Inland Revenue's new mega-computer system

Keith Rankin, 13 May 2013

In the wake of the Novopay debacle and other underwhelming government IT projects, Inland Revenue (IRD) is embarking on the biggest project yet. It is required to be on a multi-billion dollar scale, according to Revenue Minister Peter Dunne, because "IRD's functions had changed" ("$1.5b upgrade for IRD's 'fully stretched' computer system", *NZ Herald*, 1 May).

Inland Revenue certainly does far more than collect taxes. The completion of this IT behemoth will ensure that it continues to do far more than a government revenue collection agency should do. Philosophically, I (and many others) favour a small IRD.

Now is the time to question the IRD's enlarged functions.

In the 1970s, the New Zealand taxation system moved firmly to taxation on an individual rather than family basis. This approach is generally accepted by libertarians and tax professionals to be both more equitable and more efficient. After the 1978 income tax changes, New Zealand's system was unusually simple as well as almost fully individualised.

The 1970s also saw major changes in the social welfare 'benefit' system, with expanded entitlements implemented after the 1972 McCarthy Report, and then National Superannuation in 1976. These payments were managed by the Department of Social Welfare (DSW). This agency is now Work and Income (WINZ), an operational unit attached to the Ministry of Social Development.

Thus, in the early 1980s, we had a simplified individual-based collection agency (IRD), and an expanded but simply-structured agency (DSW) managing family-based transfer payments and retirement dividends.

This all changed in October 1986 with the introduction of 'Family Support', a system of means-tested family benefits that were called 'tax credits' – a newly fashionable term – and were handed over to the collection agency (IRD) rather than to the payments agency.

This change both made the IRD into a competing payments agency, and reversed the trend for the IRD to deal with their clients on a strictly individual basis. Two competing government agencies were now collecting substantial data on their clients' family circumstances.

The complications for the IRD expanded in1992 with the introduction of the new 'Child Support' system, and the commencement of the Student Loan scheme. It was also in the 1990s that the DSW became WINZ.

Child Support could have been simply a collection scheme, designed to collect moneys from individuals in accordance with court orders on liable parents. But instead it became an administratively complex compliance scheme for the IRD, in which levies were deducted from liable parents and payments made either to custodial parents or, as benefit recovery, to WINZ.

Student loan repayments became unnecessarily complex to administer, despite the IRD's role being relatively straightforward, managing repayments as an additional income tax.

A rationalisation of the activities of the IRD and WINZ will make the new IT behemoth unnecessary. The Ministry of Education should also be involved in such a process.

The simple principle would be that Inland Revenue deals solely with all tax-resident individuals, while Work and Income deals with households requiring help.

Thus the IRD would collect taxes, and pay any individual benefits that neither require the gathering of information about other related people nor information about how many hours a person works.

The kinds of information the IRD would need are the ages of their clients, their income histories, and the level of their debts to other government agencies. The IRD would pay New Zealand Superannuation, which is essentially a retirement dividend. And Inland Revenue could manage the collection of student loan repayments, and liable parent liabilities.

Further, through public sector accounting reform, by adopting the Basic Income Flat Tax (BIFT) approach to tax accounting, the computing requirements of the IRD diminish by an order of magnitude.

Almost every New Zealand taxpayer or beneficiary receives something back from a government agency, be it an income tax discount on the first $70,000 of earnings, a student allowance, a family 'tax credit', a pension, or an unemployment benefit. BIFT, in today's New Zealand context, would account for all income tax at a flat rate of 33%, and treat the first $9,000 of tax discounts or individual benefits as a basic income (or public equity benefit).

Tax evasion and "legitimate tax avoidance" (Peter Dunne's infamous expression) are both very difficult to perpetrate under a flat tax regime. With simplified accounting, we do not need IT behemoths to deal to these moral hazards.

Conditional payments – in particular those affected by family circumstance, unemployment or disability – would be funded by Work and Income. Thus only WINZ should keep records of family relationships, and most New Zealanders would not need to be clients of WINZ.

If the New Zealand IRD sticks to its well-established individualist ethos and adopts the simplest available form of tax accounting, then it has no need for a computer system on anything like the scale of that proposed.

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