Impact Summary: Making Tax Simpler: Proposals for modernising the Tax Administration Act – rulings, amendments and tax intermediaries

Section 1: General information

Purpose
Inland Revenue is solely responsible for the analysis and advice set out in this Regulatory Impact Assessment, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing final decisions to proceed with a policy change to be taken by Cabinet.

Key Limitations or Constraints on Analysis

The limitations around the analysis are the following:

Simplified Rulings

Various factors have been taken into account in trying to determine the number of ruling applications that could be expected under the preferred option (introducing a simplified rulings regime). However, it has been difficult to predict the possible number of ruling applications because of the difficulty in determining the elasticity of demand, and so how any changes in the price may affect the demand for rulings. Inland Revenue has consulted with a limited number of tax agents that represent small and medium-sized taxpayers. The consultation suggested that some small and medium-sized taxpayers would see significant value in applying for a ruling, while other submitters suggested that they would not see value in such rulings.

Analysis was also undertaken of the Australian rulings regime. The Australian Tax Office (ATO) receives about 1,200 complex rulings applications per year. The complex rulings applications are of a nature similar to ruling applications under the current New Zealand regime. Of those received by the ATO, 400-500 relate to large corporate taxpayers. This would be similar given the relative sizes of the countries to the number of rulings applications received in New Zealand from large corporates under the current rulings regime (being approximately 80-100). Given the number of rulings for large corporates in Australia, it is estimated that 700-800 complex rulings per year relate to smaller taxpayers. Adjusting this to reflect the relative size of New Zealand would suggest that approximately 140-160 rulings from small and medium-sized taxpayers could be expected in New Zealand. However, the ATO does not charge any fees for providing rulings so it is unclear how the proposal to charge a fee for simplified rulings in New Zealand would impact on demand.

Minor errors

There is some uncertainty as to the number of taxpayers that are carrying forward errors into subsequent returns that are larger than the current statutory threshold. During consultation on the proposals, submitters suggested that it was common practice for taxpayers to carry forward larger errors, and that the current threshold was being largely ignored. As a result, there is some uncertainty about whether the proposed increased limit will change behaviour or simply endorse existing practice.

Tax preparers

There are currently 31 payroll service providers registered as PAYE intermediaries with Inland Revenue who would be eligible for extended service offerings under the preferred option. However, the total number of non-tax agents who would be eligible under the preferred option to register to receive extended service offerings for tax preparers is unknown, as no good data exists for the number of payroll bureaus and bookkeepers in New Zealand who offer tax preparation services.

Responsible Manager (signature and date):

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Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

Simplified Rulings

The binding rulings regime is a fee-based service provided by Inland Revenue and governed by Part 5A of the Tax Administration Act 1994. Binding rulings, in particular private rulings and product rulings, apply to a specific taxpayer or transaction.

The problem with the current binding rulings regime is that, in practice, it is generally only available to large taxpayers as small and medium-sized taxpayers are priced-out due to the cost involved.

The current rulings regime was set up to provide certainty to taxpayers on arrangements being carried out by them. This was seen as providing taxpayers with a private benefit, so the fees for rulings were determined on a full cost-recovery basis. Currently, private, product and status binding rulings all incur an application fee of $322 (GST inclusive) which covers the costs of receiving and reviewing the ruling application and a fee of $161 (GST inclusive) per hour spent by Inland Revenue considering the application and the issues it raises. This includes time spent consulting with the applicant. Inland Revenue's costs in obtaining independent advice from external professionals are also passed on to the applicant (although this is rare). As the rulings bind the Commissioner of Inland Revenue (the Commissioner), Inland Revenue commits significant resources to each ruling to ensure that the correct position is taken. This resulted in the fees charged for rulings being higher than originally estimated. In the year ended 30 June 2017, the average fee charged was $11,200. Further, taxpayers usually engage tax advisors to assist in the rulings process, which has added significant advisor costs to the process. The overall cost of the rulings process has meant that small and medium-sized taxpayers generally do not apply for rulings. This has meant that they have not been able to obtain the same level of certainty as larger taxpayers, and they are more likely to enter into a dispute with Inland Revenue as a result.[1]

Justice Glazebrook suggested that the inability of small and medium-sized taxpayers to get binding rulings was inconsistent with the principle of equality before the law.[2] Further, participants at the *Tax Administration in the 21st Century* conference in June 2014 commented that the lack of access to rulings meant that it was difficult to get certainty.

Private sector tax advisors can provide a certain level of assurance as to the tax outcome of a particular transaction. However, under the Tax Administration Act 1994 only Inland Revenue can provide certainty as to the tax treatment by providing a binding ruling.

Taxpayers can obtain certainty by taking a conservative tax position in a tax return, and then seeking to reduce the amount of tax payable through the disputes process. This process is referred to as a taxpayer-initiated notice of proposed adjustment. While this process does not have any fees, the costs for taxpayers and Inland Revenue is more than the rulings process

[1] Figures from 2013, which are the most recent available, show that 75% of disputes commenced in that year related to amounts less than $100,000 suggesting they were initiated by small and medium-sized taxpayers.

[2] Address to 2015 CA ANZ Tax Conference (November 2015).

because of the numerous stages and the time taken. As a result, it does not resolve the problem identified above.

Minor errors

Currently, genuine tax errors of less than $1,000 can be included in a subsequent return, rather than the original assessment having to be corrected. The process is intended to reduce compliance and administration costs for minor errors. The policy was intended to assist small and medium-sized taxpayers the most. However, the threshold is not limited to such taxpayers and can be used by larger taxpayers as well.

Generally under accounting standards, material changes must be included in the latest financial statements as comparatives for the past periods, including, where relevant, cumulative adjustments to any balances brought forward.[3] Materiality in accounting standards means a change that could influence the economic decisions that users make on the basis of the financial statements.[4] Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. Anecdotal evidence suggests most accounting corrections are made in the current period because they are considered not to satisfy the materiality threshold under accounting standards. This means that some minor errors can be included in the current set of accounts for accounting purposes, but must be included in the assessment for the original period for tax purposes. Having two different processes for minor errors adds compliance costs for taxpayers.

Tax preparers and nominated persons

As part of Inland Revenue's Business Transformation[5] programme (and related to the Government's wider *Better Public Services* initiative), Inland Revenue intends to offer more online services to tax agents as well as to other intermediaries. Given that these expanded services will include more self-service options and may potentially enable intermediaries to work more in real-time than at present, a concern is protecting the revenue base and the integrity of the tax system against any potential risks arising from intermediaries' use of these services.

