



Performance audit report

Inland Revenue Department: Making it easy to comply





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Inland Revenue Department: Making it easy to comply

This is the report of a performance
audit we carried out under section
16 of the Public Audit Act 2001

June 2011

ISBN 978-0-478-38304-1 (print)
ISBN 978-0-478-38305-8 (online)

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Auditor-General's overview

The tax system is most effective and efficient when taxpayers voluntarily pay their tax on time and in full. The Inland Revenue Department (Inland Revenue) has adopted a strategy to support voluntary compliance by making it easy for taxpayers to comply with their tax obligations.

Making complex tax law easy for taxpayers to comply with is a challenging and important goal. A taxpayer who can easily understand their tax obligations is more likely to pay their tax than a taxpayer who does not understand. When a taxpayer does not pay tax, Inland Revenue must enforce compliance, which is less efficient and adds to the cost of collecting tax.

In my view, Inland Revenue can make it easier for taxpayers who need to file a tax return for the first time to understand their tax obligations and pay their tax. Our performance audit identified some obstacles a taxpayer faces when they are trying to understand how to file a tax return for the first time. None of these obstacles should stop a taxpayer from paying their tax, but removing these obstacles would make it easier for taxpayers to do so.

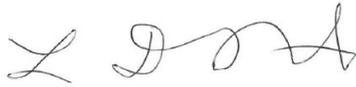
By making it easier for taxpayers to comply with their obligations, Inland Revenue could reduce the costs for taxpayers to comply, collect more revenue that is legitimately owed to the Crown, and spend less on collecting tax debt.

Inland Revenue needs to better understand how effectively its different communication channels make it easy for taxpayers to comply with their tax obligations. Inland Revenue currently collects information about how useful interactions with its contact centre are for taxpayers. However, it needs to better understand how useful some of its other main communication channels, such as its website and publications, are for taxpayers.

Inland Revenue can improve the information it provides to make it easier for taxpayers to comply. I would like to see Inland Revenue test the usability of the materials it creates with taxpayers and place more emphasis on understanding the usefulness of its materials.

Inland Revenue is aware that it can improve how it provides information to taxpayers and has prepared a communication channel strategy to do this. This strategy appears sensible and is similar to the approach taken by overseas revenue collection agencies.

I thank the staff of Inland Revenue for providing my Office with assistance and co-operation during this audit.

A handwritten signature in black ink, appearing to read 'Lyn Provost', written in a cursive style.

Lyn Provost
Controller and Auditor-General

14 June 2011

Our recommendations

We recommend that the Inland Revenue Department:

1. monitor how effective and useful its website and publications are for taxpayers;
2. create materials targeted at taxpayers with a high risk of non-compliance to help them easily understand their tax obligations and pay their tax;
3. test the usability of its website on taxpayers and design its website so taxpayers can more easily find the information they need;
4. review its quality assurance systems and processes for its contact centre and find ways to make sure that:
 - the calls to be assessed are randomly selected;
 - assessors verify that all necessary checks have been carried out;
 - consistent quality assurance processes are applied to all calls received; and
 - assessments are calibrated on a regular basis to ensure consistency; and
5. as it updates the telephone scripts its staff use, clearly set out the information that must be provided to taxpayers and consider how that information should best be delivered to them.

Part 1

Introduction

- 1.1 We became interested in how the Inland Revenue Department (Inland Revenue) is carrying out its strategy to support voluntary compliance during the course of our 2010 performance audit *Inland Revenue Department: Managing child support debt*. That audit found that Inland Revenue could better explain the child support scheme to support compliance.
- 1.2 The tax system is most effective and efficient when taxpayers¹ voluntarily pay their tax on time and in full. Therefore, part of Inland Revenue’s strategy to support voluntary compliance is to make it easy for taxpayers to comply with their tax obligations. In its *Annual Report 2009*, Inland Revenue states:
- An important part of our compliance approach is making it easy for customers to comply. We continue to do this by providing information and services online and delivering direct contact services by telephone, counter visits and community advisories. Making it easy for our customers to comply is more efficient for them and us and helps to reduce compliance costs.²*
- 1.3 We carried out a performance audit to see how effective Inland Revenue is in making it easy for taxpayers to comply with their obligations to pay tax. As part of the audit, we tested Inland Revenue’s website with two groups of taxpayers – tradespeople and rental property owners – who had new tax obligations. Both groups are liable for income tax, and may also be liable for Goods and Services Tax (GST). We also reviewed some of Inland Revenue’s guides and forms, and made some “secret shopper” calls to its contact centre.
- 1.4 In Figure 1, Inland Revenue’s compliance model for collecting tax shows how taxpayers’ attitudes about compliance relate to the actions Inland Revenue uses to encourage compliance. It shows, for example, that Inland Revenue tries to make it easy for taxpayers who are “willing to do the right thing”.
- 1.5 About \$246 million of the 2010/11 Vote Revenue appropriation is spent on informing the public about their entitlements and their tax obligations. This appropriation helps Inland Revenue to support voluntary taxpayer compliance.

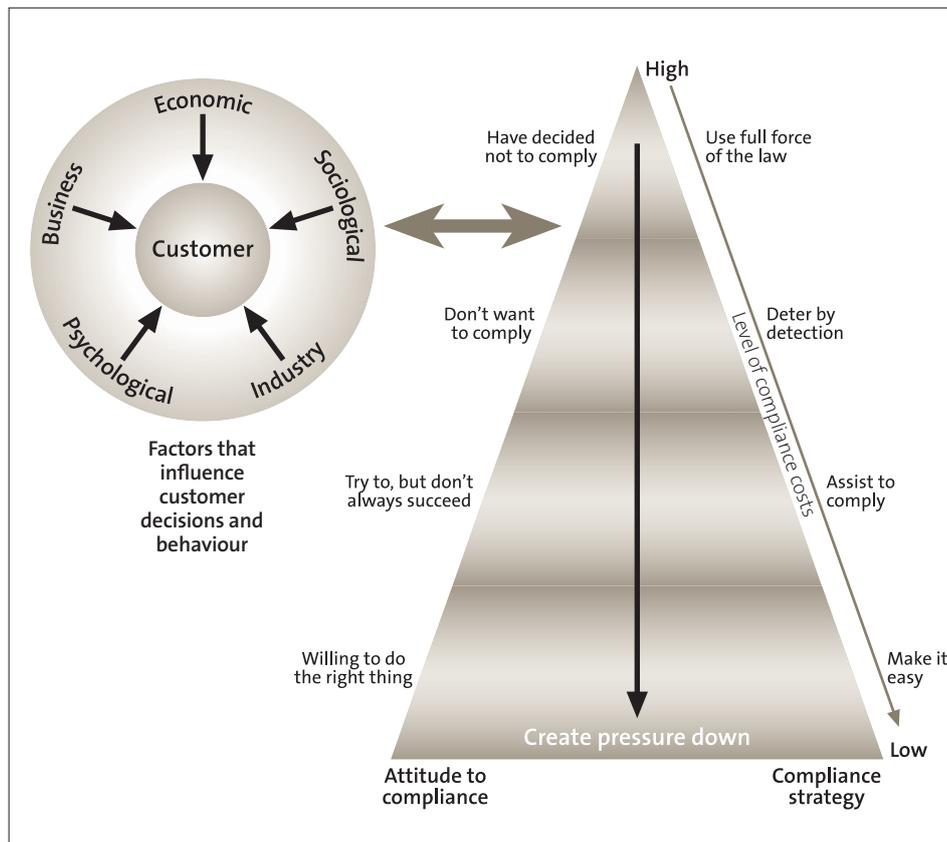
Compliance for most taxpayers is straightforward

- 1.6 Most people pay income tax automatically through deductions from a salary or wage using the “pay as you earn” (PAYE) system. For the 2010 tax year, about 1.4 million people paid tax this way. Therefore, for those who receive only a salary or wage, voluntary compliance is generally straightforward and requires little or no effort.

