



Tax Working Group
Te Awheawhe Tāke

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The advice represents the preliminary views of the Secretariat and does not necessarily represent the views of the whole Group or the Government.

Some papers contain draft suggested text for the Final Report. This text does not constitute the considered views of the Group. Please see the Final Report for the agreed position of the Group.

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Coversheet: Information collection and dissemination

*Position Paper for Session 22 of the Tax Working Group
8-9 November 2018*

Purpose of discussion

Understand the way in which Inland Revenue collects, uses and shares information with a view to finalising wording for the Final Report.

Recommended actions

We recommend that you:

1. **note** the contents of this report.
2. **note** that officials will provide a follow up note to the Group for the next meeting on 22-23 November on potential approaches to understanding the wealth, capital income and effective tax rates of individuals, particularly those in the top decile
3. **agree** the draft wording for inclusion in the Final Report.

Information collection and dissemination

*Position Paper for Session 22
of the Tax Working Group*

November 2018

Prepared by Inland Revenue and Treasury

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Executive Summary

This paper outlines the way in which information is collected from taxpayers¹ and shared by Inland Revenue with other government agencies and the public in general. It looks at the functions that the Commissioner of Inland Revenue (the Commissioner) has to perform as part of her administration of the system and how information contributes to those functions.

The Commissioner essentially has three functions to fulfil:

- **Assessment** – ensuring she holds enough information to create an assessment for a taxpayer or to pay accurate social policy entitlements on time.
- **Assurance** – ensuring she holds sufficient information to make sure that assessments are correct and identify those that are not.
- **Stewardship** – holding information that allows her to forecast tax revenues, develop policy advice and provide information to other government agencies where appropriate.

Information collection for each of those functions may overlap or be separate, but one of the keys for information collection is, where possible, collecting information only once and using this for multiple purposes if it is useful for that. This lowers compliance costs for taxpayers. The overall collection of information in this manner also assists in voluntary compliance by Inland Revenue being able to ensure that income is returned appropriately.

The Commissioner has several sources of information which include:

- public information – such as media stories;
- commissioned research – research commissioned by Inland Revenue on various topics such as taxpayer behaviour given a certain circumstance;
- taxpayer provided information – through returns filed by taxpayers and including information provided by taxpayers on employees and customers;
- third party information – such as dataset information obtained from the banking system (e.g., financial transactions data); and
- information from other agencies – through the information sharing agreements that Inland Revenue has with other agencies, including with foreign jurisdictions.

The types and detail of information will also depend on the taxpayer and whether they are an individual salary or wage earner, or a large multinational business. The information collected from, or on, these taxpayers will be dependent on the type and complexity of the taxpayer.

Officials will provide a follow up note to the Group for the next meeting on 22-23 November on potential approaches to understanding the wealth, capital income and effective tax rates of individuals, particularly those in the top decile.

¹ In this paper the term 'taxpayers' includes those customers who have social policy entitlements or obligations.

Inland Revenue shares significant amounts of information with other government agencies to assist them both in enforcement function and for the provision of services.

Business Transformation (BT) gives the Commissioner an opportunity to revisit the data strategy of Inland Revenue to ensure that the information being collected allows her to perform her functions effectively. Any future data collection should begin with a focus on digital-by-design to ensure that information is supplied in a manner that Inland Revenue can quickly use and compile rather than the current focus on non-electronic data.

1. Introduction

1.1 Context

1. The collection and use of information is paramount to a well-functioning tax administration. Information enables the Commissioner to efficiently allocate resources and helps the Government to understand the implications of future policy changes.
2. Whilst information is important, the quantity of information is secondary to the quality of information. Obtaining the right information to enable the Commissioner to perform her functions may not necessarily mean more information is collected, but rather that the information that is collected is better targeted to ensure the Commissioner can efficiently undertake her functions.
3. Technology makes the collection, use and dissemination of information easier, cheaper and more efficient than has historically been possible. Advanced technology presents both great opportunities, but also potential pitfalls and an increasing need to ensure that information remains protected.
4. As an example, thirty years ago taxpayers had interest tickets issued by the banks manually matched to their returns by a person in a district Inland Revenue office. Fast forward to 2020 and interest information will be pre-populated to a taxpayer's account in near real-time during the year, reducing both the compliance costs for the taxpayer of compiling that information and the administrative costs for Inland Revenue by ensuring compliance. Technological advancement allows the Commissioner to more effectively collect and use information with reduced administration costs.
5. Inland Revenue obtains a significant amount of information about New Zealanders. In order to administer the tax system and associated social policy programmes, Inland Revenue collects and holds information on virtually all New Zealanders, as well as most corporate and other entities, such as trusts which derive income and partnerships. This is information that taxpayers are compelled to provide to Inland Revenue and therefore it must be treated with care. For taxpayers to feel comfortable providing information to Inland Revenue, they need to feel the information requested is reasonable, and that it is used appropriately. The Government therefore needs to balance protection of this information with appropriate use, including use across government, which is reflected in various information sharing agreements with other government agencies to improve services to the public.

