

The Treasury

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

POLICY AND STRATEGY

Policy report: KiwiSaver kick-start - applying a 21 May implementation date

Date:	1 May 2015	Priority:	High
Security level:	Budget Sensitive	Report no:	IR2015/219

Action sought

	Action sought	Deadline
Minister of Revenue	Agree to recommendations and refer a copy of this report to the Minister of Finance	Wednesday, 6 May 2015

Contact for telephone discussion (if required)

Name	Position	Telephone	
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1 May 2015

Minister of Revenue

KiwiSaver kick-start - applying a 21 May implementation date

Executive summary

This report sets out options for implementing the removal of the KiwiSaver kick-start payment as part of Budget 2015 and seeks your agreement on how best to proceed with implementation. On 20 April 2015, Cabinet delegated authority to Ministers to make detailed decisions regarding implementation of the kick-start removal.

Individuals can join KiwiSaver by:

- being automatically enrolled when they start employment or opting in at any time via their employer (*employer enrolments*); or
- opting-in via their KiwiSaver provider (*provider enrolment*).

The key problem for all of these enrolment methods is that Inland Revenue is not provided with an exact date (or time) when individuals join KiwiSaver. This gives rise to issues when implementing a strict removal date (or time).

Employer enrolment methods

Under the current employer enrolment methods Inland Revenue is not provided with information on when an employee starts new employment or opts-in via their employer and so the exact date on which the employee has joined KiwiSaver cannot be easily determined. Even so, current operational processes deem an employee to have enrolled in KiwiSaver from the 15th of the month in which the first KiwiSaver deduction is taken from the employee's pay, rather than when that employee starts employment or opts in via their employer. For example, an individual who joins KiwiSaver via their employer on 22 May and has their first KiwiSaver deduction made before the end of May is deemed to have joined on 15 May. Furthermore, an employee joining on or before 21 May but incurring their first KiwiSaver deduction in June would be deemed to have joined KiwiSaver on 15 June.

Therefore, implementing a 21 May cut-off date in the context of the current operational processes will result in some ineligible employees receiving the kick-start, and some eligible employees missing out.

Two options are considered for addressing the current concerns with the employer enrolment methods. Eligibility for the kick-start payment will depend on the date on which the employee has enrolled and the date of their first KiwiSaver deduction. Both of these options ensure that every eligible employee receives the kick-start, but incur different costs in doing so.

Option one – all May employees receive the kick-start, and June employees must apply for it

Under option one, all employees who have their first KiwiSaver deduction in May (“May employees”) will automatically receive the kick-start. Employees whose first KiwiSaver deduction is made in June (“June employees”) will only receive the kick-start if they have enrolled on or before 21 May and can prove that they are entitled to the kick-start payment. The outcomes under this option are set out below.

Enrolled	First KiwiSaver deduction in	Outcome
By 21 May	May	Employee automatically receives kick-start
	June	Employee receives kick-start after employee provides evidence to IRD of entitlement
After 21 May	May	Employee automatically receives kick-start
	June	Employee does not receive kick-start

This option would have a fiscal cost of approximately \$225,000 because the kick-start payment would be paid to some ineligible employees. However, there will be compliance and administrative cost savings and less risk to Inland Revenue’s resource capacity by not having to determine a person’s enrolment date. This is officials’ preferred option.

Option two – all employers of May employees will be contacted to determine their employees’ eligibility for the kick-start, and June employees must apply for it

Under option two, Inland Revenue would contact all employers (approximately 6,000) of May employees to confirm that their employees were enrolled on or by 21 May. The outcomes under this option are set out below.

Enrolled	First KiwiSaver deduction in	Outcome
By 21 May	May	Employee receives the kick-start after IRD has obtained evidence from the employer of employee’s entitlement
	June	Employee receives kick-start after employee provides evidence to IRD of entitlement
After 21 May	May	Employee does not receive the kick-start
	June	Employee does not receive the kick-start

This option would have no fiscal cost, but would result in compliance and administrative costs and resource capacity concerns arising from Inland Revenue having to contact employers to determine the actual enrolment date of the May employees.

