

# *Tax Tips*

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# The future of tax compliance for individuals



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*In June 2017, the Government released the discussion document [Making Tax Simpler – Better Administration of Individuals’ Income Tax \(June Document\)](#) outlining the next phase of proposals on how an individual’s income is taxed in the future.*

The proposals are intended to simplify tax compliance for individuals by reducing the level of interaction an individual has with the tax system. This will be achieved by enabling Inland Revenue to access income information on a more real time basis and making better use of that information. In particular, this “alternative approach” would result in Inland Revenue informing an individual of their tax position for the year without the need for them to engage with the tax system.

We can see the attraction of such an approach and see the merit in making tax compliance as simple as possible for as many as possible. However, as part of the reforms, the Government should also consider the transition into engagement with the tax system for individuals if they need to do so. This is a common issue that already arises when a salary and wage earner enters into business and the issue could potentially intensify under Inland Revenue’s “alternative approach” as individuals may become even more removed from their tax obligations.

## Background

The June Document continues the Government’s focus on modernising and simplifying the administration of the tax system for individuals who earn employment and investment income. It adds to the proposals in the Making Tax Simpler series, representing a fundamental and broad rethink of tax administration in New Zealand.

The proposals build on the changes contained in the *Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Bill* (the Bill), which is currently before Parliament and is expected to pass into law in 2018, subject to Parliamentary process. The changes contained in the Bill are intended to ensure Inland Revenue receives employment and investment income information on a timelier basis.

**The proposals are intended to simplify tax compliance for individuals by reducing the level of interaction an individual has with the tax system.**

## Summary of the June Document

Key proposals include:

- a more transparent and extensive framework for data collection of individuals by third parties throughout the tax year. Inland Revenue will use the information it receives from third parties like employers and banks to automatically calculate and issue refunds or amounts of tax to pay
- a choice of two options for individuals to provide information to Inland Revenue at the end of the tax year.
- setting a threshold level above which debts are issued and refunds are made automatically
- claiming donations tax credits through the income tax return process
- requiring Inland Revenue to make refund payments by direct credit only

## Data collection and visibility during the tax year

The Government proposes that more complete information from third parties should be provided to Inland Revenue throughout the year. Inland Revenue can then check the information to prevent over or under-payments of tax. The more frequently this information is received, the greater the ability for Inland Revenue to monitor whether tax is being withheld at the appropriate rate and, if not, to take corrective action. In turn, this will reduce the number of individuals who have large refunds or tax to pay at the end of the year by ensuring the right amount of tax is being paid throughout the year.

All the information Inland Revenue collects about an individual will be held in their tax account, which an individual can view through myIR. The myIR account will show income earned obligations, entitlements, liabilities and personal details. Inland Revenue will progressively add information to the account as it is received. As well as having access to information through myIR, individuals will be able to scan or photograph and upload copies of their receipts directly into myIR either during the year or at the end of the year. This information will then be available for Inland Revenue to use to determine an individual's tax position.

The June Document also includes proposals to modernise the process of special tax codes so that individuals can request one online rather than by completing a paper form. Inland Revenue will send a message to the employer or other payer at the same time containing the details of the special tax code, so if the individual chooses to change their code, they would not have to show a copy of the certificate to their employer.



## Reporting income at the end of the tax year

The Government wants it to be simpler for individuals to work out what, if anything, they need to do to ensure their tax obligations are met. Where the individual is required to interact with the tax system, the proposals look to make that interaction quicker and less burdensome.

The June Document proposes two options for end of year filing obligations. The first option is the “improved status quo” which builds on earlier legislative changes in the Making Tax Simpler series. Under the improved status quo, Inland Revenue would issue more personal tax summaries to individuals for them to confirm or complete. The second option is the “alternative approach”. Under this approach, individuals whose only income is subject to withholding tax would not have to provide any further information to Inland Revenue. Inland Revenue would calculate the difference between the tax that was withheld during the year and the individual’s tax liability and provide the individual an opportunity to confirm those amounts. If the individual does not interact by a set time, Inland Revenue would issue refunds or request payments for amounts over the thresholds.

## Improved status quo vs the alternative approach

The improved status quo builds on the changes contained in the Bill. Once enacted, the changes will mean payers of interest, dividends, and Māori authority income will need to report the payment of such income in a timelier manner. As a result of receiving more extensive and regular information throughout the year, Inland Revenue will be able to determine if the correct amount of tax was withheld and will be able to issue a personal tax summary as required. The individual will still be required to confirm or file an income tax return.