1.2 Purpose

6. This paper outlines the way that Inland Revenue collects, uses and shares information with a view to providing the Group with an understanding of the current information settings and an indication of where information collection and use might move in the future under BT.

2. Why the Commissioner needs information

2.1 The Commissioner's functions

7. Inland Revenue contributes to the economic and social wellbeing of New Zealand. It does this by collecting and distributing money. Those outcomes ensure that:
 - revenue is available to fund government programmes through people meeting payment obligations of their own accord – a voluntary compliance focus;
 - people receive payments they are entitled to, enabling them to participate in society; and
 - New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment.
8. To achieve those outcomes, the Commissioner has essentially three main functions which require information to assist in their discharge:
 - **Assessment** – the Commissioner is required to assess and collect tax owing by taxpayers and to deliver accurate and on-time payments to New Zealanders. This requires her to understand how much a taxpayer needs to pay in tax. She is also tasked with the delivery of some social policy entitlements and needs sufficient information to make accurate and on-time payments to recipients. This function assists with the voluntary compliance of taxpayers in that it allows Inland Revenue to ensure that taxpayers are meeting their obligations by pre-populating their returns where possible.
 - **Assurance** – while the majority of taxpayers take their responsibilities seriously, correctly returning their income and claiming their entitlements there are a number who do not. The Commissioner must have sufficient information to target her limited resources to select cases where some confirmation is required that people have returned and paid the correct amount.
 - **Stewardship** – this function includes being able to use the information she has to model what potential changes might mean for the fiscal balance going forward and for other tax policy analysis. In addition, the State Sector Act 1988 places an obligation on state sector chief executives of “responsiveness on matters relating to the collective interests of government”². In practice, this means the Commissioner should, where appropriate, share information with others to reduce administrative costs for the government and compliance costs for citizens, and provide the public with useful information to enable them to understand and undertake research into tax matters. As noted earlier, however, this needs to be balanced against the Commissioner’s obligations of protecting confidentiality and maintaining the integrity of the tax system.
9. These functions may require different information, or different levels of information. For the assessment function, the Commissioner seeks enough information to assess a customer for any tax debt (or refund) for the particular period or to ensure the correct entitlements are paid to customers. This does not require a significant amount of

² State Sector Act 1988, section 32(1)(b).

information, but the information supplied does need to be sufficient for her to make a judgement as to the appropriateness of the return. For example, the return needs to have sufficient information for the Commissioner to make a reasonable assessment that the return or claim for entitlement is not false or fraudulent.

10. The assurance and stewardship functions require more detailed information that will satisfy the Commissioner that the taxpayer has correctly assessed their tax liability as well as providing her with the foundations to understand how changes to the tax base might affect future revenue. This also includes providing non-taxpayer specific information to aid in understanding the tax system and for statistical and research purposes.³
11. The Commissioner, like revenue authorities worldwide, has broad powers to collect information. These powers are set out in the Tax Administration Act 1994 and permit the Commissioner to require taxpayers (or third parties) to provide any information that is “necessary or relevant” for one or more of the Commissioner’s functions. In practice, the key for the optimal collection of information is that the information is useful for the Commissioner to discharge her functions but also that it is collected in a way that is low cost for taxpayers to comply and for Inland Revenue to administer.
12. The recent introduction of international automatic exchange of information under a common reporting standard which effectively began from 30 September 2018 means that Commissioner is also regularly provided with significant information on foreign bank accounts held by New Zealand residents automatically rather than having to request this from taxpayers or foreign revenue authorities.
13. Although the functions of the Commissioner vary, there can be considerable overlap in the information requirements for these different functions. Information collected as part of the Commissioner’s assurance function might very well form the basis for her stewardship function and it is important that information collection is not duplicated when it can be used for multiple purposes. Currently information collected by taxpayers can be duplicated, for example, when a large taxpayer files their return they attach a tax calculation and a set of financial accounts. When that same taxpayer is part of the basic compliance package⁴ (BCP) process that same information is provided to Inland Revenue again.
14. BT gives Inland Revenue the ability to transform its information collection to make this more streamlined and reduce the need for taxpayers to supply hard copy information to Inland Revenue. More and more this information interface can occur

³ As set out in our paper *Tax Transparency: Background Paper for Session 14 of the Tax Working Group* significant volumes of information are provided to StatsNZ which is incorporated into the Integrated Data Infrastructure (IDI) and Longitudinal Business Dataset (LBD). This is used to produce official statistics and in certain circumstances can be accessed for research that is in the public interest.