Provider enrolment method

Under the provider enrolment method individuals who opt in via their provider are enrolled when their application is accepted by the provider. There is an inherent risk that individuals may respond to an announcement to remove the kick-start payment by opting into KiwiSaver via a provider on the day. Under current operational processes Inland Revenue would be unable to determine the time during the day when an application was accepted by a provider and so would not be able to prevent any influx of applications after the announcement but before the end of 21 May.

In order to address this concern the kick-start payment could be repealed from 2pm, 21 May (being the expected time of the repeal announcement). Operationally, Inland Revenue would still accept all 21 May applications, but this measure would mitigate the potential fiscal risk of a rush of applications late on Budget day. Alternatively, Ministers could accept this risk and repeal the kick-start from 22 May.

Recommended action

I recommend that you:

- (a) **Note** that the KiwiSaver \$1,000 kick-start payment will be removed as part of Budget day legislation.

Noted

- (b) **Note** that how we implement removal of the kick-start depends on the enrolment method used for joining KiwiSaver.

Noted

- (c) **Note** that Ministers were delegated authority to make detailed decisions on implementing the removal of the kick-start at the Cabinet meeting of 20 April 2015.

Noted

- (d) **Refer** a copy of this report to the Minister of Finance.

Referred

(e) **Agree** to implement removal of the kick-start for employment enrolment methods by either:

(i) Option 1 - allowing all May employees to receive the kick-start, and requiring June employees to apply for it (*Inland Revenue's preferred option*); or

Agreed/Not agreed

(ii) Option 2 – contacting all employers of May employees to determine their employees' eligibility for the kick-start, and requiring June employees to apply for it.

Agreed/Not agreed

(f) **Note** that the options in recommendation (e) ensure that every eligible employee receives the kick-start but incur different costs in doing so.

Noted

(g) **Agree** to implement removal of the kick-start for the provider enrolment method by either:

(i) Repealing kick-start from 2pm, 21 May 2015 (*Inland Revenue's preferred option*); or

Agreed/Not agreed

(ii) Repealing kick-start from 22 May 2015.

Agreed/Not agreed

(h) **Note** that the option agreed in recommendation (g) will apply to the removal of the kick-start regardless of the method of enrolment, but will not change our operational approach to implementing removal.

Chris Gillion
Policy Manager
Policy and Strategy

Hon Todd McClay
Minister of Revenue

Background

1. The KiwiSaver kick-start payment is a payment of \$1,000 paid to all new KiwiSaver enrollees. It will be repealed on 21 May but the Commissioner will have the discretion to determine eligibility for the kick-start in certain circumstances.
2. This report outlines options on how Inland Revenue can implement the removal of the kick-start on 21 May (Budget day) and the trade-offs of each option. Ministers' agreement on an option is sought in order to proceed.
3. In coming to a decision, it is considered that any option to remove the kick-start should aim to:
 - be simple and effective to implement, as well as equitable;
 - minimise any fiscal cost and induce minimal or no behavioural response;
 - minimise administration costs for Inland Revenue;
 - minimise compliance costs for employees, employers and providers and
 - ensure everyone who is eligible to receive the kick-start gets it.
4. We also note that at its meeting of 20 April 2015 Cabinet delegated authority to Ministers to make detailed decisions regarding implementation of the kick-start removal.

Issues arising from a 21 May 2015 implementation date

Ways people join KiwiSaver

5. Individuals join KiwiSaver by one of three ways:
 - Automatically enrolled via their employer when starting employment;
 - Proactively opt-in via their employer for existing employees; and
 - Proactively opt-in via a provider.
6. The table below shows the average monthly enrolment in KiwiSaver via the three available enrolment methods for the last 12 months:

Auto enrolment via employer	6,986
Opt-in via employer	1,001
Opt-in via provider	9,317

7. It is expected that a similar number of individuals will join in May 2015.

Employer enrolment

8. When starting new employment, an employee is automatically enrolled into KiwiSaver by their employer with the ability to opt-out after between two and eight weeks. Existing employees can opt-in to KiwiSaver at any stage via their employer.

