

ANNUAL REPORT 2009



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TO THE MINISTER OF REVENUE

Under the provisions of the Public Finance Act 1989 and the Tax Administration Act 1994, I present the following report on my administration of the Inland Revenue Acts for the year ended 30 June 2009, and on the operations of the Inland Revenue Department for that year, together with the audited financial statements.

A handwritten signature in blue ink, appearing to read 'R. Russell', with a long horizontal flourish extending to the right.

Robert Russell
Chief Executive and Commissioner of Inland Revenue

INTRODUCTION

FROM THE COMMISSIONER

Inland Revenue's primary outcome is improving the economic and social wellbeing of New Zealanders. We achieve this by collecting revenue and distributing social policy payments to customers.

SCOPE OF INLAND REVENUE'S BUSINESS

Inland Revenue is responsible for:

- advising government, with The Treasury, on tax policy and social policy measures that interact with the tax system
- collecting tax payments, child support and student loans
- distributing payments such as tax refunds and tax credits, child support, working for families tax credits and paid parental leave
- administering KiwiSaver.

We deal with large numbers of customers, often on complex and sensitive matters. We have:

- 6,810,000 taxpayers (individuals, businesses, partnerships, trusts and other entities)
- 1,101,000 KiwiSaver members
- 562,000 student loan borrowers
- 203,000 customers receiving regular working for families tax credits payments
- 176,000 child support paying parents
- 178,000 child support custodial parents
- 27,000 paid parental leave recipients.

We also deal with high transaction volumes. This year was a particularly busy year for Inland Revenue. In 2008–09 we:

- collected \$49.0 billion in tax, over 80% of core Crown revenue
- responded to 20.17 million customer contacts
- identified \$1,269 million in discrepancies through audit activity
- distributed \$2,116 million in KiwiSaver funds to scheme providers
- distributed \$2,673 million in working for families tax credits¹
- collected \$387 million in child support payments
- received \$619 million in student loan repayments.

ADVISING ON GOVERNMENT POLICY

During the year, our policy area addressed a full legislative work programme. Major work focused on the introduction of legislation to enact the Government's election commitments, legislation to help mitigate the effects of the economic recession on small businesses and the negotiation of several double tax agreements and tax information exchange agreements.

The success of an online consultation forum that sought out views on how to simplify the way student loan repayments are managed was of particular interest. This was a first for Inland Revenue. As more of our business goes online, and more customers use the internet to do business, we expect to use online consultation more to seek New Zealanders' views on legislation and other initiatives.

Our policy area also supported a number of Government-initiated reviews, including the Capital Market Development Taskforce and the Victoria University-led Tax Working Group that the Government set up to identify medium-term policy options to deliver long-term, sustainable tax settings for New Zealand.

SERVICE PERFORMANCE

We met or exceeded 59 of the 65 performance measures (91%) for the year to 30 June 2009. This is an improvement from the 84% of our performance measures met or exceeded in 2007–08.

We had improved performance across a range of areas that were under pressure during the year, which included:

- improving the delivery of taxpayer rulings, which met the majority of the timeliness and quality performance standards
- meeting the timeliness performance standards for our telephone services
- meeting the four performance standards for the management of overdue debt.

There is more discussion about our performance in Part 3 and the Statement of Service Performance (Part 6).

STEPS TO IMPROVE COMPLIANCE

This year, for the first time, we publicly released our compliance management programme, which highlights our compliance focus areas for 2009–10. This is an important step towards improving compliance by raising awareness of our activities and areas of concern.

¹ Total working for families tax credits distributions by Inland Revenue and the Ministry of Social Development.

The effects of the economic recession created challenges in our day-to-day business. Our approach to the recession focused on supporting customers experiencing hardship, while also maintaining compliance. This is in line with many overseas revenue agencies. Details of our approach are set out in Part 1.

In addition, we made it easier for customers to self-manage their tax affairs. We have stepped up the promotion of online services while developing new services for families, individuals, businesses and intermediaries that make it easier for them to access and manage their tax affairs online.

During the year, we made technology improvements such as virtual hold, which allows customers calling Inland Revenue to choose to be called back rather than wait in a queue. We are planning other technology improvements to make it easier for customers to deal with us.

We have been consulting with organisations such as the New Zealand Institute of Chartered Accountants and the New Zealand Law Society to help improve our disputes process and the way we prepare notices of proposed adjustment after an audit. We are also working to improve the timeliness of our rulings processes, which will enable us to provide customers with greater certainty faster.

MANAGING THE DEBT PORTFOLIO

In June 2009, the Office of the Auditor-General released its report *Inland Revenue Department: Managing tax debt*. This report made recommendations for improving our debt management practices and we are implementing those recommendations.

While we achieved our debt performance measures this year, there was still an increase in the value of debt outstanding. Our overall approach to managing the debt portfolio is set out in Part 3.

DELIVERING VALUE FOR MONEY AND SMARTER SERVICES

The Government set new priorities for the public sector that focus on the effective and efficient use of public funds and the delivery of smarter public services at the least cost.

Inland Revenue identified significant savings that were returned to the Government (discussed in Part 1) and continues to look for better ways to deliver services, including better use of electronic channels (covered in Part 3).

BUILDING INLAND REVENUE'S FUTURE

We know that Inland Revenue will change significantly in the future as we simplify our business processes and respond to changing customer and Government needs. We envisage a future in which Inland Revenue:

- receives more accurate information from customers
- provides clearer information to customers, usually through electronic communication
- has significantly fewer customer contacts
- uses risk-based intervention to manage non-compliance
- provides faster rulings and greater certainty to customers
- enters into fewer disputes and resolves them faster
- has a smaller, more highly skilled workforce.

Inland Revenue has a change agenda to move towards that vision of the future. We are embarking on a system redesign of the student loans programme, which will improve our service to borrowers and our ability to collect loan repayments. This is a first step in the wider refresh of Inland Revenue's core infrastructure and business practices.

CONCLUSION

It has been a year of significant change for Inland Revenue and for our customers. We completed the introduction of KiwiSaver and moved it into our core business. The abrupt shift in the economic environment brought new challenges which we responded quickly to. Change and cost-effectiveness will be constant themes in our environment in coming years.

We do not underestimate how challenging this will be. However, I am confident that Inland Revenue will continue to deliver its core programmes to very high standards as we strengthen our capability for the longer term.



Robert Russell

Chief Executive and Commissioner of Inland Revenue

INLAND REVENUE'S CHARTER

Inland Revenue's charter describes the relationship we want to have with our customers.

How we will work with you

Inland Revenue collects money to pay for public services. We help people to meet their obligations and receive their entitlements. We work within the Inland Revenue Acts and other relevant laws, and our actions are consistent with the spirit of the Treaty of Waitangi.



How we will work with you

- We will be easy to deal with, prompt, courteous and professional.
- We will follow through on what we say we will do.
- We will be responsive to individual, cultural and special needs.
- The person you are dealing with will give you their name.
- We will value your feedback and use it to improve our services.



Reliable advice and information

- We will provide you with reliable and correct advice and information about your entitlements and obligations.
- We will assist you to get in touch with the right people for your needs.
- We will be well-trained and competent.
- We will keep looking for better ways to provide you with advice and information.



Confidentiality

- We will treat all information about you as private and confidential, and keep it secure. We will only use or disclose it in accordance with the law.



Consistency and equity

- We will apply the law consistently so everyone receives their entitlements and pays the right amount.
- We will take your particular circumstances into account as far as the law allows.



Your right to question us

- We will make it easy for you to question the information, advice and service we give you. We will inform you about options available if you disagree with us, and we will work with you to reach an outcome quickly and simply.



For this charter to work effectively, we rely on each customer to provide all relevant information when dealing with Inland Revenue.



Robert Russell
Commissioner of Inland Revenue

www.ird.govt.nz



Inland Revenue
Te Tari Taake

Part 1

STRATEGIC CONTEXT

OUR ENVIRONMENT

This section of the report discusses some of the main factors that influenced our performance in 2008–09, and our strategic context.

The influence of globalisation on business decisions and international tax compliance issues have affected us for several years. This continues to have a major influence on our work. The economic recession required us to develop responses to assist businesses in difficulty and mitigate compliance risks. We also focused on improving overall efficiency and providing better services at less cost.

At the end of this section, there is a discussion of our outcomes framework, which provides the strategic context for all our work. There is also a discussion about how we are planning to create major organisational change that will better position Inland Revenue for the future.

THE INFLUENCES OF GLOBALISATION

New Zealand has a small, open economy that is sensitive to global economic influences and international compliance risks. Globalisation and technology can increase complexity in business affairs, which has obvious flow-on effects for assessing tax liabilities.

During the year, Inland Revenue worked closely with international organisations and other revenue agencies to identify appropriate policy and administrative responses to compliance issues (including work on double tax agreements and tax information exchange agreements and transfer pricing issues). Part 2 contains a detailed discussion of our policy work and our interactions with international agencies on specific policy issues.

Inland Revenue continued to support the ongoing capability development of the revenue agencies in Niue and the Solomon Islands.

EFFECTS OF THE ECONOMIC RECESSION

The recession has reduced Crown revenue collection significantly and presented many challenges. Businesses often have liabilities relating to previously profitable periods, which now need to be met in a climate of reduced spending and income. Our customers' ability to meet their obligations is reduced and we have seen an increase in tax and social policy debt levels.

Our response to the recession

In responding to the recession, Inland Revenue adopted an internationally accepted compliance framework² to mitigate some of the pressures facing customers (see figure 1). The framework recognises the need to support those businesses and individuals experiencing hardship, while also maintaining customer compliance. Our activities during the year were consistent with those of other comparable tax administrations.

² IMF, (2009), *IMF staff position note: Collecting Taxes During an Economic Crisis: Challenges and Policy Options*. This report is available at www.imf.org

FIGURE 1 – INITIATIVES TO SUPPORT COMPLIANCE DURING THE RECESSION

Initiative	Activities
Expanding assistance	<p>Our community relationships staff held 1,862 seminars to assist customers in their local areas. They also held seminars in 123 workplaces across New Zealand that were facing staff redundancies. These seminars focused on the redundancy tax credit and ensured employees were aware of their social policy entitlements.</p> <p>Inland Revenue worked closely with other government agencies to support initiatives that respond to the economic environment. For example, we worked with the BIZinfo helpline to help struggling business owners to get the assistance they need.</p>
Improving communication	<p>We developed external communications (including a <i>How to manage debt</i> flyer, website information and newsletters), which focus on debt management and encourage customers who are not able to make payments on time to seek early assistance.</p> <p>We ran a proactive media programme to inform customers about what they can do if they are unable to meet their obligations. This programme was timed around payment due dates.</p> <p>We also worked with key stakeholders (including Business New Zealand, the Employers and Manufacturers Association and other industry groups) to make sure customers know what support is available from Inland Revenue and other government agencies.</p> <p>We continued to work closely with tax agents to encourage early contact from customers unable to make payments. We have piloted an arrangement where tax agents can set up instalment arrangements directly, on behalf of their clients.</p>
Refocusing enforcement	<p>We started a work programme to review and enhance the way we manage debt. This new approach to debt management focuses on risk to revenue and is informed by the PARE model, which helps us recognise that a standard debt management process will not always deliver the desired outcome. See page 30 for more information.</p> <p>Initiatives we have introduced under this programme include:</p> <ul style="list-style-type: none"> ● sending text message reminders to a small number of customers as a pilot project ● using online services to allow selected tax agents to set up repayment arrangements for their clients.
Implementing legislative reforms	<p>The Taxation (Business Tax Measures) Act 2009 introduced a number of measures to help small and medium enterprises manage during the recession by making it easier for them to manage their cash flows and meet their tax obligations. This included threshold changes to:</p> <ul style="list-style-type: none"> ● GST registration – increased from \$40,000 to \$60,000 ● PAYE once-a-month filing and payment threshold – increased from \$100,000 to \$500,000 ● FBT annual return filing threshold – increased from \$100,000 to \$500,000 ● provisional tax use-of-money interest (UOMI) safe harbour threshold – increased from \$35,000 to \$50,000.

PUBLIC SECTOR PRIORITIES

The priorities set for the public sector include a focus on providing smarter services that deliver value for money and improve efficiency.

Value for money and efficiency

During the year, Inland Revenue completed a line-by-line review and subsequent reviews to identify funding that could be reprioritised and returned to Government. As a result of these reviews, \$10.9 million was returned to the Crown as part of Budget 2009.

As part of the line-by-line review, Inland Revenue:

- reviewed operating cost items and identified opportunities to reduce costs (eg, reducing travel-related costs)
- identified opportunities to reduce costs from external service providers
- targeted productivity gains from streamlining business processes and increased staff productivity.

During the year, we continued to identify ways to work smarter and to do more for less. Some of the initiatives included:

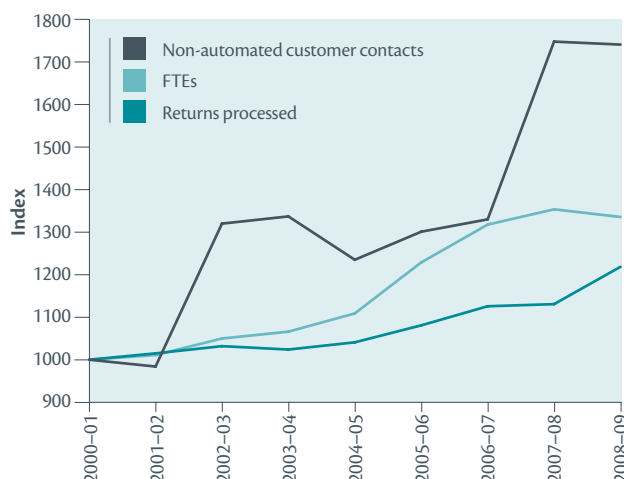
- implementing an operational efficiency programme in our processing centres, which provided a consistent way of managing processing work and measuring our effectiveness. This reduced costs by 10%.
- introducing a service that has enabled PTS intermediaries to self-manage their business. This service diverts enquiries from our contact centres and allows our staff more time for other enquiries.
- completing a voluntary redundancy process that resulted in 270 staff leaving Inland Revenue (discussed in Part 4).

This year, as a result of Inland Revenue's work to improve efficiency, we reduced our direct operating costs per full-time equivalent (FTE) by 11% to \$9,172 (2007–08: \$10,292).

We use a range of indicators to assess our efficiency, including:

- our workload against FTE workforce numbers (figure 2)
- internationally recognised benchmarks from the Organisation for Economic Cooperation and Development (OECD) (figure 3) and the World Bank.

FIGURE 2 – WORKLOAD VERSUS WORKFORCE



The OECD has a benchmark of the relative cost of collecting 100 units of revenue³ in countries with similar tax systems (see figure 3). New Zealand has consistently performed well in comparison with other countries. For 2008–09, our cost of collection is \$0.86⁴ with the increase being mainly due to decreasing revenue, as a result of the recession (other countries' ratios will be similarly affected). Based on The Treasury's current forecasts of tax revenue, the cost of collection is forecast to peak at \$0.89 in 2009–10 before reducing to \$0.78 by 2012–13.

³ This indicator is relative because there are many factors that can influence the cost of collection, eg, macroeconomic changes and differences in the make-up of tax systems and administrations.

⁴ This figure has been adjusted to remove the cost of voluntary redundancies.

FIGURE 3 – COST OF COLLECTION AS A PERCENTAGE OF REVENUE FOR SELECTED OECD COUNTRIES⁵

	Administrative cost/net revenue collection (cost per 100 units of revenue)						
	2001	2002	2003	2004	2005	2006	2007
Canada	1.08	1.20	1.33	1.17	1.31	1.35	1.22
United Kingdom	1.06	1.11	1.04	0.97	1.10	1.12	1.10
Australia	1.06	1.07	1.05	1.05	1.03	0.99	0.93
New Zealand	0.90	0.87	0.83	0.81	0.76	0.71	0.75
United States	0.46	0.52	0.57	0.56	0.52	0.47	0.45

Recent World Bank research⁶ also shows how well New Zealand compares internationally as a place to do business:

- first for ease of starting a business (followed by Canada and Australia)
- second for overall ease of doing business (after Singapore)
- twelfth for ease of paying tax. New Zealand scored second (after Ireland) among OECD countries in this category.

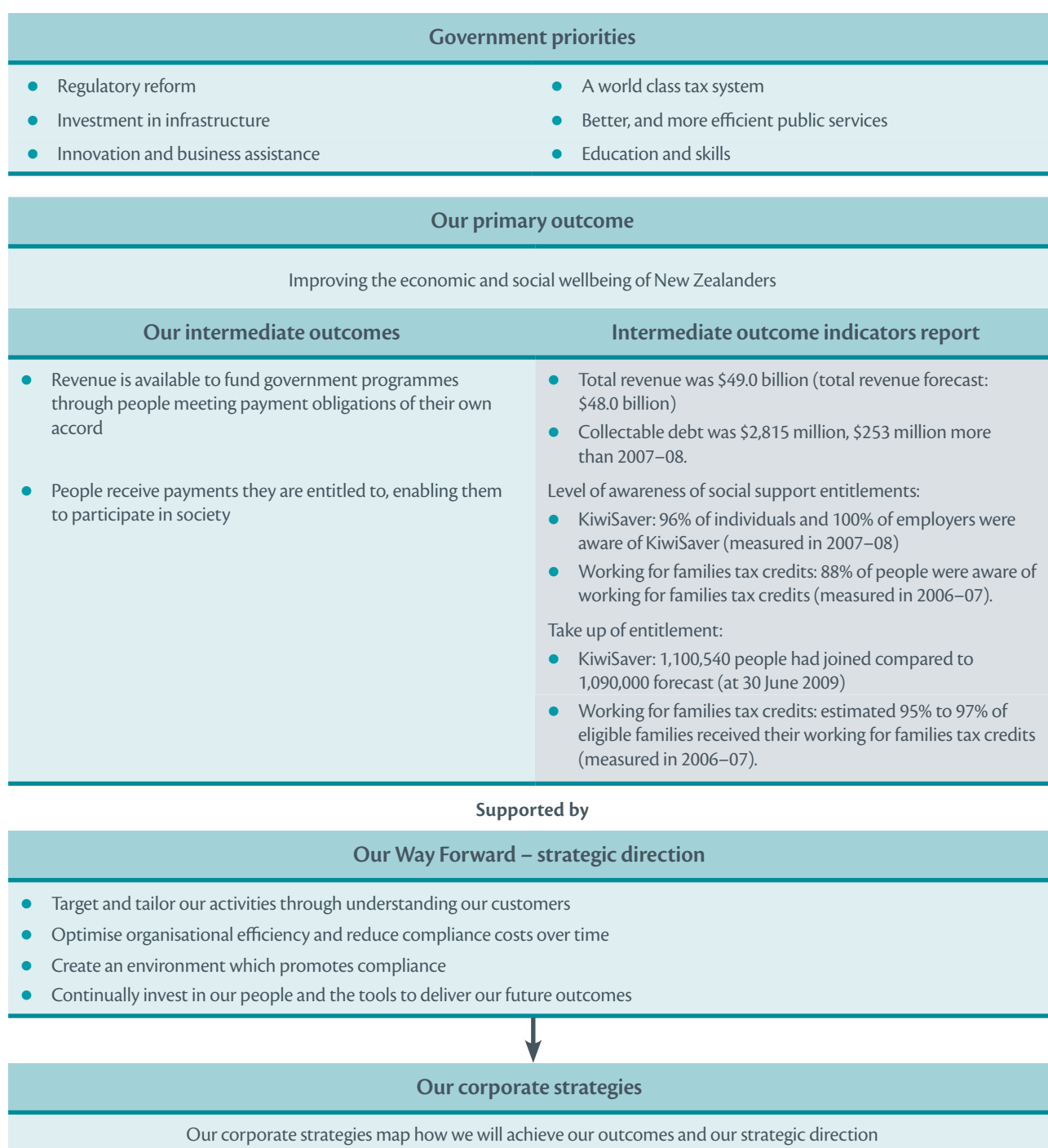
⁵ OECD, (2009), *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2008)*, OECD: Paris, pages 87 and 89. The report is available at www.oecd.org

⁶ World Bank, Doing Business 2009 database, available at www.doingbusiness.org. The Doing Business indicators show the cost of doing business by identifying specific regulations that enhance or constrain business investment, productivity and growth. The rankings are from the Doing Business 2009 report, covering the period April 2007 to June 2008.