1 For ease of reading, we use the term “taxpayer” to refer to individuals with tax obligations irrespective of whether they currently comply.

2 Inland Revenue Department (2009), *Annual Report 2009*, page 25.

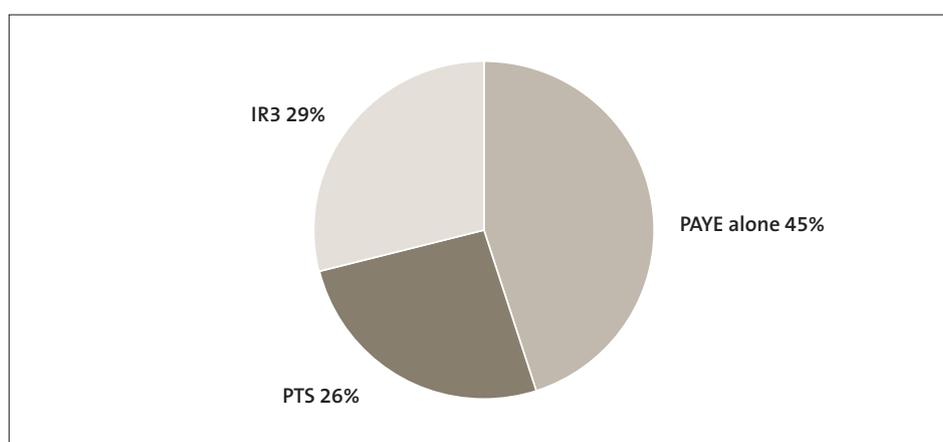
Figure 1
Inland Revenue's compliance model for collecting tax



Source: Inland Revenue.

- 1.7 Some people receive income from sources other than a salary or wage. This may include income from investments such as a rental property or income from business activities. These taxpayers need to file a tax return to report their income to Inland Revenue. Taxpayers do this by filing either a personal tax summary (PTS) or an IR 3 tax return. They then pay tax on their total annual income.
- 1.8 For the 2010 tax year, about 474,000 people were required to file a PTS and a further 343,000 filed a PTS voluntarily, often through a tax refund specialist. For the same year, about 901,000 people filed an IR 3. Of those filing an IR 3, 144,000 declared rental income and about 127,000 declared income from self-employment.
- 1.9 Figure 2 shows the percentage of taxpayers finalising their tax by PAYE alone, a PTS, or an IR 3.

Figure 2
How taxpayers finalised their income tax in 2010



Source: Inland Revenue.

Making it easy to file a tax return

- 1.10 A taxpayer who understands their tax obligations is more likely to pay their tax than a taxpayer who cannot understand their tax obligations. Inland Revenue's strategy of making it easy to comply is important because, in most instances, the first action needs to come from the taxpayer. If a taxpayer does not know that they need to file a tax return, they will not do so. If a taxpayer finds it difficult to learn about or understand their tax obligations, they may not file a tax return.
- 1.11 Some taxpayers have a high risk of non-compliance. For example, those who receive income and pay expenses on a cash basis. In our view, Inland Revenue's strategy of making it easy to comply is particularly relevant for these taxpayers. If they do not pay their tax voluntarily, the money they owe to the Crown may never be collected.
- 1.12 When a taxpayer does not voluntarily comply with their tax obligations, Inland Revenue must take steps to enforce compliance. Enforcing compliance is less efficient and adds to the cost of collecting tax. About \$273 million of the 2010/11 Vote Revenue appropriation is spent on auditing taxpayers' income, and managing debt and outstanding returns.

Tax debt

- 1.13 When a taxpayer does not pay their tax on time, Inland Revenue considers that taxpayer to be in debt. The debt incurs penalties and, as the debt increases and ages, it becomes harder to collect and is more likely to be written off.
- 1.14 In its *Annual Report 2010*, Inland Revenue reported that about \$4.6 billion in outstanding tax debt was owed to the Crown. In the same year, Inland Revenue wrote off about \$619 million in tax debt as uncollectable. Inland Revenue will write off tax debt:
- in cases of serious hardship;
 - when it has recovered all it can; or
 - for administrative purposes, such as writing off debts of very low value.

How we carried out our audit

- 1.15 Tax law can be complex, and Inland Revenue needs to administer all aspects of tax law. We did not assess all of the aspects that Inland Revenue administers. Instead, we focused on how easy it is for two groups of taxpayers to pay their tax. These groups of taxpayers are individuals who are about to start receiving income for the first time from:
- a rental property; or
 - self-employment.
- 1.16 In the 2010 tax year, 33,673 taxpayers declared income from self-employment or from a rental property who had not declared this type of income in the previous four years. We have focused on taxpayers who face these new tax obligations because this type of income is common and the risk of non-compliance by taxpayers who are self-employed is high. It also allowed us to assess how easy it is for taxpayers to understand their new tax obligations.
- 1.17 We set our audit expectations based on our view that, to effectively implement its strategy of making it easy for taxpayers to comply, Inland Revenue needs to:
- take a co-ordinated approach to communicating with taxpayers and provide them with the information they need when they need it, using appropriate and cost-effective communication channels;
 - produce written and online materials for taxpayers that are clearly structured and written so taxpayers can easily understand them; and
 - make sure that the telephone support it provides to taxpayers is easy to access and provides accurate and timely information.

- 1.18 To assess the first aspect, we reviewed relevant documents and reports produced in New Zealand and overseas to help us understand the communication approaches taken by others. We then interviewed staff at Inland Revenue and reviewed public and internal documents and reports. We also looked at the reporting activities that Inland Revenue uses to monitor its performance.
- 1.19 To assess the second aspect, we took two approaches. First, we hired an independent research firm to conduct website user testing with taxpayers based in Auckland. The user testing allowed us to understand how easily the participants could find materials on Inland Revenue’s website and how helpful those materials were.
- 1.20 Secondly, we collated some good practice expectations about how documents should be presented to the public and assessed some of Inland Revenue’s documents against these expectations (see Appendix 1).
- 1.21 To assess the third aspect, we reviewed the performance information that Inland Revenue collects to monitor its contact centre and the quality assurance measures that it uses to monitor the performance of its staff. We also conducted some “secret shopper” telephone calls, which allowed us to examine the performance of Inland Revenue’s contact centre.
- 1.22 For all of our findings, we considered the consistency of information from our sources. We also looked at how well that information aligned with our expectations. Our analysis of how well Inland Revenue met our audit expectations is the basis for our judgement on how effective Inland Revenue is in making it easy for taxpayers to comply with their tax obligations.

What we did not audit

- 1.23 We did not audit:
- the interactions or materials Inland Revenue produces or provides for tax agents;
 - obligations relating to PAYE or any other forms of tax other than personal income tax and GST;
 - obligations of entities other than individuals or sole traders, such as companies or trusts; and
 - any aspects of Inland Revenue’s contact centre not discussed in this report.

Part 2

Inland Revenue's approach to communicating with taxpayers

2.1 In this Part, we describe how Inland Revenue communicates with taxpayers and how it considers the costs of interactions with taxpayers. We discuss:

- the scale of Inland Revenue's communications with taxpayers;
- Inland Revenue's communication channel strategy;
- understanding the effectiveness of communication with taxpayers; and
- costs of communicating with taxpayers.

2.2 We expected Inland Revenue to take a co-ordinated approach to communicating with taxpayers, providing them with the information they need, when they need it. We also expected Inland Revenue to select appropriate and cost-effective communication channels and to monitor its overall performance.

