

Tax Administration in a Digital World

SUBMISSION ON BEHALF OF NEW ZEALAND'S BOOKKEEPING
PROFESSIONALS

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Introduction

The Institute of Certified NZ Bookkeepers is the leading professional body for bookkeepers in New Zealand - setting the standards while providing guidance and support to our community. We empower Bookkeepers to be trusted and valued business professionals and drive industry standards, advocate for the profession and provide a supportive community for our members.

Our members have a significant role in providing services for businesses throughout New Zealand. This largely focuses on being responsible for the day to day recording of financial transactions to provide small to medium business owners with timely, reliable and accurate financial information for decision making and reporting.

Summary

We have undertaken consultation with our team, committee and members and have identified the following key points of note with regards to the issues raised in the consultation document:

- Digital transformation happens at different pace across society and the economy, so changes need to be at pace with the majority while having consideration for those left 'offline'.
- The open economy, being able to work anywhere at anytime, is a key feature of the digital transformation that is not frequently considered in policy changes that do not often allow for the degrees of flexibility that the new digital world encourages.
- There is a move towards decentralisation of our workforce, with professionals leaving large firms and working in smaller practices with a handful of clients.
- Parties engaging with Inland Revenue and taxpayers need to be better defined in legislation to enable better management and oversight.
- A simple tax system is one that is easy to comply with and prevents unexpected debts or hardship, especially with regards to social policies.

We have also been in discussions with our partner association in Australia (ICB Australia) who have been through the same consultation process with the ATO more than a year ago. Their feedback centred largely on the need for the Tax Administration 3.0 to be far more 'co-created' between the tax authority, whole of government as well as with external parties to ensure that the system is resilient, future proof and actually achieves its intended purpose as efficiently as possible.

Registered Bookkeeper Status

At its inception, the ICNZB has been passionate about achieving this recognition with Inland Revenue for bookkeepers, and after many years lobbying for recognition of bookkeepers by Inland Revenue, we were pleased to receive a new "status" at Inland Revenue in 2019 – Registered Bookkeeper.

Feedback from members that have signed up to become a Registered Bookkeeper has been immensely favourable and many enjoy the benefits the access provides in simplifying their interaction with Inland Revenue on behalf of their clients.

However, we are very aware that many more bookkeepers, and specifically those in our membership, would like to register but they do not meet the 10-client requirement. In our most recent survey, almost 50% of respondents said the thing holding them back from registering was the 10-client threshold.



Member Feedback Survey 2021 – Responses to “Why are you not registered as a Bookkeeper with Inland Revenue?”

We view this administrative minimum client requirement to be outdated and in need of review. The digital transformation of the economy has seen a move away from larger firms, with those with expertise empowered to branch out on their own and set up in business. For many small bookkeeping businesses and sole traders in our industry, this means that they are able to work with the limited number of clients that they enjoy working with, doing the work they love. Many are able to have full-time professional businesses with just a handful of clients.

Unlike tax agents who perform small amount of work infrequently, bookkeepers are the silent engine room of businesses across New Zealand day in and day out. Performing more work, more frequently than tax agents means that bookkeepers require a much smaller client base than tax agents.

If a bookkeeper is a member of a professional body, such as ICNZB, with a code of ethics, professional standards for gaining membership, and a commitment for ongoing professional development, they should be able to register with Inland Revenue regardless of the number of clients they work with.

Further to the specific issues raised above, we have also responded to the questions raised in the consultation document.

Given the restrictive time pressures of the consultation taking place during the standard end of financial year period, we have restricted our responses to those questions most directly related to ICNZB as an external party and have invited members to feedback directly on other areas should they so wish.

Thank you for the opportunity to put forward a submission on the future tax administration in New Zealand.

The Shift to Digital

Society and the economy are both facing rapid, foreseen, changes from digitisation. The ongoing and rapid digitisation will increasingly test the current system of tax administration.

The transformation to Tax Administration 3.0 is built on a few core elements:

- That it is embedded within the taxpayers' natural systems (the software running the business day to day),
- That it is part of a resilient systems,
- That it is based on real-time and reliable data,
- That the system is transparent and trustworthy,
- That it is integrated across government (IRD, ACC, MSD) to streamline societal expectations.
- A taxpayer-centric perspective that maintains human touch alongside the high-tech.

Does our emphasis on the shift to digital channels and processes resonate with your experience?

Yes, in our experience, small businesses are often faster to adopt new digital tools than larger business, quicker to pivot with societal change and more open to different ways of working, of structuring their businesses and of engaging with people and places. The digitisation of the economy is really being driven by thousands of small businesses, not a handful of large corporates. This slow pace of change in larger businesses does increase their burden and costs of compliance and limits their participation in an integrated system that ensures they are part of a reliable, transparent and trustworthy system.

Are there other economic or social trends that we are not giving sufficient weight to in terms of influences on tax and social policy administration?