OUR OUTCOMES FRAMEWORK

Inland Revenue's outcomes framework provides the strategic context for our work, shows how we contribute to the government priorities and helps us to focus on achieving our outcomes. Figure 4 outlines our outcomes framework and reports our progress towards achieving our intermediate outcomes.

FIGURE 4 – OUR OUTCOMES FRAMEWORK AND REPORT OF PROGRESS



MEASURING OUR PROGRESS

In addition to the six measures outlined in the intermediate outcome indicators report (figure 4) on the previous page, Inland Revenue measures the filing and paying compliance for customers who can choose whether or not they would comply.⁷ The 2008–09 measurement (based on obligations for the year ended 31 March 2008) indicated that the average filing and paying compliance behaviour over 2004 to 2008 remained relatively stable, decreasing by just over 1% during this period. Findings included:

- 76% of customers (about 98% of assessment value) complied with the majority of their filing and paying obligations
- 2% of customers (about 1% of assessment value) showed moderate levels of compliance
- 22% of customers (about 1% of assessment value) showed poor levels of compliance.

We are also exploring ways of enhancing measurement of our disbursements intermediate outcome, including developing a wider picture of community awareness of social support entitlements. As part of our new customer satisfaction and community perceptions survey we will be surveying customers' confidence that Inland Revenue takes appropriate actions to ensure New Zealanders receive their entitlements and meet their compliance obligations. The first results will be included in next year's annual report.

We also evaluate the results of policies and major business projects against their objectives. These findings help us understand the underlying factors that contribute to the success of policies and interventions. Some of the evaluation projects we worked on in 2008–09 included:

- **KiwiSaver**—we released evaluation reports in September 2008 and March 2009.
- **Working for families tax credits**—in April 2008 we released *The receipt of the working for families package: 2007 Update*; and in February 2009, *Report of analysis into employment incentives for sole parents: labour market effects of changes to financial incentives and support*.
- **Tax compliance costs of small businesses**—we carried out a survey in 2009 to measure the compliance costs and establish how these have changed since 2004.

- **Outbound calling**—we are testing the effectiveness of Inland Revenue initiating calls to new small and medium enterprise employers to help them comply with their employer tax obligations. We expect findings to be available 2009–10.
- **Property compliance programme**—an evaluation of our property compliance programme is under way and we expect to report on the first findings in 2010.
- **R&D tax credits**—the evaluation was discontinued in January 2009 after the repeal of credits effective from the 2009–10 tax year.

View our evaluation reports at www.ird.govt.nz

BUILDING INLAND REVENUE'S FUTURE

During 2008–09, we developed a view of the future Inland Revenue and identified seven key focus areas that will guide our future development:

- **Information we receive**—customers will provide us with accurate information and only the information we need.
- **Information we provide**—we will provide customers the information they need, when they need it and in accessible ways.
- **Customer contacts**—we will have fewer and different contacts. We will support targeted proactive campaigns and deal with more complex calls.
- **Risk-based intervention for managing non-compliance**—we will have better compliance measurement and business intelligence, use a wider range of interventions and have faster access to data for analysis.
- **Faster rulings**—we will create greater certainty for customers through faster rulings.
- **Fewer disputes and efficient resolution**—the number of disputes will be reduced and they will be resolved quickly. Less time and resources will be taken up on both sides.
- **Inland Revenue's people**—our workforce will be proactive, equipped to deal with exceptions, have higher technical expertise and adjust to changes in roles.

Over the coming years, we will be aligning our work and priorities towards making progress in these areas.

⁷ This excludes all customers who are employees and pay their taxes through PAYE.

Part 2

POLICY AND LEGISLATION

ADVISING ON GOVERNMENT POLICY

The work of the Policy Advice Division is based on the Government's tax policy work programme, which is updated regularly. The focus of the work programme for 2009–10, announced in March 2009, is on better positioning New Zealand in the world economy and maintaining tax revenue in a time of world economic crisis.

THE YEAR'S POLICY HIGHLIGHTS

Government's post-election action plan

A taxation bill introduced and passed in December 2008 gave effect to changes announced by the incoming Government in the 2008 general election campaign. The changes included a three-year programme of personal tax cuts, introduction of an independent earner tax credit, repeal of the research and development tax credit, and KiwiSaver changes.

A further election commitment resulted in the introduction in April of legislation giving effect to a 10% bonus for both New Zealand and overseas-based borrowers who make voluntary repayments on their student loans of \$500 or more in a tax year. The bill was still before Parliament at the time of reporting.

Business tax relief in the recession

In February 2009 the Government announced a series of tax changes aimed at making it easier for small and medium businesses to manage their cash flows and meet their tax obligations during the recession. The changes include reduction of use-of-money interest rates for underpaid and overpaid tax, removal of the 5% uplift for provisional tax payments, and adjustments to numerous tax thresholds to relieve pressure on cash flows and lower compliance costs. Most of the changes were made by means of a taxation bill introduced in February 2009 and passed in March 2009. The remainder were made by Order in Council.

Budget 2009

Budget 2009 announced the deferral of personal tax cuts that were to have taken effect in 2010 and 2011, to prevent further increases in government debt, and the forthcoming closure to new applicants of the KiwiSaver mortgage diversion facility. A taxation bill giving effect to these and other tax changes was introduced under urgency on Budget day, passing its final stages in Parliament on the following day.

The tax policy year

July 2008

Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill introduced.

Australia and New Zealand agree to progress work on mutual recognition of imputation and franking credits.

Capital Market Development Taskforce launched.

August 2008

Discussion document seeks views on whether the imputation rules should allow limited streaming of credits and refunds of credits for charities.

Updated DTA with the United Kingdom enters into force.

September 2008

New DTA with the Czech Republic enters into force.

Climate Change Response (Emissions Trading) Amendment Act enacted.

October 2008

Tax information exchange agreement with Netherlands Antilles comes into force.

Parliament rises for the general election, and the Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill lapses.

New Zealand's submission to the Australia's Future Tax System review makes the case for introducing trans-Tasman mutual recognition of imputation and franking credits.

December 2008

Protocol updating the DTA with the United States signed.

New Government releases Inland Revenue's post-election briefing for the incoming Minister of Revenue, which describes the main challenges facing tax policy and administration.

Taxation (Urgent Measures and Annual rates) Bill, which gives effect to election commitments, introduced and passed under urgency.

Other legislation

The major legislative event of the year was the progress through Parliament of the substantial Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill. Introduced in July 2008, the bill gives effect to a number of major business tax reforms, including the first stage of the reform of New Zealand's international tax rules, reform of the taxation of the life insurance business, introduction of a voluntary payroll giving system for charitable donations, and changes to strengthen the definitions of associated persons in income tax law.

The bill was one of nearly 80 bills that lapsed when Parliament rose for the general election in October 2008, to be reinstated by the new Parliament in December, when it resumed its place before a new Finance and Expenditure Committee. Policy officials prepared a multi-volume report on submissions on the bill for progressive delivery to the select committee throughout April and May. At the end of the reporting period the 800-page bill was nearing the end of its passage through Parliament.

September 2008 saw the enactment of legislation that had been introduced a year earlier in the Climate Change (Emissions Trading and Renewable Preference) Bill, which introduced the New Zealand Emissions Trading Scheme and provided for the tax treatment of the forestry sector under the scheme.

Consultation on proposed policy changes

A discussion document released in August 2008 sought views on possible improvements to two important areas in the imputation rules of the Income Tax Act: whether the law should allow limited streaming of imputation credits to those who can use them and refunds of credits for charities and other tax-exempt entities.

Consultation that took place in June 2009 sought public comment on proposed changes to simplify the way student loan repayments are managed by moving towards greater electronic interaction with borrowers. In addition to a discussion document seeking submissions on the proposals, the consultation used an online forum to determine the views of a wide range of individual borrowers, the first time Inland Revenue has used electronic interaction for consultation purposes.

The taxation of distributions from profit distribution plans was the subject of an officials' issues paper released for comment in the same month.

February 2009

Taxation (Business Tax Measures) Bill, giving effect to tax changes to assist businesses in time of recession, introduced.

Prime Minister's Job Summit takes place.

March 2009

New tax policy work programme for 2009–10 announced.

Legislation introduced in Taxation (Business Tax Measures) Bill enacted.

New Zealand signs tax information exchange agreement with Bermuda.

April 2009

Student Loan Scheme (Repayment Bonus) Amendment Bill introduced.

May 2009

Tax Working Group set up.

Budget 2009 announces delay in implementation of second and third rounds of personal tax cuts.

Taxation (Budget Tax Measures) Bill introduced on Budget day and passed under urgency.

June 2009

Use-of-money interest rates on underpaid and overpaid tax adjusted in line with changes in market rates.

Issues paper on tax treatment of profit distribution plans released.

Consultation begins on proposed changes to simplify the way student loan repayments are managed.

New double tax agreement with Australia signed.

Finance and Expenditure Committee reports back to Parliament on Taxation (International Taxation, Life Insurance, and Remedial Matters) Bill.

Tax-related reviews

Policy officials were associated throughout the year with a number of important reviews that have implications for tax policy, including:

- **The Capital Market Development Taskforce**, set up in July 2008 to develop a plan for improving New Zealand's capital markets for the benefit of the economy and business. Tax policy officials worked closely with the taskforce to ensure that tax policy settings do not impede development of well-functioning capital markets.
- **The Prime Minister's Job Summit**, held in February 2009, to generate new ideas for maintaining and creating jobs during the recession. Tax policy officials considered and commented on tax-related ideas that were raised at the summit.
- **The Tax Working Group**, established in May 2009 to consider key tax policy challenges facing New Zealand and to consider the medium-term direction of the tax system. Coordinated by Victoria University's Centre for Accounting, Governance and Taxation, the group is made up of private sector experts, academics and tax policy officials.

New Zealand is closely monitoring the progress of Australia's comprehensive review of its tax system. The review, known as Australia's Future Tax System, was set up in May 2008 and is expected to report by the end of 2009. The review is likely to have a major influence on New Zealand's tax policy in general, and on specific projects such as the review of our imputation tax rules.

New Zealand in the world economy

In a joint announcement in July 2008, the Australian and New Zealand Governments announced that they were open to the idea of moving toward mutual recognition of imputation and franking credits between firms investing across the Tasman. In October, at the invitation of the Australian Government, New Zealand made a submission to Australia's Future Tax System, presenting the case for introducing trans-Tasman mutual recognition of these credits. Further work on the project was deferred until the outcome of the Australian review is known.

The year was a busy one for the negotiation and updating of New Zealand's double tax agreements (DTAs) and other tax treaties. An updated DTA with the United Kingdom entered into force in August 2008, a protocol updating our DTA with the United States was signed in December 2008, and a new DTA with Australia was signed in June 2009.

New Zealand and Bermuda signed a tax information exchange agreement in March 2009. The second such agreement for New Zealand, it provides for full exchange of information on criminal and civil tax matters between the two countries. At the end of the reporting period, New Zealand was in the process of negotiating further tax information exchange agreements with other low-tax jurisdictions.

Revenue forecasting and analysis

The year saw a large number of policy changes that had significant fiscal consequences, with new policies following the 2008 election and in the wake of the world financial crisis. The Policy Advice Division's Forecasting and Analysis unit was involved in quantifying such policy changes. Examples include calculating the fiscal cost of personal tax cuts in October 2008 and April 2009, the working for families tax credits indexation, the introduction of the independent earner tax credit, KiwiSaver changes, and the changes to the provisional tax uplift and timing of payments under the Taxation (Business Tax Measures) Bill.

The unit's other main roles are to produce forecasts of tax and Inland Revenue-administered social policy revenues, and to monitor and analyse revenue outturns. Both roles had increased emphasis during the year: an extra round of forecasts was produced to meet fiscal reporting requirements in an election year, and the monitoring/analysis role had greater importance in the rapidly changing economic environment.

TAX REVENUE

Tax revenue declined across most of the major tax types in the year to June 2009. However, the reduction in corporate tax was offset by a positive adjustment for revenue not previously recognised. Figure 5 shows revenue assessed compared to the previous year.

As well as the impact of the recession, the main factors that affected tax revenue were:

- **major policy changes** including a reduction in the company tax rate to 30% for the 2009 tax year, the introduction of rules for portfolio investment entities (PIEs) for taxation of portfolio investments, and personal tax cuts in both October 2008 and April 2009.
- **timing changes** including deferral of due dates for provisional tax, with the consequential effect that for some taxpayers 2009 contained fewer due dates, changes to filing and payment thresholds across several tax types for small and medium enterprises, and a reduction in the uplift formula for payments of provisional tax.
- **a one-off gain to company tax** with the recognition of \$1.4 billion revenue related to structured finance disputes. Without this gain, total revenue would have declined by \$3.5 billion in the year to June 2009, of which \$0.8 billion was attributable to the company tax rate cut, and \$1.8 billion was due to personal tax cuts.

FIGURE 5 – REVENUE ASSESSED 2008–09 (ACCRUAL BASIS)

	Outturn \$million	% change previous year
Direct taxation		
Income tax		
Individuals	25,613	–6.0%
Company tax	8,294	–8.9%
Schedular payments	4,723	–5.6%
Total income tax	38,630	–6.6%
Other direct taxation	1	–43.3%
Total direct taxation	38,631	–6.6%
Indirect taxation		
Goods and services taxation	10,051	5.9%
Other indirect taxation	363	–14.4%
Total indirect taxation	10,414	5.1%
Total taxation	49,045	–4.3%

The trend in tax revenue collection over the last five years is shown in figure 6 and the composition of revenue by tax type for 2008–09 is shown in figure 7.

FIGURE 6 – COMPOSITION OF ACTUAL REVENUE ASSESSED

	2004–05 \$billion	2005–06 \$billion	2006–07 \$billion	2007–08 \$billion	2008–09 \$billion
Direct tax	32.8	37.3	38.5	41.3	38.6
Indirect tax	9.2	9.5	10.1	9.9	10.4
Total tax	42.0	46.8	48.6	51.2	49.0

FIGURE 7 – COMPOSITION OF 2008–09 TAX REVENUE BY MAJOR TYPE

Revenue type	2006–07	2007–08	2008–09
PAYE	44%	45%	46%
GST	20%	19%	20%
Company tax (net)	20%	18%	17%
Other persons (net)	7%	7%	6%
Schedular payments	8%	10%	10%
FBT	1%	1%	1%
Other	1%	1%	1%

For further information on revenue collected by Inland Revenue, see Part 8 of this report, Financial Schedules–Crown as administered by Inland Revenue.

Outturn data for tax from all sources is available at www.treasury.govt.nz

Part 3

FOCUS ON COMPLIANCE

INTRODUCTION

This section presents our performance in managing compliance issues and social policy programmes.

Our overall compliance approach includes helping customers to comply of their own accord and taking proactive interventions to encourage non-compliant customers to comply. We use risk management methods to identify and prioritise interventions.

This year, we publicly released our compliance management programme for the first time. This programme highlights our focus for 2009–10 to address key compliance issues. Our intention in publicly releasing the programme was to improve overall compliance by:

- being open and transparent about compliance matters that concern us
- enabling people and businesses to understand the areas we are targeting
- helping them and their advisors manage their tax affairs more effectively.

The programme details a number of broad concerns, including:

- tax debt
- hidden economy (including a focus on GST fraud and horticultural contractors)
- e-commerce (eg, focusing on under-reporting of income from online trading)
- income gained from property transactions and offshore investments
- international tax issues (such as transfer pricing and hybrid financial instruments)
- aggressive tax planning.

MAKING IT EASY TO COMPLY

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.

CUSTOMER CONTACTS

This year, there was an increase in customer contacts across a variety of channels (shown in figure 8). The increase in use of electronic channels was particularly strong. This year, 57.0% (2007–08: 52.1%) of payments were made electronically and 39.5% (2007–08: 34.2%) of returns were filed electronically.

FIGURE 8 – SUMMARY OF OPERATIONS

	2006–07	2007–08	2008–09
Website visits	6,233,248	8,378,820	9,681,014
Self-help and online services			
Look at account information	4,859,542	6,374,800	9,279,339
Agent client maintenance	295,162	395,626	913,492
INFOexpress calls	864,583	772,820	644,945
KiwiSaver self-help services	–	675,178	398,591
Customer contacts			
Telephone calls answered ⁸	3,812,293	4,268,258	4,406,845
Correspondence items	1,814,044	3,220,812	4,053,213
Counter enquiries	218,726	233,080	261,782
Payments processed	7,828,070	8,000,654	7,948,870
Payments made electronically	46.7%	52.1%	57.0%
Advisory hours⁸	145,577	157,090	190,341
Returns processed⁸			
Income tax	2,267,285	2,203,857	2,627,977
GST	3,126,318	3,193,055	3,081,521
Employer monthly schedules	2,147,288	2,169,155	2,509,340
FBT	91,090	89,495	83,766
Tax credit claims	429,723	439,783	429,704
Returns filed electronically	29.6%	34.2%	39.5%

⁸ These figures are not directly comparable with previous years because of a change in measurement methodology.

DELIVERING ELECTRONIC SERVICES

During 2008–09, we continued to provide more information and services electronically to make it easy for customers to self-manage their business with us.