Inland Revenue currently provides a range of services specifically for tax agents, including a dedicated phone service for tax agents to communicate with Inland Revenue and use of the E-File software package which allows tax agents to file their clients' tax returns electronically.

The statutory definition of a "tax agent" is used for determining who can access these services. This means that other tax service providers (such as those who only file GST returns and employer monthly schedules for their clients, or who provide budget advice and assist with tax return preparation and claiming social policy entitlements) are not at present given access these services, even though it would be desirable in many cases to do so. These providers can still look after their clients' tax and social policy affairs as nominated

[3] See NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

[4] See NZ IAS 1 Presentation of Financial Statements.

[5] Business Transformation is a multi-year, multi-stage programme to modernise New Zealand's tax administration.

persons (with similar access to the client through online services in myIR, including return filing), but without the services specifically for tax agents.

Restricting additional services to persons who are listed as tax agents is not required by law, but is an administrative decision by the Commissioner. The Commissioner can offer these services as widely or narrowly as she considers appropriate. However, revoking access to these services once granted can be difficult.

Provided that the Commissioner had the ability to withdraw these services from a non-tax agent if necessary to protect the integrity of the tax system, there would be no good reason for restricting these online services (including the new online service offerings that will become available under Business Transformation) to only tax agents. In a number of cases, these services would make it easier and more efficient for other tax service providers to manage their filing and payment performance, compared with using the limited services available to them under the status quo.

Inland Revenue's view is that a person who is nominated by a taxpayer to act on their behalf is the agent of the taxpayer under common law. Therefore, even if the Commissioner has reasonable tax integrity concerns about allowing a person to act for other taxpayers (for instance, because the person has convictions for fraud), the Commissioner cannot refuse to recognise that person as a taxpayer's nominated person because it is up to the taxpayer whether the nominee should act (or continue to act) on their behalf. However, there are concerns about the risk of persons who have been removed from the list of tax agents (due to tax integrity concerns) coming back into the system as nominated persons.

2.2 Who is affected and how?

Simplified rulings

Inland Revenue anticipates that most of those affected by the current cost barriers to getting a binding ruling are small and medium-sized taxpayers. The cost barrier prevents these taxpayers from obtaining greater certainty, which increases the likelihood of them entering into disputes with Inland Revenue. As noted above, the majority of tax disputes involve small and medium-sized taxpayers.

Minor errors

While the current threshold for including minor errors in a subsequent return affects taxpayers of all sizes, Inland Revenue anticipates that the major beneficiaries of the preferred option will be small and medium-sized taxpayers, as they are likely to have issues that fall within the relevant thresholds. However, the proposal is not limited to such enterprises and any taxpayer would be able to use the increased threshold. Taxpayers using the proposed increased threshold would not need to incur the cost of requesting a reopening of the original return and could instead include it in a subsequent return. Inland Revenue would benefit from reduced administrative costs in not having to reopen the relevant assessment.

Tax preparers

Inland Revenue expects that the group of tax preparers who currently do not receive Inland Revenue's services for tax agents consists mostly of bookkeepers and payroll intermediaries. Hence it is expected that the major beneficiaries of the proposal to clarify the group of persons who are eligible for the services for tax preparers that will become available under Business Transformation would include bookkeepers, payroll intermediaries and their clients.

Nominated persons

The current inability for the Commissioner to refuse to recognise a person as a taxpayer's nominated person may potentially advantage or disadvantage taxpayers that nominate a person to act for them. In some instances the exercise of a discretion to refuse to allow someone to be another taxpayer's nominated person, if legislated, may help to protect taxpayers from fraudulent or unscrupulous behaviour; on the other hand, it is possible (especially if there are not sufficient constraints on the Commissioner's ability to refuse to recognise a nominated person) that the taxpayer may be unfairly disadvantaged by the Commissioner's exercise of the discretion. This is the reason for limiting the exercise of the proposed discretion to circumstances where the person is acting on behalf of a taxpayer for a fee or is otherwise acting in a professional capacity. Situations where a person is acting for a family member are not proposed to be covered by the discretion.

2.3 Are there any constraints on the scope for decision making?

There are no constraints on the scope of options considered.

Section 3: Options identification

3.1 What options have been considered?

Assessment criteria

The following criteria were used to assess the options:

- **Sustainability:** the option should support the coherence and integrity of the tax system;
- **Compliance costs:** the compliance cost for taxpayers and their agents should be minimised as far as possible; and
- **Administrative costs:** the administrative costs to the Government should be minimised as far as possible.

Options

Two Government discussion documents in the *Making Tax Simpler* series on the Tax Administration Act were released in 2015 and 2016 (*Towards a new Tax Administration Act* and *Proposals for modernising the Tax Administration Act*). A number of the options discussed below were the subject of public consultation in the latter discussion document. Where the preferred options below differ from those consulted on in *Proposals for modernising the Tax Administration Act*, this is primarily as a result of the submissions received on the discussion document and of further consultation with stakeholders.

Simplified rulings

The main objective is to enable more small and medium-sized taxpayers to obtain rulings to increase the level of certainty they have. The sustainability criterion has greater weighting because it supports the integrity of the tax system.

The following options were considered:

- **Option 1 – Status quo:** The first option would be to retain the current rulings regime with the current fees and administrative requirements. As noted above at 2.1, the overall cost of the rulings regime has meant that small and medium-sized taxpayers have not been able to use the rulings regime, and this has raised questions about equality before the law.
- **Option 2 – Free rulings:** Many similar jurisdictions, including Australia, offer free rulings for taxpayers. Accordingly, the second option would be to remove all fees for rulings. This would achieve the main objective of enabling more small and medium-sized taxpayers to obtain the certainty afforded by rulings. It would significantly reduce the compliance costs for taxpayers because they would be able to apply for rulings for many more issues, and so they could ensure that they took the correct tax position. However, the extent to which this option would improve access to rulings is uncertain as taxpayers would still generally have to incur significant external advisor costs to satisfy the requirements of the current rulings regime. Also, this option could significantly increase the administrative cost for the Government because Inland Revenue would need the resources to deal with all the additional rulings applications.

Further, it would not reflect the private benefit that rulings applicants obtain through the rulings process.

