



## Business School

**12<sup>th</sup> International Conference on Tax Administration**  
31 March & 1 April 2016, Sydney, AUSTRALIA

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# Moving to digital by design: Better for customers, better for tax administration

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# Moving to digital by design: Better for customers, better for tax administration

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## ***Abstract***

A prime hypothesis behind the transformation of Aotearoa New Zealand's tax administration is that going digital will offer both citizens and the administration opportunities to reduce effort, improve efficiency and assist voluntary compliance. Better Public Services also frames the move by government agencies to engage with customers digitally.

Inland Revenue has tested the assumptions that going digital by design provides an improved experience for customers through a range of research drawing on past studies and from newly commissioned work.

In November 2015 700 of Inland Revenue's business customers were asked about their business practices. The majority were small businesses, with either no employees (62%) or between 1 to 5 employees (29%). There was an almost equal proportion of those who had been in the business for up to 10 years (53%) and more than 10 years (46%).

In this paper the findings on the prevalence of use of software to prepare tax accounts and returns, and digital media to communicate with Inland Revenue will be presented with the barriers and enablers to digital participation for both businesses and non-business customers. I will also draw on the findings other studies that focus on the experience and requirements of non-business customers.

### 1. Digital by design provides an improved customer experience

Digital services offer customers expected advantages that will reduce effort, improve efficiency which will in turn assist voluntary compliance. This customer centric view is a major shift for tax administrators who focussed on compliance in the 20<sup>th</sup> century.

### 2. New Zealanders want government to provide digital services

Internet use amongst Aotearoa New Zealand citizens is high. For example, Statistics New Zealand's 2012 Household Use of ICT Survey advises 80% of all households have access to the Internet, and this has increased from 65% in 2006.

The research literature offers much support for customers seeking digital and online services from Aotearoa New Zealand's government departments.

The government's Better Public Services programme officially frames the move by government agencies to engage with customers digitally in two of the ten result areas. The intent of Result 9 is New Zealand businesses will have a one-stop online shop for all government advice and support they need to run and grow their business while Result 10 is aimed so New Zealanders can complete their transactions with government easily in a digital environment

## **Digital by design at Inland Revenue**

Increasing customers' use of digital channels is a goal of most tax administrations (OECD, 2011). A cohesive digital by design approach to administrative processes, and to service design and delivery is integral to Inland Revenue's programme of transformation. This multi-year, multi-stage change programme is helping Inland Revenue become a modern world-class revenue organisation that uses digital technologies to 'make tax simpler' for its customers and achieve operational efficiencies.

"Reform of the tax administration is underway. In March 2015, the Government released a Green Paper on Tax Administration (Green Paper) and a Discussion Document on Better Digital Services (Digital Services). Together these documents set out how the Government intends to modernise New Zealand's tax administration and identified the role that modern digital technology will play in making tax simpler."

### 3. Inland Revenue is adopting a digital by design approach

A prime hypothesis behind the transformation of Aotearoa New Zealand's tax administration is that going digital will offer both citizens and the administration opportunities to reduce effort, improve efficiency and assist voluntary tax compliance.

This paper offers recent examples where Inland Revenue has adopted the digital by design approach, in a variety of applications.

## **Software use amongst Inland Revenue's customers**

The digital era continues to influence the environment in which businesses operate in, their internal business practices, and how this interacts with the tax system. Given Inland Revenue's programme of transformation and its decision to partner with two providers of bookkeeping and accounting software to trial a new GST return system (described below), it is important to understand the use of such software by customers generally.

In 2015 Inland Revenue commissioned Colmar Brunton to survey 700 customers (individuals, businesses and not-for-profits) about their bookkeeping and accounting software usage. Key results and commentary are presented below.

The purpose of the research was to develop a baseline measure of:

- The type of software businesses use
- How they are using the software i.e., the business processes they have around these, how it is maintained, whether they are upgraded
- How the software interacts with the tax system
- The drivers behind software uptake and usage

#### ***Use of bookkeeping and accounting software***

The basic function of bookkeeping and accounting software is to enable its users to keep accurate records of their income and expenses.

Almost half (46%) of respondents used bookkeeping and accounting software, and Xero (29%) and MYOB (26%) were the most commonly-used brands of accounting software.

Then perhaps unsurprisingly, accounting information was most commonly sent to Inland Revenue through a third party (such as an accountant or tax agent).

#### ***Use of payroll services and payroll software***

Payrolls assist businesses to keep records of their employees; their employees' salaries/wages, bonuses, taxes and social policy obligations; and enable accurate and timely salary/wage payments. Businesses can engage tax agents and payroll bureaus to manage their payrolls on their behalf.

