

**Submission to:**

Deputy Commissioner, Policy and Strategy
Inland Revenue Department

12 February 2016

Subject:

Making Tax Simpler: Better Administration of PAYE and GST
Making Tax Simpler: Towards a New Tax Administration Act

Contact Person:

Kerry Dalton
Ph 04 382 8759

Background

Citizens Advice Bureau New Zealand (CABNZ) Ngā Pou Whakawhirinaki o Aotearoa welcomes the opportunity to comment on *Better Administration of PAYE and GST* and *Towards a New Tax Administration Act*.

The purpose of our organisation is to:

- Ensure that individuals do not suffer through ignorance of their rights and responsibilities or of the services available; or through an inability to express their needs effectively — Me noho matāra kia kua te tangata e mate i tāna kore mōhio ki ngā āhuatanga e āhei atu ana ia, ki ngā mahi rānei e tika ana kia mahia e ia, ki ngā ratonga rānei e āhei atu ana ia; i te kore rānei āna e āhei ki te whakaputu i āna hiahia kia mārama mai ai te tangata.
- Exert a responsible influence on the development of social policies and services, both locally and nationally — Kia tino whai wāhi atu ki te auahatanga o ngā kaupapa-ā-iwi me ngā ratonga-ā-rohe, puta noa hoki i te motu.

We support the principle of partnership reflected in the Treaty of Waitangi. E tautoko ana Ngā Pou Whakawhirinaki, i te mātāpono nohotahi (hononga), e whakaatahia ana i roto i te Tiriti o Waitangi.

We work to empower individuals to resolve their problems and to strengthen communities. The person-to-person service provided by over 2,400 Citizens Advice Bureau (CAB) volunteers is unique in New Zealand. From 83 locations around New Zealand, the CAB provides individuals with a free, impartial and confidential service of information, advice, advocacy and referral. In the 2014/2015 financial year we had 530,000 interactions with



clients, including over 200,000 in-depth enquiries where we offered information, advice and support across the gamut of issues that affect people in their daily lives.

We use our experience with clients to seek socially just policies and services in Aotearoa New Zealand.

1.0 INTRODUCTION

Citizens Advice Bureau New Zealand welcomes the opportunity to continue to feed into Inland Revenue's transformation process. To date we have produced two submissions in response to *Making Tax Simpler* consultations, which we summarise below as a prelude to some brief feedback on the current consultations on PAYE/GST and Tax Administration.

1.1 CAB experience with IR customers

CAB interviewers are not tax experts, but the training they receive equips them to help people with a wide range of backgrounds and experience to work through a wide range of issues. Citizens Advice Bureaux provide access to IR's services in many ways.

We assist clients to fill out the correct forms and follow the correct processes when they want to do things like:

- apply for an IRD number
- complete a tax return
- register for GST
- apply for a Working for Families Tax Credit
- calculate their child support
- find out what their tax code is
- clarify their tax status (employee or contractor)
- report tax evasion
- apply to be declared bankrupt

We assist clients to interpret and respond to correspondence from IR, to communicate directly with IR - usually by phone - and to use IR's online services or access paper-based alternatives.

We also support clients to resolve complex tax-related difficulties. An analysis of a selection of CAB enquiries reveals a number of recurring problem areas:

- employers not complying with obligations to make deductions
- wrong tax code being used
- confusion about how secondary tax system works
- confusion about tax status, particularly contractor vs employee
- student loan debt
- tax refund companies not doing the right thing

1.2 Clients at risk of digital exclusion

We support a tax system that is fair, simple to use and efficient. We recognise that moving to digital services will help make this possible, but we also see clients who are at risk of being left behind.

Most at risk of digital exclusion are people who do not (and may never) feel at home in the online environment, and people who do not have access to a computer of their own. We recommend that IR arrange to get feedback from these groups of customers as it designs its digital services.

We also recommend that, for the small number of people who will never make the transition to the digital environment, non-digital services be available for as long as is needed, without penalty or charge. We do not want to see people forced to use accountants or tax agents, or decide not to bother filing at all, because of the absence of a non-digital option.

1.3 It has to be easy to put things right when they go wrong

No matter how well IR does the job of simplifying tax systems, things will still go wrong. The new system needs to be designed to make it easy to put things right when this happens, especially where IR services are devolved to third parties and where information is being shared across government agencies.

Key issues to address early in the transformation process include:

- Customers need to remain in control of their own data and it must be easy for them to manage and keep track of their interactions with IR
- It must be easy to find out how and where a mistake was made and easy to put it right
- Where multiple agencies are involved, the customer must have one point of contact when things go wrong and it must be easy to decide which agency is responsible for putting things right
- Where data is shared between multiple agencies, it needs to be clear who owns the information and who has ultimate responsibility for security and privacy

2.0 Better Administration of PAYE and GST

2.1 Electronic filing of PAYE information

We are pleased to see the acknowledgment that “providing appropriate off-line support for users is key to successful change and that not every issue can be appropriately resolved via a digital channel [particularly] in the case of PAYE where payroll issues can be complex.”

At the same time, we think the bar should be set quite high when deciding whether or not to grant exemptions to employers from a requirement to file PAYE information electronically. As stated in our submission on *Better Digital Services*, there is an argument for putting pressure on businesses and employers to ‘go digital’ if not doing so will mean that their employees or clients are being disadvantaged. We wonder whether the problem of no PAYE being deducted (see 2.2 below) might be picked up earlier, or disappear altogether, if all employers were obliged to file electronically.