Our main website www.ird.govt.nz is a major access point for customers into Inland Revenue. In 2008–09 we:

- had 9.7 million visits (2007–08: 8.4 million)
- updated the look and feel and made links within pages easier to see to improve the usability of the main website.

New online services

We developed new online services for our families and individuals customers⁹. The new services, which went live on 19 July 2009, enable customers to:

- confirm a personal tax summary
- file an IR 3 return
- save drafts of a confirmation or IR 3 to complete later.

This year, we launched two new online training tools:

- **Tool for business**—helps customers who are starting a business. It explains how to get an IRD number, what records need to be kept, how to file tax returns and pay tax, how to register for GST, and employer obligations. It also has links to other government business services. Information is presented in a variety of formats including templates, worksheets and electronic calculators.
- **GST filing demonstration**—explains how to file GST returns online. The demonstration uses a copy of a GST online return. Customers can step through the process of filing a GST return online without supplying any information.

Online and self-help services usage

This year, we had a significant increase in the number of customers registering for an online service account with 144,316 new online service registrations (2007–08: 30,292).

Customers accessed:

- agent client maintenance (a service that enables tax agents to add or remove clients from their client list) 913,492 times, a 131% increase on 2007–08
- look at account information (LAAI) service 9.3 million times, a 46% increase on 2007–08.

⁹ Families customers are child support, working for families tax credits and paid parental leave customers. Individuals are customers whose primary income is fully taxed at source (eg, PAYE) and people with other non-business income not taxed at source (eg, interest and dividends).

The increase in use of agent client maintenance and LAAI this year was due, in part, to tax intermediary companies which provide tax refund services to their customers. With the increasing use of online services, the use of INFOexpress (Inland Revenue's interactive voice response system) has been decreasing over the past few years. This year, we received 398,591 INFOexpress calls, a 17% decrease from 2007–08. We also had a 41% decrease in use of KiwiSaver self-help services, which was expected as enrolments for KiwiSaver slow down.

SERVICES PROVIDED BY OUR PEOPLE

Telephone services

During the year, customers continued to make use of our telephone services as their preferred channel for contacting us. We have improved our timeliness performance for answering telephone calls while managing increased call demand and complexity. In addition to the increased complexity of calls, our average handling times are still growing. Figure 9 shows the growth in calls answered and average handling time.

FIGURE 9 – TELEPHONE PERFORMANCE

Total calls	2007–08	2008–09
Calls answered	4,268,258 ¹⁰	4,406,845
Average handling time	11:18	11:56

We have also spent more time handling calls in our tax agents' queue, mainly related to an increased number of personal tax summary (PTS) requests from PTS intermediaries. This year, our contact centres received 686,195 requests for a PTS (2007–08: 287,423).

This year, 83% of our telephone customers were satisfied with our service (2007–08: 82%). The number of voice channel-related complaints received (0.2% of calls answered) is lower than the industry average of between 5% and 6% of calls answered.

We continue to invest in our telephone services to make it easier for customers to access our services and help us improve our service performance, especially our ability to respond to customers in a timely way. This year, we introduced virtual hold, which gives customers a call-back option that maintains their place in the queue without requiring them to wait. This has reduced waiting times and the number of abandoned calls. We offered approximately 828,700 callers the virtual hold option, 61% of callers accepted it and we successfully called back 94% of them.

To improve our telephone service, we are investing in new technology (eg, natural language speech recognition) in 2009–10, encouraging more use of online services and streamlining our call management processes.

Correspondence

This year, we answered 4.1 million correspondence items. We have had a 123% increase in correspondence in the past two years, mainly from the introduction of KiwiSaver in 2007–08 and the changes to KiwiSaver introduced on 1 April 2009.

We achieved our performance standards for correspondence and customer satisfaction with our correspondence service improved to 71% (2007–08: 65%). Figure 10 shows our response time for all correspondence in 2008–09.

Advisory services

This year, we delivered over 190,000 hours of educational advice to customers to help them understand what they need to do or what they are entitled to. We continued to:

- work with the New Zealand Association of Citizens Advice Bureaux and other organisations
- deliver in-house customer seminars
- visit workplaces going through redundancies and closures, in partnership with the Ministry of Social Development
- work closely with government agencies, including delivering joint seminars
- work with the Māori Land Court, Te Puni Kōkiri, the Department of Internal Affairs and the New Zealand Fire Service to deliver information to many marae on tax issues and other government agency laws affecting marae.

FIGURE 10 – RESPONSE TIME FOR ALL CORRESPONDENCE

Response time	1 week	2 weeks	3 weeks	4 weeks	5 weeks	6 weeks	7 weeks	8 weeks	>8 weeks
Volume	2,936,420	384,952	281,240	176,549	122,083	51,648	34,244	23,908	42,169
% total (cumulative)	72%	82%	89%	93%	96%	98%	98%	99%	100%

¹⁰ We have adjusted the 2007–08 results to make a comparison with this year's performance by excluding transferred calls from total calls answered. As a result, the 2007–08 figures are different to those in last year's annual report.

Working with professional organisations

We have continued to develop our relationships with professional organisations to maintain compliance and make sure we receive feedback from tax intermediaries about our services. We have discussed our disputes process and the way we prepare notices of proposed adjustment after an audit with the New Zealand Institute of Chartered Accountants (NZICA) and the New Zealand Law Society. We have also discussed NZICA concerns about the way we deal with voluntary disclosures.

ADJUDICATING AND RULING ON THE LAW

The Office of the Chief Tax Counsel (OCTC) contributes to taxpayer confidence in the tax administration by giving guidance on the correct interpretation of the Inland Revenue Acts and other relevant laws. It prepares adjudications, public rulings and statements, as well as more complex and sensitive taxpayer rulings. Our Large Enterprises unit produces more straightforward taxpayer rulings. The OCTC oversees technical governance to facilitate and coordinate Inland Revenue's effort on key tax issues.

This year, the OCTC:

- made substantial improvements to the timeliness of rulings by adopting new approaches to the rulings process. Most rulings applications received since 1 January 2009 have been completed within three months of receipt.
- reduced the average time taken from receipt to completion of an adjudication, to 15 weeks (2007–08: 17 weeks)
- finalised 41 public projects, relating to a range of income tax and GST issues. In early 2009, a customer survey found that 86% of respondents rated the public rulings service overall as good to excellent. Their main concerns were around timeliness, communication, and lack of clarity and brevity. Addressing these will be a key focus for 2009–10.

MEASURING CUSTOMER FEEDBACK

We measure how Inland Revenue has performed in delivering services to our customers through regular customer satisfaction surveys, and by feedback from customer complaints and correspondence to the Minister of Revenue, the Commissioner and other authorities.

Customer satisfaction

This year overall customer satisfaction rose to 82% (2007–08: 80%). Measuring customer satisfaction helps us understand our customers and how effective we are at delivering timely and appropriate services that address their needs.

FIGURE 11 – CUSTOMER SATISFACTION

Overall satisfaction (good or very good)		
Customer group	2007–08	2008–09
Overall customer satisfaction (all customer groups)	80%	82%
Tax agents	90%	89%
Small and medium enterprises	79%	82%
Working for families tax credits	84%	84%
Large enterprises	84%	85%
Student loans	81%	83%
Individuals	79%	79%
Not-for-profits	75%	77%
Child support	69%	73%
KiwiSaver	77%	82%
Channel	2007–08	2008–09
Telephone	82%	83%
Correspondence	65%	71%
Counter	81%	88%

From 2009–10 onwards, we will be using a new integrated quarterly customer satisfaction and perceptions survey.

Complaints and ministerial services

This year, we managed 7,067 complaints (2007–08: 7,175) and received 1,391 items of ministerial correspondence for reply (2007–08: 1,233).

We received 1,338 complaints (2007–08: 1,206) about our telephone services. This was mostly because of an increase in complaints during the first quarter peak period. The introduction of new initiatives like virtual hold saw telephone complaints drop significantly with 26% fewer telephone-related complaints being received in the second half of the year than in the same period in 2007–08.

FIGURE 12 – COMPLAINTS, MINISTERIAL CORRESPONDENCE AND OTHER CONTACTS

Contact type	2008	2009
Complaints	7,175	7,067
Ministerials	1,233	1,391
Commissioner's correspondence	513	394
Commissioner's Helpdesk	251	236
Ombudsmen/Privacy	161	161
Parliamentary questions	313	140
Email correspondence	43	36

We use feedback from these contacts to help identify trends and areas of concern, and to assist other areas of Inland Revenue. For example, this year, we used the feedback to make improvements to our website and the operational manual our customer service representatives use.

We measure each contact against the principles of Inland Revenue's charter and record where our customers believe we have not met the charter principles to make service improvements. The charter principles that our customers most commonly state we are not achieving are:

- we will be easy to deal with, prompt, courteous and professional
- we will provide you with reliable and correct advice and information about your entitlements and obligations
- we will take your particular circumstances into account as far as the law allows.

ENCOURAGING COMPLIANCE

On those occasions when customers fail to meet their obligations, we take stronger action to encourage them to comply. This may be as simple as proactively reminding customers about their obligations or, at the other extreme, taking legal action to encourage compliance.

OUTSTANDING RETURNS

During 2008–09, we sent out 13.0 million return forms, 2.5% more than last year. We finalised 1.5 million outstanding returns, 26.4% above target and 11.4% more than last year. We collected 80.8% of outstanding returns, compared to 80.2% last year.

Our approach to managing outstanding returns includes:

- using a range of interventions to follow up those who do not file on time. Recovery of overdue returns focuses on high risk to revenue areas. This includes employers and the customers with the highest number of outstanding returns.
- taking prosecutions when other efforts have not been effective. This year we prosecuted 354 customers for 3,742 outstanding returns. For those people convicted for not filing returns, sentences ranged from community service to fines.

MANAGING OVERDUE DEBT

This year, we faced a number of challenges, including pressures from the recession, and the growth in debt. We still managed to achieve our four external overdue debt performance measures for the year, while also collecting \$2,428 million in overdue debt (a 10% increase over 2007–08).

Auditor-General's report on managing debt

In June 2009, the Office of the Auditor-General published its report *Inland Revenue Department: Managing tax debt*. The Auditor-General recommended that Inland Revenue:

- collect and analyse information about how many cases debt officers are managing, and how much of their work is inbound contact (where first contact is from a taxpayer contacting Inland Revenue) and how much is outbound (where Inland Revenue debt officers make first contact)
- review how it selects the types of cases it does—and does not—allocate to debt officers, to ensure it is: taking reasonable steps to enforce taxpayers' obligations and considering the potential effect on voluntary compliance if some types of cases are unlikely to be assigned to a debt officer
- include in its external reporting the total number of outstanding tax debt cases (by the age of tax debt) and the methods used to resolve tax debt cases

- improve the information used to monitor the effectiveness and efficiency of tax debt collection work and to prepare its tax debt strategy
- closely align its internal and external tax debt reporting.

We are addressing these recommendations as part of Inland Revenue's programme to improve debt management performance.

How we categorise the debt portfolio

To manage the debt portfolio we categorise it into collectable and non-collectable debt.

Collectable debt is debt that we expect to collect and where active collection action is occurring or possible. This includes debt that is being progressively repaid under an instalment arrangement. At 30 June 2009, collectable debt totalled \$2,815 million.

Our debt collection process starts with automated actions, such as reminder notices to customers with overdue debt. Next, on the basis of risk of continued non-compliance, we identify cases for our debt staff to proactively contact customers to arrange payments.

Those customers who are unable to pay their debt at that time, can arrange to repay in instalments. Debt cases under instalment have grown significantly during the last year, partly because we have encouraged customers facing financial difficulty in the economic recession to contact us and set up instalment arrangements to pay their debts.

Non-collectable debt includes deferred debt, insolvency debt, default assessments and debt to be written off. At 30 June 2009, non-collectable debt totalled \$2,245 million.

Deferred debt is debt that is suspended pending investigation or litigation action. There is potential for a proportion of deferred debt to become collectable once the legal process has finished. The amount of insolvency debt that will be collected depends on the outcome of the insolvency process. A default assessment is made where a customer has not filed a return to encourage them to comply with their filing obligations. In some circumstances, default assessments are collectable and paid. A proportion of the non-collectable debt will never be collected, and may be written off under various legislative provisions (eg, financial hardship provisions).

Our approach to managing debt

Our approach to managing debt focuses on risk to revenue and is informed by the PARE model, which helps us recognise that a standard debt management process will not always deliver the desired outcome. This model was developed by the International Debt Management Committee, which has revenue authority representatives from New Zealand, Australia, Canada, the United Kingdom and the United States. The PARE model has four elements:

- **Prevent**—this involves engaging early, targeting those most at risk, and helping people to avoid debt. This is about working with customers before they get into debt.
- **Assist**—this involves informing customers of their specific obligations and supporting them to manage and resolve their obligations.
- **Recover**—this requires tailored interventions through approaches, such as campaign management¹¹ where customers are contacted using a variety of media.
- **Enforce**—customers who do not respond to the above approaches are managed in a persistent manner, ensuring that they are aware of the consequences of their actions.

Overdue debt is collected by either Receivables or the National Collections Enforcement areas:

- **Receivables** manages all new debt and overdue returns up to 120 days old where we aim to engage with and assist customers early in the debt life cycle.
- **National Collections Enforcement** targets customers who seem to have decided not to comply, and taking firm and deliberate action against them where appropriate. In some cases, legal action is taken.

This year we started a work programme to review and enhance the way we manage debt, which will help us to achieve our vision for managing debt.¹² This programme includes identifying the business capabilities required for an effective debt management system and piloting initiatives to test the effectiveness of new approaches to compliance. The initiatives piloted so far include:

- sending text message reminders to a small selection of customers
- using online services to allow selected tax agents to set up repayment arrangements for their clients with minimal Inland Revenue intervention.

As part of the planning for 2009–10, we reviewed the debt performance measures. As a result, we made minor amendments to standards and introduced an additional measure focusing on the value of debt collected for every dollar spent to collect it (2009–10: \$62.50 collected for each output dollar spent).

Information about the debt portfolio

As at 30 June 2009, total overdue debt¹³ was \$5,060 million (2007–08: \$4,412 million), which is made up of:

- collectable debt of \$2,815 million (2007–08: \$2,562 million)
- non-collectable debt of \$2,245 million (2007–08: \$1,850 million).

Factors influencing debt growth

The growth of our debt portfolio is affected by historical factors such as the effects of rising revenue coupled with consistent increases in the customer base. However, with the economic recession, there are a number of new influences, including:

- financial pressure on customers' available funds which force them to prioritise payment obligations
- increases in bankruptcy, liquidation and receivership cases
- our focus on investigating avoidance schemes, which generally results in increases in deferred debt while legal action is being completed.

¹¹ Campaigns include a variety of media, including seminars, leaflets, letters, email and telephone and can target groups or individuals at different levels.

¹² The vision for managing debt is "More people filing and paying on time, with fast-engaging interventions for those who do not comply".

¹³ Total overdue debt consists of tax debt, overdue student loan repayments, working for families tax credits debt and KiwiSaver debt. Child support debt is dealt with separately and not included in the total.

Overdue debt statistics

FIGURE 13 – COMPONENTS OF OVERDUE DEBT (AS AT 30 JUNE)

Debt type (\$million)	2005	2006	2007	2008	2009	1 Year change	1 Year change (%)
Collectable debt							
Debt under instalment	\$639	\$766	\$783	\$917	\$1,176	\$259	28%
Other collectable debt	\$914	\$1,114	\$1,124	\$1,645	\$1,639	–\$6	0%
Total collectable debt	\$1,553	\$1,880	\$1,907	\$2,562	\$2,815	\$253	10%
Non-collectable debt							
Default assessments	\$564	\$670	\$716	\$740	\$640	–\$100	–14%
Deferred debt	\$570	\$739	\$698	\$709	\$943	\$233	33%
Insolvency debt	\$64	\$92	\$194	\$250	\$495	\$245	98%
Pending write-off	\$132	\$134	\$148	\$150	\$167	\$17	11%
Total non-collectable debt	\$1,330	\$1,635	\$1,756	\$1,850	\$2,245	\$395	21%
Total debt	\$2,883	\$3,515	\$3,663	\$4,412	\$5,060	\$648	15%
Customers in debt (cases)	276,500	277,700	281,000	340,400	353,300	12,900	4%
Collectable debt/total debt (%)	54%	53%	52%	58%	56%	–	–
Instalment debt/total debt (%)	22%	22%	21%	21%	23%	–	–
Annual debt growth	–	22%	4%	20%	15%	–	–

Figure 13 shows there are areas where we have seen notable growth in the past year. These areas are:

- **Debt under instalment**—debt being repaid through a instalment arrangement. At 30 June 2009 \$1,176 million (23% of total debt) was under instalment arrangement, an increase of \$259 million (28%) from last year. We anticipate a continued growth in tax paid through instalments, as access to cash flow remains tight.
- **Deferred debt**—\$943 million (19% of total debt) is debt deferred due to a current investigation or under dispute through the courts. Much of this debt relates to litigation following tax investigations. Deferred debt increased by \$233 million (33%) over the last year due to a small number of high-value cases.
- **Insolvency debt**—\$495 million (10% of total debt) is debt subject to bankruptcy, liquidation or receivership action. Insolvency debt increased by \$245 million over last year.

Figures 14, 15 and 16 show details of the composition of debt by tax type, the age of debt and by value ranges.

FIGURE 14 – TOTAL OVERDUE DEBT BY TAX TYPE (AS AT 30 JUNE)

Total overdue debt	2008 \$million		2009 \$million	
Income tax	\$1,941	44%	\$2,298	46%
GST	\$1,629	37%	\$1,665	33%
PAYE	\$312	7%	\$472	9%
Student loans	\$207	5%	\$306	6%
Working for families tax credits	\$169	4%	\$200	4%
Other tax	\$154	3%	\$119	2%
Total	\$4,412	100%	\$5,060	100%

FIGURE 15 – AGE OF DEBT AT 30 JUNE 2009¹⁴

Weighted case age	Debt value \$million	Debt value (%)	Debt cases	% of debt cases
Non-collectable debt				
0–6 months	\$509	10.1%	23,100	6.6%
6–12 months	\$221	4.4%	6,000	1.7%
1–2 years	\$537	10.6%	8,300	2.3%
> 2 years	\$978	19.3%	10,300	2.9%
Total	\$2,245	44.4%	47,700	13.5%
Collectable debt				
0–6 months	\$860	17.0%	160,800	45.5%
6–12 months	\$516	10.2%	49,000	13.9%
1–2 years	\$572	11.3%	42,300	12.0%
> 2 years	\$867	17.1%	53,500	15.1%
Total	\$2,815	55.6%	305,600	86.5%
Grand total	\$5,060	100.0%	353,300	100.0%

FIGURE 16 – VALUE OF OVERDUE DEBT AT 30 JUNE 2009

Case value bands	< \$1K	\$1K–\$5K	\$5K–\$10K	\$10K–\$50K	\$50K–\$100K	\$100K–\$500K	\$500K–\$1M	> \$1M
% of value	0.9%	6.3%	5.9%	19.6%	10.3%	18.6%	5.9%	32.6%
% of cases	35.4%	35.6%	12.1%	13.0%	2.1%	1.4%	0.1%	0.1%

¹⁴ Debt value in this table includes student loan debt and is based on cases using a weighted average of debt elements in each case. The data in this table is not comparable with Note 2: Receivables–tax in Part 8 because Note 2 excludes student loans and is aged on a different basis.

