Inland Revenue
Te Tari Taake

THE TREASURY
Kaitohutohu Kaupapa Rawa

Options for communicating proposed Budget 2010 tax changes

Date:	18 March 2010	**Priority:**	High
Security Level:		**Report No:**	IRD2010/022 TR2010/421

Action sought

	Action Sought	**Deadline**
Minister of Finance	**Agree** to the recommendations	22 March 2010
Minister of Revenue	**Agree** to the recommendations	22 March 2010

Contact for telephone discussion (if required)

Name	**Position**	**Telephone**
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18 March 2010

Minister of Finance
Minister of Revenue

Options for communicating proposed Budget 2010 tax changes

Executive summary

This report seeks approval for contingency funding to support a public information campaign for the proposed 1 October 2010 and 1 April 2011 tax changes. Details of the options are set out in the body of the report.

Our overall goals are to achieve voluntary compliance with tax changes and minimise the administrative cost of the changes to Inland Revenue. At the same time we need to protect Inland Revenue's reputation as a good tax administration, which in turn, affects compliance.

It is critical that businesses prepare for the proposed changes in Budget 2010, particularly in relation to GST. GST has not changed for 20 years and this significant change for businesses will impact on their systems, processes, pricing structures and relationships with suppliers, clients and customers. At the same time businesses will need to continue to meet their tax obligations to Inland Revenue.

Making the required changes to their tax systems will place additional compliance cost on businesses. We can reduce their compliance costs by providing regular and timely information that explains what they need to do, when and how. It is also important to educate the general public about the changes, so businesses don't have to.

Inland Revenue is not able to consult with key external stakeholders; our advertising agency, NZICA and Business NZ until after Budget 2010 is announced so is unable to recommend an option that will be most effective in minimising administrative costs for Inland Revenue and compliance costs for taxpayers. Accordingly, we recommend that you agree to set aside a contingency until an effective strategy can be agreed.

Treasury and Inland Revenue will report back to Ministers by early June 2010 with accurate costs, the expected campaign outcomes, the effect of the campaigns on administration costs and recommendations on the preferred options.

The options outlined in this report are based on previous campaigns and will assist Inland Revenue to achieve the objectives set out below:

- Awareness – allowing taxpayers to become aware of the changes.
- Education – enabling taxpayers to understand how they are affected by the changes.
- Action – enabling taxpayers to take action (if required).

The administration costs for Budget 2010 were developed on the assumption that Inland Revenue would undertake public information campaigns. If campaigns are not undertaken we anticipate an increase in the overall administration costs, which may include significant increases in managing taxpayer errors and customer call volumes (at Inland Revenue's busiest time of the tax year).

The proposed maximum contingency of $3.3 million for public information campaigns for the proposed October 2010 and April 2011 changes recommended by Inland Revenue would increase the reach and uptake of information and better enable those affected to implement the changes required. To support voluntary compliance we need to explain the impact of proposed changes many times in multiple ways, provide clear information on how to implement the changes and create a sense of urgency around the change to drive action.

Treasury does not support any public information campaign beyond direct contact with those taxpayers who are most affected by the proposed changes. As such, Treasury recommends a maximum contingency of $3.3 million be set aside to manage the communications strategy if appropriate benefits can be shown to be reasonably expected, or to cover any increase in Inland Revenue's administrative costs flowing from less comprehensive communications than was expected.

At the point of Ministerial approval on the most appropriate campaign options, the corresponding level of agreed funding would then be transferred into the Inland Revenue baseline.

Recommended action

We recommend that you:

a) **Agree** to Inland Revenue undertaking public information campaigns to drive affected taxpayers to implement the proposed changes for 1 October 2010 and 1 April 2011 and minimise Inland Revenue's administration costs.

Agree/ Disagree   Agree/ Disagree

b) **Agree** to a maximum contingency of $3.3 million to be funded from the between budget contingency to develop public information campaigns for the October 2010 <u>and</u> April 2011 proposed tax changes.

