

22 July 2010

S10.21

Submission to IRD on “*Making tax easier – a government discussion document*”

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 46 nationally organised societies. NCWNZ has 28 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council’s function is to serve women, families and the community through research, study, discussion and action.

NCWNZ Economics Standing Committee welcomes the opportunity to comment on this discussion document, with reference to present economic circumstances and existing NCW policy on taxation. We have noted with concern the size and increasingly bureaucratic nature of Inland Revenue in response to the growing complexity of the tax system. Social policy schemes such as *Kiwisaver* and *Working For Families* add to that complexity with further regulation and responsibility. Moves towards greater fairness, simplicity and efficiency of our tax system are long overdue.

Chapter 3 – Improved tax administration

It is clear that Inland Revenue is hampered by an outdated IT system that was not designed to carry out the increasingly complex tasks demanded of it. We recognise that upgrading the technology is important and timely. However, just as building more roads may relieve traffic congestion in the short term but eventually leads to more vehicles, building a larger, and more capable IT system may only solve short term problems.

The heavy reliance on PAYE for revenue may be a mistake in the long term. The volatility of this system was evident during the 2008 credit crunch and subsequent recession, indicating that a move away from a tax on labour is recommended. With sophisticated machinery and technology doing more and more jobs previously done by paid workers, the labour force is naturally shrinking. Add to that the increasing numbers of retired ‘post-workers’, and PAYE looks set to become a dwindling source of revenue.

This document recognises only 'two broad options' for reforming tax administration. An important third option would be to adopt a simpler, more cost-effective and less volatile method of collecting tax, one that does not require significant financial outlay by government departments, businesses or individuals on software or hardware.

One such method is a transactions tax, collected through the banking system from every account, using software already developed to collect Resident Withholding Tax. Once set up, this tax has no collection costs, no bottleneck processing times and no fraud. Another method is GST, already set up and running. However, GST needs broadening to include the financial services industry, and lowering to reduce the impact on lower income families.

Chapter 4 – An electronic environment

- The roll out of the electronic tax environment should not be compulsory, but should rather be implemented by incentives and education. Although many businesses and individuals already file online, there are still a significant number who do not. Many would face financial hardship if forced to file returns and provide information to Inland Revenue electronically. Women cluster as owners of small to medium enterprises (SME), have lower incomes than male counterparts and are therefore more likely to be disadvantaged by compulsory electronic reporting and filing.
- Better online services will be an advantage for many, and modern accounting software should be developed to do the work of routine tax filing. However, not all taxpayers and businesses will be able to afford these advantages, so some paper notices, statements, guides and booklets will still be needed for the time being.
- NB. The best incentive for increased use of the electronic environment will be improved service and ease of use.

Chapter 5 – PAYE and facilitators

- The focus on using payroll businesses to outsource some major functions of Inland Revenue is disquieting. Although it may be economic for larger firms to outsource their payroll responsibilities, there are potential dangers in wholesale privatisation of these functions. Privatisation of other government functions has seen reduced services and soaring costs passed on to end users, many of whom can ill afford to pay. In this case, SME may be disadvantaged, and sensitive information in private hands could be problematic. We would rather see improved software made available to SME at an affordable cost and even free at entry level.
- A payroll reference group should include representation from employers and employees. Intellectual property that directly concerns Inland Revenue should be publicly owned.

Chapter 6 – Electronic environment

- Much of this discussion focuses on employer choices and digital capabilities, and examples are set out assuming that employees also have such opportunities to manage their tax profiles online, whereas many do not.
- Moving to an electronic PAYE environment should include free entry level software, training and a period of hands-on support during the change. The cost savings for IRD

should not be at the heavy expense of businesses and individuals, or compliance will be compromised and end users will suffer financially.

- Without some sort of software roll out as mentioned above, mandatory electronic filing for all employers could have the effect of driving smaller firms into bankruptcy. As many SME are owned and operated by women, we strongly oppose such forced change.

Chapter 7 – Tax summary process

- We are reluctant to support a full and final tax through the PAYE system as it stands. Given that IRD intends to develop more modern technology and provide incentives for businesses and individuals to take advantage of that technology by moving to an electronic environment, there should be lower costs for processing returns. As systems become automated, there should be no reason to deny even small refunds, or to collect small amounts owing.
- As technology develops to do our work, more paid jobs are outsourced to contractors, more casual work is undertaken and more people work part-time, the PAYE system will reduce not only in accuracy, but also in stability as a revenue stream. It is important that taxpayers continue to have the option to square up their returns when other incomes and expenses fluctuate over the year. Trust in the system to be fair, even in small amounts, will be enhanced.

Chapter 8 – Sharing information

- NCWNZ is concerned generally about privacy issues. Sharing of information between government agencies seems sensible, as a cost saving for the government and time saving for taxpayers. However, an individual taxpayer should be informed and asked for permission when extra information has been requested. As information is already shared under strict guidelines, any move to open the flood gates between government departments should be done only with the permission of the individuals and businesses involved.
- It is even more important that permission is sought when sharing information with private providers such as payroll firms and tax accountants. Cabinet approval is not enough to safeguard individual rights. Seeking this permission may go a long way toward re-establishing public trust in Inland Revenue. (It is assumed in this document that there exists a basic level of trust, but anecdotal evidence suggests that trust has eroded over time as IRD grows larger and more unwieldy, more subject to errors and more inaccessible when problems arise.)

Chapter 9 – Releasing information

- It is concerning that the threat to expose an individual's tax debt is seen as 'encouragement' for other taxpayers to comply with the law. This is flawed thinking, similar to the assumption that stiffer penalties reduce crime (they don't). If there is no other reason to release such personal information – no efficiency or cost cutting advantage for IRD or other government agency – then it should not be released.
- Releasing information to a family member or friend could be made permissible in the same way a tax payer allows other information sharing – by informed consent.

Comments

NCWNZ applauds Inland Revenue's intention to upgrade its IT systems to provide a better service to taxpayers, and its efforts to encourage taxpayers to use electronic platforms for tax reports and filing returns.

However, this discussion document is inherently flawed. It places economic growth above social equality, ignoring research that strongly links income inequality to poor economic and health outcomes. It clings to outdated notions of work, in a society where the paid working week is longer than at any other time in history, while a huge amount of work is accomplished through unpaid effort. It promotes incentives for savings and investment, in an economy where only a few have enough disposable income for either.

This document offers only two alternatives for reforming tax administration and pushes for the privatisation of a large part of IRD functionality. In the proposed move to a high level of electronic reporting as potentially more efficient and less costly, there is no reference to the probable disadvantage to SME and lower income households that are without the means to access digital technology.

There is no mention of simplifying the tax system itself as a way of freeing up resources, admittedly not this paper's brief – except in the title. Nor is there any economic impact or gender analysis of these proposals. There is already a growing technology gap between the haves from the have nots. Instead of improving fairness, coherence and integrity, these proposals could very well widen that divide.

Elizabeth Bang
National President

Katherine Ransom
Economics Standing Committee