Additional information on debt

Tax receivables and overdue debt

Inland Revenue administers tax, student loan repayments and child support owed by New Zealanders, on behalf of the Crown and custodial parents. As at 30 June 2009 the book value of these assets was \$21,565 million.

In many cases there is a time lag between an assessment being raised or debt being recognised and the point at which cash payment is due. If payment is not received on time the debt is considered overdue (past due). Of the \$21,565 million assets Inland Revenue administers, \$5,060 million tax and student loans and \$1,556 million child support is currently overdue.

FIGURE 17 – RELATIONSHIP BETWEEN RECEIVABLES AND OVERDUE DEBT AT 30 JUNE 2009

Components of debt	Receivables \$million	Overdue debt \$million	Total \$million
Tax	\$6,644	\$4,754	\$11,398
Student loans	\$8,802	\$306	\$9,108
Child support	–	\$1,556	\$1,059 ¹⁵
Total	n/a	n/a	\$21,565

Impairment

As part of our financial reporting requirements we seek an independent valuation of our receivables (debt). This year's valuation shows an impairment of these receivables over the financial year. The impairment expenses for student loans and tax receivables were \$783 million and \$970 million. For student loans the substantive factors driving the impairment were changes to macroeconomic assumptions, including a reduction in salary inflation which reduces expected future borrower repayments, and refinements to the actuarial model used to project underpayments for New Zealand and overseas-based borrowers. The key drivers of the tax receivables impairment were recessionary factors, including growth in overdue debt and lower than expected debt repayments.

There is further information on debt impairment in Part 8: Financial Schedules–Crown as administered by Inland Revenue.

¹⁵ \$1,059 million is the portion of debt due to the Crown which is predominately penalties. The balance represents debt to custodial parents which is administered by Inland Revenue but not due to the Crown.

AUDIT

Our audit work programme is based on intelligence gathering and risk assessment to provide insight into compliance behaviour and the environment in which our customers operate. We take this approach to make sure that we are addressing the most significant areas of risk. In responding to risks we employ a range of activities from education and assistance, to enforcement. Where we identify serious non-compliance through audits, we will often prosecute (see "Prosecutions and litigation").

Discrepancies

Where we have found a discrepancy between the tax self-assessed by the taxpayer and the liability determined by an investigation, a new assessment is issued. Penalties and interest are added if they apply. Discrepancies fluctuate from year to year, depending on the effect of large cases and the nature of the underlying non-compliance we have investigated.

In 2008–09 discrepancies were well above budget levels because there were exceptionally large imputation credit adjustments of \$526 million, of which \$440 million were in the large enterprises area. Imputation credit adjustments are not considered serious non-compliance, but any incorrect calculation of credit account balances can substantially influence the amount of tax payable by a company. It can also affect the amount of tax credit available to be attached to dividends payable to shareholders and the shareholders' subsequent tax liability.

FIGURE 18 – AUDIT DISCREPANCIES

	Actual 2007–08 \$million	Budget 2008–09 \$million	Actual 2008–09 \$million
Investigations	\$338	\$387	\$436
Aggressive tax issues	\$313	\$125	\$123
Tax evasion and fraud	\$75	\$65	\$127
Large enterprises	\$723	\$301	\$583
Total	\$1,449	\$877	\$1,269

Notes:

1. Net discrepancies = gross discrepancies less timing adjustments (these adjustments are for errors found in a filed return for one period, but in fact are claimable in another).
2. Not all net discrepancies result in immediate tax liability or payment of additional tax. Adjustments to losses have an impact on current or future tax, and imputation credit adjustments similarly affect future tax liabilities. In 2008–09:

Net total discrepancies	\$ 1,269 million
Less loss reduction adjustments	\$ 106 million
Less imputation credit adjustments	\$ 526 million
Additional tax assessed	\$ 637 million

Voluntary disclosures and credits

Some customers make voluntary disclosures of under-reported tax before, or during, an audit. These disclosures are actively encouraged and result in lesser penalties being imposed. This year, the number of voluntary disclosure cases was 1,294 (2007–08: 1,371) and the tax assessed was \$129.2 million (2007–08: \$120.7 million). Audits of property transactions led to 143 voluntary disclosures, with \$8.7 million total discrepancies identified.

An audit may also find that a customer should receive a refund or a credit. This year we identified \$24 million in refunds and credits (2007–08: \$19 million).

Evasion and fraud

We carried out over 1,000 evasion and fraud investigations in 2008–09. The investigations covered a wide range of industries and activities, individuals and small and medium enterprises. Prosecutions followed the more serious instances of non-compliance. The focus areas included:

- **Property transactions**—our property compliance programme was appropriated \$14.6 million in Budget 2007 to boost our audit and risk management work over a three-year period to make sure that property traders paid their tax. In 2008–09, the second full year of the programme, we moved from the awareness and educational phase, to managing risk and more direct customer contact. We identified discrepancies (net of timing adjustments) of \$122.3 million, of which, \$86.0 million was from our standard audit activities and \$36.3 million from the property compliance programme work for the year.
- **Loss attributing qualifying companies (LAQCs)**—this campaign is a follow-on from our property compliance programme and is designed to increase awareness of the inappropriate use of LAQCs. This occurs where people sell or transfer the ownership of their own home into an LAQC (of which they are the shareholders) to treat private expenditure as tax deductible expenditure. We made contact with 35,000 LAQC directors who have referenced property rental as one aspect of the company's activities.
- **Online traders**—we identified people involved in online trading where the trading activity level suggested they were operating as a business. We identified 55 people with gross sales over \$100,000 who do not appear to have registered for GST, or had not included this trading in their annual tax returns. Thirty-two audits have been completed for a total tax discrepancy of \$284,612.
- **Horticultural contracting**—about 20 horticultural contracting companies were issued with reassessments following the identification of a number of false invoices which formed the basis of false expenditure claims within their tax returns. Our audits have resulted in prosecutions. For example, a Tauranga man pleaded guilty to 97 tax evasion charges involving \$683,000 in tax. He was sentenced to jail for two years and six months for these offences.

Large enterprises investigations

During the year, we have continued to adjust the balance between giving advice and carrying out investigations to achieve compliance. Our people work closely with customers and discuss the tax effects of issues before they file their returns.

Our investigations focused mainly on avoidance arrangements, including:

- **Structured finance**—some large enterprises have entered into agreements to reduce their tax by making arbitrage arrangements (diverting income or expenses from parties with unfavourable to favourable tax environments), or using avoidance opportunities. Five major structured finance cases have been taken to the litigation stage and court action is expected to continue for some time (see “Prosecutions and litigation” and Note 8, Financial Schedules—Crown as administered by Inland Revenue). We focused our investigation efforts this year on current structured finance arrangements.
- **Optional convertible notes**—these notes are non-market, interest-bearing contracts issued by New Zealand residents to offshore associated parties. We have investigated the use of these notes in certain cases and expect that this will lead to litigation in the coming year. We have settled two cases.
- **Mandatory convertible notes**—some structures using these notes take advantage of differences in tax treatments between jurisdictions. We have analysed the responses to our questionnaires to foreign-owned enterprises which has resulted in investigations being carried out where these notes were used in situations that were a risk to compliance.
- **Transfer pricing**—this involves setting prices for the international transfer of goods, services or intangibles between associated parties. We encourage parties to use advance pricing agreements (APAs) to establish the transfer pricing methodology that applies to their activities and agree on these with one or more tax authorities. Eight APAs were completed this year. During the year, we paid close attention to outbound royalties, supply chain restructuring and to businesses that have been sold to overseas private equity interests.

Other issues in the large enterprises area included:

- **Banking industry regulation**—changes to banking regulations have had implications for their tax environment and we issued several binding rulings at short notice to provide greater certainty to the industry.
- **Portfolio investment entities (PIEs)**—the implementation of PIEs has been closely monitored and we have worked with fund managers to resolve complexities encountered in early stages of their introduction.

PROSECUTIONS AND LITIGATION

In cases where our audit activity has identified fraud or deliberate non-compliance, Inland Revenue takes legal action against the customer. Action varies from prosecutions for not filing tax returns, to major cases of fraud involving large sums of money, and court action against business arrangements deliberately structured to avoid paying tax. We use the Tax Administration Act 1994 and the Companies Act 1993 to recover tax or penalties, or act against company directors who abuse insolvency law.

More complex issues are dealt with by our Litigation Group which manages civil proceedings where a customer disputes liabilities determined by Inland Revenue. In 2008–09, 54 judgments were delivered with Inland Revenue winning 81%.

About half of our litigation effort during the year was with certain trading banks where Inland Revenue has proposed and assessed tax liabilities arising from structured finance transactions. During the year, a 13-week hearing was held in Wellington. This was the culmination of several years' work by the litigation team and our investigators. In early July, the High Court released its decision finding for the Commissioner (*BNZ Investments v CIR*). In late June 2009, a hearing started in Auckland, with the High Court considering the Commissioner's arguments against Westpac Banking Corporation in a similar structured finance arrangement.

In December 2008 the Supreme Court released its decision in the *Trinity* and *Glenharrow* cases. In both instances the Supreme Court found for the Commissioner—that tax avoidance was at the heart of the transactions and arrangements. The jurisprudence arising from *Glenharrow*, *Trinity* and *BNZ* is important to identify and respond to aggressive tax avoidance transactions.

Other cases found in the Commissioner's favour include the *Saha* case (currently under appeal in the Supreme Court), where the Court of Appeal has found for the Commissioner in his interpretation and application of the foreign investment fund rules. Another case that also established an important precedent concerned transport operators who sought to deduct traffic fines incurred in the course of their businesses. The Taxation Review Authority confirmed the Commissioner's view that the fines were not deductible. Another important decision during the year was the *Avowal Administrative Attorneys* case, where the High Court clarified the process for using the Commissioner's access warrant powers. The decision was mostly in the Commissioner's favour.

The Commissioner also appealed two important cases:

- *Penny and Hooper*, concerning the use of companies and trusts that sought to split income into personal income and trustee income to reduce marginal tax rates on high incomes. A hearing is expected in early 2010.
- *Contract Pacific*, which held that the Commissioner was required under section 46 of the Goods and Services Tax Act 1985 to issue a request for information and/or notification of continued audit every 15 days if the Commissioner was not satisfied with a GST input claim.

SOCIAL POLICY PROGRAMMES

CHILD SUPPORT

Child support administers assessment and payments for approximately 176,000 liable parents and 178,000 custodial parents, who support an estimated 279,000 children. Since the scheme began in 1992, we have collected 88.6% of the total of \$4.4 billion child support assessed.

This year:

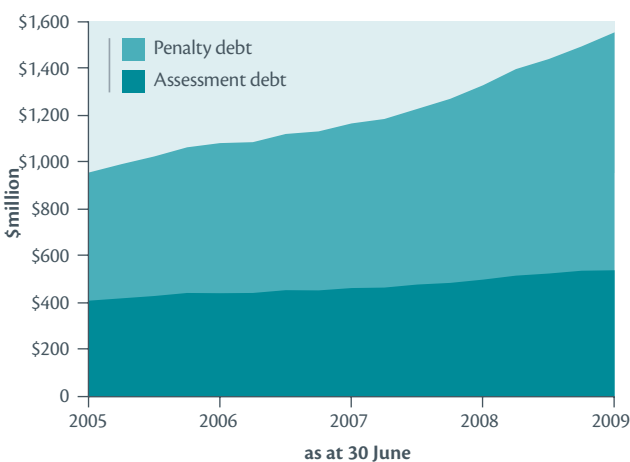
- we distributed \$204.7 million of child support and domestic maintenance to payees and \$173.2 million to the Crown to offset benefits paid to custodians (through the Ministry of Social Development).
- we collected \$386.8¹⁶ million in child support payments (2007–08: \$367.0 million). 25% of the amount collected was for previous year assessment arrears and penalties.
- 73% of child support customers were satisfied with our services (2007–08: 69%).

Child support debt

At 30 June 2009, total New Zealand child support debt was \$1.56 billion, an increase of \$226.0 million from 2007–08.¹⁷ Of that, \$40.1 million (17.7%) is assessments and \$185.9 million (82.3%) is penalties. This year, we collected \$96.7 million of child support debt (2007–08: \$77.1 million).

\$1.4 billion (88%) of child support debt is more than five years old. The high amount of aged debt is mainly because we are required to collect all outstanding child support debt, even where recovery may be unlikely (eg, in cases of bankruptcy). The only provision for writing off a valid assessment is when the liable parent is deceased.

FIGURE 19 – CHILD SUPPORT DEBT (ASSESSMENTS AND PENALTIES)

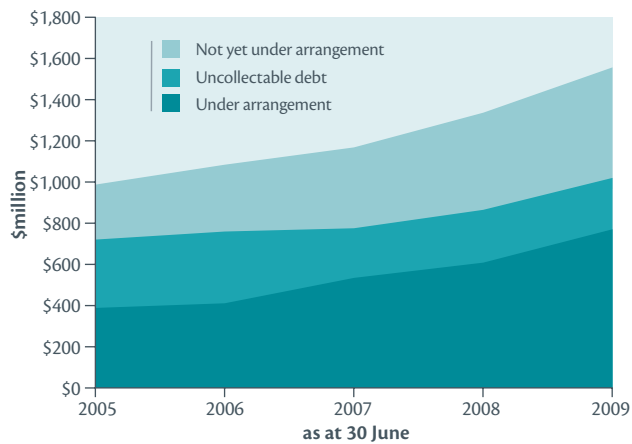


Total NZ child support debt	\$1,555.8 million
Growth in past year (%)	17.0%
Growth in past year	\$226.0 million
Penalty debt	\$1,016.2 million
Growth in past year (%)	22.4%
Growth in past year	\$185.9 million
Assessment debt	\$539.7 million
Growth in past year (%)	8.0%
Growth in past year	\$40.1 million

¹⁶ This figure includes assessments and penalties collected for both this year and any previous years.

¹⁷ This figure does not include \$59.9 million debt being collected on behalf of the Australian Child Support Agency from Australian paying parents who live in New Zealand. Note that Part 8: Financial schedules – Crown as administered by Inland Revenue, shows only penalties.

FIGURE 20 – BREAKDOWN OF CHILD SUPPORT DEBT



Child support debt is made up of:

- **Not yet under arrangement**—we consider legal action for those who remain unwilling to make regular repayments. Our options for legal action include distress warrants, charging orders, examinations and arrest warrants.
- **Uncollectable debt**—repayments are unlikely in the foreseeable future because the debtor is in hospital or prison, or cannot be located.
- **Under arrangement**—debtors who have an arrangement with us to make regular repayments, and debt of New Zealand paying parents living in Australia under collection by the Australian Child Support Agency.

The Child Support Amendment Act 2006 allows a partial write-off of late payment penalties, provided the liable parent complies with their payment programme. This year we wrote off \$21.7 million for 21,583 liable parents (2007–08: \$26.8 million for 31,641 liable parents).

Information matching between Inland Revenue and the New Zealand Customs Service was introduced in August 2008 to identify when child support debtors enter or leave New Zealand. Inland Revenue uses this information to follow up people with outstanding child support debt to arrange payment. This year, we received notice of 5,926 people with debt crossing the border, resulting in repayment arrangements being set up for \$33.6 million of debt.

Our reciprocal agreement for the collection of child support with the Australian Child Support Agency (ACSA) has been in place since July 2000. At 30 June 2009 \$406.9 million (26%) of total child support debt was being case managed by the ACSA. Details of the reciprocal agreement are included in figure 21.

FIGURE 21 – RECIPROCAL AGREEMENT FOR COLLECTION OF CHILD SUPPORT (AS AT 30 JUNE)

	Total debt cases		Debt owed \$million		Collections \$million	
	2008	2009	2008	2009	2008	2009
New Zealand cases handled by Australian Child Support Agency	9,393	10,209	\$320.2	\$406.9	\$20.6	\$27.4
Australian cases handled by New Zealand Child Support	3,467	4,165	\$40.0	\$59.9	\$9.3	\$10.6

KIWISAVER

During its second year, KiwiSaver membership grew by 383,903. Total net membership at the end of June 2009 was 1,100,540. As we expected, membership growth has been lower this year, but remained steady with about 32,000 net new members joining the scheme each month.

FIGURE 22 – KIWISAVER MEMBERSHIP¹⁸ (AS AT 30 JUNE)

Enrolment method	2008	2009
Automatically enrolled	273,279	426,629
Opted in through employer	169,410	195,940
Opted in through provider	273,948	477,971
Total members	716,637	1,100,540

During 2008–09 Inland Revenue sent \$2.1 billion to providers, 40% of which were Crown contributions (2007–08: 55%). We expect the percentage of Crown contributions to continue to decrease over time because there will be fewer kickstart payments.

FIGURE 23 – KIWISAVER FUNDS TO PROVIDERS¹⁹

Source of funds	2007–08 \$million	2008–09 \$million
Members		
Employee deductions	395	917
Employer contributions	64	355
Voluntary contributions	7	6
Total member contributions	466	1,277
Crown		
Member tax credit	n/a	322
Kickstart	551	471
Fee subsidy	15	34
Interest	5	12
Total Crown contributions	572	839
Total funds to providers	1,037	2,116

¹⁸ Membership numbers exclude opt-outs. 2007–08 enrolment methods have been revised (and therefore differ to those in the 2007–08 annual report) to reflect a change in the way members' method of enrolment is reported.

¹⁹ Figures are on a cash accounting basis and are gross (ie, exclude refunds from providers). They exclude member tax credits paid to complying funds and contributions made directly to scheme providers.

KiwiSaver contributions are collected through employer monthly schedules. A change in process and enhancements made to systems during the last six months have seen a marked improvement to the processing of the schedules. 89% of members' contributions were posted from the schedule to the member's account within expected timeframes.

Changes to KiwiSaver introduced on 1 April 2009:

- removed the employer tax credit
- capped the compulsory employer contribution rate and minimum employee deduction rate at 2%
- removed the fee subsidy.

STUDENT LOANS

Inland Revenue's role in administering the student loan scheme is to collect loan repayments from borrowers.