- **Option 3 – Lower overall flat fee for all rulings:** The third option would be a lower flat fee for all rulings based on a schedule of the size and type of taxpayer. This option was proposed in *Proposals for modernising the Tax Administration Act*. The proposal was to allow small and medium-sized taxpayers to use the current rulings regime but with lower fees. While this would reduce the compliance costs for taxpayers to some extent, they would still generally need to incur significant external advisor costs to satisfy the requirements of the current rulings regime. As a result, it is unlikely to significantly achieve the objective of making rulings more accessible for small and medium-sized taxpayers. Inland Revenue would also incur significant administrative costs in ruling for small and medium-sized taxpayers under the current regime given the current administrative process. However, using a schedule of fees based on the size of the entity may in most instances mean that the cost for a ruling roughly approximates the private benefit (being the economic value of the ruling) that the applicant received.[6]

- **Option 4 – Simplified rulings:** The fourth option (the preferred option) would be to introduce a simplified rulings regime with reduced fees, which is focused on the needs of small and medium-sized taxpayers.

  Under this option, the simplified rulings regime would be available to entities whose annual gross income was $5 million or less for the tax year before the current tax year (aligning it with the Accounting Income Method (AIM) threshold). AIM is a new method for paying provisional tax based on current year tax-adjusted income. The AIM threshold covers a significant number of taxpayers and excludes large corporates with complex tax adjustments.[7] Also, the new regime would only be able to rule on issues when the tax at stake was less than $1 million (if calculable). This amount would be close to the highest amounts subject to audit or dispute involving small and medium-sized taxpayers as determined from 2016 data. Also, this threshold would include approximately 99% of both voluntary and audit reassessments in the 2015 income year.

  The option would involve removing some of the requirements for a ruling application and would streamline the administrative process for obtaining a ruling. Specifically, the application would only need to identify the applicant and to disclose all the relevant facts and documents. The application would not be required to state the specific taxation laws or the propositions of law. Applications would also not need to specify a particular arrangement. However, the applicant would need to state the general tax outcome that was being ruled on; eg, that the income is not taxable, that the expenditure is deductible, or that the applicant is resident for tax purposes. This would significantly reduce the compliance costs for small and medium-sized taxpayers by reducing the fees and possibly external advisor costs involved in the process, and so would make rulings more accessible for small and medium-sized taxpayers.

[6] While the private benefit of the ruling will be a function of the ruled transaction rather than the size of the applicant, the dollar value of the transaction in question and the size of the taxpayer will be correlated.

[7] The estimated number of provisional taxpayers with annual turnover of $5 million or less in 2016 was around 149,000.

The Commissioner would retain the discretion to decline to rule under the simplified regime if the characteristics of the application were such that the Commissioner deemed it appropriate to be dealt with under the current rulings regime. Examples of when an appropriate simplified ruling would not be available may include when the application:

- Raises issues where there is a significant absence, or perceived deficiency, in the relevant policy;
- Directly challenges an existing Inland Revenue policy or technical position; or
- Raises issues having significant national implications or a wide precedential effect.

The option would increase Inland Revenue's administrative costs of setting up the new process and dealing with any rulings under the process. To some extent Inland Revenue is currently providing advice in a less formal format, and only a small increase in resources will be needed to convert the advice into a ruling. Further, Inland Revenue anticipates that some of the simplified rulings will avoid the need for the taxpayer and Inland Revenue to enter into a dispute, so will divert resources from the disputes process to the rulings process.

Minor errors

The main objective is to better align the tax process for remedying minor amendments with the accounting treatment to reduce taxpayers' compliance costs. The sustainability criterion has greater weighting because it supports the integrity of the tax system.

The following options were considered:

- **Option 1 – Status quo:** The first option would be to retain the current $1,000 threshold for carrying forward minor errors into a subsequent return. As noted above at 2.1, this means that some minor errors can be included in a subsequent set of accounts for accounting purposes, but must be included in the assessment for the original period for tax purposes. Having two different processes for minor errors adds compliance costs for taxpayers.
- **Option 2 – Raising the threshold to $5,000:** The second option would be to raise the threshold for correcting minor errors in a subsequent return from a total tax discrepancy in a single return of $1,000 to $5,000. This would go some way to aligning the tax and accounting processes but it would have a relatively low limit. As a result, it would allow a better alignment than the status quo but it would not align as well as the other options. This option was suggested by one submitter on *Proposals for modernising the Tax Administration Act*.

  The option would reduce compliance costs for all taxpayers by allowing them to put errors up to $5,000 in a subsequent return rather than having to request to reopen the original assessment. Retaining a single monetary threshold would retain the simplicity of the current approach, so it would make it easier for taxpayers to determine when they could include an error in the subsequent return compared with the other options.

  This option would, however, raise concerns about the integrity of the tax system. The flat threshold would allow relatively large errors for small taxpayers to be included in a

subsequent return without Inland Revenue becoming aware of the error. Taxpayers could include errors up to a maximum adjustment of income or deductions of $17,855 for a company, $15,150 for an individual on the top personal tax rate and $38,335 for GST. For small taxpayers these amounts are relatively significant, and may encourage them to be less careful about first time accuracy which may harm the integrity of the tax system.

The option would reduce the administrative costs for Inland Revenue of reopening the original assessment for errors less than $5,000.

- **Option 3 – Introducing a supplementary threshold (up to 2% of taxable income or GST output tax if the error is $10,000 or less):** The third option (the preferred option) would supplement the current $1,000 threshold with an optional additional threshold that relies to some extent on the significance of the error for the particular taxpayer. This would allow taxpayers to include any error in a subsequent return if the amount of the error was equal to or less than both $10,000 and 2% of their taxable income or output tax in the return in which the taxpayer sought to include the error. It would be optional for taxpayers, and they could still include errors up to $1,000 in a subsequent return. This would further align the tax and accounting processes for small and medium-sized taxpayers in line with the original intent of the threshold.[8] The option would not provide a significant alignment with the accounting treatment for large enterprises.

  The option would reduce the compliance costs for all taxpayers for errors up to $10,000 (subject to the 2% threshold) by allowing them to include such errors in a subsequent return. This would remove the need for taxpayers to request to reopen the original assessment.

  Data from the 2014 and 2015 income years suggests that a maximum adjustment threshold of $10,000 would include 97-98 percent of amendments by number and 84-86 percent of adjustments by value. However, it is difficult to determine the additional number of errors that could be included in a subsequent return under this option. This is because it is unclear the extent to which taxpayers are complying with the current threshold. In addition, the data on the number of amendments made in the 2014 and 2015 did not link with the size of the taxpayer making the amendment. As noted above, the size of the error that a taxpayer would be able to carry forward into a subsequent return would be dependent on the amount of their taxable income or output tax.