Under the alternative approach, individuals who earn only income that is reported to Inland Revenue by a third party during the year will have no additional income information to provide Inland Revenue and will no longer be required to file an income tax return. This is on the premise that Inland Revenue should have all the required information (including child support payments) to determine what the individual’s tax liability is for the year. However, those individuals will still be required to confirm their family circumstances information and non-taxable income information, although it is expected this would be separate to the income tax return.

## Thresholds

The Government is also considering the appropriateness of the current thresholds that Inland Revenue uses to issue refunds and collect tax owed. The two existing thresholds are \$5 for refunds and \$20 for tax owed.

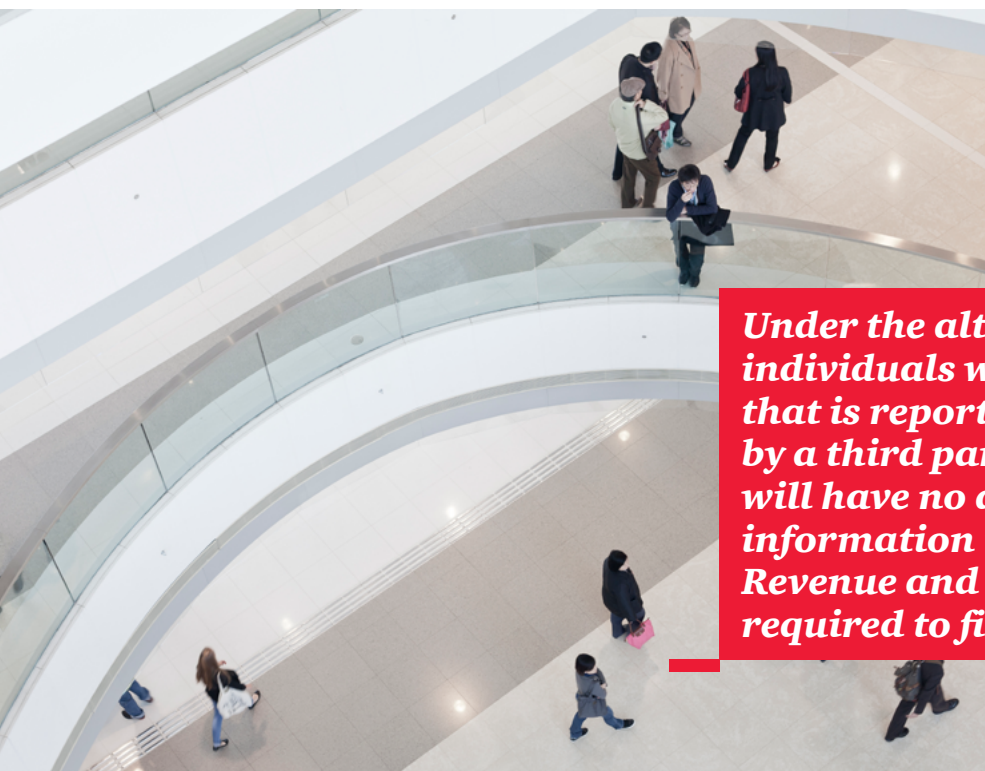
With the increased digitisation of refunds and proposals requiring Inland Revenue to pay refunds by direct credit only, any administration cost is negligible so a threshold for refunds may not be required. In regards to collecting tax owed, the Government is interested in factors that should be taken into account when considering a threshold for tax to pay.

## Donations tax credits

The June Document seeks feedback on whether donations tax credits should be partially reincorporated into the income tax process. Individuals who still wanted to fill in a separate IR526 form could do so, while others could input information about the donations they wish to claim on myIR as they file.

## Direct crediting refunds

The Government seeks feedback on whether income tax refunds should be made only through direct credit into the taxpayer’s nominated bank account, with exemptions being available in limited circumstances. The proposal will benefit taxpayers by eliminating time delays as well as the costs and effort of banking a cheque. Direct crediting also has the benefit of reduced administration costs for Inland Revenue.



***Under the alternative approach, individuals who earn only income that is reported to Inland Revenue by a third party during the year will have no additional income information to provide Inland Revenue and will no longer be required to file an income tax return.***



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## Our thoughts

As most New Zealanders and tax practitioners agree, the current administration of individuals' income tax is cumbersome and can be arbitrary because a number of individuals who have not paid the correct amount of tax (either too little or too much) will not have their position corrected.