⁴ The Basic Compliance Package (BCP) process is the annual provision of information to the Commissioner by significant enterprises with a turnover greater than \$30m who are not compliance managed. This entails the taxpayer providing to Inland Revenue a copy of the financial accounts and tax calculation for each company in the group as well as a group structure, usually this is electronically supplied in portable document format (PDF).

digitally which reduces both compliance and administration costs and allows much more streamlined analysis of the information.

15. Other government departments are interested in accessing Inland Revenue's broad information repository. There is, however, a fine balancing act for the Commissioner in this regard. As noted Inland Revenue can only collect information necessary or relevant to its functions, and it is important that any sharing is within appropriate frameworks so as not to reduce the trust that taxpayers have in the integrity of the tax system.
16. Collecting information for other agencies where the Commissioner does not otherwise require that information to discharge her functions may lower taxpayer confidence in Inland Revenue. In the absence of some relevant function being conferred on the Commissioner, such collection would also require legislative change. In addition, the impact on compliance and administrative costs across the system needs to be considered.
17. There are instances where Inland Revenue holds information that is important to other agencies to assist in the carrying out of their functions. A good example of that is the sharing of information that allows the invoicing of Accident Compensation Corporation levies, or to verify income for compensation or benefit payments. However, there is a concern that the more that information provided by taxpayers is shared the less those taxpayers may be willing to supply information to Inland Revenue which may affect the Commissioner's ability to discharge her core functions.
18. However, taxpayers are generally comfortable providing information if it is used in a manner that allows a more streamlined delivery of services across government or it is used for enforcement of those who are taking advantage of the system. Where those requirements can be clearly demonstrated taxpayers may have less resistance to the collection and sharing of information.

3. How the Commissioner obtains information

3.1 Introduction

19. There are many ways that the Commissioner obtains information from and about taxpayers. In general, there are five main sources of information for the Commissioner:

- Public information;
- Commissioned research;
- The taxpayer;
- Third parties; and
- Other agencies

3.2 Public information

20. The Commissioner uses a large amount of publicly available information to discharge her functions, the **assurance** function in particular. This information can come from media, company announcements and other types of information which is available to the public. It can also be used by the policy team to review any policy responses that might be required on a proactive basis.

3.3 Commissioned research

21. Inland Revenue undertakes commissioned research from external researchers. This may look at various tax groups or customer attitudes to Inland Revenue as well as taxpayer behavioural type work which identifies how taxpayers respond to various policy changes or campaigns (such as “cash job” advertising).

22. These projects provide Inland Revenue with a base to making both operational and policy decisions. A recent example of commissioned research was the paper presented to the Group on the estimation of self-employment income gaps by Ana Cabral and Norman Gemmill⁵.

3.4 Taxpayer provided information

23. Taxpayers provide the Commissioner with significant amounts of information. This can include both information about themselves as taxpayers and information about employees or customers of the taxpayer.

24. This information flow usually commences with the taxpayer or customer providing an application or registration form to Inland Revenue. This includes significant information relating to the identity of the taxpayer or customer including their personal circumstances. This flows to the filing of tax returns which will contain

⁵ *Estimating Self-Employment Income-Gaps from Register and Survey Data: Evidence for New Zealand* – Ana Cabral and Norman Gemmill.

details of the tax liabilities owed by the taxpayer or the amounts they may be entitled to be paid. At that time, they may also provide additional information which supports the information provided in their return such as financial accounts, a completed IR10⁶ or depreciation schedules. Some of this information may be provided electronically through e-file and some may be provided in hardcopy such as the accounts of a business which may not be able to be easily analysed.

25. Taxpayers will also provide the Commissioner with further information as required by the Commissioner. This will occur, for example, when the taxpayer is part of the BCP process described above or where the Commissioner raises specific questions of the taxpayer in relation to tax returns that the taxpayer provides.
26. Information will also be provided about employees through the filing of employer monthly schedules which includes income, PAYE and other deduction information for employees, and information regarding any employee share scheme benefits employees may have received during the year.
27. Taxpayers may also be required to provide detailed information on their customers or, shortly, shareholders⁷. Those in the financial services industry and companies will provide Inland Revenue with information on payments made in respect of interest and dividend income which is used to prepopulate those customers' or shareholders' income tax returns.