  This option would continue to require larger errors to be included in the original return period, reflecting the lower compliance costs of amending previous assessments under the new computer system (START). For those more significant errors, the costs of reopening the original assessment under START would be less than the possible detrimental effects to the integrity of the tax system, which include:

  - Undermining the focus on taxpayers getting the original assessment right from the start;
  - Reducing the ability of Inland Revenue to identify the cause of the error, and

[8] See the commentary to the Taxation (Consequential Rate Alignment and Remedial Matters) Bill 2009.

to assist taxpayers to prevent it from happening again; and

- Creating opportunities for taxpayers to gain advantages from delaying the payment of tax.

The supplemental threshold would cause a very small increase in compliance costs for taxpayers in having to determine whether a specific error was within the threshold. However, taxpayers could avoid the additional compliance costs because the supplementary threshold would be optional, and they could either seek to have the original assessment reopened or they could continue to rely on the existing $1,000 threshold.

As such errors could be included in a subsequent return, the option would reduce the administrative costs for Inland Revenue. There may be a small increase in costs dealing with queries from taxpayers about whether an error comes within the threshold.

- **Option 4 – Introducing a larger supplementary threshold (up to 5% of taxable income or GST output tax if the error is $100,000 or less):** The fourth option is essentially the same as option 3 but with higher thresholds. The option would supplement the current single monetary threshold with an approach that relies to a much greater extent on the significance of the error for the particular taxpayer. This would allow taxpayers to include any error in a subsequent return if the amount of the error was equal to or less than both $100,000 or 5% of their taxable income or output tax in the return in which the taxpayer sought to include the error. It would be optional for taxpayers. This option would best align with the tax and accounting processes for small, medium and large enterprises. This option was suggested by some submitters on *Proposals for modernising the Tax Administration Act*.

  The larger supplementary threshold would increase risks to the integrity of the tax system. It would reduce the incentives for taxpayers to get their assessments right from the start, and would create opportunities for taxpayers to gain advantages from delaying paying tax. The option would reduce Inland Revenue's ability to ensure compliance with the relevant timing rules. These effects could undermine taxpayers' perceptions of the integrity of the tax system.

  The option would reduce the compliance costs of taxpayers by allowing them to avoid having to request the original assessment be reopened. The size of the threshold would mean that nearly all errors could be included in a subsequent return. In other countries with high error correction thresholds, there is a requirement on taxpayers to declare any errors over a lower threshold. Such a declaration process is to protect the integrity of the tax system. A similar requirement is likely to be necessary in New Zealand for a high error correction threshold. However, Inland Revenue considers that the manual process of declaring an error through a separate process may outweigh the compliance benefits under START of reopening the previous assessment.

  The option would reduce the administrative costs of Inland Revenue in dealing with errors that are included in a subsequent return. However, there could be additional compliance costs in dealing with any manual declaration process.

Tax preparers

The main objective is to reduce compliance costs for taxpayers and their agents (by expanding access to value-added services for tax preparers) while protecting the integrity of the tax system. The means via which this objective is to be achieved include providing transparency and clarity around the group of persons who are eligible for Inland Revenue's service offerings for tax preparers; and improving Inland Revenue's ability to refuse to allow a person to act on behalf of other taxpayers, where necessary, to protect the integrity of the tax system. The sustainability and compliance costs criteria therefore have greater weighting.

On the basis that Inland Revenue will make its extended self-service options for tax preparers available to intermediaries who do not meet the current tax agent definition, overall, compliance costs under each of the options detailed below should decrease compared with the status quo. This is because use of the online self-service options by tax preparers who opt to receive them would allow these intermediaries to work more efficiently over the longer term, and may assist them to carry out tax compliance tasks to a higher standard (which, in turn, would yield benefits for their clients and Inland Revenue).

Inland Revenue will also bear some administrative costs under each of the options, in the form of:

- information technology systems costs associated with the implementation of the new online services and extending these to a wider group;
- screening those applying to receive Inland Revenue's extended service offerings and processing the relevant forms;
- dealing with an initial increase in queries from tax preparers when the new service offerings are implemented in Stage 2 of Business Transformation[9];
- on-going support with the use of online services.

However, the increased take-up of online self-service options may lead to some reduction in administration costs for Inland Revenue over the longer term (for instance, as a result of a smaller volume of phone calls from tax preparers).

The following options were considered:

- **Option 1 – Status quo – non-tax agents continue to act as nominated persons:** The first option would retain the current definition of 'tax agent' in the Tax Administration Act. Non-tax agents would continue to look after their clients' tax and social policy affairs as nominated persons.

  Inland Revenue would still be able to offer the expanded online services for tax preparers to non-tax agents; however, maintenance of the status quo would not address the current uncertainty around the Commissioner's ability to revoke these services, along with access to clients' information, if necessary to protect the integrity of the tax system.

  On the other hand, if the proposed discretion for the Commissioner to not recognise a nominated person if doing so would adversely affect the integrity of the tax system

[9] Stage 2 of Business Transformation involves streamlining personal and business income taxes.

(as discussed under the nominated persons heading below) is proceeded with, then this may provide sufficient clarity around the Commissioner's ability to withdraw these services.

Option 2 – Change the tax agent definition to include other intermediaries: The second option would expand the group of persons who are eligible to apply for listing as a tax agent beyond just those who prepare 10 or more income tax returns per year. It would not be compulsory for persons who meet the eligibility criteria to apply for listing, as nominated person access is likely to be sufficient for some people who act on behalf of other taxpayers.

This would allow other tax preparers, such as bookkeepers and payroll intermediaries, to apply for listing as a tax agent to receive Inland Revenue's extended service offerings. It would also mean that a person could be removed from the list of tax agents and have their access to client information and tax agent services withdrawn if they adversely affect the integrity of the tax system.[10]

This option would impose some compliance costs on tax preparers (and on their clients) in the form of applying for listing, and gaining authorisation from their clients to act for them and to access the extended online services on their behalf. However, they would not be required to be listed as tax agents in order to act for their clients, but could instead continue to act as nominated persons without the additional services. Tax preparers would therefore only bear the compliance costs associated with becoming listed as a tax agent if they determine that doing so is worthwhile to receive the extended services.