In our view, the "improved status quo" option does little in the way of making tax simpler for individuals. Perhaps it is for this reason then that the Government seems to lean toward the "alternative approach" in their discussion document.

We consider the "alternative approach" to go a long way towards ensuring that everyone pays the right amount of tax at the right time – a key pillar of any good tax system. Furthermore, it makes it easy for individuals to comply and difficult not to as Inland Revenue will have all of the information required to determine if the right amount of tax has been paid.

While the "alternative approach" no doubt streamlines and modernises the end of year filing obligations, we do question whether this in effect removes the self-assessment framework upon which our tax system is built. To a certain extent, it is possible to argue that an individual will no longer be self-assessing his or her own tax liability. Rather, this will be done by Inland Revenue. While the approach does allow for a period of time for an individual to engage (therefore some level of self-assessment), the reality may be that individuals would take whatever assessment is generated by Inland Revenue.

We can certainly see the practical benefits and compliance savings that the "alternative approach" produces but we question whether removing self-assessment to that extent from those individuals who only earn reportable income may diminish personal responsibility for one's own tax or may reduce the tax awareness of the public. Further, the ease of which an individual can transition into engagement with the tax system should also be considered as this is a common issue that already arises when a salary and wage earner enters into business and the issue could potentially intensify under "alternative approach" as individuals may become even more removed from their tax obligations.



# The future of social policy administration

*In July 2017, the Government released [Making Tax Simpler – Better Administration of Social Policy](#). This new discussion document outlines proposals to improve the administration of social policy obligations and entitlements. The Government recognises that the current administration is complex and confusing, which is not conducive to a good social policy system.*

The discussion document proposes changes to the administration of:

- Working for Families Tax Credits (WFF Tax Credits)
- child support
- student loan repayments, and
- KiwiSaver.

The proposals are guided by four objectives:

- ensuring the customer receives the correct entitlements
- providing certainty and predictability
- providing timely and accurate payments, and
- providing an agile system.

Although the discussion document contains a wide range of proposals, the key proposals relate to WFF Tax Credits and child support payments.

WFF Tax Credits are currently based on an estimate of family income for the tax year, which means that payments are almost always wrong. Alternatively, a family can wait until the end of the tax year and receive a lump sum payment based on what was actually earned (although this is not desirable or practical for many families). The proposed changes address these issues. For example, entitlements would be based on recent past income instead of an estimate of future income. Accordingly, WFF Tax Credits would automatically adjust during the year as income varies.

Child support payments are currently determined in February of each year and based on an individual's income from the last calendar year or two tax years ago. Further, not all of a parent's income is included in the calculation. The discussion document proposes the use of more recent information, that all income is taken into account and that payments are deducted from salary or wages directly to enable faster transfer to the other parent.

## Our thoughts

The discussion document identifies the key issues with the current administration of social policy. We agree with the objectives guiding the proposals, and many of the proposals will help achieve these objectives.

However, in our view, care must be taken to ensure that compliance is made easier and is not simply shifted from individuals to Inland Revenue and employers.

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# *Inland Revenue appoints new Deputy Commissioners*

*Inland Revenue has recently announced the appointment of two new Deputy Commissioners responsible for customer and compliance services for business and for individuals.*

Gaye Searancke has been appointed to the role of Deputy Commissioner, Customer & Compliance Services – Business.

Over the past two and half years Gaye has been Chief Governance and Strategy Officer and a member of the executive team at ACC. Gaye has previously held a number of public sector roles including Deputy Chief Executive, Labour and Commercial Environment Group, at the Ministry of Business, Innovation and Employment. Previously, Gaye was the Deputy Secretary responsible for Competition, Trade and Investment at the Ministry of Economic Development.

Sharon Thompson has been appointed to the role of Deputy Commissioner, Customer & Compliance Services – Individuals.

Sharon has an extensive banking career, most recently with ASB and previously with Westpac. During her career she has focused on leading culture change, service improvement, employee engagement and performance in large distribution roles, in both consumer and business banking areas. Inland Revenue states that Sharon's focus on customer experience and moving service cultures from her banking background will relate well to the digital channel and portfolio development supporting the positive compliance environment of Inland Revenue.



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