3.5 Third parties

28. Inland Revenue frequently obtains information from third parties to assist in the administration of taxes. This may also be by way of major datasets obtained from organisations such as on-line marketplace or electronic point of sale companies⁸ or smaller specific datasets from organisations.
29. Third party information is primarily used for enforcement purposes to identify those taxpayers who may not be returning income from all the sources they should be such as a trading business operating through an on-line marketplace or suppression of cash sales. It can also be used for more general targeting of compliance or taxpayer education activity as well as debt collection.
30. The Government is proposing new rules to streamline the regular collection of third party datasets by providing a regulation-making power to authorise third party dataset collection where it is to be done on a regular basis.⁹ This will increase transparency

⁶ The IR10 is a prescribed form that includes accounting information for business taxpayers which they can provide instead of financial accounts.

⁷ This paper assumes that the *Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill* will be passed with minimal amendments.

⁸ <https://thespinoff.co.nz/society/inland-revenue/06-12-2017/tax-cheats-and-how-to-catch-them/>

⁹ Proposed new section 17L of the Tax Administration Act 1994, contained in the *Taxation (Annual Rates for 2018-19, Modernising Tax Administration, and Remedial Matters) Bill*.

about this form of information collection. Ad hoc or one-off collection of these datasets would continue under existing powers.

3.6 Other agencies

31. The Commissioner also receives information from other agencies to assist with the administration of the tax system. This includes, for example, information from the Ministry of Business, Innovation and Employment, the Ministry of Social Development, the New Zealand Customs Service, Land Information NZ and the Department of Internal Affairs.
32. This is done through information sharing agreements, which assist in taxpayer compliance as well as providing customers with a seamless service so that they do not have to supply the same information to numerous government agencies.
33. Since 30 September the Commissioner also receives information from foreign tax authorities on New Zealand residents who have bank accounts located in foreign jurisdictions under the common reporting standard and automatic exchange of information. Approximately 100 countries have signed up to provide information under the common reporting standard. In turn New Zealand is supplying that information to foreign revenue authorities in relation to residents of those countries.

4. Different information for different taxpayers

4.1 Background

34. As noted, the Commissioner essentially has three major functions for which she needs information. All the information that the Commissioner receives should be used for one of these purposes and the information required could differ by taxpayer type. For instance, the information required for a large corporate will be more detailed and substantial than that of a smaller business. Third party datasets may be used more for smaller taxpayers as the risk of unreported income may be higher.
35. The following sections set out the different information that is provided by and used in respect of a certain class of taxpayer. It mainly focuses on information relating to income tax as the information received from taxpayers in respect of other taxes is reasonably standardised.

4.2 Individuals

36. Most individual taxpayers have minimal interaction with Inland Revenue and do not need to file an annual tax return. They will have all their salary and wage information as well as interest and dividend income prepopulated to their account with Inland Revenue which, in the majority of cases, will advise the taxpayer of any amount to pay or issue a refund directly to the taxpayer.
37. Those individual taxpayers who have other income or receive social assistance entitlements will, generally, need to interact with Inland Revenue and supply information relating to that other income. This could be rental income, income from overseas, relationship status, or number of children under their care as there currently is no practical way of obtaining that information from third parties.
38. Data analysis of third party datasets could also be used to ensure that taxpayers are declaring all sources of income by comparisons with other taxpayers in similar industries or flagging potential income streams that may not have been declared. This type of information helps Inland Revenue target its compliance and education efforts.

High net worth individuals (HNWI)

39. In their letter to the Group on the *Interim Report* the Ministers of Finance and Revenue referred to the limitations of current data on wealth distribution and capital income especially within the top decile. They asked the Group to consider whether there are better approaches to understanding the wealth, capital income, and effective tax rates of individuals, particularly those in the top decile.
40. Inland Revenue has a division that specialises in HNWI. It undertakes audit selection and assurance work for that special group of taxpayers. Through its work that unit obtains various data about HNWIs but this is limited to data that the Commissioner

requires to exercise her functions. Given this, it may not include data around the wealth of those individuals but rather information focused on establishing their income.

41. In the absence of a capital gains tax wealth, or asset information is not overly useful for Inland Revenues purposes. A problem with using Inland Revenue to obtain this information is that it may not meet the requirement of being “necessary or relevant” for the administration of the Inland Revenue Acts, although this may change in the future if the tax on capital gains is extended.
42. Officials will provide a follow up note to the Group for the next meeting on 22-23 November on whether there are other approaches to obtaining this information. For example, better use may be able to be made of combining this data with the information that StatsNZ has, or could collect, through the census. This information could be included in the Integrated Data Infrastructure (IDI)¹⁰ database which could then be used to better understand the financial position of HNWIIs.

4.2 SME businesses (including self-employed individuals)

43. A SME taxpayer is required to file an annual tax return with Inland Revenue. It will generally attach a completed IR10 or a set of financial statements and a tax calculation if necessary.
44. Some of this information is filed electronically through Inland Revenue’s system and some is manually supplied on paper forms which are keyed into the FIRST system at the Upper Hutt processing centre¹¹. Taxpayers using the accounting income method provide updated information directly through accounting software 6-12 times during the year.
45. The Commissioner is also likely to use third party datasets in ensuring compliance by SMEs including financial transaction data which is used to determine if a taxpayer is likely to be suppressing sales.