Bringing other persons within the scope of the tax agent definition would require a contingent provision to clarify the group of persons who are eligible for an extension of time (since the extension of time criteria, which are currently linked to the tax agent definition, are not proposed to change). Given the purpose of the tax agent list is to keep track of the persons who are eligible for an extension of time, it is unnecessary to impose a requirement on the Commissioner to maintain a list that would include a number of persons who are not eligible for the extension of time. To keep track of the subset of tax agents who are eligible for an extension of time, this option would in practice require the maintenance of two lists – the tax agent list, and a list of those who are eligible for an extension of time.

This option would impose further administrative costs on Inland Revenue in the form of: processing an increased number of applications to be listed as a tax agent (including the associated screening processes); processing removals from the list of tax agents; and auditing authorities to act.[11]

- **Option 3 – Two-tier agency system:** Under the third option (the preferred option), the current definition of 'tax agent' would be retained and another term would be separately defined in the Tax Administration Act to include other tax preparers. Like the existing section dealing with tax agents, the new provision would set out the

[10] The existing discretion for the Commissioner to (if necessary) remove a person from the list of tax agents is subject to judicial review, which provides a check over the exercise of the discretion.

[11] While a process exists for tax agents to obtain the "authority to act" on behalf of their clients client via electronic means, many tax agents still have their clients sign a written authority to act form, which the tax agent is required to hold on file. Inland Revenue audits each tax agent's authorities to act by selecting 10 of the agent's clients and requesting to see the completed and signed authority to act forms for those clients.

Commissioner's ability to deregister the person if necessary to protect the integrity of the tax system. The Commissioner's exercise of this discretion would be a judicially reviewable decision.

This option would be more transparent and would provide more clarity for tax preparers and Inland Revenue than option 1. It would not only make the Commissioner's discretion to revoke tax preparer service offerings from a person if necessary to protect the integrity of the tax system explicit in the legislation, but would also make it clear exactly who is entitled to receive these extended service offerings.

Compared with option 2, this option would also better recognise the differing roles of tax agents and other tax preparers and would avoid conflating the two concepts. However, like option 2, this option would impose some compliance costs on tax preparers (and on their clients) in the form of registering with Inland Revenue to receive the extended services, and gaining authorisation from their clients to act for them. However, registration would not be compulsory; instead, they could continue to look after their clients' tax and social policy affairs as nominated persons. Therefore, tax preparers would only bear the compliance costs of registering if they determined that doing so was worthwhile to receive the extended services.

Eligibility to be registered as a tax preparer would be restricted to those who have 10 or more clients[12] and are in the business of acting on behalf of taxpayers in relation to their tax affairs or who carry on an occupation or professional public practice in which tax returns are prepared. This would also include those who perform pro-bono tax preparation services, provided that the requirement for at least 10 clients is met.[13]

Compared with the status quo (option 1), this option would impose further administrative costs on Inland Revenue in the form of processing registrations and deregistrations and auditing authorities to act. Unlike option 2, the Commissioner would not be statutorily required to maintain a list of tax preparers (other than the list of tax agents which is already required by law).

Nominated persons

The following options were considered:

- **Option 1 – Status quo:** The first option would maintain the status quo where a person who is nominated by a taxpayer to act on their behalf in dealing with Inland Revenue is viewed as the agent of the taxpayer under common law. Under this view, a nominated person's authorisation to act for a taxpayer can only be revoked by the taxpayer notifying Inland Revenue that the person is not to act for them any longer. This means that the Commissioner cannot unilaterally refuse to recognise the person

[12] This may include multiple entities within a group.

[13] Those with less than 10 clients will be able to use the online services that will be made available to taxpayers and their nominated persons who have a myIR account. The services that taxpayers and nominated persons with 'token access' will be able to access include changing registration details, registering new accounts, filing returns, making payments, setting up instalment arrangements, accessing transactions summaries and GST returns summaries, and sending and viewing email. The main difference between token access and access for tax preparers is that tax preparers will be able to link and delink their own clients (whereas nominated persons will only be able to access their clients' account information and return filing in myIR once the client has approved their access). There would also be some additional reporting which would likely only be useful for those with at least 10 clients.

as the taxpayer's nominated person, even if the person has been convicted of fraud.

The integrity risk of persons who have been removed from the list of tax agents (or deregistered as tax preparers) for tax integrity reasons coming back into the system as nominated persons, with no clear ability for the Commissioner to refuse to allow them access to taxpayers' account information and online filing for these other taxpayers, would therefore remain.

- **Option 2 – Limited discretion for the Commissioner to not recognise a nominated person:** The second option (the preferred option) would allow the Commissioner to choose not to recognise a person as a taxpayer's nominated person if she has reasonable tax integrity concerns about giving the person access to taxpayers' account information and online filing on behalf of that taxpayer. This would strengthen both the Commissioner's existing power to remove a person from the list of tax agents and the proposed discretion to deregister a tax preparer if necessary to protect the integrity of the tax system. However, the circumstances in which the Commissioner could refuse to recognise a nominated person would be limited to where the person is acting for a fee or is otherwise acting in a professional capacity.

  "Acting for a fee or otherwise acting in a professional capacity" would not cover situations where the person is acting for a family member or friend. "Acting in a professional capacity" would however cover situations where a person is performing pro-bono work for a number of taxpayers.

  Ensuring that the Commissioner can refuse to recognise a person who would not be allowed to be a tax agent would help to safeguard the integrity of the tax system by reducing the likelihood of that person being able to commit fraud. However, there is a risk that this may give tax officials too much discretion, which could result in use of the rule in some instances where a refusal to deal with a person nominated by a taxpayer is undue.

  The proposal is not aimed at subjecting nominated persons to more stringent regulation than that faced by tax agents. The proposal is instead intended to ensure that, if a person would not be allowed to be listed as a tax agent for tax integrity reasons, the Commissioner can choose, if necessary to protect the integrity of the tax system, to refuse to allow them to act for other taxpayers under the nominated person regime in appropriately limited circumstances. This is the reason for the proposed restrictions on the discretion (that is, the discretion can only be exercised where the person is acting for a fee or is otherwise acting in a professional capacity), which should help to ensure that the Commissioner's exercise of the discretion does not go too far. Further, the exercise of the discretion would be subject to judicial review.

3.2 Which of these options is the proposed approach?

Simplified rulings

Inland Revenue prefers option 4 (simplified rulings regime) because it:

- reduces the overall cost of rulings for small and medium-sized taxpayers, and should reduce the time to obtain a ruling;
- protects the rulings regime from excess demand or a need for increased Inland Revenue resources (as opposed to free rulings or reduced fees for all rulings)
- reflects the dual private and public benefit of the rulings regime for small and medium-sized taxpayers.

