inland Revenue's people to operate efficiently, effectively and safely, by providing seamless, integrated end-to-end back-office services. Deputy Commissioner: Gary Baird.

Information and Intelligence Services helps Inland Revenue to keep the customer at the heart of everything it does. It uses data insights and intelligence to help understand and influence customer behaviour. Deputy Commissioner: Mike Cunnington.
Tax Counsel Office maintains confidence in the tax administration by providing guidance on the correct interpretation of the Inland Revenue Acts and other relevant laws, and by considering case law. The Tax Counsel Office is led by Martin Smith, Chief Tax Counsel.

Inland Revenue's funding

For the 2020/21 financial year, the department's funding is provided through four appropriations:

- a multi-year appropriation of just under $1,024 million for the implementation of Business Transformation from 2017/18 to 2021/22
- just over $626 million for services for customers, including services to inform the public about entitlements and meeting obligations, services to process obligations and entitlements, management of debt and unfiled returns, and investigations, and
- just over $10 million for policy advice and $5m for services to other agencies.

s9(2)(g)(i)

[redacted]

Two factors have impacted Inland Revenue's funding over recent years: our commitment to self-fund and realise savings as part of Business Transformation benefit commitments, and time-limited funding for specific initiatives coming to an end. A further briefing on the department's financial position, resourcing and capacity will be provided to you shortly.

Inland Revenue – People

As part of Inland Revenue's transformation, we are creating an organisation which better serves the people of New Zealand. Maximising the capability of our people is essential to the success of transforming Inland Revenue.

Inland Revenue has invested significantly in building the foundations for a transformed and future-fit workforce. Inland Revenue is progressively working towards being an organisation with a smaller, more knowledge-based workforce to ensure it operates sustainably and efficiently.

A significant programme of organisation design is underway to ensure the organisation is the right size and shape to perform effectively, efficiently and sustainably. This programme will continue into 2021. s9(2)(g)(i) [redacted]

There are two main drivers of this reduction. Business Transformation has changed the nature of our work – for example, automation has removed much of the work that previously required manual effort. In return for the Government's investment in Business Transformation, Inland Revenue committed to realise savings of $495 million by 2023/24, estimating that the organisation would be approximately 25-30% smaller. During Business Transformation we have appointed many staff on fixed term agreements in anticipation of down-sizing once transformation changes are embedded.

The second driver is the cessation of time-limited funding. Previous governments provided time-limited funding, enabling Inland Revenue to dedicate resources to increase the focus on areas of specific compliance risk, such as the hidden economy. s9(2)(g)(i) [redacted] The majority of this funding ceased as at 30 June 2020, with some small amounts remaining in 2020/21 and 2021/22. In addition, some specific funding has been provided to Inland Revenue to retain staff to September 2021, to support customers in light of the impact of COVID-19.

Engagement with unions

Inland Revenue's three unions—the Public Service Association (PSA), Taxpro and the National Union of Public Employees (NUPE) — play an important role representing their members' voices, and Inland Revenue is committed to working with them.

Engagement with unions extends across business groups, the transformation programme and a range of organisational initiatives. Unions are involved at local, national and programme levels, and Inland Revenue regularly shares information with them.

Inland Revenue negotiated collective agreements with each of the three unions in the 2019/20 financial year, with all agreements covering three years.

Inland Revenue has relationship agreements with each of the unions, which establish the agreed relationship principles and provide practical guidelines on how we will work together to provide a positive workplace for Inland Revenue’s people.

Business Transformation

Where we are now

Inland Revenue's Business Transformation is a multi-year programme of modernising New Zealand's revenue system to ensure it will serve the needs of all New Zealanders.

The Business Transformation programme is a combination of changes to policy, process, technology and the capability of our people. It is far more than an upgrade of technology and is changing every aspect of the way Inland Revenue operates. Transformation aims to:

- increase voluntary compliance, by making it easier for people to get things right and difficult to get wrong;
- ensure continued collection of tax revenue;
- contribute to a growing, healthy economy;
- improve the Government's ability to make policy changes more quickly and cost-effectively; and
- create an information asset to deliver improved outcomes.

Implementation is now well advanced, with one final stage to go, referred to as Stage 4. The majority of tax and social policy products are now administered on new systems and with new processes, and customers are now able to do a lot for themselves online. The modern, digital revenue system envisaged by transformation is now largely in place.