4.3 Large corporate taxpayers (Significant Enterprises)

46. This group of taxpayers comprises taxpayers who are foreign-owned or have a turnover of over \$30 million. All these taxpayers will supply an annual tax return to Inland Revenue along with a set of financial statements – IR10s are rarely used by this group – and a tax calculation
47. Some taxpayers will also be sent questionnaires for completion and return to Inland Revenue. The most common, and regular, of these is the international questionnaire which is a PDF-based questionnaire completed by foreign owned entities. It asks

¹⁰ The Integrated Data Infrastructure is a large research database that holds microdata about people and households. It is maintained by Stats NZ.

¹¹ A more detailed description of the IRD10 process was contained in *Collection of tax debt – Background paper for session 14 of the Tax Working Group*. Pages 20-22.

specific questions related to international tax issues such as transfer pricing and thin capitalisation. Other specific questionnaires have been previously issued to large taxpayers from time to time, requiring specific information on particular risk areas such as leases or depreciation.

48. Taxpayers are then split into three categories within this significant enterprise (SE) group:

- **BCP taxpayers** – these taxpayers are asked to supply in an electronic format (usually PDF files) a group structure, tax calculations for each company in the group and financial statements on a consolidated basis and for each company in the Group. Although provided electronically the PDF nature of the files is akin to a hard copy and these are not easily analysed;
- **Compliance managed taxpayers** – this group comprises taxpayers who Inland Revenue considers require more resource to identify tax risks. These are generally more complex groups/entities. These entities go through an annual risk review by an allocated relationship manager. This process entails a comprehensive review of the entities' tax returns, financial accounts and board minutes with a view to identifying any areas of risk for Inland Revenue which are followed up as part of the risk review or taken further. This process takes several months and Inland Revenue currently has approximately 58 groups who are compliance managed.
- **Co-operative Compliance Agreements (CCAs)** – there are a small number of SE taxpayers who have entered into a CCA with Inland Revenue. This process involves a more real-time approach to the assurance process and requires taxpayers to engage with their compliance manager when issues arise during the year. Tax returns are also subject to a pre-lodgement review by Inland Revenue with any issues of difference being identified at that stage and, ideally, resolved prior to the return being filed. There are a limited number of taxpayers on CCAs and this programme is closed to entry.

49. Large corporate taxpayers also supply the bulk of the larger datasets that Inland Revenue obtains although such datasets are unlikely to be used to verify large corporates' compliance. They provide the bulk of employee, customer and shareholder information and they may also provide, on request, particular datasets such as information about transactions carried out through trading platforms. This reflects the "one to many" relationship that is embedded in the information collection process – it is far more efficient to obtain information from "one" person about "many" than obtain information from the "many".

50. Larger corporates also, generally, have more sophisticated systems and staff than smaller taxpayers and are therefore better placed to manage and minimise the extra compliance that arises from additional data provision particularly if that data forms part of a corporate's usual business processes.

5. How the Commissioner shares information

5.1 Background

51. As with the rules governing collection of information, the rules regarding information disclosure are set out in the Tax Administration Act 1994. Broadly, for the reasons referred to earlier in this paper, the starting position is that Inland Revenue must not disclose any information on “matters relating to the Revenue Acts”. This is wider than just information about individual taxpayers.
52. There are then a series of exceptions to this general rule. The first exception allows information to be disclosed for “carrying into effect” the Revenue Acts – essentially Inland Revenue must be able to disclose information in a range of situations in order to carry out its functions. Several of the other exceptions deal with sharing with other government agencies.

5.2 Sharing with government agencies

53. Sharing information with other agencies has historically been done pursuant to specific legislative exceptions, which are typically agency specific and narrowly cast in terms of the information that can be shared and/or to the purpose for the sharing.
54. Inland Revenue enter into information sharing agreements authorised by Order-in-Council. These are enabled either under Part 9A of the Privacy Act 1993 (the Approved Information Sharing Agreement or “AISA” rules) or under section 81BA of the Tax Administration Act 1994.
55. In November 2014 Inland Revenue recognised the need for a centralised information sharing capability within the department to ensure coordination of sharing with other agencies and a consistent and prioritised approach to new sharing proposals. An information sharing hub has been established to coordinate, develop, design and approve information sharing that aligns with Inland Revenue’s principles and strategic direction. A set of principles were developed, which are used internally when considering potential information sharing proposals or requests.
56. The Generic Tax Policy Process also plays an important role in ensuring information sharing carried out by Inland Revenue is transparent and well consulted. Inland Revenue considers this process retains a key role given the importance of taxpayer confidentiality to the integrity of the tax system and that consultation would typically remain part of considering any future information sharing agreements.¹²
57. Appendix A contains a diagram summarising the current information sharing arrangements Inland Revenue is party to.