9. For a new employee who is automatically enrolled, their first KiwiSaver contributions are deducted from their first pay. For an employee who opts-in, their first KiwiSaver contributions are deducted from the first full pay period following their confirmation to opt in.

10. Each month, employers send Inland Revenue an Employer Monthly Schedule (EMS) which details all tax, KiwiSaver and other deductions made from an employee's pay in the previous month that are paid to Inland Revenue. When Inland Revenue receives an EMS from an employer that details KiwiSaver deductions from a new enrollee, that enrollee is set up in the various systems with a KiwiSaver enrolment date of the 15th of the month that the EMS relates to. While there is provision for employers to enter an employee start date on the EMS, this is often left empty by employers and is not used in Inland Revenue's KiwiSaver systems.

11. If a 21 May cut-off date for eligibility to the kick-start payment was strictly enforced, these operational practices would result in some employees incorrectly receiving the kick-start and some eligible employees missing out. These consequences are outlined in detail below:

- Employees starting or opting in before Budget day and who have their first KiwiSaver deduction in June would not automatically receive the kick-start even though they would be entitled to it. This is because they will be deemed to have joined KiwiSaver on 15 June, as their first KiwiSaver deduction occurred in June.
- Employees starting or opting in after Budget day and who have their first KiwiSaver deduction in May would incorrectly receive the kick-start as they will be deemed to have joined KiwiSaver on 15 May.
- Employees starting or opting in before Budget day and who have their first KiwiSaver deduction in May, or employees starting or opting-in in May after Budget day and who have their first KiwiSaver deduction in June, would be correctly categorised.

Provider enrolment

12. Operationally, it is far easier to implement a 21 May cut-off date for provider enrolment than it is for the employment enrolment methods. The legislation deems an individual to have joined KiwiSaver via a provider when their application is accepted by the provider. The date of this acceptance, along with other information to establish a membership, is given to Inland Revenue by the provider via an electronic B2B message interface.

13. In giving effect to a 21 May cut-off date, Inland Revenue will only pay out the kick-start to those individuals who were accepted by a provider on or before 21 May.

14. However, there is an inherent risk that individuals may respond to an announcement to remove the kick-start payment by opting into KiwiSaver via a provider on the day. Under current operational processes Inland Revenue would be unable to determine the time during the day when an application was accepted by a provider and so would not be able to prevent any influx of applications after the announcement but before the end of 21 May.

Implementing removal of the kick-start for the employer enrolment methods

15. Two options are discussed below for addressing the concerns with the employer enrolment methods outlined in paragraph 11.

Option one – all May employees receive the kick-start, and June employees must apply for it

16. Under option one, all employees who have their first KiwiSaver deduction in May (“May employees”) will automatically receive the kick-start. Employees whose first KiwiSaver deduction is made in June (“June employees”) will only receive the kick-start if they have enrolled on or before 21 May and can prove that they are entitled to the kick-start payment. June employees would need to contact Inland Revenue with evidence from their employer that they enrolled on or by 21 May.

17. This option accepts some fiscal cost by paying out the kick-start to employees who are enrolled after 21 May and whose first KiwiSaver deduction is in May. Accepting all May employees would help to minimise administrative and compliance costs at a time of resourcing pressures during Inland Revenue’s peak season period, because the exact enrolment date of these employees does not have to be determined. As Inland Revenue does not receive accurate enrolment dates for employer enrolments, the only way to determine this date would be to contact all employers (approximately 6,000) of May employees.

18. Given the above trade-offs, this option accepts all May employees as the majority of them would have joined by 21 May. It determines the eligibility of June employees manually, as the majority of them would have joined after 21 May. The implications of this option are considered below.