Summary

2.3 Inland Revenue has noted that it can improve its current approach to selecting the right communication channels. Inland Revenue plans to adopt a new communication channel strategy. In our view, the strategy that Inland Revenue is developing appears sensible. However, the challenge for Inland Revenue will be to successfully implement this strategy.

2.4 Inland Revenue currently collects information about the effectiveness of its contact centre and the number of interactions supported by its contact centre. Inland Revenue also collects information about the number of interactions at its website, but it does not collect information about the effectiveness of the website interactions. To successfully implement its new communication channel strategy, Inland Revenue needs to better understand how effective its other important communication channels, such as its website and publications, are for taxpayers.

2.5 Inland Revenue has many interactions with taxpayers each year through a wide range of communication channels. It has begun to collect more detailed information about the cost of each interaction. Inland Revenue needs to understand these costs so that it can consider the costs of communicating with taxpayers against the effectiveness of the communication.

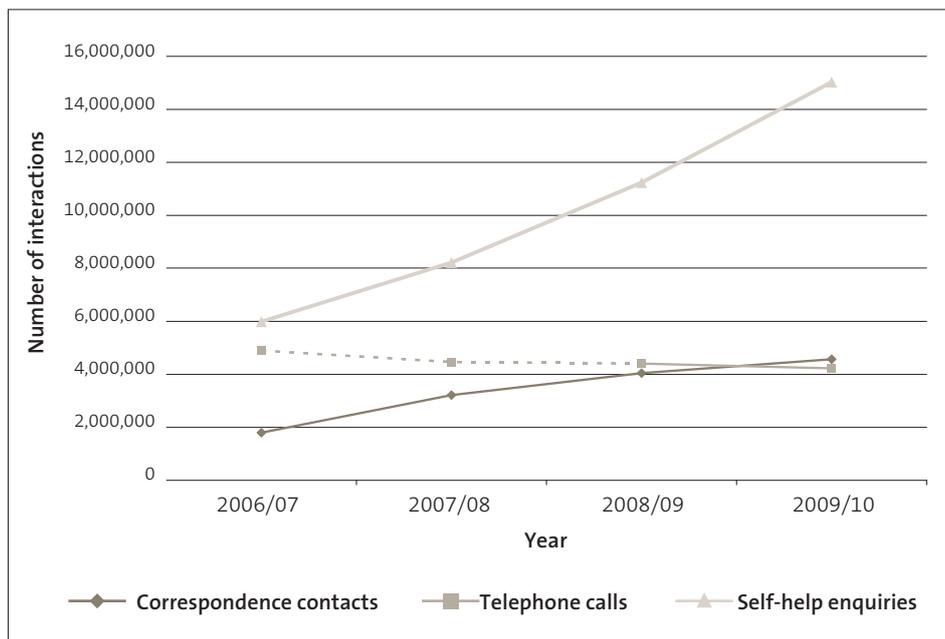
Scale of communications with taxpayers

Inland Revenue has millions of interactions with taxpayers each year through a range of different communication channels.

2.6 In 2009/10, Inland Revenue had more than 24 million interactions with taxpayers through correspondence, telephone calls, face-to-face contact, and self-help systems.

2.7 Figure 3 shows three different channels that Inland Revenue uses to contact taxpayers and the number of interactions for each channel from 2006/07 to 2009/10. It shows that more taxpayers have contacted Inland Revenue through correspondence and self-help systems during the last four years. Inland Revenue has changed the way it measures telephone calls so that information collected before 2008/09 is not comparable with current measures. Correspondence and enquiries through self-help systems have both more than doubled during the past four years. Inland Revenue notes that automated Kiwisaver statements account for most of the increase in correspondence.

Figure 3
Number of interactions with taxpayers through three different communication channels



Source: Inland Revenue's *Annual Report 2007* and *Annual Report 2010*.

- 2.8 Each interaction a taxpayer has with Inland Revenue has a direct cost associated with it. These costs are discussed later in this Part. Interactions also have indirect costs related to the effect the interaction can have on compliance.
- 2.9 In our view, good communication provides the taxpayer with information they need and can understand through the most cost-effective communication channel available. We expected Inland Revenue to keep track of the costs of its interactions and have a strategy to manage interactions with taxpayers. The rest

of this Part discusses our findings on how Inland Revenue takes a co-ordinated approach to interacting with taxpayers to provide them with the information they need when they need it, using effective and efficient communication channels.

Inland Revenue's communication channel strategy

Inland Revenue has prepared a sensible communication channel strategy, but the challenge will be to successfully implement this strategy and to find the correct balance between effectiveness and efficiency. Inland Revenue needs to balance taxpayers' preferences against the need to move towards more efficient communication channels.

- 2.10 Inland Revenue communicates with taxpayers using a wide range of communication channels. These include online, printed publications, correspondence, advertising, telephone calls, and face-to-face contact. When a taxpayer initiates contact with Inland Revenue, they choose which communication channel they prefer.
- 2.11 In an internal document dated April 2009, Inland Revenue describes its current communication channel model as:
- ... based on the high-cost, paper-based environment originating from a legislative era when the internet and mobile telephone communications did not exist. Channels are fragmented, channel choice is left up to the customer and experiences are inconsistent and complex.*
- 2.12 The document goes on to discuss how Inland Revenue is currently interacting with taxpayers and how it wants to interact with taxpayers in the future.
- 2.13 Inland Revenue's view of how it wants to interact with taxpayers is based on the overall goal of encouraging taxpayers to use "the online channel where they can and other channels only when they must". Overall, Inland Revenue is planning to reduce paper-based interactions and telephone calls, and encourage taxpayers to use online services instead.
- 2.14 Inland Revenue tells us that it is first focusing on key projects that will serve as a foundation for the rest of the communications channel strategy. At this stage, those key projects are developing important technologies that will support the new online services that Inland Revenue plans to encourage taxpayers to use.
- 2.15 Inland Revenue's new communication channel strategy is consistent with those of overseas revenue collection agencies. A report from the Organisation for Economic Co-operation and Development (OECD) noted that:

Relatively few revenue bodies offer in 2009 the full range of functionality defined as representing a comprehensive suite of on-line services for taxpayers – as a result, taxpayers must resort to other more costly channels for some of the services they require.³

- 2.16 In our view, the strategy that Inland Revenue has prepared appears sensible. The challenge will be to successfully implement this strategy and to find the correct balance between effectiveness and efficiency. Inland Revenue needs to balance customer needs and preferences against its desire to move towards more efficient communication channels. By achieving the right balance, Inland Revenue will communicate as efficiently with taxpayers as it can while also ensuring that its communications are effective and support the payment of tax.

Understanding the effectiveness of communication with taxpayers

Inland Revenue currently collects information about the effectiveness of its contact centre. It needs to better understand how effective its other key communication channels, such as its website and publications, are for taxpayers.

- 2.17 In its *Annual Report 2010*, Inland Revenue reports on the outputs of service delivery agreed with the Government. Internal management reporting focuses on how well Inland Revenue is meeting its output of service delivery. Inland Revenue's performance against all standards is updated internally through monthly management reports.
- 2.18 The information that Inland Revenue reports on in its annual report that is relevant to supporting voluntary compliance includes:
- detailed information on the number and types of interactions with taxpayers, such as website visits, telephone calls, payments processed, and returns processed;
 - information about the average time a taxpayer has to wait when calling Inland Revenue;
 - the volume of correspondence by the type of correspondence;
 - customer satisfaction information for telephone calls, correspondence, and over-the-counter interactions;
 - information on the number of complaints received; and
 - the accuracy of the information provided to taxpayers.
- 2.19 Figure 4 shows how Inland Revenue has been performing during the past three years on some selected measures that it uses to monitor voluntary compliance.

³ Organisation for Economic Co-operation and Development (2010), *Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery*, page 5.