In the survey, almost two thirds (64%) of employers (n=361) *did not use* a payroll company or tax agent to administer salary/wage payments to their employees and process PAYE, preferring instead to manage this task themselves. However, the majority (66%) of this group did not use payroll software within their business.

Of those that did, ACE Payroll and MYOB were the most common software packages used, their payroll software was most likely to be installed on computer (72%) than running a SaaS (Software-as-a-Service) via the cloud (27%), and it was more likely to

be up-to-date- than not (i.e., 17% had updated their software in the previous two months, 34% in the previous 3-6 months).

The survey respondents were most often (71%) the people who entered the payroll information in the software and were unlikely to be paid for this (61%).

Further, payroll information was most commonly sent to Inland Revenue by manually typing it in online (via ir-File<sup>1</sup>, 34%) or completing a printed form and posting it to Inland Revenue (32%). This illustrates the scale of the problem facing both customers and the Department when 'going digital'.

### ***Costs of payroll software***

Where it was used (32%), payroll software pricing structures varied. The most common pricing band was between \$1-\$200 annually (31% of respondents that used payroll software) followed by \$201-\$400 annually (23%). A small proportion (<1%) of software users purchased payroll software as a one-off cost without an ongoing subscription.

### ***Alternatives to bookkeeping/accounting software***

When asked about the method/s they used to maintain records of their day to day transactions, non-software users (n=299) said they used their business bank account, receipts and bank statements (27%), followed by an Excel spreadsheet (22%), and a (paper-based) cashbook (20%). A small proportion (10%) had 'no particular filing system but did keep records' while 5% said they did not keep records at all.

### ***Reasons why payroll software was not used***

Those that did not use specific payroll software (n=80) gave a variety of reasons. The most common reasons were that the respondent only has a small number of employees (50%) and the cost of the software was prohibitive (25%).

### ***Suggestions***

The suggestions respondents made when asked how Inland Revenue could encourage software uptake amongst customers can be divided into two camps.

No suggestions, because:

- Current system is fine, no changes are required
- Don't want to or need to use software

Suggestions relating to expertise and cost:

- Provide training to use [new] software

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<sup>1</sup> ir-File is a secure, internet-based service operated by Inland Revenue that allows taxpayers and their agents, intermediaries and payroll bureaus to file Employer Monthly Schedules and Employer Deductions forms electronically.

- Software should be free, or subsidised
- Make the software more user-friendly

### *An opportunity to partner with third party providers*

This research provides insight into business customers' software usage and identifies the barriers and contributors to software uptake.

The results of the software use survey indicate the readiness of Inland Revenue's customers to use digital methods to maintain records, calculate and complete returns and file them. While some have already adopted digital processes within their business and to interact with Inland Revenue, many others are yet to do so. It could be argued that this represents a growth market, an opportunity to increase software uptake by using a digital by design approach and partnering with third party providers.

### **Piloting a B2B eGST filing service with industry partners**

Inland Revenue is transitioning to a different role in the tax system, one where it partners with a range of third party providers to deliver products and services to customers with the aim of making it easier and less costly for customers and for the tax administration. The Early Release Initiative (ERI), involving GST returns, is Inland Revenue's first foray into this new way of operating.

The ERI is an expansion of Inland Revenue's existing business-to-business (B2B) platform, allowing customers who use approved software to file their GST return with Inland Revenue using authenticated B2B technology.

Approximately 2,000 businesses are piloting the use of MYOB or Xero software to file their GST returns; the pilot began in December 2015 and Inland Revenue has evaluated these customers' experience of the service via an online survey. Overall, the survey results indicate that the B2B eGST service is operating well and is delivering the intended benefits to customers and the tax administration alike.

Of the 426 survey respondents to date, 96% said they were 'very comfortable' with Inland Revenue working with a private company to develop the service; the remainder were 'slightly uncomfortable'. This is an important dimension, relating to the integrity of the tax system as much as to tax compliance.

The majority (90%) expected the service to be easier and several expected it to have less risk of human error. Overwhelmingly respondents said that it was easier to use than their previous method/s of completing the return and filing it (one person said it was 'about the same').

Almost two thirds (64%) said using the service resulted in lower costs (18% considered it 'a lot lower') and two respondents said their costs were higher.

Three quarters (76%) of respondents said it was easier to ensure their return was correct using the service (54% said it was ‘a lot easier’).

Just over half (57%) the respondents said they were certain that Inland Revenue had received their GST return.

In addition, just 16% of respondents made suggestions to improve the service further while several requested the model be used for other tax types such as PAYE.

These survey results show the customer benefits of tax administrations partnering with external providers to deliver services; the B2B eGST service has delivered businesses the ease, accuracy and certainty that digital services should offer.