¹² For example the Government has recently consulted on extending the information sharing agreement between Inland Revenue and the New Zealand Police to include the Serious Fraud Office and New Zealand Customs Service: see <http://taxpolicy.ird.govt.nz/news/2018-09-26-government-consults-information-sharing-sfo-and-customs#statement>

58. As the Group is aware¹³, the tax Bill currently before Parliament amends the rules relating to information collection, use and disclosure. With regard to information sharing, the Bill proposes to update and improve the flexibility of information sharing mechanisms, and also narrows the coverage of the tax secrecy rule to specifically focus on information about taxpayers. This should assist in making more generic, statistical or aggregated information more available.

¹³ Ibid - *Tax Transparency: Background Paper for Session 14 of the Tax Working Group*

6. Business Transformation and the future of information

6.1 Context

59. As the Group is aware, Inland Revenue is currently part way through BT which is a multi-year programme to improve the way Inland Revenue operates and replace its existing technology platform FIRST¹⁴.
60. BT gives Inland Revenue the opportunity to improve and make information collection more efficient. This starts with ‘digital by design’ to ensure that, as much as possible, information is provided electronically and over time information provided by paper is reduced¹⁵.
61. This alone will reduce both taxpayer compliance costs and administrative costs for Inland Revenue. However, BT also provides an opportunity to enhance and obtain more useful information in an electronic form.
62. Those taxpayers who have elected into the accounting income method of paying provisional tax are currently providing Inland Revenue with more real-time information each time they make a payment which should allow Inland Revenue to be more proactive in its engagement with taxpayers by identifying any issues as they arise, such as a business that looks like it is getting into financial difficulties.
63. The information requirements for the future will be driven by the information needs of Inland Revenue which are closely aligned with the future for data analytics. This is a part of the BT project which is currently underway.
64. To date BT has altered the way in which information is collected in several ways. Changes have been made to the method of collection and timing of information relating to interest and dividends and will apply from 1 April 2019 on a voluntary basis and from 1 April 2020 on a compulsory basis. This will provide more real-time information for taxpayers who have interest and dividend income (as well as making their year-end tax obligations easier).
65. Changes have also been made to the timing of when employee information is submitted to Inland Revenue which should allow more proactive management of taxpayers’ tax codes to reduce the chances that they have a year-end square up to make. It is currently voluntary but will be compulsory from 1 April 2019. These changes also require more information to be provided including address information and date of birth to assist in the identification of taxpayers.

¹⁴ Future Inland Revenue Systems Technology

¹⁵ There are a number of reasons why in the foreseeable future paper cannot be eliminated with one of the main reasons being the availability of high speed internet connections to all areas of New Zealand. However, the majority of information obtained by Inland Revenue is already collected via electronic means.

6.2 Future changes

66. Future changes will depend on the analytical requirements of the data intelligence platform being developed as part of BT. It will also be dependent on an overall data strategy for the collection and use of information. This process is still being undertaken as part of BT.
67. The majority of data that Inland Revenue currently collects is in an electronic format that can be interfaced directly to Inland Revenue systems. However, there are some outliers, such as the SE population, where the future collection of information is likely to move to an environment where more useful information is collected in a format that is able to be manipulated by Inland Revenue rather than the current pdf-based information flow.
68. It could also make greater use of the IR10¹⁶ especially at the SME level where standardised financial information is more generic and capable of useful aggregation and analysis. The IR10 may be made compulsory and have to be filed electronically.
69. For the SE population the IR10 is not necessarily an ideal format for analysis across taxpayers because of the more bespoke nature of their financial accounting records, however, it does give a base to start from. More detailed accounting information such as trial balances¹⁷ from these larger taxpayers may provide more useful to Inland Revenue. However, as noted, these SE taxpayers have more bespoke accounts and the key challenge for Inland Revenue is manipulating that into a form which allows comparisons to be made across taxpayers and industries. There are technology tools which do allow the manipulation and aggregation of that data which may be useful in this regard.
70. The main key to improving information collection is to reduce or remove the need for ad hoc questionnaires and the BCP process by obtaining the data that Inland Revenue needs to undertake the Commissioner's functions without having to make those additional information requests.
71. This data from the SE population will also provide more detailed information on income and expenditure related to environmental outcomes than what is currently provided by taxpayers where that information may be less visible in their financial statements currently. The Group encouraged Inland Revenue to collect information on income and expenditure associated with environmental outcomes that are part of the tax calculation in its *Interim Report*.
72. As the SE population represents the bulk of business tax paid, an increased flow of more detailed information should provide a better base for the Commissioner to exercise both her assurance and stewardship functions by giving more targeted information to enable her to select cases for audit and also more detailed information

¹⁶ Or a future equivalent of the IR10.