The loan portfolio

During 2008–09 the total loans with Inland Revenue for collection increased from \$8.6 billion to \$9.1 billion. There were 17,700 borrowers who repaid their loan this year (2007–08: 15,141). At 30 June 2009 there were 561,799 student loan borrowers (2007–08: 530,289). The median value of a student loan was \$11,090 (2007–08: \$10,883).

For the 2009 tax year (ending March 2009) we issued:

- 181,900 borrowers with a New Zealand-based borrower assessment (includes borrowers with an interim assessment not yet finalised)
- 70,200 borrowers were issued an overseas-based borrower assessment. Overseas-based borrowers have a disproportional share of the nominal value of student loan borrowings and of overdue repayments (see figure 24).

FIGURE 24 – ANALYSIS OF NEW ZEALAND-BASED AND OVERSEAS STUDENT LOAN BORROWERS (AS AT 30 JUNE)

	2008 \$million	2009 \$million	% change
Number of borrowers			
Borrowers based:			
– in New Zealand	453,512	479,462	5.7%
– overseas	76,777	82,337	7.2%
Total	530,289	561,799	5.9%
Nominal balances			
Borrowers based:			
– in New Zealand	6,820	7,199	5.6%
– overseas	1,733	1,910	10.2%
Total	8,553	9,109	6.5%
Overdue repayments			
Borrowers based:			
– in New Zealand	153	192	25.5%
– overseas	54	114	111.1%
Total	207	306	47.8%

Repayments

This year we received \$619.1 million in loan repayments, \$69.0 million more than last year. We received about 73% of loan repayments through the PAYE system. Repayments received outside the PAYE system fell in 2005–06 and 2006–07 after the introduction of the interest-free loan policy. They have increased since then, but not at the same rate as PAYE deductions through employers.

In addition to the PAYE system, we receive repayments from borrowers living overseas, self-employed borrowers in New Zealand, borrowers who earn under the income threshold, and from borrowers who choose to make payments over the assessed repayment amounts.

FIGURE 25 – STUDENT LOAN REPAYMENTS

Repayments	2004–05 \$million	2005–06 \$million	2006–07 \$million	2007–08 \$million	2008–09 \$million
PAYE system	239.3	313.9	344.2	394.4	452.1
From borrower	271.0	172.5	142.3	155.7	167.0
Total	510.3	486.4	486.5	550.1	619.1

This year, we have enhanced our proactive actions programme (using sample checking) to identify borrowers on an incorrect tax code and changing them where necessary to the correct tax code.

Overdue student loan repayments

At the end of June 2009, \$306.0 million in student loan repayments was overdue. There were 114,400 borrowers with overdue repayments—representing 20.4% of all borrowers and 3.4% of the nominal value of outstanding loans. Of the borrowers with overdue repayments, 54.3% had less than \$2,000 owing.

\$258 million (84%) of overdue student loan repayments is collectable debt and \$48 million (16%) is non-collectable debt.²⁰

The large reduction in overdue repayments in June 2007 was the result of the overseas borrower amnesty which ran from April 2006 to March 2008 (see figure 26). Initially, all eligible borrowers had their late payment penalties reversed or not applied to their account. Borrowers who did not apply for the amnesty received an amnesty penalty of either 5% of their loan balance at the end of March 2008, or an amount equal to their original late payment penalties, whichever was lower. Borrowers who have not met their amnesty payment obligations have also had an amnesty penalty applied to their account, but this was apportioned on the basis of the amnesty obligations they have met.

The new definition of an overseas-based borrower²¹ and the introduction of Customs' data matching means we can assess borrowers' repayment obligations more accurately. This has meant that many overseas-based borrowers who previously did not receive an annual assessment, are now assessed. The data match enables Inland Revenue to identify borrowers who have left New Zealand, by matching personal details against arrival and departure information.

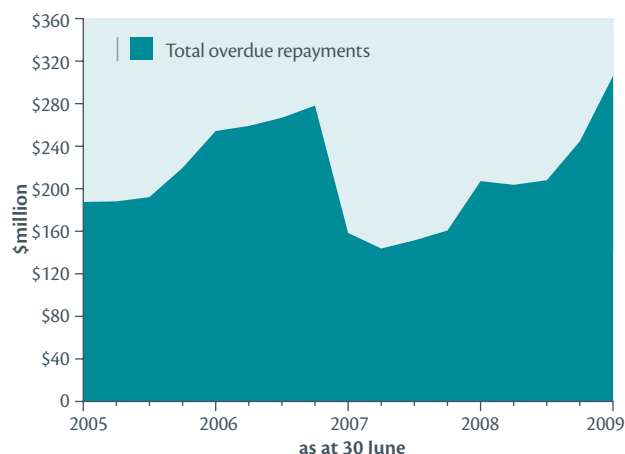
²⁰ Details of how we categorise debt into collectable and non-collectable debt is included on page 29.

²¹ An overseas-based borrower is defined as being a borrower who is away from New Zealand for six months (184 days) or more.

This change resulted in a large increase in overdue repayments identified for overseas-based borrowers. The overdue repayments for this customer group rose by 110% compared to the same time last year. Of all the student loan borrowers with loan arrears, 30% (34,100) are overseas-based.

Although we have improved our ability to assess overseas borrowers, it is debt which is difficult to collect. However, the removal of the convenience fee on debit and credit card payments has had a positive effect by increasing payments from overseas-based borrowers. We expect to see continuing growth in this form of payment.

FIGURE 26 – OVERDUE STUDENT LOAN REPAYMENTS



Overdue student loan repayments

As at 30 June 2009	\$306.0 million
Change in past year	\$99.0 million

Student loan system improvements

In June 2009, the Minister of Revenue announced that the Government approved implementation funding to enable Inland Revenue to purchase a dedicated loan management solution to administer student loans. This will deliver benefits to improve the management of the student loan portfolio by:

- providing flexibility to deliver policy changes in a timely and cost-effective manner
- enabling Inland Revenue to provide enhanced online services increasing borrowers' ability, particularly overseas-based borrowers, to self-manage their loan account
- enabling Inland Revenue to more efficiently manage an expanding borrower base (borrower numbers are increasing each year)
- more effective administrative resources.

We estimate it will take two years to purchase and implement the new loan management solution for introduction on 1 July 2011. At the same time, Government is proposing a number of changes to student loan administrative policy. As mentioned earlier, part of the consultation process for this was conducted through an online forum—the first time Inland Revenue had used technology for this purpose.

WORKING FOR FAMILIES TAX CREDITS

This year, total working for families tax credits (WFFTC) distributions by Inland Revenue and the Ministry of Social Development were \$2,673 million, \$179 million (7.2%) more than 2007–08.

Customers can choose to receive their entitlements weekly, fortnightly or as a lump sum at year-end. Details of customers receiving regular WFFTC payments are included in figure 27.

WFFTC under and overpayments are an inevitable consequence of delivering weekly and fortnightly instalments through an annually based tax system. In tax credit systems like this, if a family's actual end-of-year income is not equal to the estimated income used to establish payment levels, they will receive an under or overpayment. This also happens in similar systems in the United Kingdom and Australia.

Initiatives introduced in the past few years, such as proactive outbound calling and online services, have significantly reduced the number of families receiving overpayments and possibly falling into debt. Our online services for WFFTC customers were enhanced with the launch of new online services in July 2009. See "Delivering electronic services" on page 25 for more information.

FIGURE 27 – CUSTOMERS RECEIVING REGULAR WFFTC PAYMENTS

	June 2005	June 2006	June 2007	June 2008	June 2009
Customers receiving regular payments from Inland Revenue	88,000	159,000	190,000	198,000	203,000
Average weekly payment	\$116	\$138	\$153	\$150	\$156

Working for families tax credits debt

This year, WFFTC debt increased to \$200 million from \$169 million in 2007–08. Details of WFFTC debt growth are included in figure 28.

FIGURE 28 – WFFTC DEBT GROWTH (AS AT 30 JUNE)

	2005	2006	2007	2008	2009
Total debt (\$million)	172	152	158	169	200
Annual debt growth	–	(11.6%)	3.9%	6.9%	18.3%

PAID PARENTAL LEAVE

Paid parental leave (PPL) is a payment for parents who take leave from their jobs or businesses to care for a new baby or adopted child. Inland Revenue distributes PPL on behalf of the Department of Labour. The maximum amount of PPL is inflation-indexed each year. The maximum weekly rate increased from \$391.28 to \$407.36 from 1 July 2008 with 86% of applicants receiving the maximum payment.

This year we:

- distributed \$142.8 million to eligible applicants, \$8.3 million more than last year
- processed 26,681 PPL applications (2007–08: 26,304).

Part 4

DEVELOPING OUR PEOPLE AND INFRASTRUCTURE

DEVELOPING OUR PEOPLE

To successfully deliver our services and improve compliance, our people need to have the right capabilities, skills and tools. During the year, we continued to develop our people's skills and also provide them with the tools that they need to do their work.

At the end of this section, there is a summary of our progress against the Development Goals for the State Services. This summary sets out what we have done during the year against each of the six goals (see figure 34 on page 47).

OUR PEOPLE

At the end of June 2009, we had 6,038 full-time equivalent employees (2007–08: 5,976). This is within our cap of 6,310 for full-time equivalent employees, established by Cabinet (CAB (09)111) in 2009. Staff turnover was 8.0% for the year ending 30 June 2009 (2007–08: 12%), primarily because of the effects of the economic recession.

Because of funding constraints and future changes to the way we work, we will need fewer people, with a wider range of specialised skills. To help achieve this, we called for voluntary redundancies in May 2009. The criteria for voluntary redundancy applications were aimed at minimising reductions to customer-facing roles. This was to make sure we retain the skills required for the future and ensure that the reduction in staffing levels did not negatively impact our customers. As a result, 270 of our people have accepted voluntary redundancy. Consequently, we also made structural changes. Along with the voluntary redundancy process this will help Inland Revenue's focus on becoming a more streamlined organisation, delivering value for money services.

Employee engagement

The benefits of having an engaged workforce include helping us meet our customers' needs and improved compliance. In our fourth Gallup engagement survey, held in October 2008, we improved our engagement score from 3.83 to 3.90, out of 5. This score put us at the 50th percentile of all employers in the Gallup database and the 62nd percentile for the Gallup public sector database.

The survey showed that we continue to be strong in providing opportunities for development. We have made further improvements in providing feedback and recognition and regularly discussing progress. We now need to focus on providing more clarity about roles and to look for opportunities for our people to use their strengths and talents more effectively.

Technical skills and knowledge

Much of Inland Revenue's work is increasingly technical. We now provide advice across a wider range of topics and handle more complex customer contacts, all during a time of budgetary constraints that has led us to focus on new ways of developing our people. We have implemented a number of initiatives and approaches including:

- establishing a Technical Training and Development Unit in the Office of the Chief Tax Counsel, responsible for training senior technical staff
- tax technical induction programme for staff who make interpretive decisions
- knowledge sharing and information sessions
- updating our *aspire* technical training library
- design of learning frameworks for on-the-job development
- increasing the use of our learning management system to deliver and coordinate cost-effective training.

Planning future workforce demands

We completed high-level workforce planning to help us understand and plan for future workforce demands. We have reported on four key groups—investigators, customer service representatives, legal tax technical specialists and information technology staff. These reports have provided valuable information on our future workforce requirements, current capabilities and how to address our future needs in these areas.

Leadership

To develop leadership capability, we have implemented a leadership and management development framework that focuses on performance management, development opportunities and succession planning. We have:

- identified core competencies (based on the Lominger competencies) for leadership positions and our leadership programmes have been redesigned to meet our leaders' development needs in times of change
- established a coaching programme to support senior managers
- launched an online resource for new managers
- identified critical roles within Inland Revenue and developed succession plans to fill these roles in the future.

Diversity/Equal employment opportunities

We use the State Services Commission's EEO Policy and, where applicable, we ensure that the diversity aspect is incorporated into our strategies. The State Services Commission's guidance for applying the policy has informed the development of our new diversity framework which was established in February 2009.

This year we:

- established a diversity governance group to sponsor initiatives focused on creating a more inclusive culture within Inland Revenue
- held a working group for our diversity networks, which focused on enhancing the value of network groups and promoting diversity across Inland Revenue
- created an operational model for network groups to contribute to business outcomes.

Human resource statistics

FIGURE 29 – EEO STATISTICS BY ETHNICITY

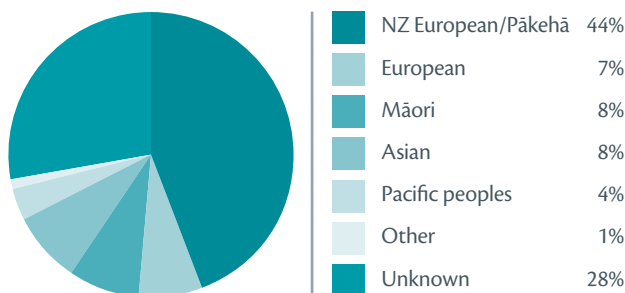


FIGURE 30 – STAFF TURNOVER

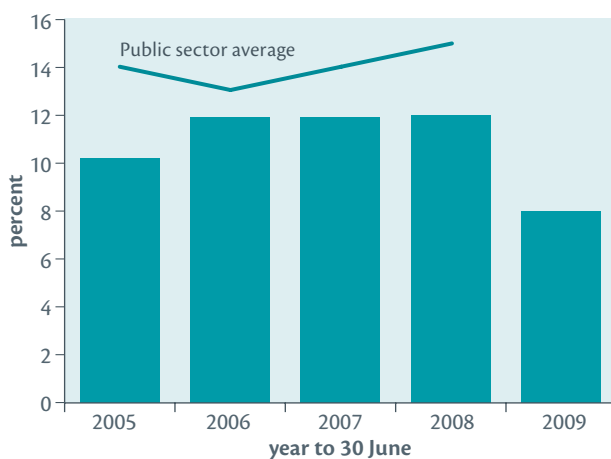


FIGURE 31 – INLAND REVENUE EMPLOYEE DISTRIBUTION BY BUSINESS UNIT

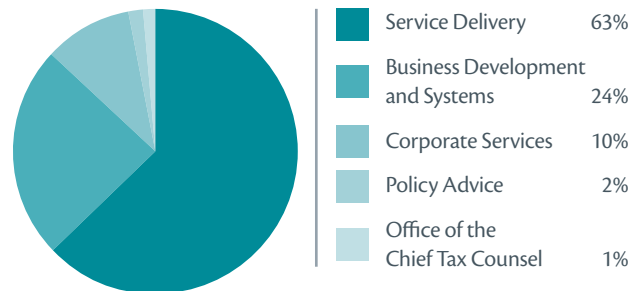


FIGURE 32 – LENGTH OF SERVICE

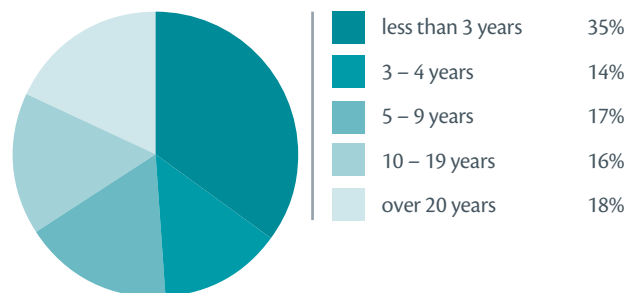


FIGURE 33 – EEO STATISTICS BY GENDER

	2005	2006	2007	2008	2009
Percentage of staff					
Female	66%	66%	66%	67%	66%
Male	34%	34%	34%	33%	34%
Percentage of managers					
Female team leaders	64%	66%	66%	65%	63%
Female managers ²²	38%	38%	42%	42%	44%

²² The percentage of managers who are female is similar to the state sector average.

INVESTING IN OUR TOOLS AND INFRASTRUCTURE

Our people need the right tools to do their work and infrastructure to support them.

Updating our information technology

A significant part of our ability to deliver services in the future relies on having strong stable technology systems that are able to support future business requirements.

We are planning a major upgrade of our IT infrastructure and systems in the next few years. This will help mitigate the risk with our ageing information systems which, if left unresolved, may compromise the speed of delivery of changes and impede our ability to process data, collect revenue, issue refunds and/or make payments.

A major focus is to ensure the system stability of our online services which continue to grow in importance to Inland Revenue. Ensuring system stability will help to better position Inland Revenue to deliver electronic services in the future.

This year we:

- implemented a new storage area network for our key tax and social policy systems, resulting in improved system performance
- established a virtual server that has enabled us to roll out new applications and systems faster and more cost-effectively
- implemented middleware software, which has improved our system stability
- introduced software tools to improve system testing
- invested in improved monitoring tools to alert us to system issues, which has helped us prevent a number of system issues and allowed us to resolve them quickly.

We received funding to advance this work in the 2009 Budget.

Accommodation

Design concepts for the new building on 1 Featherston Street have been finalised and the construction programme for the building is on target for staff to move into the new office space from the end of 2010. When the building is finished, all the current Wellington-based offices will be located in just two Wellington sites—New Zealand Post and 1 Featherston Street. This consolidation will mean that we will have significantly fewer leases, a flexible working environment and improved organisational efficiency.

There is further information about our property portfolio in figure 37 on page 135.

FIGURE 34 – DEVELOPMENT GOALS FOR THE STATE SERVICES

Development goals	By June 2010	Inland Revenue's 2008–09 position
Goal 1: Employer of choice		
Ensure the state services is an employer of choice, attractive to high achievers with a commitment to service.	The state services is increasingly recognised as a professionally rewarding and desirable place to work, where high-performing state servants are committed to achieving results.	We improved our overall Gallup engagement survey score from 3.83 to 3.90, out of 5 (October 2008). Our engagement survey indicates that our people see us as a good employer.
Goal 2: Networked state services		
Use technology to transform the provision of services for New Zealanders.	Government shared infrastructure is used to deliver user-centred services and support joint results.	During the year we have focused on developing our online services. This work will continue as part of a longer term priority for Inland Revenue.
Goal 3: Value-for-money state services		
Use resources and powers in an efficient, appropriate and effective way.	Agencies demonstrate continued gains in the efficient and effective use of their resources and powers, consistent with government priorities.	<p>We have adapted our services to provide better value for money from existing government expenditure and deliver efficient customer services.</p> <p>Our administration costs are low by international standards. Refer to figure 3 for details.</p> <p>We have established a programme to equip our people and infrastructure to deliver better value for money. We have realigned our resources to deliver workloads and transformed the way we work.</p> <p>We have reminded customers about information, tools and advisory services available to help them manage their payment obligations and what to do if they cannot pay or have a debt.</p>
Goal 4: Coordinated state agencies		
Ensure the total contribution of government agencies is greater than the sum of its parts.	Agencies work together towards jointly-defined outcomes in response to government priorities and increasingly achieve measurable results by sharing capabilities and using effective networks.	We work closely with other government agencies in the delivery of KiwiSaver, working for families tax credits, student loans and paid parental leave. We also work closely with other agencies on issues and initiatives that interact with the tax system.
Goal 5: Accessible state services		
Enhance access, responsiveness and effectiveness, and improve New Zealanders' experience of state services.	New Zealanders say agencies are increasingly working with them to design and deliver services to meet their diverse needs.	We make it easier for our customers to work with us by working closely with them to understand their needs when designing products, processes and services. To help achieve this we have consolidated our customer and product resources and expertise into one business group. This group is focused on developing strong product management and innovation capability to improve Inland Revenue's products, services and processes.
Goal 6: Trusted state services		
Strengthen trust in the state services, and reinforce the spirit of service.	Agencies have in place the elements essential to support state servants' trustworthy behaviour.	<p>Our orientation, leadership development programmes and technical training continue to build our people's competencies.</p> <p>All employees complete training related to our code of conduct, which sets out the high standards of integrity expected of employees.</p> <p>We have refreshed our orientation programme, which includes a focus on ethics and integrity and our charter.</p>

Part 5

GOVERNANCE

GOVERNANCE

EXTERNAL ACCOUNTABILITY TO PARLIAMENT

During 2008–09 we attended two Finance and Expenditure Committee (FEC) hearings focused on external accountability.