Agree/ Disagree Agree/ Disagree

c) **Note** that Inland Revenue and Treasury will report back to Ministers in early June with accurate costs, the expected campaign outcomes and recommendations on the preferred options. Once the preferred approach is agreed, the appropriate level of funding will be transferred to Inland Revenue.

Noted Noted

Bill Moran for Secretary to the Treasury	**Mary Craig** Deputy Commissioner Corporate Services Inland Revenue
Hon Bill English Minister of Finance	**Hon Peter Dunne** Minister of Revenue

Background

1. Inland Revenue has a central role to play in raising awareness and educating the public about the tax changes proposed in Budget 2010. These are likely to include changes to GST, income tax rates and social policy (the changes effective from 1 October 2010), and proposed changes to Loss Attributing Qualifying Companies (LAQCs), the removal of depreciation on buildings and depreciation loading (effective from 1 April 2011).

2. Businesses, external stakeholders including software developers and the general public will be relying on Inland Revenue to provide them with the information and support they need to implement proposed Budget 2010 changes. Inland Revenue needs to maintain its reputation as an effective tax administrator by effectively informing taxpayers and supporting their voluntary compliance.

3. The GST rate has not changed for 20 years. Few businesses will be familiar with or have knowledge of how the process worked last time.

4. Businesses will not be able to make the proposed PAYE and GST changes overnight. They will require information in advance so they are adequately prepared to implement the changes as required. Implementation may include changes to:
   - in-house business systems.
   - business systems where there is a supplier, for example, software developers.
   - prices. For some retailers with large stock levels this will be a major undertaking.
   - invoicing (some may be pre-printed).

5. There are over 650,000 entities registered for GST. 85% of these entities are small businesses. Only 25% of all GST registrants use tax agents. 80,000 to 90,000 of GST registrants will be affected by transitional requirements including different filing obligations as a result of the rate change. The GST calculation will also be more complex which may cause confusion for businesses that still calculate GST manually. We will need to provide detailed information about the transitional return and new calculation.

6. These proposed personal income tax changes will offset the increase in household expenditure incurred due to the corresponding GST increase. If employers do not apply the correct tax rates on 1 October then some people may be worse off until this is rectified.

7. Some of the work to build public awareness can be done through Inland Revenue's existing stakeholder relationships and community relationship staff, as well as business as usual communications channels, for example, media relations, website content, newsletters, letters, inbound customer calls and outbound calls to GST filers.

8. If businesses are able to correctly implement the proposed changes on time this will reduce administration costs for both businesses and Inland Revenue due to less rework.

9. Alternatively, if businesses do not implement the proposed GST change correctly and on time, Government revenue could suffer. There is also the potential for some businesses to experience increased debt with Inland Revenue.

10. There are two consequential changes as a result of the proposed GST change that will also require communicating to taxpayers:
    - For FBT returns filed annually two calculations will be required within the one return.
    - ACC has a GST component so the increase will impact salary and wage earners take-home pay because employers will need to deduct more PAYE.

11. As part of recommending an appropriate communications approach Inland Revenue revisited recent campaigns. These include:

    - KiwiSaver – where $13.6 million was spent on public information campaigns over three years.
    - Working for Families Tax Credits – where approximately $7 million was spent on public information campaigns over three years.
    - The introduction of the independent earner tax credit – where $0.6 million was spent on a public information campaign.

General approach

12. To ensure Inland Revenue avoids high caller demands at a peak time in the tax year Inland Revenue is proposing a proactive approach to ensure the majority of New Zealander taxpayers are made aware of the proposed Budget 2010 changes in a timely fashion and are directed to the information they need.

13. The options for both the 1 October 2010 and 1 April 2011 proposed changes outlined below are based on previous campaigns Inland Revenue has undertaken and are intended to provide an indication of the types of activity we could undertake and associated cost estimates. Given the sensitivity of these changes we have not had the opportunity to seek guidance and advice from our advertising agency Clemenger BBDO to prepare this report. The tactics described below will be refined for the June report-back based on their advice.