### **Effect of the myIR email alerts service on new debt cases**

Inland Revenue offers customers a secure online account, called ‘myIR’, where customers can update their address or bank account details, work out their income tax filing options, file GST returns, and check their eDocuments and their KiwiSaver account. Rather than print and send statements, notices and letters to myIR accountholders, electronic versions are loaded to myIR and customers are notified of this via email. If the email alert bounces back, the system will generate a printed letter notifying the customer to update their email address in myIR and check it for eDocuments. This service was implemented in April 2015 as part of the Reducing Paper Outputs project (RPO).

#### ***New debt cases***

Taxpayers newly in debt represent an important customer group for Inland Revenue. It is to customers’ and the Department’s advantage to address new debt early, it is the early stages of the debt cycle that offer the highest chance of customers returning to meeting their obligations. Many of the eDocuments loaded into myIR relate to customer debt.

Accordingly, Inland Revenue is about to survey myIR accountholders with new debts to explore customers’ perception of the email and printed letter notifications, and the drivers of their compliance action/s in response to them. The findings of the survey will be used to determine whether changes or improvements to the email alert service are needed, and the development of potential additional marketing campaigns or interventions to address non-compliance amongst taxpayers newly in debt.

### **Public-private collaboration to solve problems affecting businesses**

Again signalling the new model of operating, Inland Revenue is participating in the R9 Accelerator which brings the public and private sectors together to work on real world problems negatively affecting businesses. The intention is to build solutions that make it easier for businesses to interact with government, to meet their obligations.

Participants in the R9 Accelerator are from the private and public sectors, and volunteer their skill, expertise and time to help solve service issues that will benefit both the customer and the government.

The two scenarios Inland Revenue has offered for R9 Accelerator participants to work on are presented below. Further details can be found online. Both initiatives seek solutions to supporting new businesses to flourish despite their owners' lack of business and/or tax knowledge.

The first scenario is titled 'Getting it right from the start – Starting a business as a migrant' and outlines the story of Risa, a new New Zealander from Japan.

*“People starting up their own business are usually really good at what they do – but often don't have the business know-how to make it a successful business.*

*Record-keeping, managing people and money, and especially dealing with government regulations can all trip them up in the early stages.*

*Business owners new to New Zealand face additional barriers like language, culture and different laws and regulations from those they're used to.” (R9 Accelerator website).*

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*“Risa and her husband moved to New Zealand in search of the 'clean, green' dream and a quieter lifestyle. Her husband works in IT and had a good job lined up before they arrived.*

*In Japan Risa was popular with clients in the nail salon she worked in. She wants to run her own nail salon in New Zealand, and has big dreams of maybe owning several salons in the future.*

*Risa asked her extended family to help fund initial set-up costs. She secured a two-year lease for premises in a good area and started getting customers, mostly through word-of-mouth.*

*Risa was great in the salon, but struggled to understand the information she found about government regulations and certification – it was so complicated, and difficult to work out what was relevant. At home she would have asked her family for advice, but in New Zealand she struggles to get help.*

*She was working long hours, and struggled to find time to get face-to-face business advice. Phoning call centres took too long – her accent made it hard for automatic voice recognition systems and call centre staff didn't always understand her questions.*

*A year down the track, with local regulations fulfilled and more customers Risa felt like she was getting ahead. She bought new equipment for the salon. But then she*

*received her provisional tax bill – it was a shock and she didn't have the money to pay it.*

*Risa and her husband borrowed more money from relatives to pay the bills, but then didn't have enough capital for operating expenses. The long hours and stress started to affect Risa's health.*

*After a few more months of struggling she had to close the nail salon. Risa and her husband had to finish paying off the lease, and it took years to repay their family.”*

Getting it right from the start – starting a business as a migrant  
[<http://www.r9accelerator.co.nz/opportunities/opportunity2/>]

Within Aotearoa New Zealand the construction and trade industry is an important focus due to the Christchurch earthquakes of 2010 and 2011 and the accompanying rebuild. The second R9 Accelerator scenario is titled 'Getting it right from the start – Starting a construction business' and it outlines the story of Jeff, a recently qualified painter.