- Financial Review for our 2007–08 Annual Report on 25 February 2009.
- Estimates Review for Vote Revenue's 2009–10 financial appropriation on 17 June 2009.

We also attended and provided advice for FEC meetings considering tax and other legislation related to our areas of responsibility.

The related FEC reports can be viewed on the Select Committee website at www.parliament.nz

INTERNAL GOVERNANCE

Our internal governance is built around internal boards and committees that oversee all our responsibilities.

The Commissioner chairs the Executive Board and the Management Board.

The Executive Board:

- sets Inland Revenue's overall strategic direction
- sets budget strategy and approves overall allocation to business groups
- identifies and agrees strategic risk and assesses mitigation strategies
- sets core infrastructure and tax/social policy administration policies.

The Management Board:

- oversees strategy implementation
- sets operational policies
- sets and reviews operational performance
- monitors strategic risk management.

The governance boards are supported by the Executive Steering Group and three committees.

The **Executive Steering Group** (ESG) is a sub-group of the Executive Board and makes decisions on our transformational agenda. ESG receives assurance from the Portfolio Governance and Investment Committee. ESG ensures that priorities in the transformation agenda meet Inland Revenue's strategic needs, that business transformation programmes, projects and initiatives are completed efficiently and effectively, and that business benefits are realised. This group also has external members.

The **Portfolio Governance and Investment Committee** (PGIC) is responsible for governance oversight of the strategic portfolios of projects and programmes to deliver on our transformational agenda on behalf of the ESG. The PGIC reports to the ESG and escalates decision making to this Group when the implications are outside the Committee's remit.

The **Risk and Assurance Committee** gives independent advice to the Commissioner on the quality of:

- risk management processes
- internal control mechanisms
- internal and external audit functions
- performance information integrity
- the governance framework and processes
- policies and processes to ensure compliance with legislation, policies and procedures.

This committee has external members.

The **Technical Governance Committee's** objective is to facilitate and ensure the coordination of work on key tax issues.

Individual programmes and projects are governed through their steering committees, using project management methodology.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

This year we revised our risk management framework to adopt a more practical approach. The revised framework improves our ability to recognise and understand risk at strategic and operational levels in Inland Revenue. It provides:

- a structured approach to evaluating, assessing, reporting and monitoring risk
- clear lines of accountability for managing risk
- a system for escalating risk—ensuring that we have the right information for risk-based decision making and escalating it to the appropriate level of management.

STRATEGIC AND OPERATIONAL RISKS

Using the principles of the revised risk management framework, we identified key strategic and operational risks across the organisation. We set up treatment plans to manage risk where necessary.

Risk to our revenue base

There are constant threats to our revenue base from global and national developments and customer behaviour. During the last part of the year, the effects of the economic recession became evident in our revenue collection and the increasing level of customer debt. To mitigate this, we prioritised our compliance risks and developed a programme to manage them. This is outlined in our annual compliance management programme. This was released publicly in June 2009 to be open and transparent with our customers about the particular risk areas we are targeting.

Risk to our people capability

If we do not attract, develop and retain skilled, capable people to meet our customers' needs, our ability to prepare and respond to policy and administrative changes will be reduced.

To mitigate this risk during the year, we focused on developing people capability through:

- updating and developing frameworks for recruitment, remuneration, employment relationships and leadership
- improved reporting, including the development of a skills shortage report and cohort tracking of new staff
- implementing workforce planning methodology and tools.

These initiatives will help focus capability development on meeting Inland Revenue's future needs and will build an environment that attracts and retains people who deliver high quality services.

Risk from our ageing technology

Our ageing information systems pose risks that the delivery of core services could be compromised, impeding our ability to process data, collect revenue, issue refunds and/or make payments.

Over the past two years we have been upgrading and maintaining our IT infrastructure to mitigate this risk.

Risk from our business model

There is a risk that our current business model (our policy, systems and processes) may not meet changing customer needs, or be responsive to government expectations.

Inland Revenue needs to significantly transform the way it works to mitigate this risk. During the year we identified short, medium and long-term initiatives as part of our Transform IR programme. These initiatives will help us keep pace with customers' needs and will ensure that we can deliver on our legislative obligations. We have started work on these initiatives.

Risk to community confidence and our reputation

Public confidence underpins voluntary compliance. If we do not understand increasingly diverse customer needs and deliver the right services, our reputation could suffer. If our customers do not trust Inland Revenue it could undermine voluntary compliance which is critical for an effective tax system.

To mitigate this risk we have taken steps to improve our understanding of customers, including:

- strengthening relationships with customers
- maintaining customers' trust in Inland Revenue
- improving interactions with intermediaries
- developing closer relationships with community groups
- additional research into customer trends and behaviour.

Part 6

STATEMENT OF SERVICE PERFORMANCE

STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989 I am responsible, as Chief Executive of Inland Revenue, for the preparation of the department's financial statements and statement of service performance, and for the judgements made in them.

I have the responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements fairly reflect the financial position and operations of the department for the year ended 30 June 2009.



Robert Russell
Chief Executive and Commissioner of Inland Revenue

22 September 2009

Countersigned by:



Scott Scoullar
Chief Financial Officer

22 September 2009

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2009

SUMMARY OF DEPARTMENTAL OUTPUT EXPENSES

Departmental output expenses delivered by Inland Revenue during the year ended 30 June 2009, and their associated revenue, expenses and surplus or deficit are summarised below.

Output expense description	Revenue \$000	Expenses \$000	Net surplus/ (deficit) \$000
Policy advice	13,717	13,371	346
Services to inform the public about entitlements and meeting obligations	256,876	253,596	3,280
Services to process obligations and entitlements	133,145	129,005	4,140
Management of debt and outstanding returns	86,928	88,900	(1,972)
Taxpayer audit	174,352	174,052	300
Total	665,018	658,924	6,094

SUMMARY OF SERVICE PERFORMANCE

The table below summarises the number of performance measures achieved and not achieved in each output expense. The table does not include information about activity forecasts.

Output expense	Achieved	Not achieved
Policy advice	3	1
Services to inform the public about entitlements and meeting obligations	19	5
Services to process obligations and entitlements	20	0
Management of debt and outstanding returns	8	0
Taxpayer audit	9	0
Total	59	6

REPORTING PERFORMANCE

Our Output Plan contains forecast service performance measures which are divided into two groups:

- Performance measure targets, which are standards we use to set our own performance goals.
- Activity forecasts, which are measures of customer demand rather than our efforts.

The following section reports on forecast service performance measures. Where a performance measure is expressed in terms of a range of characteristics that the output should meet, the result is reported as “achieved” or “not achieved” (for example, see Output Expense 1).

We report explanations for:

- performance measures with a negative variance of more than 5%. These measures are not achieved.
- performance measures reported as “not achieved”
- activity forecasts with a significant variance at either end of the target range.

Comparative performance information

Where appropriate, we have included comparative performance information against the performance standards for the previous two years (2006–07 actual and 2007–08 actual). We have not included comparative performance information where there has been a substantive change in the performance standard, measure or measurement methodology, which meant the results could not be compared. These are indicated by a dash.

As a comparison, we have included 2007–08 actual results for activity forecasts.

OUTPUT EXPENSE 1 POLICY ADVICE

Description

This output expense provides policy advice services jointly with The Treasury that contribute to achieving the government's tax and social policy outcomes, and improving the economic and social wellbeing of New Zealanders.

Activities undertaken:

- advising on all aspects of tax policy and social policy measures that interact with the tax system
- drafting tax legislation and rewriting the Income Tax Act
- negotiating and maintaining New Zealand's network of double tax agreements with other countries
- forecasting tax revenues
- providing ministerial services.

Financial performance for the year ended 30 June 2009 (\$000)

Revenue	Expenses	Net surplus/(deficit)
13,717	13,371	346

POLICY ADVICE IN RELATION TO TAX AND SOCIAL POLICY

Description

This output involves:

- advising on all aspects of tax policy and social policy measures that interact with the tax system
- developing tax and social policy in line with the Generic Tax Policy Process
- drafting tax legislation for introduction in the House and assisting its passage through the House
- negotiating and maintaining New Zealand's network of double tax agreements with other countries
- forecasting future tax flows and other non-tax Crown revenue for the government
- reporting on revenue receipts against forecasts
- analysing revenue implications of changes in tax and social policy.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Actual
Achieved	Achieved	Quantity, quality and timeliness We will provide the Minister with: <ul style="list-style-type: none"> • tax and social policy advice • tax legislation • rewritten tax legislation, and • revenue forecasts following the Generic Tax Policy Process, within agreed quality criteria ¹ and timeframes, and in accordance with the agreed work programme.	Achieved
Achieved	Achieved	We will ensure that the Minister is satisfied with the quality of policy advice, tax legislation, revenue forecasts and rewritten legislation provided.	Achieved

¹ See agreed quality criteria on page 58.

MINISTERIAL SERVICES

Description

This output involves all activities associated with ministerial services, including responding to ministerial correspondence and parliamentary questions. It includes all tax, child support, student loan, KiwiSaver and family assistance ministerial correspondence and supply of information.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Actual
Achieved	Achieved	Quality We will ensure that all answers are correct, complete, clear and appropriately referenced.	Achieved
Achieved	Achieved	Timeliness We will respond to ministerial correspondence and parliamentary questions within agreed and/or statutory timeframes. Where agreed timeframes are unable to be met we will advise the Minister's office, outlining the reason for the delay.	Not achieved ²

² We achieved the timeframes for responding to parliamentary questions. However, 91% of ministerial correspondence was answered within 10 days (target 100%). The reporting methodology was changed this year to reflect the total length of time to prepare responses for ministerial correspondence, regardless of the complexity. Previously, where an extension of time was granted for complex correspondence, this was counted as achieved.

OUTPUT STATEMENT: POLICY ADVICE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Final voted
\$000		\$000	\$000	\$000
Revenue				
14,538	Crown	13,582	14,802	13,582
125	Other	135	116	129
14,663	Total revenue	13,717	14,918	13,711
Expenses				
14,523	Annual appropriations	13,371	14,918	13,711
–	Other appropriations	–	–	–
14,523	Total expenses	13,371	14,918	13,711
140	Net surplus/(deficit)	346	–	–

Agreed quality criteria

Advice, legislation and forecasts comply with the following quality standards, where appropriate:

Quality standard	Description
Purpose	Reports clearly state their purpose and answer any questions likely to be raised by the Minister.
Logic	The assumptions behind the advice are explicit and arguments are logical and supported by facts.
Accuracy	The facts are accurate and all material facts have been included.
Coverage	Advice accurately reflects revenue, economic and administrative implications, and compliance costs.
Options	An adequate range of options has been presented and each is assessed for benefits, costs and consequences to the Government and the community.
Consultation	Consultation with interested parties is undertaken and possible objections to proposals have been identified.
Practicality	The problems of implementation, technical feasibility, timing and consistency with other policies have been considered.
Presentation	The format meets with the Cabinet Office requirements and clearly states the deadline by which ministerial action is required. Material is effectively summarised and is concise, has short sentences in plain language, and is free of spelling and grammatical errors.
Legislation	All tax legislation is drafted in as simple, clear and concise manner as practicable. The required services and advice are provided to assist the passage of tax and non-tax bills with revenue or tax administration implications through the House.
Forecasts	Revenue forecasts take into account the economic outlook, historical patterns and trends, and announced policy changes. They are based on the best available information and development methods and techniques that reflect best practices in revenue forecasting.

OUTPUT EXPENSE 2

SERVICES TO INFORM THE PUBLIC ABOUT ENTITLEMENTS AND MEETING OBLIGATIONS

Description

This output expense provides services that help taxpayers and other customers to meet their payment obligations of their own accord and to receive payments they are entitled to. This is achieved through a range of proactive and reactive services to make people aware of their entitlements and obligations, and the services available to help them comply. This output expense also contributes to confidence in the tax administration system through managing individual customer complaints quickly, fairly and in confidence.

Activities undertaken:

- providing information to taxpayers on the application of the tax laws
- responding to enquiries from taxpayers and social support programme customers
- providing assistance to the public, businesses and tax agents
- adjudication on behalf of the Commissioner on proposed taxpayer assessments
- providing binding rulings and other statements, on the interpretation and application of the law administered by Inland Revenue.

Financial performance for the year ended 30 June 2009 (\$000)

Revenue	Expenses	Net surplus/(deficit)
256,876	253,596	3,280

INFORMATION SERVICES

Description

This output involves responding to customer enquiries on tax and social support programmes (including child support and KiwiSaver) through electronic channels, correspondence, telephone, personal appointments, actively providing advice through a range of communication approaches delivered in the community and through the complaints management service.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
Quality				
In managing customer contacts we will ensure that:				
90.0%	91.0%	● at least 88% of customers are given an answer that is correct, complete, clear, timely and appropriately referenced, that also shows an understanding of their environment (child support achievement will be reported separately).	88%	87.8%
82.0%	79.6%	● at least 80% of customers who have contacted us are satisfied with the quality of the service we provide	80%	81.9%
–	96.0%	● at least 97% of customers are satisfied with the quality of advisory services we provide	97%	96.0%
77.8%	77.5%	● at least 85% of all initial telephone enquiries are fully resolved at the time, requiring no follow-up action.	85%	76.9% ³
By making people aware of their obligations and the services available to help them comply this output contributes to customers filing and paying on time. We will ensure that:				
490,767	551,651	● the number of new debt cases is less than 575,000	< 575,000	585,134
78.0%	77.5%	● at least 80% of returns are finalised within 15 days of due date	80%	83.1%
–	85.2%	● at least 90% of resident student loan borrowers meet their repayment obligations	90%	83.6% ⁴
–	85.3%	● at least 75% of student loan repayments due are collected.	75%	76.2%
–	73.0%	We will ensure that at least 83% of working for families tax credits recipients who receive a weekly or fortnightly payment are not overpaid.	83%	69.0% ⁵
Timeliness				
87.7%	89.4%	We will respond to at least 85% of correspondence within 3 weeks of receipt (child support achievement will be reported separately). We will report the response time for all correspondence received during 2008–09. See figure 10 on page 26.	85%	88.9%
We will answer 70% of telephone calls in:				
–	–	● 1 minute on priority queues	70%	67.0%
–	–	● 4 minutes on non-priority queues.	70%	70.8%
–	–	We will respond to 90% of all electronic enquiries within one week of receipt by Inland Revenue.	90%	82.6% ⁶

³ Performance was impacted by peak period call volumes during the first quarter. The increased complexity of social policy and KiwiSaver calls also affected our performance.

⁴ The new definition of an overseas-based borrower and the introduction of Customs' data-matching have allowed Inland Revenue to assess borrowers' repayment obligations more accurately. This has meant that many overseas-based borrowers, who had previously been considered to be in New Zealand and were assessed as having an income below the repayment threshold, are now being assessed. This has shifted some borrowers from being compliant to non-compliant. The recession has also meant that more borrowers find it difficult to meet their obligations.

⁵ The standard has also been impacted by a methodology change. Working for families customers who received some payments during the year but then changed their payment option to a lump sum entitlement at year-end were not previously included in the measure. The inclusion of this group in this year's measure has adversely affected the actual result and its relevance to the target. We have discontinued this measure for 2009–10.

⁶ Delays in actioning unprecedented high volumes of electronic personal tax summary (PTS) intermediary correspondence in April and May, following media attention on the credits held with Inland Revenue, impacted significantly on our performance. Prior to receiving PTS intermediary correspondence, our performance was 88.1% against the target at the end of March 2009.

Activity forecasts

2007–08 Actual		2008–09 Forecast	2008–09 Actual
16.34 million	We expect to answer an estimated 17.21 to 19.57 million specific customer contacts, including 874,250 to 966,277 child support contacts. This is based on an expected:	17.21–19.57 million	20.17 million ⁷
3.22 million	<ul style="list-style-type: none"> 2.93 to 3.24 million correspondence contacts, including 114,000 to 126,000 child support correspondence contacts 	2.93–3.24 million	4.05 million
233,080	<ul style="list-style-type: none"> 298,000 to 329,000 counter enquiries, including 12,600 to 13,927 child support counter enquiries 	298,000–329,000	261,782
4.47 million	<ul style="list-style-type: none"> 4.65 to 5.14 million telephone calls, including 608,000 to 672,000 child support telephone enquiries 	4.65–5.14 million	4.41 million
198,488	<ul style="list-style-type: none"> 215,000 to 238,000 telephone call referrals 	215,000–238,000	214,330
8.22 million	<ul style="list-style-type: none"> 9.12 to 10.62 million self-help service enquiries, including 139,650 to 154,350 child support self-help service enquiries. 	9.12–10.62 million	11.24 million
157,090	We will complete between 171,000 and 189,000 hours of advisory services.	171,000–189,000	190,341

⁷ Overall contacts were mainly driven by high volumes of KiwiSaver member tax credit correspondence, look at account information and agent client maintenance transactions.