Figure 4
Examples of output of service delivery for supporting voluntary compliance

2009/10 performance standard	2007/08	2008/09	2009/10
88% of customers will be given an answer that is correct, complete, and timely.	91.0%	87.8%	88.6%
85% (2007/08 and 2008/09: 80%) of customers who have contacted Inland Revenue are satisfied with the quality of service.	79.6%	81.9%	87.0%*
80% (2007/08 and 2008/09: 85%) of all initial phone calls are fully resolved at the time.	77.5%	76.9	75.8%

* Results for customer satisfaction for 2009/10 are not comparable with earlier years because of changes to how satisfaction is measured.

Source: Inland Revenue.

- 2.20 For accuracy of information and satisfaction with service, Inland Revenue has generally met its targets in the past three years. For resolving initial telephone calls, Inland Revenue's performance has not met its targets and has declined slightly during the past three years. Inland Revenue's target for resolving initial telephone calls was reduced from 85% to 80% in 2010. Inland Revenue states that it has not been able to reach its target on resolving initial telephone calls because of the complexity of the services that it offers and the number of calls that it receives.
- 2.21 Inland Revenue has begun to collect information, which it will report in its annual report for 2010/11, about the ease of accessing and understanding information provided over the telephone. Although we regard this as useful information, it examines only one of Inland Revenue's communication channels.
- 2.22 Although Inland Revenue's current performance monitoring covers several aspects, it does not allow for an assessment of how Inland Revenue is implementing its strategy of making it easy to comply. Inland Revenue currently lacks information about how helpful and useful taxpayers find its website and the publications that Inland Revenue provides for taxpayers. The information that Inland Revenue regularly collects for each of these communication channels is about the number of interactions, not the usefulness of those interactions.
- 2.23 We expected Inland Revenue to have more testing systems for ongoing assessment of the strategy of making it easy to comply. It is particularly important that Inland Revenue understands taxpayers' perceptions about the usefulness of interactions through its major communication channels. The new communication channel strategy proposes to increase the use of channels where monitoring is currently based on volume of interactions as opposed to the effectiveness of those interactions.

- 2.24 Inland Revenue tests some of the materials that it produces for taxpayers for development purposes. Inland Revenue will sometimes test a new item that it is developing on taxpayers, but this testing is not required and does not always happen.
- 2.25 In our view, Inland Revenue needs to better understand the effectiveness of all of its major communication channels. Inland Revenue will not achieve value for money if it creates new tools that are not effective for taxpayers. Inland Revenue's approach should allow it to determine whether taxpayers find its communication channels easy to use and helpful.

Recommendation 1

We recommend that the Inland Revenue Department monitor how effective and useful its website and publications are for taxpayers.

Costs of communicating with taxpayers

Inland Revenue is identifying and reporting on the costs of the different communication channels that it uses and is developing a way to measure the cost of delivering online services.

- 2.26 There is a cost associated with each interaction that a taxpayer has with Inland Revenue. These costs vary depending on the communication channel that is used and the complexity of the interaction.
- 2.27 Until 2010/11, Inland Revenue did not collect information about the actual costs of different communication channels. From July 2010, Inland Revenue began to collect information about the cost of some of its communication channels. Figure 5 shows a summary of these costs from July 2010 to April 2011.

Figure 5
Cost of communication channels from July 2010 to April 2011

Channel	Number of interactions	Total direct cost \$	Cost per interaction \$
Telephone	3,077,767	94,698,724	30.77
Correspondence*	1,062,780	44,108,116	41.50
Over the counter	180,116	8,604,424	47.77
Total	4,320,663	147,411,264	34.12

* This figure does not include automatically generated correspondence.

Source: Inland Revenue.

- 2.28 Inland Revenue is not currently able to estimate the cost of delivering online services, but it has attempted to do so in the past. Inland Revenue is preparing a methodology for calculating the cost of delivering online services. It plans to collect information from July 2011, so that it can report on these costs for 2011/12.
- 2.29 We acknowledge that obtaining a reliable understanding of the cost of delivering online services will be difficult. This is because online services range from the fairly straightforward, such as a document that a taxpayer can download, to systems that allow a taxpayer to file a tax return online. There will be large differences in the cost of these services. However, it is very important for Inland Revenue to better understand these costs.
- 2.30 An important part of Inland Revenue's communication channel strategy is to develop automated services allowing taxpayers to do transactions on their own that currently require help from Inland Revenue staff. Inland Revenue expects that moving to a self-service model will reduce the cost of providing support to taxpayers.
- 2.31 Automated services can be expensive to develop and maintain. Although Inland Revenue should realise savings by providing less direct support to customers, it will incur new costs in developing and delivering automated services. There is also a risk that customers continue to use old communication channels after automated services are introduced. Inland Revenue would then incur the expense of developing and delivering new automated services while not realising the expected gains because some taxpayers continue using the old services.
- 2.32 Collecting information on the costs of the different communication channels will allow Inland Revenue to make informed decisions about how it communicates with taxpayers. It will also allow Inland Revenue to better balance taxpayer preferences and the effectiveness of communication channels against the cost

of each channel. Inland Revenue and Parliament will also be able to monitor the efficiency gains that Inland Revenue expects to realise by encouraging taxpayers to use new communication channels.

Part 3

Finding information on Inland Revenue's website

- 3.1 In this Part, we describe the results of user testing of Inland Revenue's website. We asked two groups of taxpayers facing a new tax obligation to find information on Inland Revenue's website. We describe:
- how the tradespeople had a difficult time understanding their tax obligations;
 - how the rental property owners thought they could understand their tax obligations; and
 - obstacles we identified through the user testing.
- 3.2 We expected Inland Revenue to produce written and online materials for taxpayers that were clearly structured and written so that taxpayers could easily understand them. To test this, we hired an independent research firm that specialises in testing the usability of websites.
- 3.3 The independent research firm asked 10 people to determine their tax obligations using Inland Revenue's website. Five were tradespeople who were employees and were starting (or planning to start) to get paid directly for extra work, and five were people who have recently bought (or plan to buy) a rental property (for ease of reference, "rental property owners").
- 3.4 The purpose of user testing is to identify problems with materials such as a website or a publication. User testing should not be confused with a survey that is designed to understand a group's views or beliefs and that requires a much larger sample. Research suggests that 85% of usage problems are identified by the first five people, so this number of people is commonly used for user testing.
- 3.5 Appendix 2 provides more information on how the user testing was carried out.

Summary

- 3.6 When viewing the home page of Inland Revenue's website, the tradespeople participating in the user testing were unsure where to start. They did not see options that made sense to them and did not know whether they should be looking under the section for individuals or the section for businesses. The user testing found that Inland Revenue's website did not help the tradespeople understand their tax obligations.
- 3.7 The rental property owners participating in the user testing seemed more confident, but they too were not sure whether they should be looking in the section for individuals or the section for businesses. Although the rental property owners appeared more confident using the website, several of them failed to find the right forms and guides. The rental property owners rated the website more highly than the tradespeople did.

- 3.8 Overall, Inland Revenue's website presumes that taxpayers will know whether they should look at the business or individual pages on the website. In our view, when people's circumstances appear to overlap, the website does not offer clear direction or guidance.
- 3.9 Once people find a section that discusses their situation, the name and number of the right form or guide is unlikely to be listed or available on the same page as the explanatory material. Instead, people need to search the section that lists all forms and guides.

Tradespeople had a difficult time understanding their tax obligations

Tradespeople participating in the user testing generally believed it would be difficult to pay tax and did not find it easy to understand their obligations using Inland Revenue's website. Some of the tradespeople indicated that they would be more likely to pay tax if it were easier for them to do so.

