22 April 2022

Policy and Regulatory Stewardship
Inland Revenue Department
PO Box 2198
Welington 6140

Via email: policy.webmaster@ird.govt.nz.

Re: Tax administration in a digital world issues paper

To Whom It May Concern:

DSPANZ welcomes the opportunity to make this submission on behalf of our members and the business software industry. We have worked closely with our New Zealand Digital Service Provider (DSP) membership to prepare this submission.

We broadly support the themes put forward in the issues paper and believe that this is a positive way forward for taxpayers, small businesses and DSPs. We expect that a shift to digital tax administration will make it much easier for New Zealand taxpayers to get their tax right which clearly benefits both the individual and Inland Revenue (IR). However, it does pose a considerable shift for all stakeholders in the tax ecosystem.

Our overarching view is that all tax related data should be made available all the time. As a part of our approach, there are eight key areas that should be considered:

- Changes to Inland Revenue as an organisation
- Changes to DSPs
- Data privacy
- Authorisation and authentication
- Availability
- Liability
- Creating defined roles in the tax system
- Security.

In this submission we expand upon each area identified above to outline key pieces of work and further considerations.

As co-chairs of the New Zealand Digital Advisory Group (NZ DAG), we look forward to working alongside IR over the coming years on this vision.

Formerly **ABSIA**

We would appreciate the chance to meet with you following this initial consultation period to discuss our response in further detail with our New Zealand DSP members.

About DSPANZ
Digital Service Providers Australia New Zealand is the gateway for government into the dynamic, world class business software sector in Australia and New Zealand. Our members range from large, well-established companies through to new and nimble innovators who are working at the cutting edge of business software and app development on both sides of the Tasman.

Yours faithfully,

Simon Foster,
President & Director,
DSPANZ

All the data, all the time

Our overarching view for the future of New Zealand tax administration is: "all the data, all the time".

Over time, IR should make each of their datasets available and accessible to taxpayers (**all the data**). The taxpayer should then be able to authorise the sharing of their tax information with whoever they choose, whenever they choose (**all the time**).

This would be a fundamental shift in how IR currently collects and shares data. It would also rely on IR moving closer to real time payroll reporting which would allow taxpayers to retrieve accurate information from IR at any point in the year, not just around the end of financial year.

Consideration 1: IR Changes

We see IR's role in the tax system slowly changing over time from a regulatory role to a service provider role. This shift will involve both cultural and organisational change within the department. IR will also need to be well resourced in order to provide support to DSPs and maintain their own technology stack.

Skills
In line with the OECD's *Tax Administration 3.0: The Digital Transformation of Tax Administration*[1], IR will need build up the following skill sets over the next few years:
- Understanding of complex tax rules and compliance risks
- Ability to translate tax rules into instructions which can be incorporated into the different natural systems used by taxpayers and the tax administration's own systems
- Technical audit expertise to assure and verify systems
- Relationship managers to support the implementation and ongoing operation of tax processes
- Designers, behavioural scientists and communications experts, to help develop appropriate taxpayer touchpoints
- Cybersecurity and data protection professionals.

Resources
IR will need to create a new internal department to adequately support the DSPs that interact with and consume IR services. Aside from building the staff capability, this involves building upon current resources for DSPs (e.g. the DSP section of IR's website and the developer portal) and developing new documentation and support materials to assist DSPs. The Australian Taxation Office's Digital Partnership Office is a good model for IR to build upon.

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[1]

https://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/tax-administration-3-0-the-digital-transformation-of-tax-administration.pdf

At the technical level, IR will need to build their own software arm which will require reorganising and re-architecting their current (and future) technology stack.

Changing legislation
One of the main factors preventing changes to how data is collected and shared is that New Zealand tax legislation has not been written for a digital world. Enabling this level of data sharing may involve re-writing sections of the tax act.

Taxpayer experience
The technology outcome that IR should strive to achieve is one where IR's technology (what the DSP interacts with) is complicated but the overall experience for the taxpayer is simplified and transparent.

Consulting with DSPs
IR should continue working with DSPs on policy formation and the implementation of changes to data collection and the overall tax system. Any changes should be communicated to DSPs as early as possible with the opportunity to provide feedback.

DSPs should also be kept informed about IR's planned future work items in a roadmap that is updated regularly and made available to DSPs.

Consideration 2: DSP Changes

We recognise that DSPs will face similar changes to their organisations in terms of the new skills needed to operate in a digital tax system.

A significant change will be how DSPs support their users (the taxpayers) considering they will mostly stay within their natural business systems. This may involve taxpayers coming to their DSP for advice which is why we would like to see a distinction between tax advisors and other intermediaries in the tax system when it comes to regulation.

