The Treasury

Budget 2017 Information Release

Release Document July 2017

www.treasury.govt.nz/publications/informationreleases/budget/2017

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Inland Revenue
Te Tari Taake

Policy and Strategy
Te Wāhanga o te Rautaki me te Kaupapa
55 Featherston Street
PO Box 2198
Wellington 6140
New Zealand

T. 04-890 1500
F. 04-903 2413

Briefing note

Reference: BN2016/508

Date: 29 September 2016

To: Barbara Edmonds
Paul Kilford

cc: Naomi Ferguson, Commissioner
David Carrigan, Deputy Commissioner
Matt Benge, Chief Economist
Emma Grigg, Policy Director
Chris Gillion, Policy Director
Andrew Rutledge, Advisor to Deputy Commissioner
[23] Executive Support Advisor to the Commissioner
PA to Deputy Commissioner
Government & Executive Services (Ministerial Services)
Policy records management (PAS RM)

From: Chris Gillion and Geoffrey Frost

Subject: **Ability to implement Budget 2017 tax cuts and Working for Families changes**

Security level:

You have asked for more information on Inland Revenue's ability to implement a tax and/or Working for Families package for Budget 2017, with application from either 1 October 2017 or 1 April 2018, or a combination of these dates.

Inland Revenue's preferred option is for both tax and Working for Families changes to occur on 1 April 2018. It may also be possible with administrative difficulty to implement tax-only changes on 1 October 2017, followed by Working for Families changes on 1 April 2018.

Background

Treasury officials presented preliminary options to the Minister of Finance on 13 September (T2016/1650 refers) which included personal tax rate adjustments, shifting of income thresholds, increases to Families Tax Credit (FTC) payment amounts and increases to some MSD benefits.

It was noted that options are restricted by the ability of Inland Revenue to make changes to its systems, given the current commitments to the Business Transformation (BT) programme.

Inland Revenue was consulted on this work and provided an overview of timing and administrative implications (T2016/1650 refers). We advised that systems risks are minimised if changes are scheduled to avoid peak times for BT. In particular, we advised that there are extreme risks associated with making mid-year adjustments to Working for Families.

Impacts

Inland Revenue has completed a high-level impact assessment for changing tax rates and thresholds and increasing FTC payment amounts. This piece of work concludes that these changes can be implemented for 1 April 2018. Tax-only changes may also be possible to implement for 1 October 2017.

The administrative impacts of implementing complex policy changes to Working for Families, such as adding or removing child age brackets, have not been considered in this analysis. Note that any potential Working for Families changes beyond adjusting the current rates, thresholds and amounts would add significant complexity to the design and build of these changes in Inland Revenue's heritage system, and may not be possible to deliver until Stage 3 of Business Transformation (2019) at the earliest.

Transformation context

Stage 1 of BT puts in place the foundation technology for the new system, START, and converts the first tax type (GST) to START for 1 April 2017. As part of stage 1, Inland Revenue also needs to build the coexistence required for START and Inland Revenue's heritage system to operate together. This requires around 700 component changes to the heritage system and the testing of around 300 business processes.

Stage 2 will result in a further 20 to 25 tax types converted to START. To achieve this and maintain the coexistence of the two systems, another 700 component changes need to be built into the heritage system and tested in late 2017. It is important that this testing takes place in a stable environment.

Any changes to Working for Families require extensive work to Inland Revenue's heritage system. The peak testing period takes place in October 2017, which includes testing of the Budget 2016 Business Tax Package. Any changes to Working for Families at this time could potentially put the BT programme at risk of being unable to deliver the existing Budget 2016 package.

For this reason, Inland Revenue advises against making any mid-year changes, in particular to Working for Families.

Other impacts, risks and technology considerations

As a consequence of changing personal tax rates in the middle of a tax year, there would be a variety of flow-on changes to make:

- Minimum Family Tax Credit (MFTC) customers would need to be reassessed, because entitlement is based on after-tax income. This would be difficult and costly for Inland Revenue to administer because Working for Families entitlement is assessed on an annual basis. Mid-year changes also cause uncertainty for customers and could increase the likelihood of over- and under-payments in the year ending 1 April 2018.

- Composite tax rates would apply for the entire year for those paying tax other than PAYE, including fringe benefit tax. PAYE rates would change immediately. This would impose significant compliance costs on payroll software providers, who will already be required to make additional system changes for the rollout of Stage 2 BT on 1 April 2018.

- Resident withholding tax may need to be adjusted at the start of the next tax year, for compliance and administration reasons. A mid-year change could be optional for banks that are able to make system changes, but further work would be required to identify the impacts of this.

- Prescribed investor rates may need to be changed, depending on the nature of the personal tax changes.

- Provisional tax would require calculation changes.

- There are a number of other taxes that may require consequential amendments such as employer superannuation contribution tax and retirement superannuation contribution tax.

Although tax-only changes may be possible to implement for 1 October 2017, this option would be more costly to implement and the level of administrative difficulty would be significantly higher than a 1 April 2018 application date.

Resourcing constraints

Through 2017 and 2018 our people who support the delivery of services to customers will be going through, and supporting, significant change (including supporting the development of new processes and legislation, rolling out of GST and other tax types into START, working across two systems and undergoing extensive training) while still maintaining current levels of customer service. Any changes in addition to the BT programme increase resourcing pressure and could put Inland Revenue at risk of being unable to meet key BT milestones.

Preferred option

Inland Revenue's preferred option is for all changes to occur on 1 April 2018. These changes would be aligned with the current annual return cycle and the Working for Families assessment period, so no composite rates or payment amounts would be required. This option minimises complexity for taxpayers and Inland Revenue, and provides certainty for Working for Families customers.

Implementation on 1 April 2018 also allows more time for planning and building changes into Inland Revenue's systems, and ensures that software providers only need to change their systems once.

Tax-only changes may be possible to implement for 1 October 2017, but this would increase compliance costs for customers, software providers, banks and other payers. This option would also be more difficult and more costly for Inland Revenue to implement.

Consultation with Treasury

Treasury was consulted on this briefing note.

Chris Gillion
Policy Director
[39]