- 3.10 Before the tradespeople began using Inland Revenue's website, they were asked about their expectations. Many of the tradespeople felt that the process of paying tax would be complicated, and they were also unsure of what the process involved.
- 3.11 Because the tradespeople expected the process to be difficult, they also expressed a general reluctance to pay tax on jobs paid in cash. Some of the tradespeople in our testing indicated that they would be willing to pay tax if it were easier for them to do so.
- If there was a simple way of just saying to the client "Look, I have to pay tax on top of that", and [be paid it] ... if there was an easy place to put it [on Inland Revenue's website], that would be all right.*
- 3.12 The tradespeople were asked to use Inland Revenue's website to establish what tax they would need to pay and how they would pay that tax. After using Inland Revenue's website, none of the tradespeople were confident about what form they would need to file to declare their income when a customer paid them for a job in cash.
- 3.13 In general, the tradespeople participating in the user testing felt that they would need additional help to understand their tax obligations. They said they would get this information by either talking with a friend or family member or calling Inland Revenue. In one tradesperson's words:
- I'd have to ask someone to walk me through it. I don't understand any of it. Just the lingo. I don't understand any of it.*

- 3.14 Overall, Inland Revenue's website did not make it easy for the tradespeople to understand their tax obligations.
- 3.15 Because tradespeople can be paid for their work in cash, there is a high risk that they will not comply with their tax obligations. Detecting cash transactions is difficult and creates additional costs for Inland Revenue. Because of the difficulty and cost in detecting cash transactions, Inland Revenue needs to pay particular attention to making it easy for people receiving cash payments to understand and comply with their tax obligations.
- 3.16 In our view, Inland Revenue needs to consider how it can better present material on its website so that taxpayers are able to find and understand information that is relevant to their circumstances. Doing so may encourage people who operate on a cash basis to declare their income.

Recommendation 2

We recommend that the Inland Revenue Department create materials targeted at taxpayers with a high risk of non-compliance to help them easily understand their tax obligations and pay their tax.

Rental property owners thought they could understand their obligations

Rental property owners participating in the user testing generally felt that they could find the information they needed that would allow them to pay their tax. However, some participants found information that they thought was relevant but in fact was not.

- 3.17 Rental property owners participating in the user testing felt that it would be hard for them to understand their tax obligations. However, participants appeared prepared to put in enough time so that they could understand their tax obligations.
- 3.18 They rated the website more highly than the tradespeople did, and one rental property owner rated the site very highly because she was very confident that she had found the correct information. However, the moderator was not certain that this rental property owner was looking at the right form – she had started in the business section and was looking at highly technical tax information for commercial landlords. Some of the other participants also found information they thought was relevant to their situation but that did not apply to them.

- 3.19 We asked the participants whether they would feel comfortable filing their tax returns on their own, and most of the rental property owners said they would be. However, most said they would be likely to use a tax agent if they needed to pay tax on income from a rental property. The rental property owners felt that, by using a tax agent, they would owe less in tax than if they filed their returns on their own. These findings are consistent with the general behaviour of rental property owners, where about 68% use a tax agent.
- 3.20 Overall, the rental property owners were generally able to find enough information to feel they understood their tax obligations. However, participants did have some difficulties finding particular items of information and were confused by some parts of the website. We discuss the obstacles that we identified during the user testing in the rest of this Part.

User testing identified a number of obstacles for participants

Participants had trouble identifying where they should start to look for information, because they had trouble deciding whether they were considered an individual or a business. Participants also had difficulty understanding the terms used and finding information relevant to their personal circumstances.

- 3.21 All of the tradespeople taking part in the user testing had difficulty with how and where they should look for information on Inland Revenue's website. Some of the rental property owners also found it difficult to determine where they should begin to look for information about their obligations.
- 3.22 Navigating Inland Revenue's website will generally require a user to look for information created either for businesses or for individuals. The tradespeople and the rental property owners participating in the user testing found it difficult to place themselves in one of these groups. This made it more difficult for them to find the information they were looking for. As one rental property owner described it:
- Individuals and families would be a good one to start but I don't think it would be in that category, because when you have a rental property it is more like a business, so I'd probably like to check under that.*
- 3.23 The tradespeople were looking for terms that would help to drive them towards the information they were looking for. As one tradesperson stated:
- For me specifically, the title or key words I'd be looking for haven't popped into my head yet ... cash jobs, declaring cash jobs ... what are your obligations?*
- 3.24 When the tradespeople could not find a clear starting point, they would use the search function on Inland Revenue's website. All of the tradespeople tried

searching Inland Revenue's website, but the search terms that they were using did not match the terms used by Inland Revenue.

3.25 Most of the tradespeople taking part in the user testing did not find it easy to understand the terms used on Inland Revenue's website. The rental property owners could not always easily understand the practical meaning of what they were reading. The rental property owners also indicated they might need to read the information again or look for another source for this information, separate from Inland Revenue's website.

3.26 The tradespeople and the rental property owners noted that they would find it useful if Inland Revenue's website clearly identified which information was relevant for their individual circumstances. One tradesperson described the process he had to go through to get information:

I understand where they are going with it, but I had to find the topic first and then found out what to fill out, rather than finding out about me first.

3.27 One property owner stated:

If they had scenarios "Are you an earner in this bracket and you want to rent a property, go to here" etc. And you just press a button and it takes you on an express bus to the place.

3.28 Inland Revenue is aware that it could improve its website and is considering doing so. In our view, Inland Revenue needs to reconsider whether all taxpayers can be expected to understand Inland Revenue's distinction between "business" and "individual".

Recommendation 3

We recommend that the Inland Revenue Department test the usability of its website on taxpayers and design its website so taxpayers can more easily find the information they need.

Part 4

Review of a selection of Inland Revenue's forms and guides

- 4.1 In this Part, we describe the result of our review of some of Inland Revenue's forms and guides. We assessed whether the forms and guides are useful tools for a taxpayer who is trying to understand their obligations and submit the right information.
- 4.2 We reviewed two different IR 3 forms, along with their guides, and three additional guides that Inland Revenue provides for taxpayers. We selected forms and guides that taxpayers starting to receive income from a rental property or from self-employment would use.
- 4.3 We used a checklist of good practice expectations about how documents should be presented to the public to assess each form or guide (see Appendix 1).

How the forms and guides could be improved

The forms and guides we reviewed were professionally presented and provided a range of useful information. Often, we needed to refer to a form's guide to understand that form. One of the guides we reviewed tried to do too much.

- 4.4 The forms and guides we reviewed were professionally presented, with consistent layout (or exceptions that made sense) and branding. In general, the documents were logically structured and the guides had comprehensive lists of their contents. The authors of the documents tried to use plain English.
- 4.5 The purpose of the forms we reviewed was not always as clear as it could have been. For example, the purpose of the IR 3 individual tax return form is not stated at the top of the first page. Instead, small print at the top of the form directs a person to read "pages 7 and 8 in the guide to see if you need to complete this return". However, the form does not state which guide it is referring to. Likewise, the IR 3R rental income form does not have a clear purpose statement at the start, so information about who needs to complete it – all taxpayers, all taxpayers who pay rent, or all owners of a rental property – is implied rather than obvious.
- 4.6 Taxpayers who are trying to pay tax on income received from business activities or rental property for the first time will need to be told which form to fill out, or they will need to read the separate guide for each form to determine whether it is the correct form to use.
- 4.7 When we reviewed the IR 320 *Smart business* guide, we found that having a guide for multiple types of taxpayers made it more difficult to understand the usefulness and relevance of the guide. This guide is meant to apply to businesses ranging from sole traders (with no staff) to small- and medium-sized enterprises (businesses with staff or paying GST and having up to \$100 million in annual

turnover) and non-profit organisations. Although we acknowledge that the guide is designed for multiple audiences, we consider that it was trying to cater to too many different types of readers. For instance, the introduction suggests that there should be a separate guide for people running non-profit organisations:

There are, however, certain tax rules that only apply to non-profit organisations. If you are running a non-profit organisation and need more information go to www.ird.govt.nz or call us.

