

## IR's Business Transformation

# What does it mean for tax compliance?



### Inland Revenue's business transformation – are you keeping up?

In an increasingly digital world, it is no surprise that Inland Revenue has embarked on a multi-million dollar transformation of its technology and processes spanning several years. The project is being carried out in four stages and involves a lot more than just updating Inland Revenue's computer system. The update of technology has been accompanied by tax policy changes, including the introduction of a new provisional tax method and real-time reporting of employment and investment income information.

The transformation kicked off with the Government committing to the project financially in 2015.

- Stage 1 of the transformation involved GST filing with taxpayers now able to file and pay GST online.
- Stage 2 saw the introduction of a new method of accounting for provisional tax – the accounting income method (AIM). This method makes use of accounting software that calculates provisional tax based on the accounting results of the business. The idea is that provisional tax payments fluctuate in line with the person or entity's financial performance through the year.
- Stage 3 of the transformation (April 2019) will see income tax and Working for Families migrated to the new system. It also coincides with the start of compulsory payday filing and new income tax return filing procedures for individuals. This is perhaps the most crucial stage so far for Inland Revenue and taxpayers alike. From next month, the way in which PAYE information is reported to Inland Revenue changes significantly so it is imperative to ensure systems or processes are in place to avoid penalties.
- Stage 4 will include the migration of KiwiSaver and student loans to the new system.

### Payday filing

Traditionally, employee information has been filed with Inland Revenue on a monthly basis. This changes with the introduction of payday filing where employers are required to report employment income information to Inland Revenue when employees are paid (with some exceptions). The idea behind payday filing is to make PAYE reporting to Inland Revenue part of the payroll process rather than a separate activity that takes place after employees are paid. Payday filing is also intended to provide more real-time information to Inland Revenue to help with the administration of social policy schemes such as Working for Families, child support and student loans.

For some employers, payday filing brings an increase in the frequency of filing returns. For example, if there are two pay cycles in a month, information will have to be reported twice a month, instead of once a month as was the case previously. While the use of software to file payroll returns with Inland Revenue may assist with the additional compliance work, it is important to note that the deadline for filing information is generally tighter under the new regime.

## Income tax for individuals

Income tax return procedures are also set to face some pretty significant changes, and it is intended that most people (including salary and wage earners) will complete the filing and assessment process online.

Pending the passing of a bill currently before Parliament, it is intended that the year-end tax return process will be modernised for individuals. A pre-populated account will be made available to individuals, including those who may not have had any direct interaction with Inland Revenue in the past. The account will contain the income information that Inland Revenue holds for the individual (this will largely be employment and investment income information that has been provided to Inland Revenue throughout the year). Individuals will then be able to change or confirm the information that Inland Revenue holds in relation to their tax position. Although it is expected that most individuals will complete this process online, paper returns will still be available (at least initially).

If the information held is incomplete, individuals will be able to provide additional information such as deductible expenses and tax credit information to arrive at an accurate assessment. It is expected that the system will allow taxpayers to make changes during the year, and not just after year-end.

Importantly, the changes mean that where Inland Revenue is reasonably satisfied that the information in the pre-populated account is accurate and complete, it will calculate the refund or tax to pay. The individual will not need to do anything further unless the assessment is incorrect.

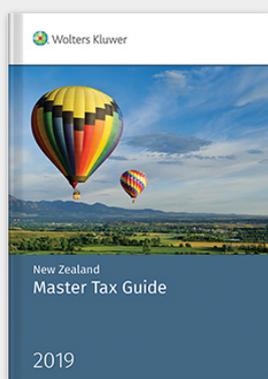
Claiming donations tax credits will also be modernised with taxpayers being able to submit donation receipts electronically rather than sending paper copies to Inland Revenue. This is a long-awaited change and will make claiming the donations tax credit much less of a headache.

These technological advancements will bring changes to the way in which the day-to-day tasks of accountants, tax advisers, bookkeepers and others are carried out. A degree of planning and preparation will be required to ensure that systems and processes are in place to tackle these inevitable changes.

RIZWANA SAHEED | MARCH 2019

Ensure you have the information you need at hand to help comply with all the changes brought about by Inland Revenue's business transformation.

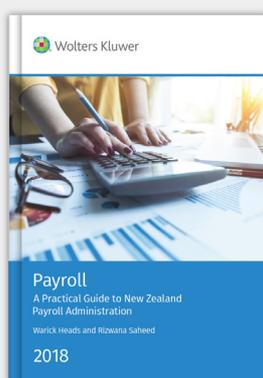
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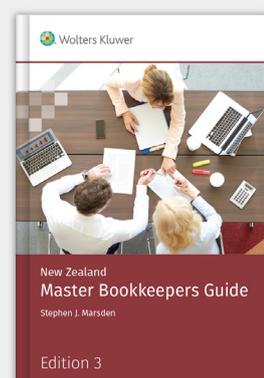
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