Minor errors

Inland Revenue prefers option 3 (introducing a supplementary threshold (lesser of $10,000 or 2%)) because it:

- better aligns with the current practices and accounting treatment of small and medium-sized taxpayers;
- produces a lower risk to the integrity of the tax system than option 4 (Introducing a larger supplementary threshold);
- enables the Commissioner to allocate her limited resources to collecting over time the highest net revenue that is practicable within the law by better focusing on significant risks (as the data suggests the threshold will include the majority of amendments); and
- reduces compliance costs for taxpayers and administrative costs for Inland Revenue.

Tax preparers

Inland Revenue prefers option 3 (two-tier agency system) because it:

- reduces the potential harm to the integrity of the tax system (compared with option 1); and
- allows for recognition of the differing roles of tax agents and other tax preparers (compared with option 2).

Nominated persons

Inland Revenue prefers option 2 (limited discretion for the Commissioner to not recognise a nominated person) because it reduces the harm to the integrity of the tax system.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties *(identify)*	**Comment**: nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks	**Impact** *$m present value, for monetised impacts; high, medium or low for non-monetised impacts*
Additional costs of proposed approach, compared to taking no action		
Regulated parties (Taxpayers)	**Simplified rulings**	
	Optional cost for taxpayers that choose to apply for a ruling under the simplified regime.	Low
	Minor errors	
	Optional cost for taxpayers in determining whether an error comes within the proposed threshold.	Low
(Tax preparers)	**Tax preparers**	
	Optional cost for tax preparers in determining whether or not they register with Inland Revenue to receive extended online services.	Low
	Costs for tax preparers and their clients associated with the linking process.	Low
	Potential costs for tax preparers as a result of being unduly deregistered – this may include costs associated with getting the decision judicially reviewed.	Low
(Nominated persons)	**Nominated persons**	
	Potential cost to persons that have been nominated by taxpayers to act on their behalf if they are unduly prevented from acting on behalf of others when dealing with Inland Revenue – this may include costs associated with getting the decision judicially reviewed.	Low
Regulators (Inland Revenue)	**Simplified rulings**	
	Increased administrative costs setting up the proposed simplified regime, processing rulings applications and writing the rulings.	Medium
	Minor errors	
	Small unquantified cost of explaining the threshold to taxpayers.	Low
	Less knowledge of errors being made by taxpayers	Low
	Tax preparers	Low
	Increased administrative costs making systems changes and processing	

	registrations and deregistrations. **Nominated persons** Where the proposed discretion is exercised, there would be minor administrative costs associated with delinking a nominated person from a taxpayer's account (so that the person no longer has systems permissions to file and access account information on behalf of the taxpayer).	Low
Wider government	N/A	N/A
Other parties (Taxpayers that use a nominated person)	**Nominated persons** Potential costs to taxpayers which may arise if their nominated person's authorisation to act for them is unduly revoked.	Low
Total Monetised Cost		N/A
Non-monetised costs		Low

Expected benefits of proposed approach, compared to taking no action		
Regulated parties (Taxpayers)	**Simplified rulings** Increased certainty and reduced risk of entering into disputes	Medium
	Minor errors Lower compliance costs in dealing with minor errors	Medium
(Tax preparers)	**Tax preparers** Access to online self-service options that would allow them to work more efficiently and view clients' tax accounts information in real-time.	Medium
(Non-tax agent intermediaries – tax preparers and nominated persons)	**Tax preparers / Nominated persons** Transparency around the Commissioner's discretions and the group of persons who are eligible to apply to receive Inland Revenue's extended service offerings.	Low
Regulators (Inland Revenue)	**Simplified rulings** Fewer taxpayers making mistakes, better compliance leading to a possible reduction in audits and disputes	Medium
	Better information about emerging issues	Medium
	Minor errors Reduced administrative costs of dealing with minor errors;	Low
	Increased ability for the Commissioner to allocate her limited resources to	Medium

	collecting over time the highest net revenue that is practicable within the law by better focusing on significant risks **Tax preparers / Nominated persons** Certainty around the Commissioner's ability to deregister a tax preparer or to refuse to allow a nominated person to act for taxpayers if necessary to protect the integrity of the tax system. Ability to revoke access for third parties with a history of tax fraud would reduce the risk to the Crown's revenue and to the integrity of the tax system. Transparency around the Commissioner's discretions and the group of persons who are eligible to apply to receive Inland Revenue's extended service offerings would promote the integrity of the tax system.	Low Low / Medium Low
Wider government	N/A	N/A
Other parties (Taxpayers – clients of tax preparers) (Taxpayers – clients of tax preparers and nominated persons)	**Tax preparers** Reduced compliance costs and/or increased standard of service for clients of tax preparers, as a result of tax preparers carrying out tax compliance tasks more efficiently with the use of online self-service options. **Tax preparers / Nominated persons** Potential taxpayer protection benefit associated with being able to deregister or refuse to recognise a person who has previously been removed from the list of tax agents for tax integrity reasons or who would otherwise very likely to adversely affect the integrity of the tax system (for instance, by defrauding their clients).	Medium Low / Medium
Total Monetised Benefit		N/A
Non-monetised benefits		Medium

4.2 What other impacts is this approach likely to have?

Simplified rulings

There is a possible fiscal risk from providing simplified rulings. The risk arises if taxpayers are given a ruling that later turns out to be incorrect (for instance, because not enough time was spent on the ruling), and that opens a fiscal risk for the Crown. The proposed thresholds under the preferred option reduce the monetary level of the risk. However, given the reduced scrutiny under the proposed option, as compared with the current rulings process, there is a greater risk of this occurring more frequently. The grounds for withdrawing a simplified ruling would be the same as the existing grounds in the Tax Administration Act for withdrawing binding rulings.

It is difficult to predict how much demand there would be for simplified rulings; hence there is some risk that there will be significantly higher demand for rulings than has been predicted, which may require further resourcing. Inland Revenue considers this risk would be mitigated to some extent by the fee charged for the simplified rulings, the entry requirements for when a simplified ruling can be applied for, and the application requirements for a ruling. The aim is to strike a balance between enabling small and medium-sized businesses to obtain simplified rulings to improve voluntary compliance without requiring significant additional resources for Inland Revenue to meet the demand.