- 4.8 In our view, the information in this guide would be more useful if it was in separate guides. Taxpayers could then find the guide that was most relevant to their circumstances.

Views of tradespeople and rental property owners

- 4.9 Two of the guides we reviewed were of direct relevance to the situations of the people who took part in our user testing. We asked all of our participants to briefly review either the Smart business guide or the Rental income guide.
- 4.10 After reviewing the Smart business guide, the tradespeople were generally positive about it but still had difficulties understanding some of the terms used. They did not see the relevance of the guide to their situation and were looking for terms that were not used by Inland Revenue. This made them question the usefulness of the guide.
- 4.11 The rental property owners found the Rental income guide to be very helpful, and some of the participants asked if they could take it with them. As one stated:
- They've got examples and lots of notes, and my first impression is that everything is covered that I'd want to know.*

Part 5

Contacting Inland Revenue by telephone

- 5.1 In this Part, we describe the different experiences taxpayers may have when trying to call Inland Revenue to get information about their tax obligations. We discuss:
- how long it may take to reach Inland Revenue;
 - the difficulties of calling Inland Revenue from a cellphone;
 - how Inland Revenue assesses the quality of its contact centre; and
 - how Inland Revenue ensures that information presented to taxpayers is relevant.
- 5.2 We audited aspects of Inland Revenue's contact centre to test our expectation that Inland Revenue provides taxpayers with easy access to accurate information.

Summary

- 5.3 Inland Revenue's call volumes are highly variable, which means that different taxpayers experience different waiting times when calling Inland Revenue. High demand for contact centre services is a challenge common to overseas revenue collection agencies.
- 5.4 Inland Revenue will accept calls from cellphones on only some of its toll-free lines.⁴ In our view, not accepting calls from cellphones on all of its toll-free lines is inconsistent with Inland Revenue's strategy of making it easy to comply.
- 5.5 We examined how Inland Revenue assesses the quality of its telephone services. Inland Revenue has a quality assurance system in place, but it could improve this system.
- 5.6 Customer service specialists answering the telephones at Inland Revenue can use a script to help them answer a taxpayer's questions. In our view, Inland Revenue could improve its scripts to consistently emphasise important information that will help taxpayers to understand and comply with their tax obligations.

How long it can take to contact Inland Revenue by telephone

Inland Revenue receives a large number of telephone calls each year. During peak periods, taxpayers can find it difficult to get through to the contact centre and can wait a long time to speak with a customer service specialist.

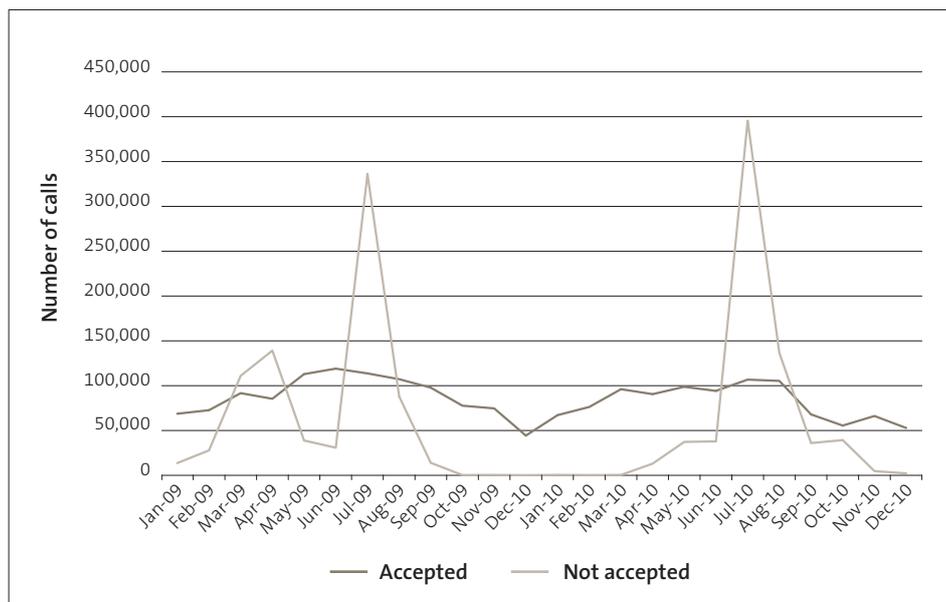
- 5.7 Inland Revenue received 4.2 million telephone calls in 2009/10. These calls are spread out unevenly during the year, with call volumes at their highest during peak tax filing periods (peak periods). Because of the uneven distribution of the

⁴ The cost of a call on a toll-free line is charged to the receiver of the call instead of the caller. Accepting calls from cell phones is charged at a higher rate than accepting calls from landlines. The receiver of the call needs to pay for the duration of the call, even while the caller is on hold.

calls it receives, Inland Revenue has a system that allows it to roster staff on and off to help manage fluctuating call volumes. When volumes are at their highest, Inland Revenue cannot answer all of the calls that it receives.

- 5.8 Inland Revenue has a system that automatically “caps” the number of calls accepted by the telephone system when the number of people on hold gets too high. This means that some taxpayers will not be able to get through to Inland Revenue at certain times and will need to call back later. This can result in variable experiences for taxpayers, depending on when they call.
- 5.9 Figure 6 shows the monthly call volumes to Inland Revenue’s general enquiries line in 2009 and 2010, by monthly number of calls accepted and not accepted. For example, in February 2010, 76,242 of 76,558 calls (99.6%) got through. In July 2010, only 106,793 of 502,345 calls (21.3%) got through.

Figure 6
Monthly call volumes to Inland Revenue’s general enquiries telephone line in 2009 and 2010, showing monthly number of calls accepted and not accepted



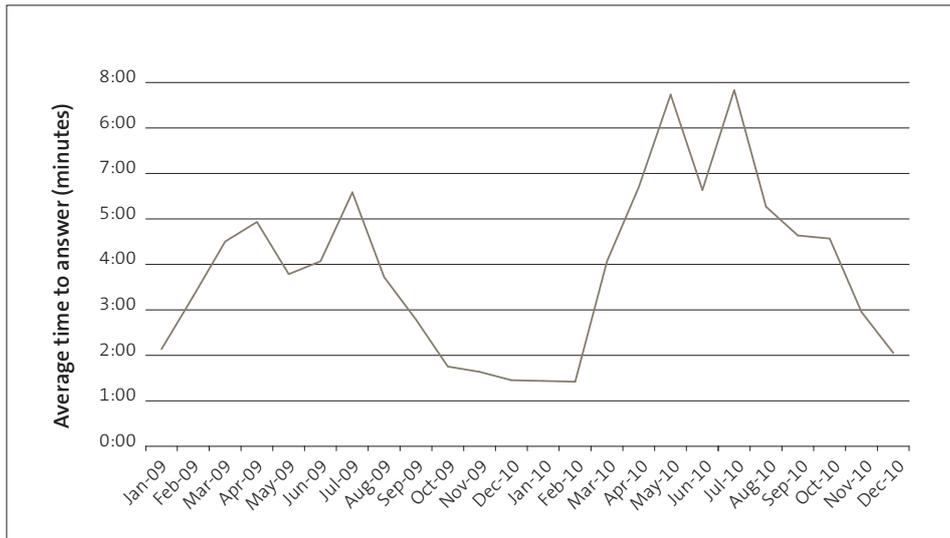
Source: Inland Revenue.

- 5.10 Even during peak periods, taxpayers will experience variability in getting through to Inland Revenue. For example, of the calls made on Wednesday 14 July 2010, 88.6% got through. On the following day, however, only 11.8% of calls got through.