Decision-makers have significantly more agility to make changes to policy and legislative settings than they previously had. The flexible and iterative nature of START (Inland Revenue's new core platform) means that new products or services that adopt out-of-the-box processes and use established patterns can be implemented much more quickly.

Inland Revenue has implemented new intelligence and knowledge management tools, a new enterprise support services platform, and organisation design. Together, these changes are helping Inland Revenue to work more efficiently and effectively.

The investment made in transformation has created the systems and processes required to enable Inland Revenue to operate in the digital age. Inland Revenue's ability to keep providing services to customers remotely during COVID-19 and to respond quickly to Government priorities would not have been possible without the investment made in transformation and the flexibility and adaptability of its people.

While the programme is now close to completion, Business Transformation is inherently high-risk and will remain so until its completion. Inland Revenue remains committed to completing transformation as quickly as possible to reduce risk. Changes will be implemented progressively during 2021, to ensure Inland Revenue has capacity to respond to Government priorities. The programme will close by 30 June 2022.

What remains to be completed

Stage 4 contains several workstreams.

- *Completing the core.* Move the final tax and social policy products to new systems and processes – these are Child Support, Paid Parental Leave and a number of smaller products (duties, foreign trusts and unclaimed monies). These products (with the exception of child support) will move to new systems and processes on 1 March 2021. Deployment and cut over activity will be planned and executed on a remote-working basis, which will mitigate possible COVID-19 impacts. Child Support will move later in the year, likely in October 2021.
- *Optimising our technology landscape*. Ensure underlying technology infrastructure is up-to-date and sustainable, and decommission heritage systems and processes.
- *Completing the intelligence-led programme of work*. Handover of new analytical and knowledge management capabilities to business-as-usual teams.
- *Completing the implementation of Ātea (our enterprise support services)*. The end date for the replacement of our internal systems and processes is dependent on the all-of-government payroll solution.
- *Ensuring a smooth transition to the post-transformation operating model*. Transition the services, processes, frameworks and methods that will endure after transformation has been completed and ensure the business is ready to accept them.

Improved agility

Amongst the benefits to stakeholders from the investment in transformation, the Government now has greater policy agility. Previously our heritage systems were a major constraint on our ability to implement policy change quickly and cost-effectively.

Inland Revenue's improved agility has been demonstrated through, for example, the implementation of the Small Business Cashflow (Loan) Scheme. This was designed and implemented in a matter of weeks without additional investment in systems and processes. The extent to which this was possible, however, was heavily dependent on simple requirements, no/few exceptions, using information already held, and designing within the "out of the box" processes of our technology platform.

Similarly, Inland Revenue has an improved ability to share information securely with other government agencies. For example, to ascertain employers' eligibility for the wage subsidy, Ministry of Social Development staff are now able to access the required information from our systems via a portal, enabling a swifter response for customers and a more efficient use of departmental resources. This is a good demonstration of digital technologies helping agencies to use data in new and innovative ways to improve the lives of New Zealanders.

How quickly Inland Revenue can implement new products or services will always be determined by:

- the nature of the change and its requirements;
- whether the information/data required is already held;
- the capacity to educate and support customers and/or intermediaries in understanding what any change means for them, and what they need to do; and
- the lead times required by intermediaries, such as software developers, to prepare for any change.

Leveraging this investment

As Inland Revenue embeds these new capabilities, there are opportunities to consider leveraging the investment in new systems across the public sector, as well as to make further improvements to the administration of the tax system.

This includes working closely with other departments, including the Department of Internal Affairs, Statistics NZ and the New Zealand Customs Service, to take advantage of the investment in enterprise support services (Ātea). Enterprise support services are the internal systems and processes that support the day-to-day running of Inland Revenue.

In February 2020, the Digital Government Leadership Group (DGLG) agreed a work programme to enable the process model developed by Inland Revenue for human resources, finance, asset management and procurement functions to be adopted as a common process model for all-of-government. COVID-19 has resulted in delays in getting the work programme fully up and running.

In addition, as part of the agreed arrangements for the implementation of Ātea, any material or information developed for Inland Revenue is able to be reused across government. This will enable other agencies using the same technology platform as Inland Revenue (Oracle) to accelerate delivery as they will not have to start from scratch. This approach will help to ensure that the public service leverages the best possible value from its digital technology and data investments.