¹⁷ Trial balances are an accounting concept that is simply a list of income, expense, asset, liabilities and capital accounts and the respective balances in those accounts that generate the financial statements for an organisation.

to use for forecasting purposes to enable future governments to make informed policy decisions.

73. The compliance management function for SEs would also be enhanced by greater data flows and enable the more targeted review of those important taxpayers.
74. As a large portion of Inland Revenue data, including IR10 data, flows through to StatsNZ for use in official statistics and for approved research projects, changes to the coverage of the IR10 could also improve this data.
75. Any future data strategy should also consider that the information that is collected today is not necessarily going to have a use today. Although it may still meet the requirement of being “necessary or relevant” it may be that data needs to be collected today for a trend analysis in a number of years, however, it is more efficient for that information to be collected once and while it is still current. This may be especially so if taxation of capital gains is extended. Although it is important that all information that is collected be used by the Commissioner it should be clear that the use of that information may be in a much later period.

6.3 Framework

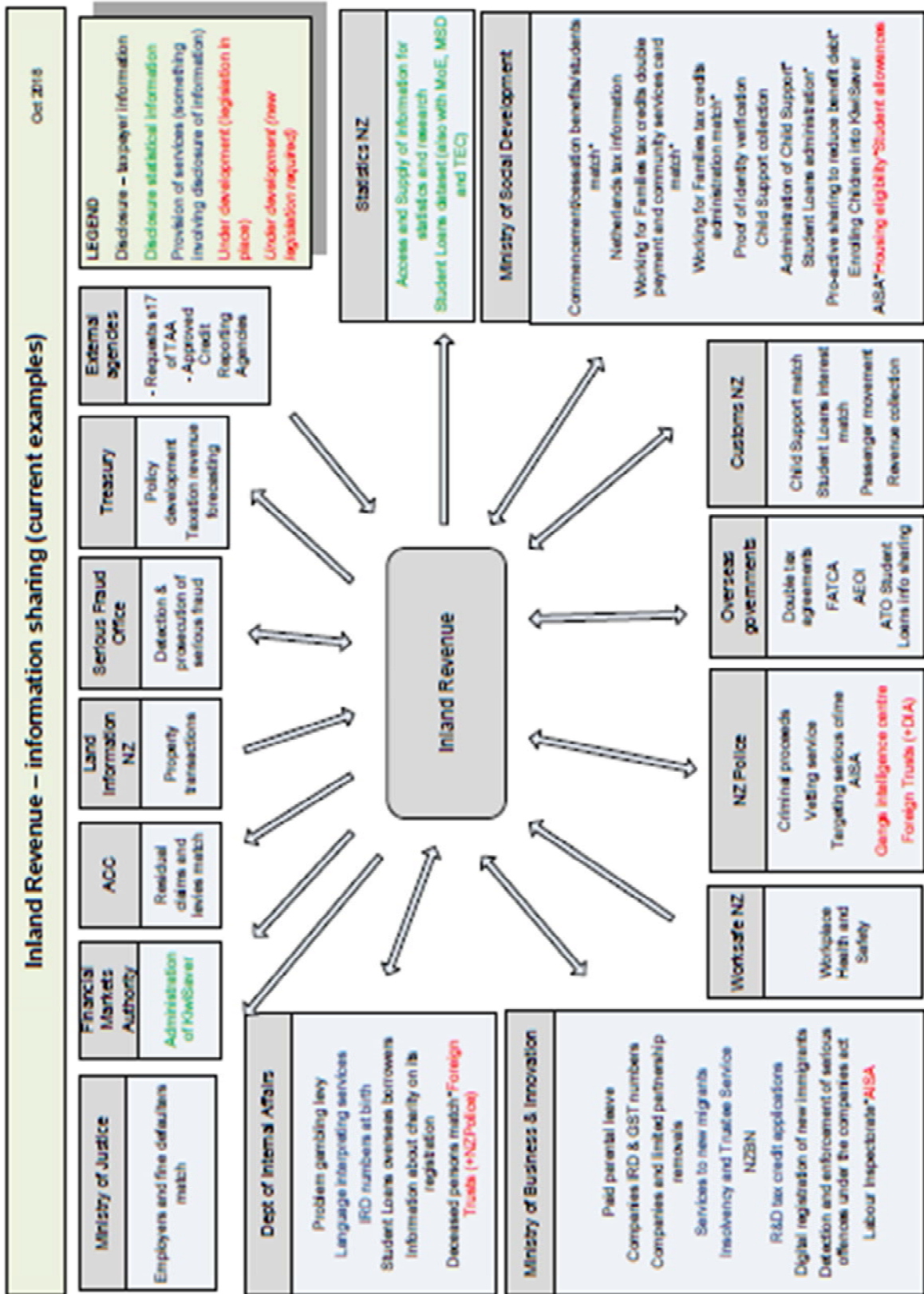
76. Although future data needs will largely be driven by the data intelligence requirements, it is important that there is a robust framework supporting information collection so that taxpayers can have confidence that the data collected is being appropriately used and protected by Inland Revenue.
77. Consideration will need to be given to the creation of a framework that has several key features which could include a reference to the Commissioner’s three functions, be digital-by-design (as most data collected by Inland Revenue is currently), be proportional to the size of the taxpayer and be as real-time as possible to allow the Commissioner to undertake her roles.
78. The future framework for information collection should continue to support voluntary compliance and reduction in compliance costs for taxpayers and customers.
79. Most importantly, a future information framework needs to be flexible enough to keep pace with the changing nature of technology and the sophistication of taxpayers without a corresponding increase in compliance costs for taxpayers supplying that information.