There has for many years been a growing trend for businesses both large and small to operate as social enterprises. The primary challenges to this new way of structuring business affairs has been that they do not neatly fit into the boxes of not for profit entities or traditional companies. Secondary consideration is then needed for how these public benefit businesses are then tax and supported by the wider system.

Societal expectations are that businesses are more directly responsible for supporting their people and places. This has driven change in existing businesses, generally through increased corporate awareness of their impact or through the development of public benefit entities alongside the trading entities to offer additional targeted support. The challenge to be considered is, how does the new trend for a business set up to gain public benefit ahead of shareholder returns fit into the new framework and how is such an entity engaged with as part of the tax system.

Any change to tax payment timings to make them more 'real-time' risks slowing the economy. Cash is king and draining cash to pay tax more frequently is an opportunity cost to the entire economy that that cash is removed and can not be invested in new opportunities, developments, or growth of people, products and services. While frequent payment timings works for taxes such as PAYE, where end incomes are known in advance and changes are minimal, it does not translate to business taxes and would create timing issues with significant economic consequences. Digitisation offers an opportunity to better understand tax liabilities and monitor them in real-time

but should not be seen as a tool for encouraging more frequent payment.

Are there other ways we should think about those who are digitally excluded or who might not see themselves in a digital story?

The cost of maintaining phone and in-person services is a core part of maintaining an inclusive and resilient tax system. These services should be seen not as a cost requiring minimization, but rather as an investment in the resilience and reliability of the tax system. If taxpayers who need to are able to easily access and engage with Inland Revenue, this moves the department out of the shadows and into a role as a productive and helpful part of the overall societal and economic system.

Tax Administration 3.0 requires a human touch alongside the high-tech. It is not reasonable to expect that all taxpayers will be in the same boat at the same time. Every individual and company is different and will not necessarily be able to access the digital tools for their unique circumstances that integrate with the systems developed in New Zealand. The digital transformations of many businesses and individuals lives will also progress at different speeds for different entities.

The broad digitisation of the majority of taxpayers systems and interactions with the tax system should enable the freeing up of resources so that those that require it have much easier and accessible human contact through phone, in-person and via secure mail.

External Parties

Are there roles that external parties play, or could play, in the tax and transfer system that have not been recognised?

The external parties mentioned are ones that deal with taxpayers, their issues, challenges and concerns with the tax system and its administration daily. For the system to be transparent and trustworthy, earlier, more frequent, and more engaged consultation should be a part of the future of administration. The governance of the tax system should include representation from those more directly experienced in the challenges and opportunities dealt with by external parties. Consultation with external parties should be more targeted, proactive, frequent and timely in an integrated system that should highlight issues or concerns more frequently.

Do you agree that the regulatory framework for external parties, as currently set out in the Tax Administration Act, should change?

Yes. We are in favour of the framework changing to reflect what an external party does and requires as a part of the system, as opposed to the current system where access is regulated by the number of clients a party is working on behalf of with no real further controls on data access.

Is the distinction between a tax advisor (who provides advice to a taxpayer about tax liabilities) and another intermediary involved in the tax system useful when considering the regulation of external parties?

The overall administration system needs to better define all the types of parties that Inland Revenue and taxpayers work with. The current system of tax agents as one defined entity and then all other intermediaries in a single lumped group is not helpful or future-proof. Better defining all classes of party will enable standards and regulation to be better tailored and allow for data administration and security to be better controlled.

What changes does Inland Revenue need to make to enable external parties to contribute to the tax and payments system?

One of the key changes we would like to see made is the removal of the regulatory requirement to have a minimum of 10 clients in order to register to engage with Inland Revenue as a Registered Bookkeeper. The removal of this requirement will open up the opportunity for a considerable number of Bookkeepers to more professionally engage with Inland Revenue. It will also give Inland Revenue additional oversight of those professionals by ensuring they have the adequate authority to access the data administered by them.

A larger piece of work would be to develop a regulatory system in which all external parties and intermediaries are required to be a part of a recognised professional body or otherwise held to professional standards of minimum competency, ethics and ongoing professional development.

Should the Government consider subsidies for products that assist social payment recipients?

This would depend on the appropriate cost-benefit analysis to the overall system. How many social payment recipients are affected with debts from inaccuracies? How many of these would take up the use of a separate service? How would this support those not digitally connected but in need (likely to be the largest recipients)?

A better investment could be in a tool for internal use by IRD and MSD or other social agencies (budgeting services, etc.) to better calculate projected entitlement and flag overpayments.

Another consideration would be the costs to subsidise a tool with potentially limited use versus the cost to simply write-off debts if 'best efforts' are made to assess and update income by a taxpayer. This would minimise the amount of additional stress and hardship faced by lower income families while continuing to support those in most need, as the policy intends.

The simplification of social policies to not be a compliance minefield and a more supportive approach to innocent overpayments would likely be a better use of resources.