Minor errors

There is a potential risk that increasing the threshold will encourage taxpayers to change their behaviour to include even larger errors (above the increased threshold) in subsequent returns. Submitters suggested that taxpayers may in practice be including errors larger than the current threshold in subsequent returns. Any increase in the threshold, therefore, may lead to an extension of this approach. This could have fiscal implications.

Tax preparers

There is a possible risk that a minority of tax preparers might use online services to carry out fraud which, due to the real-time nature of online services, would mean that fraudulent transactions would be quicker and easier to carry out. This is the reason for the proposed discretion for the Commissioner to deregister or to refuse to register a tax preparer if she has reasonable tax integrity concerns about allowing the person to access online services on behalf of other taxpayers.

Nominated persons

No other risks arising from this proposal (aside from the possible costs outlined in Section 4) have been identified.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

These proposals were foreshadowed in a green paper and a discussion document, *Making Tax Simpler: A Government green paper on tax administration* (released in March 2015) and *Making Tax Simpler: Towards a new Tax Administration Act* (November 2015). The specific proposals were included in the discussion document *Making Tax Simpler: Proposals for modernising the Tax Administration Act* (December 2016). An online forum was also provided at makingtaxsimpler.ird.govt.nz. There were 15 written submissions on the discussion document and 19 comments on the related online forum. The submissions are discussed below.

Simplified rulings

To make the binding rulings regime more accessible to small and medium-sized taxpayers, the discussion document included a proposal to reduce the fees for binding rulings. Submitters were generally in favour of the proposal, however, submissions disagreed over how fees should be decreased. Some submissions favoured retaining an hourly rate while others suggested flat or graduated fees. Supporters of a graduated fee suggested it would be fairer across different types of taxpayers. Others suggested that such an approach may discriminate between taxpayers.

Three submissions also raised concerns that the time required for a ruling was a disincentive to their use. It was suggested that small and medium-sized taxpayers were often focussed on growth and needed to make quick decisions, while all taxpayers have business opportunities that develop unexpectedly and need rulings quickly.

Submissions suggested that merely reducing the fees charged for rulings would not increase the use of them. The preparation costs with the current rulings regime would still be a barrier. Some submitters suggested that a simplified regime should be put in place to reduce the preparation costs of a binding ruling.

Concerns were raised about whether the rulings team would be adequately resourced to cope with the increase demand for binding rulings that may come from reduced fees. It was noted that the rulings team currently provides a high standard of service and the standard and timeliness of rulings may suffer if further resourcing is not provided to the rulings team to cope with any increased demand.

The above submissions were taken into account in designing the preferred option of a simplified rulings regime for small and medium-sized taxpayers. In particular, the simplified regime has been designed to be quicker and cheaper overall, and to complement the current rulings regime.

Submitters also submitted that small and medium-sized taxpayers should be given greater access to less formal forms of advice, as they may be more suitable for the less complex tax issues raised by these taxpayers. As noted in *Proposals for modernising the Tax Administration Act*, Inland Revenue is in the process of designing its future organisational

structure which will be crucial in determining how it will balance its resources and provide more effective advice. This will include consideration of giving greater access to less formal advice.

Questions were also raised as to why the proposal placed such a high priority on small and medium-sized taxpayers as opposed to the range of other taxpayers that may wish to access binding rulings. Other submitters noted that large taxpayers were well-serviced by the current rulings regime, and preferred no changes be made for those taxpayers. Inland Revenue considers that larger taxpayers are adequately serviced by the current rulings regime, and that the problem relates to the difficulty of small and medium-sized taxpayers obtaining the same certainty.

Minor errors

Submissions on the proposal to expand the current approach to minor errors were favourable of the concept. However, differing views emerged as to how minor errors should be approached.

Submitters suggested options including:

- A single threshold increased from $1,000 to $5,000
- A threshold with a significantly higher monetary threshold based on materiality to the taxpayer; for example, the lower of $100,000 or 5% (or 1%) of the taxable income or output tax.
- A threshold based on the use-of-money interest implications of the error rather than the amount of tax or income involved.

The first two options suggested are reflected in the options discussed above. Inland Revenue considered:

- the second and third options suggested above raised too many risks to the integrity of the tax system; and
- the third submission would be too difficult to work in practice.

A number of additional comments were also made on this proposal. It was submitted that a more useful remedy would be to extend the statutory response period in which a taxpayer may dispute their own assessment, as New Zealand currently has a uniquely brief period in which this may occur (within 4 months from the date of the return). Inland Revenue considers that the response period would need to be considered as part of a broader review of the disputes process.

Tax preparers

Proposals for modernising the Tax Administration Act consulted on a proposal to amend the statutory tax agent definition to include a wider group of "tax intermediaries", such as those who may file only GST and/or PAYE returns (option 2 discussed in section 3.1). However, submitters made a number of comments as to exactly how the definition of a tax agent should be amended. This included that there should be no fee earning criterion to be a tax agent as proposed in the discussion document. In particular, submitters said the proposed fee earning criterion should not apply to agents or intermediaries performing pro bono work

for charities and not-for-profits, and that tax agents and other intermediaries who prepare tax returns on behalf of their employers should also remain eligible to be tax agents.[14]

A few submissions stated that tax intermediaries and tax agents are distinct and the terminology should not be conflated. One submitter suggested that a better way to achieve both recognition and regulation of tax intermediaries who do not meet the current tax agent definition is to create a separate "tax intermediary" definition, as doing so would allow the retention of the current tax agent definition (which already sets out the eligibility criteria for an extension of filing time) and would recognise important differences between the two groups.

It was further submitted that the majority of those currently meeting the definition of "tax agent" are subject to high levels of scrutiny and accountability and are required to have certain qualifications and meet continuing professional standards. As such, this will continue to justify the recognition of tax agents as distinct from intermediaries, despite the expansion of the role of tax intermediaries. Another submitter supported combining tax agents and intermediaries but submitted that, if the distinction between the two remains, then the distinction needs to be clear.

These submissions are reflected in the discussion of the options above. Inland Revenue agrees with submitters that there should be no fee-earning criterion to be registered as either a tax agent or a tax preparer. Those who prepare income tax returns for their employers (such as in-house accountants preparing tax returns for multiple entities within a group) or who perform pro-bono income tax preparation services for 10 or more taxpayers are not currently excluded from being tax agents and Inland Revenue does not consider this should change. Further, there is no reason to exclude those preparing returns for other tax types (such as GST and PAYE) from accessing the new services for tax preparers on the basis that they do not earn a fee.