Fiscal cost

19. This option entails an estimated fiscal cost of \$225,000, arising from kick-start paid to employees who joined between 22 and 31 May and are May employees. This estimate is based on the assumption that 10 percent of the 2,254 employees who are auto-enrolled between 22 and 31 May are May employees. The closer it gets to the end of May, the more likely people are June employees and not May employees. Further, only 39 percent of people are paid weekly, further increasing the chance that those joining between 22 and 31 May are June employees.

20. Opt-in employees are not considered in this estimate as very few, if any, would be able to opt-in after 21 May and still receive the kick-start. This is because their first KiwiSaver deduction would not occur until the first full pay-period following their communication to opt-in. For these deductions to occur in May (resulting in a 15 May KiwiSaver start date), an opt-in employee would need to be paid every Friday and opt-in on Friday 22 May. Only 5 percent of weekly paid employees are paid on a Friday. In order to estimate the likely number of people who would meet these criteria we have assessed the number of people who opt-in to KiwiSaver each month (1001), the subset of this group that are paid weekly (39%), the further subset that are paid on a Friday (5%), and the likelihood of a person opting in on 22 May. On average, this amounts to less than one person per month. As employees would not be aware that opting-in in this situation would result in them receiving the kick-start, an increase of opt-ins above the norm is highly unlikely.

21. There is a fiscal risk that would result from employees who opt in after 21 May providing incorrect information to Inland Revenue in support of their kick-start entitlement. General communications to employers around the process will help to mitigate this risk.

Administrative costs

22. Administrative costs would arise from Inland Revenue's contact with June employees and employers where necessary. This option would have lower administrative costs than option two as employers of May employees would need to be contacted.

Compliance costs

23. Compliance costs would arise for June employees who need to contact Inland Revenue. There would also be compliance costs for employers if Inland Revenue needed to seek clarification of their employee's opt-in date.

Equity

24. This option might be considered unfair when compared to provider enrolments. For example, May employees who joined KiwiSaver between 22 May and 31 May would receive the kick-start, whereas individuals opting in via their provider after 21 May would not receive it.

25. Individuals enrolling via their employer are treated differently depending on when their first KiwiSaver deduction occurs:

- A June employee enrolled by 21 May would need to provide evidence to Inland Revenue of their entitlement, whereas a May employee enrolled by 21 May would not have to. June employees who are unaware of their need to contact Inland Revenue with evidence of their entitlement would therefore potentially miss out.
- A May employee enrolling between 22 May and 31 May would receive the kick-start, whereas a June employee would not.

26. This option is Inland Revenue's preferred option.

Option two – all employers of May employees will be contacted to determine their employees’ eligibility for the kick-start, and June employees must apply for it

27. Under this option, Inland Revenue would proactively contact all employers (approximately 6,000) of May employees and require them to confirm that their employees were enrolled on or by 21 May. The approach to June employees would be the same as option 1 - that is, employees would need to contact Inland Revenue with evidence confirming their entitlement to the kick-start.

28. The rationale behind a proactive approach for May employees and a reactive approach for June employees is as follows:

- The majority of May employees would be entitled to the kick-start and so it makes sense to adopt the higher-cost proactive approach to ensure none of these people miss out on their entitlement.
- The reactive approach to June employees reflects the fact that most June employees would not be entitled to the kick-start. Therefore, it is more operationally effective to have those individuals who believe they are entitled to a kick-start to contact Inland Revenue, than for Inland Revenue to contact all employers of June employees. The trade-off is that some employees may not be aware of their entitlement. However, this process will remain in place and Inland Revenue and scheme providers will work to identify these employees over time.

29. The implications of this option are considered below.

Fiscal cost

30. There is a potential fiscal gain as some employers may fail to send evidence of their employee’s eligibility (May employees) and some employees may fail to contact Inland Revenue with evidence of their eligibility (June employees).

31. In addition, there is a fiscal risk of some employees opting in after 21 May and providing incorrect information to Inland Revenue in support of their kick-start entitlement. General communications to employers around the process will help mitigate this risk.