*“Dealing with money can be tough, especially when you're just starting out in business. Not getting it right can easily sink a new business.*

*In construction and related trades people often go into business early in their careers, when they have good 'tradie' skills but little business experience to fall back on. They commonly use less sophisticated ways of managing finances and business processes like record-keeping. This can cause the business to struggle.*

*With a raft of regulations applying to the construction industry they often have trouble meeting compliance obligations to government, including local government. This can result in early bankruptcy.”*

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*“Jeff recently started picking up contract work as a newly-qualified painter working for a developer building residential properties in a local subdivision. He liked the freedom of being a contractor.*

*Business picked up, and he saw an opportunity. He and his wife formed a business that sourced and provided other contractors for the property developer. For a while times were really good.*

*Then the property developer started having cash flow problems, and began paying Jeff's company less and less.*

*Jeff kept providing workers for the company and paying his workers at the expense of his other bills, hoping things would get better. His debts to Inland Revenue and ACC kept getting bigger and bigger, but he ignored them.*

*His company was liquidated and he and his wife went bankrupt. They lost their house and Jeff lost his new ute.*

*Jeff realises that if he had had a better grasp of his financial obligations and how to manage cash flow he could have made better decisions about his business sooner, and would have had a better chance of keeping his business afloat. As it is, he's been so burned from the experience he's hesitant about trying again." (R9 Accelerator website).*

Getting it right from the start – starting a construction business  
[<http://www.r9accelerator.co.nz/opportunities/opportunity3/>]

The R9 Accelerator is expected to close in June 2016, when any feasible solutions to these problems will be identified and a process of due diligence will begin before the solutions are implemented.

### **Social media as a tax administration service channel**

While there is much interest in how social media can be used as a service channel in tax administration, its use by tax administrations is best described as cautious (see OECD, 2011). Further, to manage privacy and reputational risks as much as deliver quality services, government departments and agencies in Aotearoa New Zealand are required to adhere to specific guidelines when using social media platforms to deliver public services (see the New Zealand Government Web Toolkit) [<https://webtoolkit.govt.nz/guidance/social-media/>].

Two studies (IR, 2013; IR, 2015) analysed how users of social media were interacting with Inland Revenue's Twitter profile, @NZInlandRevenue, and made recommendations to increase its use.

The earliest evaluation of Inland Revenue's Twitter activity (IR, 2013) found strong engagement with its tweets:

“Three quarters of all IR tweets were retweeted during the review period. The most retweeted information was about tax information, security, refunds and claims.” (unpaginated document)

Further, tax agents and corporates appear to be a significant audience for Inland Revenue's tweets as they were most likely to retweet its messages (IR, 2013).

Despite this success:

“...no active promotion of IR's Twitter account has been conducted ... It is likely that the increase in @NZInlandRevenue followers and the take up of its messages would directly drive traffic back to the IR website.” (IR, 2013, unpaginated document).

The later study (IR, 2015), an online survey, assessed whether Inland Revenue's Twitter profile, @NZInlandRevenue, met users' expectations and their service needs, and what other social media platforms they saw Inland Revenue using to deliver services in the near future.

### ***Respondents used multiple social media platforms and messaging apps***

Almost all (97%) respondents used at least one social media platform. The most frequently used sites were Facebook (89%), YouTube (42%) and Google+ and LinkedIn (32% each). Just over one quarter (28%) used Twitter (and just over half of these respondents said they followed @NZInlandRevenue).

Use of messaging apps (such as Facebook messenger, WeChat, WhatsApp and Viber) was high amongst respondents (86%), most likely driven by their high rates of Facebook use.

### ***Respondents used both digital and voice channels to interact with IR***

Nearly half (45%) of respondents had visited IR's website in the previous 12 months and 39% had used myIR during this period. Just over a quarter (27%) had used our voice channel during this time. Just 5% had interacted with Inland Revenue using social media.

### ***Respondents suggested IR use multiple social media platforms***

We asked respondents which social media platforms IR should use to connect with taxpayers. Two thirds (68%) suggested at least one platform. Facebook (52%), Twitter (27%), and YouTube (27%) were the top three sites respondents believed IR should use – and LinkedIn (24%) was not far behind.

### ***Respondents wanted to receive specific types of content via social media***

Respondents were asked about the perceived utility of receiving tax, social policy, and operational information via social media.

Tax due dates and reminders were the most popular (46%), followed by information about personal tax like Income Tax and PAYE (41%), and refunds and claims (36%).

With the exception of KiwiSaver (30%), information about social policy matters was least popular: 10% for Child Support, 13% Working for Families Tax Credits, 16% seminars and workshops and 17% for Student Loan information.

### ***Summary***

The results of the survey (IR, 2015) supported a number of elements of Inland Revenue's social media strategy:

- customers use multiple social media platforms and messaging apps;

- customers are comfortable that Inland Revenue also use these platforms to connect with taxpayers;
- customers want to use social media platforms for a variety of uses, and value some content more than others – this indicates that Inland Revenue continue to take an omnichannel approach to service delivery; and
- customers differ in their content needs, and this necessitates the development of additional content.