Once taxpayers get through to Inland Revenue’s telephone system, most taxpayers get through to a customer service specialist

- 5.11 Most taxpayers calling Inland Revenue wait on hold until their call is answered. A small proportion of taxpayers do not wait for their call to be answered and hang up instead. When it takes longer for calls to be answered, the number of taxpayers hanging up increases.
- 5.12 The time it takes for a customer service specialist to answer a call varies throughout the day, week, month, and year. Figure 7 shows the average times that it took a customer service specialist to answer a call in 2009 and 2010 by month. It shows that the average time to answer a call varies throughout the year, with longer average times during peak periods.

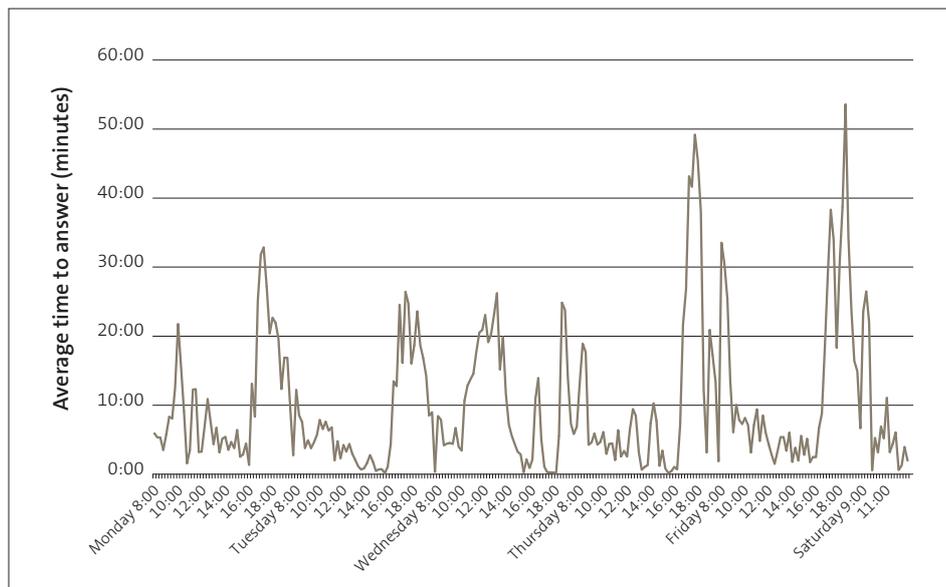
Figure 7
Monthly average times for a customer service specialist to answer a call in 2009 and 2010



Source: Inland Revenue.

- 5.13 Even during peak periods, the length of time a caller must wait varies depending on when they call. Figure 8 shows a detailed breakdown of the average time to answer a call for every 15-minute period for a week in July 2010. The average time to answer a call varies from less than a minute to around 50 minutes.

Figure 8
Average time for a customer service specialist to answer a call for each 15-minute period for the week beginning 12 July 2010



Source: Inland Revenue.

Call-back service

- 5.14 In November 2008, Inland Revenue introduced an automated call-back service to nearly all of its toll-free numbers. The aim of the new service, called Virtual Hold, was to reduce the amount of time taxpayers spend waiting on the telephone. Callers to the toll-free numbers are told the estimated wait time, and can choose to either stay on the line or be called back. Callers who choose the call-back option retain their place in the queue and are called back when they reach the front of the queue.
- 5.15 The call-back option is available only when wait times reach a certain threshold. This threshold changes depending on the number of incoming calls and the number of staff available to take calls. Call backs are available only to direct dial numbers and cannot be made to cellphones (except for calls about child support), extension numbers, or international numbers.
- 5.16 Inland Revenue reports that the call-back service has helped reduce telephone costs and the number of abandoned calls. In 2009/10, 51% of callers accepted the call-back service when it was offered to them.

- 5.17 Inland Revenue's telephone system is under a lot of pressure at times. To manage this, Inland Revenue has prepared its communication channel strategy (discussed in Part 2), which it expects will help shift taxpayers away from telephones to other channels.
- 5.18 It is difficult to directly compare the performance of Inland Revenue's contact centre with those of overseas revenue collection agencies because of differences in tax systems and performance measures. However, an OECD report⁵ indicates that many overseas revenue collection agencies are also experiencing high call demand at their call centres. Like Inland Revenue, other agencies are also designing mitigation strategies to address demand.
- 5.19 Inland Revenue's call volumes are highly variable, which can lead to quite different taxpayer experiences in the length of time it takes to contact Inland Revenue. In our view, Inland Revenue's communication channel strategy is a sensible approach to manage the pressures on its telephone service.

Difficulties calling Inland Revenue from a cellphone

Inland Revenue will accept calls from cellphones on only some of its toll-free lines. Accepting calls from cellphones on all lines would be more consistent with its strategy of making it easy to comply.

- 5.20 An increasing number of taxpayers have limited access to landline phones and are relying more on cellphones as their main means of communication. Inland Revenue identifies business customers, Working for Families recipients, and students as key groups that rely on cellphones as the main way of contacting them.
- 5.21 Taxpayers calling from a cellphone are currently able to call only four of Inland Revenue's 31 toll-free numbers: child support, KiwiSaver, the Info Express general line, and a line used for debt collection. Some taxpayers have discovered that they can call Inland Revenue from a cellphone by calling one of these four free numbers and then asking to be transferred to the line they want to reach.
- 5.22 Taxpayers calling any other Inland Revenue toll-free numbers from a cellphone reach a recorded message advising them to call a different number. On all lines, except for child support, the call-back option is not available for taxpayers calling from a cellphone. Inland Revenue has had complaints from taxpayers unhappy about being unable to be called back on their cellphone.
- 5.23 We acknowledge that it will cost Inland Revenue more to accept cellphone calls on all its telephone lines. However, taxpayers will generally pay more to call Inland Revenue than Inland Revenue would pay to accept the call on a toll-free number.

⁵ Organisation for Economic Co-operation and Development (2010), *Survey of Trends and Developments in the Use of Electronic Services for Taxpayer Service Delivery*.

- 5.24 In late 2010, Inland Revenue considered whether to accept calls from cellphones on all telephone lines. It decided against changing its policy. The main reason Inland Revenue cited was the lack of control over potential costs, given the current fiscal environment.
- 5.25 In our view, not accepting calls from cellphones on all of its toll-free lines is inconsistent with Inland Revenue's strategy of making it easy to comply.

Assessing contact centre quality

Inland Revenue has a system for assessing the quality of information that staff in its contact centre provide to taxpayers. We have identified where Inland Revenue can strengthen its quality assurance process.

- 5.26 We looked at the process that Inland Revenue uses to check the quality of information provided to taxpayers during calls. We did not audit the actual assessments of individual calls.
- 5.27 Inland Revenue introduced a new quality assurance process for assessing calls to the contact centre on 1 July 2010. The process assesses how well a customer service specialist responds to a taxpayer's query and the accuracy of the information provided. Inland Revenue uses this information to measure an output of service delivery, which we discuss later in this Part.
- 5.28 Calls taken by each customer service specialist are assessed individually each month. The number of calls assessed is determined by a risk-based assessment for each staff member. Staff who have not performed well in the past have more calls assessed than those who have performed well.
- 5.29 Currently, assessors select the calls they will assess from a list of a calls handled by an individual customer service specialist. In our view, there is a risk that assessors could focus on certain types of calls that may not provide a representative view of taxpayers' experiences. We consider that Inland Revenue needs to randomly select which calls to review.
- 5.30 Inland Revenue uses a calibration process to make sure that its assessors are assessing calls consistently. Assessors specialise in a specific subject matter that is relevant to the contact centre and are based at four sites around New Zealand.
- 5.31 The calibration process is generally carried out every two to three months. Staff at Inland Revenue told us that they would like to carry it out each month, but they often find that it is difficult to co-ordinate everyone and find time. In our view, calibration should be seen as an important regular event and not one that can be put off if other priorities emerge. If calibrations are not carried out regularly, assessors may apply different approaches to assessing the quality of telephone calls.