Child support performance – Information Services

2006–07 Actual	2007–08 Actual	Performance measures	2008–09 Target	2008–09 Actual
87.6%	88.0%	We will ensure that at least 88% customers are given an answer that is correct, complete, clear, timely and appropriately referenced, that also shows an understanding of their environment	88%	89.5%
90.7%	86.9%	We will respond to at least 85% of correspondence within 3 weeks of receipt.	85%	88.3%

2007–08 Actual	Activity forecast	2008–09 Forecast	2008–09 Actual
825,252	We expect to answer an estimated 874,250 to 966,277 child support contacts. This is based on an expected:	874,250–966,277	799,673 ⁸
102,340	<ul style="list-style-type: none"> 114,000 to 126,000 correspondence contacts 	114,000–126,000	88,723
15,341	<ul style="list-style-type: none"> 12,600 to 13,927 counter enquiries 	12,600–13,927	16,755
590,406	<ul style="list-style-type: none"> 608,000 to 672,000 telephone enquiries 	608,000–672,000	583,370
117,165	<ul style="list-style-type: none"> 139,650 to 154,350 self-help service enquiries. 	139,650–154,350	110,825

⁸ Telephone calls, self-help and correspondence volumes were lower than forecast. The downward trend in contacts experienced in 2007–08 was not expected to continue given the overall trend of increased uptake in self-help service channels. However, there were no increases.

ADJUDICATION

Description

This output involves:

- providing a technical review of existing taxation disputes referred to the Adjudication Unit
- issuing an adjudication report (or other formal communication of conclusions) to the parties concerned
- issuing, where required, an assessment consistent with the conclusions of the technical review.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
Achieved	Achieved	Quality We will ensure that all adjudication reports supporting each decision meet the purpose, logic and alternatives standards.	Achieved	Achieved
		Timeliness We will complete at least:		
20%	62.5%	• 80% of high complexity adjudication cases within 20 weeks of allocation	80%	100%
77%	87.9%	• 80% of medium complexity cases within 14 weeks	80%	100%
88%	91.7%	• 80% of low complexity cases within 8 weeks.	80%	96.0%
		These time periods will not include any time where we cannot progress the adjudication further because necessary information or some other response from either of the parties is required but not yet received.		

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
66	We expect to complete an estimated 60–80 adjudication cases.	60–80	61

RULINGS

Description

This output covers:

Taxpayer rulings

- considering applications for and providing binding private and product rulings, and statutory determinations
- preparing statutory determinations and valuations (eg, taxpayer-specific accruals).

Public rulings

- preparing and issuing binding public rulings
- developing and publishing non-binding statements on the Commissioner's view of the law administered by Inland Revenue, eg, interpretation statements and interpretation guidelines
- considering applications for and providing taxpayer-specific depreciation determinations
- preparing and publishing depreciation and other determinations (eg, livestock valuations)
- considering and responding to technical correspondence.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Quality		
Achieved	Achieved	We will ensure that all reports supporting the decision to issue, or decline to issue, a private or product binding ruling or determination (and any letter setting out the reasons for these decisions) meet the purpose, logic, alternatives and practicality standards.	Achieved	Achieved
Achieved	Achieved	We will ensure that all public items giving the Commissioner's view of the law meet the purpose, logic, alternatives, consultation and practicality standards.	Achieved	Achieved
Achieved	Achieved	We will ensure that all technical correspondence is correct, complete and clear.	Achieved	Achieved
		Timeliness		
		We will deliver at least:		
0%	62.5%	• 80% of high complexity draft private and product binding rulings and draft accrual determinations within 5 months	80%	71.0% ⁹
59%	70.6%	• 80% of medium complexity within 12 weeks	80%	86.0%
22%	100%	• 80% of low complexity within 6 weeks	80%	100%
		of receipt of all information necessary and the applicant accepting the cost estimate, excluding elapsed time waiting for applicant responses when it is not possible to progress an application.		
100%	100%	We will complete 90% of taxpayer-specific depreciation determinations within 6 months of receipt of all information necessary and the applicant accepting the cost estimate.	90%	100%

⁹ 12 out of the 17 projects completed met the standards. The approach to dealing with high complexity ruling applications has improved over the year. As a result we have met the timeliness standard for all recently received applications of this type. We expect these improvements to mean that we will achieve this performance standard next year.

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
521	We expect to finalise the Commissioner's ruling for an estimated 700 to 1,100 technical issues contained in applications for private and product binding rulings and accrual determinations	700–1,100	587 ¹⁰
39	We expect to publish or finalise consideration of an expected 30 to 50 public items (including technical correspondence and provisional and taxpayer specific depreciation determinations), giving the Commissioner's interpretation of the law.	30–50	41

¹⁰ This result was 13% higher than last year. The result was outside the forecast range largely due to lower than expected customer demand.

OUTPUT STATEMENT: SERVICES TO INFORM THE PUBLIC ABOUT ENTITLEMENTS AND MEETING OBLIGATIONS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Final voted
\$000		\$000	\$000	\$000
Revenue				
240,350	Crown	253,649	232,885	253,149
2,493	Other	3,227	3,088	3,292
242,843	Total revenue	256,876	235,973	256,441
Expenses				
240,419	Annual appropriations	253,596	235,973	256,441
–	Other appropriations	–	–	–
240,419	Total expenses	253,596	235,973	256,441
2,424	Net surplus/(deficit)	3,280	–	–

OUTPUT EXPENSE 3

SERVICES TO PROCESS OBLIGATIONS AND ENTITLEMENTS

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to, including tax refunds. This is achieved through services designed to achieve timely, efficient and effective assessment and processing of:

- tax payments, rebates¹¹ and refunds for taxpayers, and
- entitlements for social support programmes.

Activities undertaken:

- registering taxpayers
- making tax assessments
- banking tax payments and making refunds
- processing applications and payments for social support programmes
- supplying information to other government agencies
- accounting and reporting the collection of Crown revenue
- collecting ACC employee earners' levy as a component of PAYE deductions.

Financial performance for the year ended 30 June 2009 (\$000)

Revenue	Expenses	Net surplus/(deficit)
133,145	129,005	4,140

¹¹ Rebates are now referred to as tax credit claims.

REGISTRATIONS, APPLICATIONS AND ASSESSMENTS

Description

This output involves processing all registrations, applications and assessments for the tax and social policy programmes we administer.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Timeliness		
		We will issue:		
–	–	● at least 80% of income tax assessments within 4 weeks (the timeliness of electronic processing will be reported separately—as shown in brackets)	80%	85.5% (90.6%)
91.7% (96.0%)	94.6% (96.9%)	● 98% within 10 weeks (the timeliness of electronic processing will be reported separately—as shown in brackets)	98%	95.0% (98.1%)
		of receipt.		
		We will issue:		
–	–	● at least 95% of FBT and GST assessments within 3 weeks (the timeliness of electronic processing will be reported separately—as shown in brackets)	95%	98.5% (98.0%)
–	–	● 100% within 6 weeks (the timeliness of electronic processing will be reported separately—as shown in brackets)	100%	99.6% (99.6%)
		of receipt.		
–	–	We will finalise 90% of KiwiSaver contributions from employees on employer monthly schedules by the end of the month following the due date.	90%	89.3%
		We will issue child support assessments to at least:		
73.2%	77.6%	● 70% of paying parents within 2 weeks	70%	78.6%
88.9%	92.0%	● 95% within 6 weeks	95%	91.9%
		of receipt of the properly made application.		

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
55,400	Based on demand in prior years we expect to process an estimated 51,000 to 56,700 applications for child support.	51,000–56,700	59,569 ¹²

¹² This has been driven by an increase in custodial parents applying for child support.

ADMINISTRATIVE REVIEWS

Description

This output involves providing an administrative process for reviewing child support assessments that is both inexpensive and readily accessible to custodians and paying parents.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Timeliness		
		We will issue:		
89.3%	96.7%	● at least 90% of administrative review decisions within 7 weeks	90%	95.2%
97.2%	100%	● 100% within 10 weeks of receipt of the application.	100%	100%

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
3,762	Based on demand in prior years we expect to complete an estimated 3,600 to 3,800 applications for administrative review of child support assessments.	3,600–3,800	4,568 ¹³

¹³ The increased volume of administrative reviews is due to a court decision allowing retrospective reviews, and the volume of cases carried over from the previous financial year. The economic recession also means that more people are applying for reviews.

PAYMENTS, RETURNS, COLLECTIONS AND DISBURSEMENTS

Description

This output involves:

- issuing rebates and refunds
- distributing KiwiSaver contributions to scheme providers
- disbursing child support payments to custodians and the Crown
- receiving and banking payments (including child support payments from paying parents)
- accounting and reporting the collection of Crown revenue.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Quality		
–	91.4%	We will correctly process all notices, statements, certificates of entitlement and loan transfer letters.	100%	97.0%
99.8%	99.8%	We will correctly process all payments to accounts.	100%	99.9%
77.2%	76.0%	We will collect at least 78% of child support assessments (excluding cases we manage on behalf of overseas agencies and uncollectable debt cases) for the year ending 31 March 2009.	78%	75.2%
64.8%	66.3%	We will ensure that at least 70% of assessed paying parents (excluding cases we manage on behalf of overseas agencies and uncollectable debt cases) will pay their whole liability by the due date.	70%	66.7%
29.6%	34.2%	We will ensure that at least 30% of returns are filed electronically.	30%	39.5%
		Timeliness		
		We will process and issue:		
93.8%	95.2%	• at least 90% of rebate ¹⁴ claim refunds within 3 weeks (the timeliness of	90%	87.9%
(98.2%)	(98.2%)	electronic processing will be reported separately—as shown in brackets)		(98.2%)
–	–	• 100% within 6 weeks (the timeliness of electronic processing will be reported	100%	97.1%
		separately—as shown in brackets)		(99.1%)
		of receipt.		
98.7%	98.6%	We will issue 100% of paid parental leave payments to customers on the first regular pay day following the agreed date of entitlement.	100%	98.7%
99.0%	99.4%	We will bank 100% of payments on the day of receipt.	100%	99.5%
97.5%	97.4%	We will make at least 95% of identified child support payments received by the due date (20 th of the month) to custodians on or before the 7 th day of the following month.	95%	97.5%
98.5%	98.4%	We will disburse the balance, and any previous payments received prior to the 7 th day of the following month, by the 20 th of that month.	100%	98.5%

¹⁴ Rebates are now referred to as tax credit claims.

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
8.10 million	We will process an expected 7.66 to 8.46 million returns	7.66–8.46 million	8.73 million
8.00 million	We will process an expected 7.51 to 8.30 million payments, of which	7.51–8.30 million	7.95 million
–	55% will be received via electronic channels.	55%	57.0%

OUTPUT STATEMENT: SERVICES TO PROCESS OBLIGATIONS AND ENTITLEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Final voted
\$000		\$000	\$000	\$000
	Revenue			
101,748	Crown	108,177	108,288	106,177
22,916	Other	24,968	23,255	25,311
124,664	Total revenue	133,145	131,543	131,488
	Expenses			
122,388	Annual appropriations	129,005	131,543	131,488
–	Other appropriations	–	–	–
122,388	Total expenses	129,005	131,543	131,488
2,276	Net surplus/(deficit)	4,140	–	–

OUTPUT EXPENSE 4

MANAGEMENT OF DEBT AND OUTSTANDING RETURNS

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes. This is achieved by:

- ensuring that taxpayers assess their liabilities when required and they and any other customers meet payment obligations (or understand the action they need to take to meet overdue obligations)
- taking appropriate enforcement action where people choose not to comply.

Activities undertaken:

- taking follow-up action where returns are outstanding
- taking follow-up action where payments are overdue.

Financial performance for the year ended 30 June 2009 (\$000)

Revenue	Expenses	Net surplus/(deficit)
86,928	88,900	(1,972)

Performance measure

The following performance measure applies to all outputs in this output expense.

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
–	97.9%	We will ensure that at least 95% of all work is actioned in a correct, complete, clear, timely and appropriately referenced manner that also shows an understanding of the environment.	95%	96.5%

OUTSTANDING RETURNS

Description

This output involves all activities associated with collecting outstanding returns, including taking appropriate follow-up action against taxpayers who do not file a return.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Quality		
		We will ensure that:		
1.15 million	1.31 million	<ul style="list-style-type: none"> 1.15 to 1.25 million outstanding returns are filed or brought to completion by year-end 	1.15–1.25 million	1.45 million
82.1%	80.2%	<ul style="list-style-type: none"> at least 85% of all returns that were not filed by the due date are filed or brought to completion within 12 months. 	85%	80.8%

OVERDUE DEBT

Description

This output covers all activities associated with collecting overdue debt (excluding child support debt). It involves taking appropriate follow-up action when customers do not meet their obligations, including providing them with assistance on how they can meet their tax obligations.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Quality		
		We will resolve:		
505,330	544,706	<ul style="list-style-type: none"> 500,000 to 550,000 debt cases by year-end 	500,000–550,000	593,511
87.1%	89.2%	<ul style="list-style-type: none"> at least 85% of all new debt cases within 12 months of the due date for payment. 	85%	85.5%

CHILD SUPPORT DEBT MANAGEMENT

Description

This output involves all activities associated with the recovery of overdue child support payments. It includes taking appropriate enforcement action against non-compliers within the child support law.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
		Quality		
72.0%	74.4%	We will resolve at least 70% of paying parent debt cases within 12 months of the due date for payment (excluding cases we manage on behalf of overseas agencies and uncollectable debt cases).	70%	72.6%
89.8%	89.7%	We will collect at least 90% of the value of all child support assessments due from the start of the child support scheme in 1992 through to 31 March 2008 (excluding cases we manage on behalf of overseas agencies and uncollectable debt cases).	90%	90.0%
11.8%	9.0%	We will limit the growth of total child support debt to less than 11.5% (excluding penalties, debt we manage on behalf of overseas agencies and uncollectable debt cases).	< 11.5%	10.9%

OUTPUT STATEMENT: MANAGEMENT OF DEBT AND OUTSTANDING RETURNS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Final voted
\$000		\$000	\$000	\$000
	Revenue			
80,158	Crown	84,337	84,078	85,837
1,592	Other	2,591	3,939	4,015
81,750	Total revenue	86,928	88,017	89,852
	Expenses			
82,192	Annual appropriations	88,900	88,017	89,852
–	Other appropriations	–	–	–
82,192	Total expenses	88,900	88,017	89,852
(442)	Net surplus/(deficit)	(1,972)	–	–

OUTPUT EXPENSE 5 TAXPAYER AUDIT

Description

This output expense provides services to ensure that the revenue base for funding government programmes is protected. This is achieved by verifying that taxpayers are meeting their obligations through audit activity across all taxpayer groups, specifically targeting risk areas, and taking appropriate enforcement action when obligations are not being met.

Activities undertaken:

- identifying risks to revenue and designing audit activities accordingly
- verifying that tax obligations have been met by auditing a selection of taxpayers
- managing tax litigation.

Financial performance for the year ended 30 June 2009 (\$000)

Revenue	Expenses	Net surplus/(deficit)
174,352	174,052	300

TAXPAYER AUDIT

Description

This output involves.

Individual and small to medium enterprise audit

- The audit of businesses with a turnover of up to \$100 million¹⁵ (excluding groups in the large enterprise segment). It includes audits of duties, non-residents, investments and salary and wage earners.

Large enterprise audit

- Auditing and providing services to large businesses with a group turnover of more than \$100 million¹⁵, plus other specific groups.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
95.7%	92.2%	Quality		
		We will ensure that at least 90% of all cases completed meet our quality standards.	90%	93.6%
\$755	\$834	We will assess at least \$875 per hour for all audit activity.	\$875	\$1,195
–	–	We will maintain or improve the perception of audited taxpayers' overall audit experience.	Achieved	Achieved
		Timeliness		
		On average, we will complete:		
–	–	• general audits within 6 months	6 months	4.0 months
–	–	• all risk-based audits within 14 months	14 months	10.5 months
–	–	• disputed cases within 18 months.	18 months	10.4 months
93.3%	91.7%	We will ensure that at least 85% of all open cases (excluding aggressive tax planning cases) are less than 24 months old.	85%	91.7%

¹⁵ This amount has since been changed to up to \$300 million.

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
1,087,659	We expect to complete 975,000 to 1,078,000 hours conducting all audit activities.	975,000–1,078,000	1,091,665

LITIGATION MANAGEMENT

Description

This output involves the management of litigation of disputed tax cases, including the requirement to state the case through to resolution by the courts.

Performance measures

2006–07 Actual	2007–08 Actual		2008–09 Target	2008–09 Actual
Achieved	Achieved	Quality We will report any adverse judicial comments made on the department's conduct of litigation.	Achieved	Achieved ¹⁶
–	98.4%	Timeliness We will ensure for any litigation undertaken that 100% of all timetable requirements will be delivered as imposed by the courts.	100%	95.6%

¹⁶ One adverse judicial comment (out of 54 judicial comments) on the department's conduct of litigation was reported.

Activity forecast

2007–08 Actual		2008–09 Forecast	2008–09 Actual
183	We expect to finally resolve an estimated 75 to 100 litigation cases.	75–100	211 ¹⁷

¹⁷ A high number of longstanding cases were closed this year.

OUTPUT STATEMENT: TAXPAYER AUDIT

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Final voted
\$000		\$000	\$000	\$000
Revenue				
152,219	Crown	172,582	154,706	173,582
1,527	Other	1,770	1,351	1,486
153,746	Total revenue	174,352	156,057	175,068
Expenses				
152,183	Annual appropriations	174,052	156,057	175,068
–	Other appropriations	–	–	–
152,183	Total expenses	174,052	156,057	175,068
1,563	Net surplus/(deficit)	300	–	–

Part 7

DEPARTMENTAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		Notes	2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
Income					
589,013	Revenue Crown		632,327	594,759	632,327
28,653	Revenue other	1	32,691	31,749	34,233
617,666	Total income		665,018	626,508	666,560
Expenditure					
382,123	Personnel	2	423,728	389,796	422,220
171,839	Operating	3	162,272	169,927	178,737
16,732	Depreciation and impairment	4	16,923	18,287	17,208
29,010	Amortisation and impairment	5	41,037	33,534	33,431
12,001	Capital charge	6	14,964	14,964	14,964
611,705	Total expenditure		658,924	626,508	666,560
5,961	Net surplus/(deficit)		6,094	–	–

The accompanying accounting policies and notes form part of these financial statements.