In providing this support, DSPs will also play a larger role in educating taxpayers which requires changes to their current support and education models. This will likely add internal costs for DSPs which are expected to be passed on to the end users.

As suggested earlier, we expect that the technology behind IR's services will be complex and therefore DSPs will need to make significant investments in their own technology to consume these services. This will also include educating and uplifting their developers and IT staff.

We agree with the statement that "all parties involved in the tax system must have an obligation to uphold the integrity of the tax system." As DSPs play an important role in the tax system, we understand that this approach will come with enhanced security standards and agreements around accessing IR services.

Despite the anticipated level of change, there are exciting opportunities for DSPs to automate and simplify tax processes for their users. If tax data is made available to DSPs, we believe they will discover innovative ways to use the data and further enhance their users' experiences with their products and the tax system.

Consideration 3: Data Privacy

In our view, a taxpayer should be in charge of their data and therefore be able to authorise the sharing of their data. However, this raises questions about how data can be shared and stored securely.

For DSPs, we believe that enhanced security standards will increase the protection of data but for others in the tax ecosystem, we expect that more work will be needed to safeguard this data. Work in the Consumer Data Right space may assist in uplifting security across the system and creating expectations around how data should be handled.

Consideration 4: Authorisation and authentication

The most common issue raised by our members was the need for an authorisation model to support a data sharing economy. When developing an authorisation model, we encourage consulting DSPs to ensure that the solution is workable for all parties involved.

One of the main challenges in this space is creating trust in the data sharing system and ensuring that taxpayers understand what they are consenting to authorise. We expect that all participants in the tax system will have a role in educating taxpayers.

Authentication will play a significant role in the authorisation of data sharing. It will be important to ensure that the person who is requesting data is who they say they are or that they have the right to request data on behalf of someone else or a business. The ability for DSPs and others in the tax system to leverage common digital identity solutions will be integral to the authentication around data sharing.

Consideration 5: Availability

In a digital tax world, DSPs expect APIs to be fast and readily available. They should have minimal down time (e.g. 5 minutes) and this down time should be scheduled outside of normal business hours (e.g. at 3AM New Zealand time). While we are already beginning work in this area with the NZ DAG, we look forward to continued work on improving the practices around IR's APIs.

In the short term however, DSPs would like to see IR improve on their test system availability and the certification processes required to access them. This would be incredibly beneficial to

DSPs and how they currently work with IR. We believe this work in the short term will help support the long term goals and requirements for IR's test environments.

Earlier in the submission we noted that the data itself should be readily available to taxpayers which, in our view, would involve moving to real time payroll reporting. We note that there will be challenges to work through for employers, financial institutions and other government agencies as this shift occurs.

Consideration 6: Liability

In most circumstances, we would expect that the taxpayer would be liable for any tax shortfalls especially in a future where IR provides the tax calculations via API for DSPs to consume. We believe that DSPs and their products should be treated in a similar manner to accountants where the taxpayer is still liable.

Consideration 7: Defined roles in the system

DSPs would like to see clearly defined roles and responsibilities for each participant across the tax system as we move to a more digital system. There is an opportunity for IR to align with the General Data Protection Regulation (GDPR) approach. We recommend using the following titles, as a starting point, for identifying roles within the New Zealand tax system:
- Subject
- Controller
- Processor

We recognise that this is just the starting point. We are interested in working closely with IR on how to best identify and define the roles, responsibilities and consequences for participants operating within the tax ecosystem.

Consideration 8: Security

Uplifting the security of the New Zealand tax ecosystem to better protect DSPs, government agencies and taxpayers is paramount to the success of this digital future. From our perspective, the first step in this process is implementing a security framework for DSPs wishing to access IR services.

Given our members often operate their tax and payroll products in both Australia and New Zealand, they support a common approach to security across both countries. For this reason, we recommend aligning with the ATO's DSP Operational Security Framework and existing international security standards.

IR should undertake a robust co-design and consultation process to ensure that the resulting security framework meets the expectations of both IR and DSPs. During this process, IR should consider the following security and operational requirements:

- Audit logging
- Authentication
- Certification
- Data hosting
- Encryption
- Entity validation
- Incident reporting
- Personnel security
- Security monitoring
- Supply chain management
- Third party add-on / API consumer management

Further, the industry co-developed Security Standard for Add-on Marketplaces (SSAM) has played an integral role in setting the minimum security requirements for the third party software providers who consume APIs provided by DSPs. This may be another approach, or layer, to New Zealand's own security framework that is worth considering.

We look forward to working closely with IR and our members during the creation of this framework.