7. Conclusion and recommendations

7.1 Concluding thoughts

80. The future of information collection within Inland Revenue is very dependent on the development of the data intelligence platform and that will lead to a new data strategy in terms of the collection use and sharing of that information.
81. As BT is a multi-year project that is still in progress, that work is ongoing and is being developed as the business needs for the future are designed. BT does give Inland Revenue the opportunity to be more digital-by-design and collect more information digitally than previously.
82. There are several design features that may be appropriate for information collection after BT and these include ensuring that the information that is collected is used by Inland Revenue to assist the Commissioner to perform her functions even though in some cases the use of that information may be a number of years after it has been collected.

Appendix A: Information sharing relationships



Appendix B: Suggested text for Final Report

Information collection and dissemination

1. In the *Interim Report* the Group made three recommendations in relation to information collection and dissemination:
 - Encouraging the Government to release more statistical and aggregated information about the tax system (so long as it does not reveal data about specific individuals or corporates that is not otherwise publicly available). The Government could consider further measures to increase transparency over time;
 - Encourage Inland Revenue to publish or make available a broader range of statistics, in consultation with potential users, either directly or (preferably) through StatsNZ; and
 - Encourage Inland Revenue to collect information on income and expenditure associated with environmental outcomes that are part of the tax calculation.
2. The Business Transformation (BT) programme currently being undertaken by Inland Revenue gives it an opportunity to revisit the data strategy which provides information for the Commissioner to discharge her functions.
3. In general the Commissioner has three functions:
 - **Assessment** – ensuring she holds enough information to create an assessment for a taxpayer or to pay accurate social policy entitlements on time;
 - **Assurance** – ensuring she holds sufficient information to make sure that assessments are correct and identify those that are not; and
 - **Stewardship** – holding information that allows her to forecast tax revenues, develop policy advice and provide information to other government agencies where appropriate.
4. To a large extent the information required to fulfil those functions overlaps but in some cases it will differ. The Group agrees that, where possible, information should be obtained from taxpayers once and used for a number of purposes whereas currently taxpayers may be asked on multiple occasions for the same information.
5. The Group considers that a focus on digital-by-design will make the provision of information much more streamlined in a post BT world.
6. The Group is comfortable with the approach being taken by Inland Revenue to the collection and dissemination of data at this point in the BT Programme and note that the overall data strategy is continuing to be developed as Business Transformation progresses.
7. Since our Interim Report the Ministers of Finance and Revenue wrote to the Group to ask us to consider the limitation of current data on wealth distribution and capital income especially within the top decile and in particular whether there are better

approaches to understanding the wealth, capital income, and effective tax rates of individuals particularly those in that top decile [further text to come].

8. Overall the data strategy for Inland Revenue is continuing to be developed as part of BT and the Group is interested in the outcomes of that process. Although it is important that there is a robust framework supporting information collection so that taxpayers can have confidence that the data collected is being appropriately used and protected by Inland Revenue.
9. Consideration will need to be given to the creation of a framework that several key features which may include a relevance to the Commissioners three functions, be digital-by-design, be proportional to the size of the taxpayer and be as real-time as possible.
10. The future framework for information collection should continue to support voluntary compliance and reduction in compliance costs for taxpayers and customers.
11. Most importantly a future information framework needs to be flexible to keep pace with the changing nature of technology and the sophistication of taxpayers without a corresponding increase in compliance costs
12. The Group considers any data strategy would be made robust by using a framework that includes those objectives.