- 5.32 We selected the records of 60 customer service specialists to verify that an assessor had carried out checks. Not all checks had been carried out. In following up, we found that some checks were not needed because, for example, the customer service specialist was on leave. In other instances, the work had not been done. Inland Revenue does not have a system to verify that the assessors have carried out checks.
- 5.33 During our audit, we noted that not all telephone calls made to Inland Revenue are covered by the quality assurance process. The quality assurance process assesses only the calls handled by contact centre staff. In the 12 months to October 2010, about a quarter of calls made to Inland Revenue's toll-free numbers were answered by staff outside the contact centre. The proportion is slightly higher during peak periods. For example, in July 2010, 31% of calls were answered by staff outside the contact centre. In our view, Inland Revenue needs to extend its quality assurance process to cover all calls made to Inland Revenue. This would help to ensure that taxpayers consistently get accurate and helpful answers.
-

Recommendation 4

We recommend that the Inland Revenue Department review its quality assurance systems and processes for its contact centre and find ways to make sure that:

- the calls to be assessed are randomly selected;
 - assessors verify that all necessary checks have been carried out;
 - consistent quality assurance processes are applied to all calls received; and
 - assessments are calibrated on a regular basis to ensure consistency.
-

Ensuring that information presented to taxpayers is relevant

Inland Revenue needs to update the scripts it prepares for staff to better emphasise important information that must be provided to taxpayers.

- 5.34 When a taxpayer calls Inland Revenue, Inland Revenue has an opportunity to inform the taxpayer of their obligations and to make it easy for the taxpayer to comply. We expected that taxpayers calling Inland Revenue about their tax obligations would be given consistent information relevant to their situation.
- 5.35 Inland Revenue provides scripts to all staff working in the contact centre. The scripts contain the answers to most questions taxpayers might have. This ensures that staff can provide taxpayers with correct and useful information. Inland Revenue updates its scripts when information changes. However, if a customer service specialist does not check a script after it has been updated, they may provide taxpayers with out-of-date information.

- 5.36 In our view, the script on starting a business is thorough, but it contains a lot of information that might be difficult to understand during a single telephone call.
- 5.37 To test our expectation, we carried out a “secret shopper” test of Inland Revenue’s contact centre. Staff from our Office called Inland Revenue’s general business number to enquire about tax obligations when starting a business. We made 10 calls at different times of the day and week. The callers recorded the response they received.
- 5.38 We obtained the script for starting a business before carrying out our “secret shopper” tests to see how many of the customer service specialists followed the script. We did not expect the customer service specialists to read the script word for word, but we did expect them to provide the general information contained in the script.
- 5.39 Our testing found that the information we received was not always consistent. We were always provided with correct information, but the amount and usefulness of the information varied. Some of the customer service specialists followed all of the script, while others provided only some of the information contained in the script.
- 5.40 We consider that the information given to taxpayers should be tailored to the needs of the individual taxpayer. Customer service specialists need to determine the situation of the taxpayer first and then provide information that fits that taxpayer’s situation. Many of the customer service specialists asked our callers some questions about their individual situation. However, the customer service specialists did not always take the callers’ situations into account when providing information. For example, one of our callers told the customer service specialist that he did not have internet access. Despite this, the customer service specialist kept referring our caller to online resources.
- 5.41 The amount of information that a taxpayer will need is going to vary, as will their ability to understand what they are told. As Inland Revenue reviews or updates its scripts, it needs to clearly show which information must be given to taxpayers and also consider how that information should best be delivered. In this way, Inland Revenue can ensure that taxpayers receive relevant and consistent information to help them comply with their tax obligations.

Recommendation 5

We recommend that the Inland Revenue Department, as it updates the telephone scripts its staff use, clearly set out the information that must be provided to taxpayers and consider how that information should best be delivered to them.

Appendix 1

Checklist for creating a document

- Have you identified what the purpose of the document is? (What behaviour are you trying to change or encourage?)
- Given that purpose, have you measured, or do you know, what the baseline of current behaviour is?
- Have you identified how you will measure any change in that baseline?
- Have you identified who (as specifically as possible) will be reading or using the document?
- Have you identified in some detail when, where, and how your readers or users need to find or be given the document?
- Given the above, have you thoughtfully designed the document to be most effective for them?
- Have you considered how you can meet the needs of people who are not confident readers of English?
- Have you provided easy-to-access help for the reader or user?
- Does the document comply with established standards for how you present or deliver it?
- Have you tested the document on potential readers or users to make sure that it will be effective?
- Do you have robust internal checks and controls in place to guarantee that the information in your document is complete and correct?
- Have you checked that the document is free of unnecessary information?
- Have you considered where and how people can access supporting or explanatory information?
- Is the main message of the document clear?
- Is the structure logical?
- Do headings guide the reader or user through the document so they don't feel lost or confused?
- Does the document use familiar words?
- Are any unfamiliar or technical words clearly explained?
- Are the sentences mostly short (20 words or fewer) and simple?
- Is the tone right for the type of document?
- Do the paragraphs (or questions on a form) flow easily from one to the next?
- Does the design of the document help to make the content easy to understand? (For example, by making the main points easy to see.)

Appendix 2

Methodology for user testing

We contracted a research firm to carry out user testing of materials produced by Inland Revenue. The objectives of the testing were to:

- assess Inland Revenue's website and supporting pamphlets and publications for individual taxpayers trying to understand their tax obligations when starting a business or working out rental income;
- identify where improvements in finding and understanding information can be made to the tested materials and make recommendations to improve taxpayers' experiences;
- identify the areas of strengths and provide positive usability findings; and
- offer an overall assessment of how easily taxpayers could find and understand the information they were asked to locate.

The research firm carried out user testing with 10 people – five tradespeople and five rental property owners. The tradespeople had to be in the building industry and normally paid a salary or wage. They also needed to be considering doing work directly for customers or actually doing work directly for customers but not paying tax on that work. The property owners had to either have recently purchased or be considering purchasing a rental property and not have previously owned a rental property. All of the participants needed to use the internet at least twice a week.

The tests were carried out in Auckland on 13 and 14 December 2010. Each session lasted 60 minutes, beginning with an introduction where the moderator collected background information about each participant. After that, participants were asked to find tax information on Inland Revenue's website.

The tasks were designed to resemble realistic situations relevant to the participants. For example, rental property owners were asked to find out about their tax obligations on their rental income. Tradespeople looked for tax information about jobs that they were directly paid for.

By observing the participant's performance during the tasks, the research firm identified findability and comprehension issues.

Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Annual Plan 2011/12
- Progress in delivering publicly funded scheduled services to patients
- Final audits of Auckland's dissolved councils, and managing leaky home liabilities
- Statement of Intent 2011–14
- Review of the Northland Events Centre
- Public entities' progress in implementing the Auditor-General's recommendations
- Ministry of Social Development: Managing the recovery of debt
- Local government: Results of the 2009/10 audits
- The Auditor-General's Auditing Standards
- Central government: Results of the 2009/10 audits (Volume 2)
- Provision of billboard for Len Brown's mayoral campaign
- District health boards: Learning from 2010–13 Statements of Intent
- Central government: Case studies in reporting forecast performance information
- Matters arising from Auckland Council's planning document
- Central government: Results of the 2009/10 audits (Volume 1)
- How the Department of Internal Affairs manages spending that could give personal benefit to Ministers
- Sport and Recreation New Zealand: Improving how it measures its performance
- Department of Internal Affairs: Administration of two grant schemes

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