

# The Treasury

## Budget 2023 Tax Initiatives Information Release

July 2023

This document has been proactively released by the Treasury, Inland Revenue, Minister of Finance (Hon Grant Robertson) and Minister of Revenue (Hon David Parker) on the Treasury website at:

<https://www.treasury.govt.nz/publications/information-release/budget-2023-tax-initiatives>

### Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [33] appearing where information has been withheld in a release document refers to section 9(2)(f)(iv).

### Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

### Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to [information@treasury.govt.nz](mailto:information@treasury.govt.nz).

**Inland Revenue report: Inland Revenue's Initiative Work Programme**

---

<b>Date:</b>	13 February 2023	<b>Priority:</b>	High
<b>Security level:</b>		<b>Report number:</b>	IR2023/043

**Action sought (For viewing by Minister of Revenue and Minister of Finance ONLY)**

---

	<b>Action sought</b>	<b>Deadline</b>
Minister of Revenue	<b>Note</b> the contents and discuss with Officials <b>Refer</b> a copy of this report to the Minister of Finance	14 February 2023

**Contact for telephone discussion (if required)**

---

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
James Grayson	Acting Deputy Commissioner, Customer and Compliance Services - Individuals	[39] [35]
Mike Nutsford	Strategic Advisor, Enterprise Design & Integrity	[39] [35]

## **Inland Revenue's Initiative Work Programme**

### **Purpose**

---

The purpose of this report is to provide you with background information to support you in your upcoming meetings around Budget 2023 initiative decisions. It will also help with future advice and discussions with you regarding prioritisation, sequencing and any trade-off choices that take into account Inland Revenue's current evolving initiative work programme and our emerging capacity constraints. Inland Revenue is committed to deliver the current policy initiatives agreed to by Cabinet and Ministers. We have assessed that the Government's current tax and social policy work programme will use up most of our specialist design and delivery capacity over the next three years, and are considering our options regarding sequencing, timing and prioritisation to mitigate the impact. We would be happy to discuss this report with you.

### **Initiative work programme**

---

Inland Revenue is committed to deliver the current tax and social policy initiatives agreed to by Ministers and Cabinet, including the OECD Pillar II 's proposals currently being considered by Ministers.

Our specialist design and delivery capability is responsible for delivering end to end initiatives, including the design, system changes and supporting change management to ensure our people, customers and external parties understand and implement the updates required. This specialist design and delivery capability is also responsible for system maintenance and upgrades.

We have assessed that the Government's current tax and social policy work programme will use up most of our specialist design and delivery capacity over the next three years.

The attached A3 sets out our current work programme including the emerging initiatives being considered as part of Budget 23, and gives a fuller picture of the potential demand on our specialist design and delivery capability and capacity. It shows that a number of initiatives are scheduled for design and implementation over the April 2024/25 year.

As part of Budget 23, the Government may introduce several new initiatives that are significant in their own right and when considering the cumulative view in conjunction with the whole implementation portfolio, the need for careful sequencing and management is not dissimilar in scale and complexity to running a multi-year work programme.

The current and emerging work programme will have wider ecosystem cumulative impacts on customers, tax agents and other intermediaries, including software developers. Managing a greater number of medium to large changes within the same design and delivery window will increase pressure on our capacity. Robust change management will mitigate some of the customer impact if activities are joined up with sufficient lead time for implementation.

Until we have a better understanding of the Budget 23 initiatives that Ministers wish to proceed with, we are not able to fully understand the impact of our capacity constraints and provide advice on how best to manage them going forward. We would appreciate it if Ministers could signal as early as possible as part of Budget development process if initiatives under consideration will not proceed.

Inland Revenue is undertaking work to try to reduce its capacity constraints and continually looking at whether reprioritisation of Inland Revenue's existing and future commitments will be required to enable delivery of any new policy initiatives in this timeframe.

## **Approaches to manage constraints**

### *Additional resources*

We have undertaken some work on whether to employ additional specialist design and delivery capability, [38] This is likely to be a longer-term solution, rather than a short-term one. This is because of difficulties in hiring people with the appropriate skills in the current tight labour markets and the time needed to upskill people before they become effective.

### *Sequencing of implementation dates*

Given our limited capacity to design and implement all the committed policy initiatives and those initiatives still being considered for delivery within a similar timeframe, sequencing of implementation dates is another way to manage this constraint. This approach could be supported by packaging initiatives together into programmes of work, [34]

This would achieve appropriate economies of scale across the stages rather than implementing each initiative on a stand-alone basis.

For example, there is some flexibility in when the OECD Pillar II proposals need to be implemented by New Zealand as we do not need to be the first cab off the rank.

A down-side of this approach is that it can limit capacity in future years.

### *Reprioritisation of initiatives*

We are looking at what internal initiatives can be deferred, or the implementation be slowed down to free up capacity. Our analysis to date indicates that there are internal initiatives that could be deferred or slowed down, but may limit our ability to deliver future initiatives. For example, we are reliant on our Core 21 START upgrade to be deployed in order to efficiently deliver the OECD Pillar II proposals.

If we need to prioritise the implementation of agreed policy initiatives to free up capacity, we will report to you on the initiative(s) that may need to be deferred and the implications.

Some of the factors that will need to be taken into account in any reprioritisation exercise include:

- impact on tax revenue
- whether the Government has announced the policy change
- sunk investment costs and need to re-incur if deferred and other costs

### *Design complexity*

Another approach to mitigate some the capacity constraint is to minimise design complexity where appropriate. As an example, being reliant on information from other agencies or other third parties can increase the size and/or complexity of the design rather than relying on a solution which leverages information IR holds. Another example is to follow core design patterns used by our START system rather than developing bespoke solutions.

We have been ensuring design complexity is minimised as part of the policy design to date.

## **Cost pressure bid**

As part of Budget 23, we submitted a cost pressure bid seeking funding of \$162.8m over the 2023/24 to 2026/27 years. Any further reduction in Inland Revenue's Budget 23 cost pressure bid will likely exacerbate this pressure.

## **Organisational risks**

The delivery of our current work programme including any new Budget 23 initiatives may impact our operational performance and have an associated reputational risk. This is due to the possible scale of change on our customers and third-party intermediaries including software developers. Inland Revenue may be perceived to be placing unreasonable expectations on them to deliver within tight timeframes. These risks can be mitigated through dedicated change relationship and account management which can be resource and time intensive.

Ineffective delivery of the initiatives and any decline in the customer experience may result in increased customer demand. This may place pressure on maintaining the integrity and stewardship of the tax and social policy system.

## **Treasury comment**

Treasury has been provided a copy of this report for their information.

## **Recommended action**

---

1) I recommend that you:

**Note** the contents of this report and discuss with officials at your meeting scheduled for 14 February 2023

Noted and discussed

**Forward** a copy of this report to the Minister of Finance for his information.

Forwarded

**Discuss** this report with the Minister of Finance and officials at the joint Ministers meeting scheduled for 16 February 2023.

Discussed

James Grayson

**Acting Deputy Commissioner, Customer and Compliance Services – Individuals,  
Inland Revenue**

**Hon David Parker**  
Minister of Revenue