In light of the submissions received on the differing roles of tax agents and other intermediaries, Inland Revenue considers it is appropriate to recognise these two groups as distinct. The boundary between how the two groups are defined should be clear, as the preferred option (option 3) would retain the current tax agent definition.

Nominated persons

Three written submissions and one online forum comment expressed support for the proposal to provide the Commissioner with a legislated discretion to not recognise someone as a nominated person, if doing so would adversely affect the integrity of the tax system. One submitter commented that the Commissioner's use of this discretion should be a reviewable decision. Two commentators on the online forum were opposed to the proposal, one stating that it is up to the taxpayer who represents them and should not be a matter for the

[14] The intention behind the fee-earning criterion proposed in the discussion document was to differentiate between intermediaries who carry out a business or occupation that involves the preparation of tax returns, versus those who only act for other taxpayers in a small-time capacity. This is because the additional services would be of greater benefit to those in the former group, while the nominated person regime should be sufficient for those in the latter group. It was never intended that the likes of in-house accountants and those preparing GST and PAYE returns for multiple charities and non-profit bodies on a pro-bono basis be excluded from the scope of the proposal. Exceptions to the fee-earning criterion for these intermediaries were proposed in the discussion document, but it seems these were not as clearly explained as they could have been.

Commissioner.

Inland Revenue recognises that the exercise of such a discretion, especially if it is drafted too widely, may in some instances unfairly disadvantage taxpayers that have nominated a person to act for them. This is the reason for limiting the exercise of the proposed discretion to circumstances where the person is acting on behalf of a taxpayer for a fee or is otherwise acting in a professional capacity. Inland Revenue therefore expects that the potential risk would be outweighed by the tax integrity benefit from not allowing clearly unfit persons (who are acting in a paid or professional capacity) to file returns on behalf of other taxpayers and access their information.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

The preferred options will need to be implemented by legislative amendments to the Tax Administration Act 1994.

The legislative amendments could be included in the first omnibus tax Bill in 2018. The amendments would apply from the date of enactment. Explanation of the amendments and their effect would be contained in a *Tax Information Bulletin*, which would be released shortly after the bill received Royal assent.

Simplified rulings

The simplified rulings regime would need similar provisions to the current rulings regime to be enacted. The current requirements for a taxpayer to apply for a ruling would be tailored for the simplified regime. The thresholds would also be specified in the legislation. The fees for the simplified rulings regime would be specified in regulations (as is currently the case) or by the Commissioner at a later date and subject to the regulatory impact analysis requirements as necessary.

The implementation of the preferred option would require an internal Inland Revenue process to issue the simplified rulings applications. The internal process would be developed in conjunction with the organisational design process that is currently being undertaken within Inland Revenue.

There is a risk that there could be a significantly larger number of ruling applications than currently anticipated (being approximately 140-160 rulings per year). This would require Inland Revenue to commit significantly more resources to processing the rulings. Given the fees and likely advisor costs for applying for a ruling, the risk of a significantly larger number of rulings than anticipated is considered to be small. In any event, any further resources committed to the simplified rulings regime may be in substitution for other forms of advice currently provided or for disputes that would otherwise occur. As a result, if further resources are required for the simplified rulings regime these may to some extent come from a reduction in resources needed in other areas.

Minor errors

The proposed increase in the threshold for amending minor errors in a subsequent return would require an amendment to the Tax Administration Act 1994.

Tax preparers and nominated persons

The proposed provision to define the group of persons who are eligible to receive Inland Revenue's extended services for tax preparers, along with the discretion for the Commissioner to deregister or refuse to register a tax preparer if necessary to protect the integrity of the tax system, would require an amendment to the Tax Administration Act 1994, as would the proposal to provide the Commissioner with a discretion to choose not

to recognise a nominated person if doing so would adversely affect the integrity of the tax system.

The number of persons who would apply for registration as a tax preparer is unknown, so there is a risk that a large volume of applications may require Inland Revenue to commit more resources to processing the applications in the short term. However, given the compliance costs involved in registering and in getting authorisation from clients to access these services on their behalf, it is expected that a number of those eligible, particularly those who are less technologically savvy, may prefer to remain in the nominated person regime. The proposed restriction on eligibility to those who carry on a business or occupation in which tax returns are prepared, or who prepare tax returns for an employer, and who act on behalf of 10 or more taxpayers[15], would also constrain the number of those eligible to apply for the services.

[15] This may include several entities within a group.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Inland Revenue will monitor the outcomes of the changes pursuant to the Generic Tax Policy Process (GTPP). The GTPP is a multi-stage policy process that has been used to design tax policy (and subsequently social policy administered by Inland Revenue) in New Zealand since 1995.

For the simplified rulings proposal, the monitoring would involve a review of the number of rulings made, and the types of taxpayers applying for rulings. Further indicators of the effectiveness of the policy may include the average time taken to make the rulings and the overall costs incurred by taxpayers in obtaining the rulings.

For the proposal to increase the threshold to carry minor errors into a subsequent return, monitoring would more problematic. The fact that taxpayers would not be required to notify Inland Revenue when they had included a minor error in a subsequent return would make it difficult for Inland Revenue to monitor the effectiveness of the proposal. Two possible indicators of the effectiveness of the policy may be:

- Feedback from taxpayers and representative groups that the amendment had reduced compliance costs for taxpayers; and
- A reduction in taxpayers contacting Inland Revenue to remedy minor errors within the proposed threshold.

For the proposal to introduce a new provision in the Tax Administration Act to clarify the persons who are eligible to register with Inland Revenue to receive the extended service offerings for tax preparers, the monitoring would involve feedback from tax preparers and representative groups on the extended service offerings, and may include a review of the number of tax preparer registrations processed and the number of deregistrations.

For the proposed Commissioner discretion to refuse to recognise a nominated person (if allowing the person to act for other taxpayers would adversely affect the integrity of the tax system), a possible indicator of whether the policy is appropriate may be the number of Commissioner-initiated revocations of access rights for nominated persons, as well as feedback from taxpayers, tax service providers and operational staff within Inland Revenue.

7.2 When and how will the new arrangements be reviewed?

The final step in the GTPP is the implementation and review stage, which involves post-implementation review of legislation and the identification of remedial issues. Post-implementation review is expected to occur around 12 months after implementation. Opportunities for external consultation are built into this stage.

Any necessary changes identified as a result of the review would be recommended for addition to the Government's tax policy work programme, and any resulting proposals would go through the GTPP.