14. The options outlined in this report will assist Inland Revenue to achieve the following objectives:

    - Awareness – raising awareness and provide assurance to minimise contact volumes into our Contact Centres.
    - Education – enabling taxpayers to understand how they are affected by the changes and what they need to do.
    - Action – enabling and prompting taxpayers to take action (if required).

15. Given the magnitude of the change and the level of detail required for businesses the public information campaign messages need to be frequent and far reaching to convey urgency and drive action.

16. The costs for the campaign options below are significantly lower than previous campaigns due to changes in consumer media consumption, the ability for Inland Revenue to target some of the most affected taxpayers and the proposed Budget changes relating to existing taxes and social policy rather than new initiatives.

17. A video tutorial would be developed to support people who are less tax literate and cultures that prefer visual and aural learning. This is necessary because of the amount and depth of the information Inland Revenue needs to communicate.

Campaign options in the lead up to the proposed 1 October 2010 changes

18. The proposed October changes 2010 include; an increase to GST, changes to personal income tax rates and social policy entitlements.

19. The campaigns will direct the public to our website for information. This will help divert customer contacts from our Contact Centres and reduce the impact the proposed Budget 2010 changes have on our customer call volumes.

Timing

20. All the options below would take place from mid-July to October 2010. The campaign targeting businesses would start earlier so that they have time to prepare for the proposed changes while the campaign for the general public would start closer to the implementation date when it would be more relevant.

Option 1

21. Option 1 would use our business-as-usual communications and additional communications required to support the proposed changes, including an information pack sent to all employers and GST filers in July/August 2010 to advise them of the processes and timing for implementing the GST and income tax changes. Funding for this information pack is covered in the paper on administration costs for the proposed Budget 2010 tax changes. This paper has already been submitted (*Tax Reform Budget 2010 T2010-362, PAD2010/044*).

22. We would also provide information and resources to external stakeholders and customers (for example, tax agents, retailers, financial advisors, budgeting services, community groups and relevant industry bodies) to help them support their customers and clients with the introduction of these proposed changes.

23. There are no campaign costs associated with option 1, however, Inland Revenue would incur business-as-usual costs as well as the additional administration costs outlined in the paper above.

Option 2

24. Option 2 would complement Inland Revenue's business-as-usual activity with a phased campaign. It would initially raise awareness of the changes and provide reassurance to businesses, direct them to detailed information and resources, and create a sense of urgency for the implementation timeframe to drive action.

25. Option 2 would provide us with greater certainty that we will achieve awareness and would enable us to target all directly affected customer groups, in particular small businesses who may not have access to tax advice. We would also be able to produce more informative resources for businesses. A key focus of this option would be to advise businesses of what they need to do to implement the increase in GST.

26. Option 2 assumes general public awareness of the proposed Budget 2010 tax changes will be achieved through mainstream mass media.

27. If Ministers wish to pursue option 2, we recommend that Inland Revenue undertakes base market research before implementing the campaign, and customer testing of the campaign creative and interactive tutorial prior to their release, as well as an evaluation of the campaign.

<table>
<tr><th>Cost</th><th>Target audiences</th><th>Potential campaign activities</th><th>Expected results/ outcomes</th></tr>
<tr><td>$2 million</td><td>Employers
Entities registered for GST (specifically small businesses)

People with English as a second language</td><td>The campaign for businesses (employers and those registered for GST) would include print (business magazines, etc), radio and websites would direct this audience to the video tutorial outlined below.

Ethnic radio (translated)</td><td>Small business customers understand the implications of the proposed changes for their business seek help if required and take action to implement necessary changes.

The other target audiences are aware of the changes and have visited our website or called us (if they don’t have internet access) to investigate how they will be affected.</td></tr>
<tr><td>$150,000</td><td colspan="3">Development of a video tutorial outlining the proposed changes for businesses, what they need to do, when they need to do it and the resources available to help them. We would make this resource accessible from our website and available on DVD to be sent out (if required).</td></tr>
<tr><td>$200,000</td><td colspan="3">For market research, customer testing prior to the campaign starting and post-campaign evaluation.</td></tr>
<tr><td>$200,000</td><td colspan="3">Additional funding required for Inland Revenue’s annual peak season campaign for the 2011 tax year (1 April 2010 to 31 March 2011) to target the increased number of taxpayers entitled to a tax refund due to mid-year tax changes.</td></tr>
<tr><td colspan="4">$2.58 million</td></tr>
</table>

Option 3

28. Option 3 extends beyond both options 1 and 2 and would also allow us greater flexibility to target particular customer groups separately and increase the range of media we use.