Administrative costs

32. There would be administrative costs of approximately \$40,000 associated with Inland Revenue contacting approximately 6,000 employers of May employees. In addition, costs will arise from Inland Revenue’s contact with June employees and employers where necessary.

Compliance costs

33. There would be compliance costs for employers who must provide evidence of their employees’ eligibility to Inland Revenue. Costs will also arise for June employees who need to contact Inland Revenue.

Equity

34. Under this option, only those entitled to the kick-start would receive it. However, a May employee's eligibility for the kick-start would rely on the actions of their employer. However, this is consistent with current treatment as the employer must auto-enrol their employee. June employees who are unaware of their need to contact Inland Revenue with evidence of their entitlement would potentially miss out.

Wider Organisational impacts

35. This transitional activity will occur during Inland Revenue's peak season period. The actual work required to contact the employer, explain the situation, update the employee records and trigger the payment of the kick-start is skilled work, and not suitable for temporary staff. These staff would otherwise be receiving calls from taxpayers during the peak period or performing transactional work on returns, which is equally as skilled. We estimate approximately six full-time staff are required to work on transitional verification work. Because of these impacts on peak season demands and service delivery targets, Inland Revenue does not favour this option.

Implementing removal of the kick-start for the provider enrolment method

36. Applicants who opt-in via their provider after 21 May would no longer receive the kick-start. Inland Revenue would also clarify with providers that they should be using the date of acceptance, which would nullify the risk of retrospective completion of application forms. Inland Revenue would also work closely with providers to confirm entitlement in exceptional cases.

37. There is an inherent risk that individuals might respond to an announcement to remove the kick-start payment by opting into KiwiSaver via a provider on the day. Under current operational processes Inland Revenue would be unable to determine the time during the day when an application was accepted by a provider and so would not be able to prevent any influx of applications after the announcement but before the end of 21 May.

38. In order to address this concern the kick-start payment could be repealed from 2pm, 21 May (being the expected time of the repeal announcement). In practice, however, Inland Revenue would accept applications late on the day. This measure would mitigate the potential fiscal risk of a rush of applications late on Budget day because people would be unaware that they could still opt-in late on 21 May. To support this measure, the legislation would need to provide some discretion to allow the Commissioner of Inland Revenue to accept applications late on 21 May.

39. Alternatively, Ministers could repeal the kick-start from 22 May. This ensures administrative practice and legislation align, but runs the risk of an influx of applications after the announcement but before the end of 21 May.

40. Officials recommend the kick-start be repealed at 2pm, 21 May to prevent any behavioural response to the announcement.

Inland Revenue's communication approach

41. Inland Revenue has developed a plan to communicate the removal of the KiwiSaver kick-start to be announced by the Government on Budget day. Our communication goal is to ensure customers have access to up-to-date information regarding their KiwiSaver entitlements and are informed whether they must contact Inland Revenue with proof of their entitlement, following the announcement on 21 May.

How people will be informed

- The Inland Revenue and KiwiSaver websites will be updated to reflect the changes. All forms, guides, statements and publications will be updated as soon as possible.
- Customer facing staff will have the necessary information about changes to the kick-start that they need to support customers from 21 May 2015. Staff will receive a training update via Inland Revenue's internal knowledge base and staff information channels.
- Scheme providers will be informed of the changes on 21 May. Inland Revenue will also work closely alongside scheme providers to ensure accurate confirmation of kick-start entitlements.
- Employers would be informed directly via an insert in the EMS, a message in myIR online services and through Inland Revenue newsletters.
- As a transitional measure Inland Revenue will arrange an informative sticker to be placed on the investment statements it sends out on behalf of default scheme providers.

What we will say

42. Inland Revenue will be providing answers to a list of frequently asked questions. For the purposes of this report, it is relevant how we will inform individuals of whether they need to contact Inland Revenue with proof of their entitlement or not. We will provide the following message: "If you joined KiwiSaver by 21 May and had your first KiwiSaver deductions in June, contact us with proof of your entitlement".