In relation to START, there is a continuum of options for further leveraging this investment. For example, Inland Revenue could potentially act as a service provider to other parts of government for activities that are complementary to the end-to-end tax model. There are also opportunities for the data and information held by Inland Revenue, and the analytics platform and capabilities developed, to be shared with others to enable them to deliver services to their customers. These are areas of opportunity that we would like to discuss further with you at the appropriate time.

Timeframes

It is important that the focus remains on completing Business Transformation and successfully transitioning to Inland Revenue's new capabilities. The optimal timeframe for further leveraging these assets will be from early-mid 2022, once the programme has completed key deliverables. We will be keen to explore the potential for leverage with you during 2021, as this may also shape policy work around the administration of the tax and social policy system.

Reporting progress

Business Transformation is required to report to Cabinet on progress by July and December each year. In addition, monthly status updates are provided to you and the Minister of Finance.

Given the high-risk nature of the programme, independent quality assurance reviews are conducted regularly. You and the Minister of Finance are provided with the opportunity to talk directly with the review teams and receive copies of the reports once they have been finalised.

Transparency about the programme and its progress has been a key principle since the programme began. Inland Revenue regularly publishes the progress updates mentioned above on its external website (www.ird.govt.nz) as well as summaries of the independent quality assurance reviews. The next independent assurance review scheduled is a Gateway 0 review (a strategic assessment) planned for late November 2020.

High priority papers and briefings

The following is a list of significant papers and briefings you will receive during 2020 in addition to the issues requiring decisions mentioned in the *Tax Policy* section.

- Monthly reports on taxation revenue outturns
- Half Yearly Economic and Fiscal Update (HYEFU)
- Monthly Business Transformation status updates
- Go-live preparations for Business Transformation Stage 4

Additionally, between November 2020 and February 2021, the Commissioner will be called to appear before the Finance and Expenditure Committee for the Annual Review of Inland Revenue. The hearing will be held following the tabling of the Annual Report, in order to scrutinise the performance of the department during the preceding financial year.

Recommended subsequent briefings

We recommend that officials provide you with more detailed briefings in the near future, both in writing and verbally, on the topics listed below. We are happy to work with your Office to schedule briefings on these issues and provide advice on sensible sequencing to support your priorities.

s9(2)(f)(iv)

[redacted]

Administrative arrangements

Reports and communication

Every week, we will provide you with a status report. This includes information relating to Cabinet and Cabinet Committee papers, Bills currently in the House, requests under the Official Information Act and media issues.

Office support

You will have your own views about what works for you in terms of how we can support you and your office, which we look forward to discussing. For your information, we have set out below the type of support that we have provided previously.

To assist with reports, communication and correspondence, Inland Revenue has previously provided two secondees to the Minister of Revenue's office – a Private Secretary (Alice Yan) and a Revenue Advisor (Thomas Allen). We also have a secondee in the Minister of Finance's office (Paul Young).

The secondees also act as advisors on tax policy, tax administration and social policy matters, assist in handling media enquiries, help liaise with Inland Revenue and manage incoming communication.

s9(2)(a)

Inland Revenue staff also assist in providing draft responses to Ministerial correspondence, and collating information for Official Information Act requests and Parliamentary Questions.

Meetings

The table below sets out the regular meetings that the Minister of Revenue has previously had with officials and other Ministers. We suggest these meetings continue and are happy to discuss this with you.

Meeting	Frequency
Meeting with the Commissioner of Inland Revenue and officials to discuss portfolio-related matters, including one to one time with the Commissioner.	Weekly
Meeting with the Minister of Finance to discuss key decisions and issues in the portfolio.	Fortnightly
Meeting with officials to discuss Business Transformation or other Policy matters	As required

Key contacts

Key Inland Revenue contacts are listed in the table below.

Contact	Number
Naomi Ferguson Commissioner of Inland Revenue	s9(2)(a)
David Carrigan Deputy Commissioner, Policy and Regulatory Stewardship	s9(2)(a)
Mary Craig Deputy Commissioner, Enterprise Design & Integrity	s9(2)(a)
Greg James Deputy Commissioner, Transformation	s9(2)(a)
Emma Grigg Policy Director	s9(2)(a)
Kerryn McIntosh-Watt Policy Director (Acting)	s9(2)(a)
Josh Green Manager (Acting), Government and Executive Services	s9(2)(a)