29. Option 3 would complement Inland Revenue’s business-as-usual activity with a phased campaign. It would initially raise awareness of the changes and provide reassurance to businesses, direct them to detailed information and resources, and create a sense of urgency for the implementation timeframe to drive action.

30. If Ministers wish to pursue this option, we recommend that Inland Revenue undertakes base market research before implementing the campaign, and customer testing of the campaign creative and interactive tutorial prior to their release, as well as an evaluation of the campaign. As with option 2, a key focus for option 3 would be to advise businesses of what they need to do to implement the increase in GST.

31. Option 3 assumes general public awareness of the proposed Budget 2010 tax changes will not be achieved through mainstream mass media and so will provide assurance that the general public does not need to take action. This will minimise unnecessary taxpayer contacts.

Cost	Target audiences	Potential campaign activities	Expected results/ outcomes
$5 million	Same as above in option 2: Employers Entities registered for GST (specifically small businesses) People with English as a second language The wider general public	Same as option 2: The campaign for businesses (employers and those registered for GST) would include print (business magazines, newspapers etc), websites and the tutorial outlined below. Ethnic radio (translated) Radio advertising across stations that these audiences listen to and website advertising on sites visited by these audiences. **Plus** a TV[1] campaign to reach the vast majority of affected customer groups including businesses. Running the campaign over a broader range of media with an increased frequency of placements and length of campaign. This would mean the number of times that the target audience sees/hears the advertisement/s would increase significantly.	Same as above in option 2: Small business customers understand the implications of the proposed changes for their business, seek help if required and take action to implement necessary changes. We would expect a larger number of taxpayers would move further through our campaign objectives from awareness to education and on to taking action (if required). The other target audiences are aware of the changes and have visited our website or called us (if they don't have internet access) to find out how they will be affected.
$150,000	Development of the video tutorial outlining the changes for businesses, what they need to do, when they need to do it and the resources available to help them. We would make this resource accessible from our website and available on DVD to be sent out (if required).		
$200,000	For market research, customer testing prior to the campaign starting and post-campaign evaluation.		
$200,000	Additional funding required for Inland Revenue's annual peak season campaign for the 2011 tax year (1 April 2010 to 31 March 2011) to target the increased number of taxpayers entitled to a tax refund due to mid-year tax changes.		
$5.55 million			

[1] The cost of TV advertising has reduced in the last few years because advertising agencies can now produce advertisements in-house (reducing production costs).

Preferred options for the proposed 1 October 2010 changes

32. Option 2 is Inland Revenue preferred option as we believe it will ensure we are able to target the majority of business customers (particularly GST filers and employers) and get them to take appropriate action and ensure compliance. Inland Revenue does not consider option 1 to be a viable option for supporting businesses to prepare for these proposed changes. Option 3 would provide taxpayers with greater certainty about what will happen as a result of the proposed changes and reduce the administrative burden for Inland Revenue and businesses. However, due to the current economic climate and budgetary restraints we need to exercise constraint.

33. Any funding for communication costs over and above business-as-usual should be justified on the grounds that they materially improve compliance or reduce Inland Revenue's overall administrative burden. In the absence of information on the expected benefits and impacts of any communications campaign Treasury recommends option 1. Given that the most significant changes impact on businesses that are easily identified, Treasury supports only low cost options that target businesses directly. Accordingly, Treasury recommends that any contingency set aside specifically for communications costs is limited to a maximum of $3.3 million.

Campaign options in the lead up to the proposed 1 April 2011 changes

34. The proposed April 2011 changes include changes to Loss Attributing Qualifying Companies (LAQCs), and the removal of depreciation on buildings and depreciation loading. These changes will impact some Working for Families Tax Credit customers.