2.2 What can be done where no PAYE is being deducted?

We support the proposal to modernise the PAYE system so that IR will be able to quickly identify and intervene to correct things like errors in deductions and tax codes.

We also support the proposal that IR continue to communicate any change of employee obligations or details to the employee. This enables employees to remain in control of their information and to immediately correct anything they consider to be wrong.

As mentioned in our submission on the *Green Paper on Tax Administration*, one of the big problems we see is where IR has no PAYE information about a taxpayer, either because the employer has not made the required deductions, or because deductions have been made, but not passed on to IR. This causes enormous stress for the employee concerned, especially where it has been going on for some time. The examples below are further to those provided in our earlier submission:

- *Client, who had just handed in his notice, had discovered that his employer had been deducting PAYE but not passing the payments on to IR. This had been going on for over half a year. Client's employer had promised to rectify this but had done nothing to date. Client is very worried about his tax liability. The bureau interviewer phoned IR on the client's behalf. IR confirmed that while the employer was registered, there was no record of any deductions and encouraged the client to make an appointment to come in to IR.*
- *Client's employer had gone into liquidation and client had discovered that the PAYE and other deductions made by his employer had not been passed on to IR. Client was extremely worried that he might not be able to retrieve the money.*
- *Client had been dismissed without notice from his job and his employer was refusing to sign a declaration for Work and Income confirming his previous period of employment. It became apparent to the client that he had been being paid 'under the table', even though he had supplied his IRD number to the employer. The client did not have a signed employment agreement and had never had a payslip.*
- *Client, a new migrant, had discovered that his employer had not been paying PAYE to Inland Revenue. The client has never received payslips. Wants to know what to do but fears losing his job and his accommodation. The employer provides housing, three people to a room, charging over \$100 per person.*

We urge IR to consider ways in which the modernisation of the PAYE system could be used to prevent scenarios like these from arising and thus better protect the earnings of what are often the lowest paid and most vulnerable employees.

What we are noticing is that employers who are not passing on deductions are not necessarily following good employment practice either (no written employment contract, dismissal without notice, not issuing payslips) and we suspect that the two frequently go hand-in-hand.



What we also see is that some employees – again often the lowest paid and the most vulnerable – do not understand how the PAYE system works. This makes it less likely that they will spot potential errors and problems. Employers are legally bound to keep wage and time records for each employee, but are not obliged to provide this information to employees unless it is requested. We think that, in the interests of making the PAYE process as transparent as possible to employees, employers should be required by law to issue payslips, detailing all deductions made, for every single pay period.

3.0 Towards a New Tax Administration Act

We support IR's willingness to use the modernisation of the tax system to "think more widely about taxpayer needs and behaviours, and start building an environment that supports taxpayers right from the start." We hope this will result in processes which include and empower taxpayers and make it easy for them to remain in control of their own data.

3.1 Information collection

Where IR's powers of data collection are concerned, we support the proposal to retain the current requirement that IR may only request and collect information that is "necessary or relevant" to its functions.

The key proviso from our perspective is that customers remain in control of their own data, i.e. that they are easily able to access the information IR holds about them and easily able to amend it if necessary.

3.2 Releasing information with taxpayer consent

With regard to the proposal to allow taxpayers to permit IR to share their information directly with a third party, we share IR's concerns about taxpayers being coerced into providing their information if no restrictions were placed on this provision. The consultation paper flags the possibility that commercial providers of credit might start asking to see customer tax records as a condition of processing or approving a credit application. We think this is a realistic concern.

At the same time, we recognise that where the taxpayer wishes to provide tax information to a third party, it would be more efficient for IR to make the transfer directly, assuming that this can be done securely and accurately. We therefore agree that options should be explored for taxpayers to be permitted to consent to IR disclosing tax information to a third party, but only if this is in the best interests of the taxpayer, and only if the third party is a government agency.

3.3 Cross-government information sharing

We cannot comment on the extent to which IR should share information with other government agencies, but we do have a view on the processes involved. As with information collection, our concern with information sharing is the possibility that customers might lose control of their personal information.



To retain control, taxpayers need first and foremost to be correctly informed about how IR is sharing information about them. The point is made in the consultation paper that the public already has a misconception about the amount of information that is shared between government agencies – this only highlights the need for greater transparency and better communication about cross-government information-sharing processes.

To retain control in an environment where multiple agencies are accessing taxpayer information, the customer must also have one point of contact for amending information, and one point of contact when things go wrong. It must be easy to decide which agency is responsible for putting things right and it needs to be clear who has ultimate responsibility for security and privacy.

3.4 Pre-populated tax returns

As we understand the proposal, this would involve regularly sending all individuals with an IRD number a tax form pre-populated with information about their income and deductions and requiring them to respond to confirm or correct the details.

For most people, this is likely to make things easier and more convenient. For individuals in the situations cited in 2.2 above, it may serve as an alert that their employer has not been passing on PAYE deductions to IR. We think it is essential to find a way to extend the service to people who cannot manage their transactions digitally, so that they do not miss out on the advantages this service could bring.

The success of this initiative will depend on it being easy for taxpayers to communicate with IR in response - either to confirm that the information on the form is correct, or to make changes to it. Where people disagree with the information on the form, it is crucial that they have a wide variety of options (digital, phone, letter, face-to-face) for communicating with IR to discuss this. If it is difficult to contest the pre-populated information, people will feel disempowered and frustrated.

Thank you for this opportunity to comment. Please contact me if you have any questions, or want any clarification about our submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kerry Dalton', written in a cursive style.

Kerry Dalton
Chief Executive