35. The campaigns will direct the public to our website for information. This will help divert customer contacts from our Contact Centres and reduce the impact the proposed Budget 2010 changes have on our customer call volumes.

36. A significant number (90%) of customers who have LAQCs are represented by a tax agent and we expect they will seek advice about the property changes from their agent rather than Inland Revenue. However, we will contact these customers directly as well as through their tax agent to ensure they are aware of the changes and instruct their tax agent accordingly.

Timing

37. Inland Revenue's business as usual communications channels (especially media relations) would be used to start informing customers and stakeholders affected by the proposed Budget 2010 changes as soon as the applicable legislation receives Royal Assent.

38. The campaign options outlined below would run from mid-January to March 2011.

Option 1

39. Option 1 allows for business as usual activity only and would have a strong focus on tax agent engagement to ensure the majority represented by an agent can receive the advice they need from their tax agent. Business as usual communications would include:

- Media relations
- Tax agent and other stakeholder engagement
- Website content updates and additions
- Newsletters
- Letters sent to identifiable customers eg LAQCs

40. There are no campaign costs associated with this option however Inland Revenue would incur business as usual costs as well as the costs of producing any additional letters or other printed material.

Option 2

41. Option 2 is based on a similar sized campaign Inland Revenue undertook to improve tax compliance on property sales. Complementing the business as usual activities outlined above we would have a level of certainty that the people in the target audience who do not receive the information through our business as usual activities would become aware through the campaign. It would also serve as a reminder for those who are already aware and prompt them to take any required action if they haven't already done so.

Cost	Target audiences	Potential campaign activities	Expected results/ outcomes
$600,000	Customers with LAQCs, customers claiming depreciation on buildings and making use of depreciation loading including: • businesses owning property • property investors • residential property owners (including rentals) Specifically targeting those people who do not have a tax agent and those who receive Working for Families Tax Credits.	Print advertising in business and general Sunday and metropolitan newspapers, and relevant magazines as well as website advertising on sites relevant to the target audiences.	The target audiences: • are aware of the proposed changes and the implications of the changes for their property investment/s. • have contacted their tax agent or Inland Revenue (via the website or phone) to seek further information. • have taken action as required.
$30,000	Used for post-campaign evaluation.		
$630,000			

Preferred options for the proposed 1 April 2011

42. Option 2 is Inland Revenue's preferred option. It will ensure we make the majority of the target audience aware of the changes, direct them to further information and drive them to act on the information (if required).

43. As with the 1 October 2010 changes, Treasury recommends funding for communication costs over and above business as usual only where it materially improves compliance or reduces Inland Revenue's overall administrative burden.

Because most affected taxpayers and their tax agents will be directly contacted through business as usual measures Treasury recommends no further communications spending be undertaken in advance of the proposed 1 April 2011 changes.

Financial implications

44. The administration costs for the Budget were developed on the assumption that Inland Revenue would undertake a public information campaign. If a campaign is not undertaken we would anticipate an increase in our overall administration costs, which may include significant increases in managing taxpayer errors and customer call volumes.

45. Inland Revenue is self funding a component of the core administration/ operating costs (refer to (*Tax Reform Budget 2010 T2010-362, PAD2010/044*) and as such cannot fund the public information campaigns internally. Inland Revenue therefore recommends a maximum contingency of $3.3 million be set aside for public information campaigns for both the October 2010 and April 2011 proposed tax changes.

46. Because most affected taxpayers are businesses who can be easily identified and targeted directly, Treasury recommends low cost options to communicate with these taxpayers. As such, Treasury recommends a maximum contingency of $3.3 million be set aside to manage the communications strategy or any increase in Inland Revenue's administrative costs flowing from less extensive communications than was expected.

47. Treasury and Inland Revenue propose reporting back to Ministers in early June 2010. This June report will provide you with accurate costs, the expected campaign outcomes and recommendations on the preferred options. At the point of Ministerial approval on the most appropriate campaign options, the corresponding level of agreed funding would then be transferred into the Inland Revenue baseline.