Refer to Note 21 for explanation of major variances.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
155,195	Balance at start of year	199,521	199,521	199,521
5,961	Surplus/(deficit) for the year	6,094	–	–
5,961	Total recognised income and expenditure for the year	6,094	–	–
(5,961)	Repayment of surplus to the Crown	(6,111)	–	–
47,092	Capital contribution	25,475	20,061	25,475
(2,766)	Capital repayment	(2,577)	–	(2,577)
38,365		16,787	20,061	22,898
199,521	Balance at end of year	222,402	219,582	222,419

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2009

2007–08 Actual \$000	Notes	2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
Taxpayers' funds				
199,521	Taxpayers' funds	222,402	219,582	222,419
199,521	Total taxpayers' funds	222,402	219,582	222,419
Represented by:				
Current assets				
18,677	Cash and cash equivalents	12,456	10,000	12,000
73,092	Debtor Crown	109,373	67,842	74,092
10,638	Other debtors and prepayments	7	8,984	10,822
1,792	Inventories held for distribution	8	1,250	1,400
104,199	Total current assets	136,510	88,076	98,314
Non-current assets				
50,428	Property, plant and equipment	4	51,130	52,937
163,475	Intangible assets	5	197,470	192,401
213,903	Total non-current assets	218,261	248,600	245,338
318,102	Total assets	354,771	336,676	343,652
Current liabilities				
31,681	Creditors and other payables	9	43,000	32,537
5,961	Surplus payable to the Crown		–	–
36,428	Provision for employee benefits and restructuring	10	34,000	40,830
906	Provision for other liabilities	11	–	–
260	Other financial liabilities	12	129	181
–	Derivative financial instruments	13	–	–
75,236	Total current liabilities	88,069	77,129	73,548
Non-current liabilities				
36,548	Provision for employee benefits and restructuring	10	34,149	39,548
5,468	Provision for other liabilities	11	5,170	6,990
1,329	Other financial liabilities	12	646	1,147
43,345	Total non-current liabilities	44,300	39,965	47,685
118,581	Total liabilities	132,369	117,094	121,233
199,521	Net assets	222,402	219,582	222,419

The accompanying accounting policies and notes form part of these financial statements.

Refer to Note 21 for explanation of major variances.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000	Note	2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
Cash flows – operating activities				
Cash provided from:				
Supply of outputs to				
601,310		596,046	604,638	631,327
5,873		9,481	6,731	9,171
24,357		22,155	25,018	25,039
631,540		627,682	636,387	665,537
Cash applied to:				
Cost of producing outputs				
371,624		403,539	387,730	414,818
181,235		171,567	170,689	177,252
(385)		(1,709)	–	(350)
12,001		14,964	14,964	14,964
564,475		588,361	573,383	606,684
67,065	14	39,321	63,004	58,853
Cash flows – investing activities				
Cash provided from:				
117		405	–	–
7,616		–	–	–
7,733		405	–	–
Cash applied to:				
28,253		20,750	15,828	17,318
82,468		42,134	62,145	65,149
110,721		62,884	77,973	82,467
(102,988)		(62,479)	(77,973)	(82,467)
Cash flows – financing activities				
Cash provided from:				
47,092		25,475	20,061	25,475
47,092		25,475	20,061	25,475
Cash applied to:				
3,260		5,961	7,000	5,961
2,766		2,577	–	2,577
6,026		8,538	7,000	8,538
41,066		16,937	13,061	16,937
5,143		(6,221)	(1,908)	(6,677)
13,534		18,677	11,908	18,677
18,677		12,456	10,000	12,000

The accompanying accounting policies and notes form part of these financial statements.

The GST net component of operating activities reflects the net GST paid to and received from Inland Revenue. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

STATEMENT OF COMMITMENTS

AS AT 30 JUNE 2009

2007–08 Actual \$000		Note	2008–09 Actual \$000
	Capital commitments		
9,262	Property, plant and equipment		19,458
1,921	Intangible assets		983
11,183	Total capital commitments		20,441
	Operating commitments		
	<i>Non-cancellable accommodation leases</i>		
28,000	Not later than one year		30,028
87,347	Later than one year and not later than five years		97,746
132,144	Later than five years		113,957
247,491	Total accommodation commitments		241,731
	<i>Cancellable contracts for the supply of goods and services</i>		
22,941	Not later than one year		24,064
–	Later than one year and not later than five years		1,308
–	Later than five years		–
22,941	Total supply commitments		25,372
270,432	Total operating commitments		267,103
281,615	Total commitments	15	287,544

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS AT 30 JUNE 2009

Contingent liabilities

2007–08 Actual \$000		Note	2008–09 Actual \$000
2,060	Legal proceedings and disputes		4,404
–	Personal grievances		75
2,060	Total contingent liabilities	16	4,479

Contingent assets

Inland Revenue has no contingent assets (2007–08, \$nil).

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2009

There are no instances of unappropriated expenses or capital expenditure or breaches of the project net asset balance during the financial year to 30 June 2009 (2007–08, \$nil).

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2009

Departmental expenses and capital expenditure

2007–08 Expenditure \$000		2008–09 Expenditure ¹ \$000	2008–09 Appropriation Voted ² \$000
Vote: Revenue			
<i>Appropriations for output expenses</i>			
14,523	Policy advice	13,371	13,711
240,419	Services to inform the public about entitlements and meeting obligations	253,596	256,441
122,388	Services to process obligations and entitlements	129,005	131,488
82,192	Management of debt and outstanding returns	88,900	89,852
152,183	Taxpayer audit	174,052	175,068
611,705	Total	658,924	666,560
<i>Departmental capital expenditure</i>			
28,253	Property, plant and equipment	20,750	16,970
82,468	Intangible assets	42,134	63,840
110,721	Total	62,884	80,810

¹ There are no remeasurements in the financial year 2008–09 (2007–08, \$nil).

² This includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act 1989.

The accompanying accounting policies and notes form part of these financial statements.

Transfers under section 26(a) public finance act 1989

	Supp Estimates \$000	Section 26(a) Transfers \$000	Final Voted \$000
Vote: Revenue			
<i>Appropriations for output expenses</i>			
Policy advice	13,711	–	13,711
Services to inform the public about entitlements and meeting obligations	256,941	(500)	256,441
Services to process obligations and entitlements	133,488	(2,000)	131,488
Management of debt and outstanding returns	88,352	1,500	89,852
Taxpayer audit	174,068	1,000	175,068
Net adjustment	666,560	–	666,560
<i>Departmental capital expenditure</i>			
Property, plant and equipment	16,970	–	16,970
Intangible assets	63,840	–	63,840
Net adjustment	80,810	–	80,810

The accompanying accounting policies and notes form part of these financial statements.

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. It is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than making a financial return. Accordingly, Inland Revenue has designated itself as a public benefit entity for the purpose of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Inland Revenue's national office is 12–22 Hawkestone Street, Wellington.

REPORTING PERIOD

The reporting period for these financial statements is for the year ended 30 June 2009. The financial statements were authorised for issue by the Chief Executive of Inland Revenue on 22 September 2009.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). Compliance with NZ GAAP in this instance means the figures for the year ended 30 June 2009 comply with New Zealand equivalents to International Financial Report Standards (NZ IFRS) and where appropriate standards issued by the International Public Sector Accounting Standards Board (IPSAS) as appropriate for public benefit entities.

BASIS OF PREPARATION

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared on a historical cost basis, unless otherwise stated.

The accrual basis of accounting has been used, unless otherwise stated.

These financial statements are presented in New Zealand dollars. All values in tables are rounded to the nearest thousand dollars (\$000). The functional currency of Inland Revenue is New Zealand dollars.

JUDGEMENTS AND ESTIMATIONS

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors, believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

- Note 10 Provision for employee benefits and restructuring provides an analysis of the exposure in relation to estimates and uncertainties surrounding retirement, long-service leave, and sick leave liabilities.

STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

The Government has elected to early adopt all NZ IFRSs and Interpretations that had been approved by the New Zealand and Accounting Standards Review Board as at 30 June 2009 that are not yet applicable, except NZ IAS 1: Presentation of Financial Statements (revised) approved by the Accounting Standards Review Board in November 2007. This standard becomes effective for periods starting on or after 1 January 2009. It was adopted in forecast financial statements presented with the 2009 Budget, but not those presented with the 2008 Budget, which these financial statements are compared against. Adoption of NZ IAS 1: Presentation of Financial Statements (revised) results in presentation changes only.

The early adoption of these standards and interpretations did not materially impact these financial statements.

ACCOUNTING POLICIES

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

Budget figures

The budget figures are those included in the information supporting the *2008–09 Estimates of Appropriations (Main Estimates)* and the information supporting the *2008–09 Supplementary Estimates of Appropriations (Supplementary Estimates)*.

GST (Goods and services tax)

All items in the financial statements, including appropriation statements, are stated exclusive of GST, except for “debtor Crown”, “other debtors”, and “accounts payable”, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST owing to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in “creditors and other payables” or “other debtors and prepayments” in the Statement of Financial Position.

The net GST paid to or received from Inland Revenue, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

Commitments and contingencies are disclosed exclusive of GST.

Taxation

Government departments are exempt from income tax as public authorities, so accordingly, no charge for income tax has been provided for.

Revenue

Inland Revenue derives revenue through the provision of outputs to the Crown, government departments, and for services to third parties. Revenue comprises the fair value of sale of services, net of GST, rebates, and discounts. Revenue is recognised as follows:

Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Sale of services

Sale of services are recognised in the accounting period the services are provided in, by reference to completion of specific transactions, assessed on the basis of actual services provided as a proportion of the total services to be provided.

Sub-lease income

Income from sub-leased property is recognised in the Statement of Financial Performance on a straight line basis over the term of the lease.

Cost allocations

Inland Revenue uses an integrated cost allocation process to derive the cost of its outputs. This process involves the initial costing of business processes followed by the full costing of outputs.

Business processes represent Inland Revenue’s key functional activities. These business processes are used to capture direct costs.

Direct personnel costs are charged to business processes, based on actual hours and standard activity rates. Other related direct costs, including depreciation, are allocated to business processes, based on planned hours and relevant activity drivers.

Premises lease costs are charged to business processes based on headcount and relevant activities.

Indirect information technology costs are assigned to specific service categories and allocated to outputs based on system usage drivers.

Other indirect costs and corporate overheads that cannot be attributed directly to a business process are apportioned to outputs, based on planned business process activity allocation to outputs.

There have been no material changes in cost accounting policies since the date of the last audited financial statements.

Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of an asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to the ownership of an asset.

Inland Revenue only has operating leases relating to the lease of office premises. Rentals payable under operating leases are recognised as an expense on a straight-line basis over the term of the relevant lease. Lease incentives received as incentive to enter into an operating lease are also recognised evenly over the term of the lease as a reduction in the rental expense.

Contractual arrangements considered to be operating leases have been recognised during the reporting period.

Financial instruments

Financial assets

Inland Revenue classifies its financial assets into two categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the assets were acquired.

a) Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Financial Performance. Gains or losses from foreign exchange and other fair value movements are separately reported in the Statement of Financial Performance. Transaction costs are expensed as they are incurred. Derivatives (eg, foreign currency forward exchange contracts) are classified under this category.

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities, depending on whether the derivative is in a net gain or net loss position, respectively. The fair value gains or losses on derivatives are recognised in the Statement of Financial Performance.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Receivables issued with duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Inland Revenue only has receivables which are classified as “debtor Crown” and “other debtors and prepayments” in the Statement of Financial Position.

Impairment of financial assets

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

The amount of the provision is the difference between the asset’s carrying amount and the estimated impaired value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the Statement of Financial Performance.

Financial liabilities

Inland Revenue classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the liabilities were incurred.

a) Financial liabilities at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the Statement of Financial Performance. Gains or losses from foreign exchange and other fair value movements are reported separately in the Statement of Financial Performance. Transaction costs are expensed as they are incurred. Derivatives (eg, foreign currency forward exchange contracts) are classified under this category.

b) Other financial liabilities

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. “Creditors and other payables” are recognised at their nominal value as the effect of discounting is immaterial.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and bank accounts. All cash held in bank accounts is held in “on demand” accounts and no interest is payable to Inland Revenue.

Inventories held for distribution

Inventories held for distribution comprise forms, booklets, and returns held for distribution to the public at no or nominal consideration in the ordinary course of operations.

Inventories held for distribution are carried at cost, calculated using the first-in, first-out (FIFO) cost method, adjusted when applicable for any loss of service potential. The cost of inventories includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost shall be the current replacement cost at the date of acquisition.

The carrying amount is recognised as an expense in the period which the goods are distributed in. The amount of any write-down of inventories and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period the reversal occurs in.

Hedge accounting, hedging activities and foreign currency transactions

Inland Revenue's activities expose it primarily to risks of changes in foreign exchange rates. Inland Revenue uses derivative financial instruments (primarily, foreign currency forward exchange contracts) to hedge its risks associated with foreign currency fluctuations relating to certain commitments. The use of financial derivatives is governed by Inland Revenue's Foreign Exchange Policy, which provides written principles on the use of financial derivatives consistent with Inland Revenue's risk management strategy.

Inland Revenue does not hold or issue derivative financial instruments for trading purposes. It also has not adopted hedge accounting.

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Financial Performance.

Property, plant and equipment

Inland Revenue has operational assets that include leasehold improvements, IT equipment, furniture and office equipment, and motor vehicles. The capitalisation thresholds are:

- IT equipment – computers and laptops all
- IT equipment – other \$2,000 and over (or \$20,000 for bulk purchased IT equipment)
- Furniture and office equipment \$2,000 and over (or \$20,000 for bulk purchased furniture)
- Motor vehicles \$2,000 and over
- Leasehold improvements \$20,000 and over

Property, plant and equipment are shown at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if it's probable that future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than assets under construction. The rate of depreciation will write off the cost of the asset to the estimated residual value over the useful life of the asset. The useful life of major classes of assets have been estimated as follows:

- | | |
|----------------------------------|---------------|
| ● IT equipment | 3 to 5 years |
| ● Furniture and office equipment | 5 to 7 years |
| ● Motor vehicles | 5 to 7 years |
| ● Leasehold improvements | 1 to 10 years |

All fixed assets other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 20% residual value.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease, or the estimated remaining useful life of the improvements, whichever is shorter, up to a maximum of 10 years.

Assets under construction are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. A review of estimated useful lives of some major asset classes was carried out this financial year resulting in a change to the estimated useful lives of motor vehicles and leasehold improvements.

Impairment of property, plant and equipment

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Statement of Financial Performance.

Intangible assets

Inland Revenue has intangible assets in the form of software, licences, and business process design.

Additions

Intangible assets are initially recorded at cost. Inland Revenue only has intangible assets with finite useful lives. The three main categories are: software – developed, software and licences – purchased, and business process design.

a) Software – developed

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The cost of developed computer software comprises direct labour, material purchased, and an appropriate portion of relevant overheads. These costs are directly associated with the development of identifiable and unique software controlled by Inland Revenue, and will generate economic benefits.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs of configuring and customising purchased software for intended use are capitalised.

b) Software and licences – purchased

Intangible assets acquired by Inland Revenue such as computer software and licences are stated at cost less accumulated amortisation and impairment losses. Acquired computer software and licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

c) Business process design

Expenditure on development activities, where research findings are applied to a plan or design for new or substantially improved business processes, is capitalised if the business process is technically and commercially feasible and Inland Revenue has sufficient resources to complete development (eg, a system training package). Other development expenditure is recognised in the Statement of Financial Performance as an expense as incurred.

The capitalisation thresholds for intangible assets are:

- Software – developed \$50,000 and over
- Software and licences – purchased \$5,000 and over
- Business process design \$50,000 and over

Subsequent cost

The cost of intangible assets with finite lives is subsequently recorded at cost less any amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the Statement of Financial Performance.

The useful lives of major classes of intangible assets have been estimated as follows:

- Software – developed 5 to 10 years
- Software and licences – purchased 5 to 7 years
- Business process design 5 to 10 years

A review of estimated useful lives of some major asset classes was carried out this financial year, resulting in a change to the estimated useful lives of software – developed and business process design.

Impairment of intangible assets

At each balance date, Inland Revenue reviews the carrying amounts of its intangible assets including assets under construction to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where an intangible assets' recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised in the Statement of Financial Performance. The reversal of an impairment loss is also recognised in the Statement of Financial Performance.

De-recognition

The gain or loss arising from the de-recognition of an intangible asset is recognised in the Statement of Financial Performance when the asset is de-recognised.

Employee benefits

Short-term benefits

Employee benefits that Inland Revenue expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned up to but not yet taken at balance date, retiring and long-service leave, and sick leave entitlements expected to be settled within 12 months.

Inland Revenue recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Inland Revenue anticipates it will be used by staff to cover those future absences.

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created a constructive obligation.

Long-term benefits

Employee benefits that are payable beyond 12 months such as long-service leave, retiring leave, and sick leave have been calculated on an actuarial basis, based on the present value of the estimated future cash outflows.

Long-service leave and retiring leave

The actuarial calculations for long-service leave and retiring leave liabilities are based on:

- Projection of the amount of each of the benefits that would be due to each employee in each future year, the applied probabilities of the employee remaining in service to the start of that year and becoming entitled to the benefit during that year, and
- Present value of the estimated future cash outflows using an applicable discount rate and salary increase rate.

Sick leave

A liability is recognised for sick leave to the extent that absences in future financial years are expected to be greater than the sick leave entitlements earned in future financial years. To calculate the liability, a projection is made of the amount of new sick leave entitlement that would arise in each future financial year, the sick leave that would be taken in each future financial year, and the accumulated balance remaining at the end of each future financial year.

Superannuation schemes

Obligations for contributions to the Inland Revenue Superannuation Scheme, State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the Statement of Financial Performance as they fall due.

Termination benefits

Termination benefits are payable when an employee's employment contract is terminated before their normal retirement or when an employee accepts voluntary redundancy in exchange for these benefits. Inland Revenue recognises the expenditure in the Statement of Financial Performance when it is demonstrably committed to either terminate the employment of current employees, according to a detailed formal plan without the possibility of withdrawal, or as a result of an offer for voluntary redundancy.

Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Provisions

Inland Revenue recognises a provision for future expenditure of uncertain amounts or timing where there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value.

Taxpayers' funds

This is the Crown's net investment in Inland Revenue. It is measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified into a number of components:

- Capital contributions
- Repayment of capital to the Crown
- Provision for repayment of surplus to the Crown

Statement of Cash Flows

Cash and cash equivalents mean cash balances on hand, and cash held in bank accounts.

Operating activities include cash received from all income sources of Inland Revenue, and cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

Commitments

Expenses and liabilities yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that they are unperformed obligations.

Cancellable commitments that have penalty or exit costs explicit in the agreement on exercising that option to cancel are included in the Statement of Commitments at the value of that penalty or exit cost.

Contingent assets and liabilities

Contingent assets and liabilities are recorded in the Statement of Contingent Liabilities and Contingent Assets at the point at which the contingency is evident. Contingent assets are disclosed if it is probable that the benefits will be realised. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

Comparatives

Certain comparative information has been reclassified, where required, to conform with the current year's presentation.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies and cost allocation policies since the date of the last audited financial statements, except for NZ IFRS adjustments. All policies have been applied on a basis consistent with the previous year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: REVENUE OTHER

2007–08 Actual \$000		2008–09 Actual \$000
20,500	Accident Compensation Corporation – agency fees	20,500
4,937	State Services Commission – State Sector Retirement Savings Scheme and KiwiSaver recovery	6,184
1,355	Supply of information to other agencies	3,154
1,085	Court cost recovery	1,776
417	Rulings	697
359	Accommodation sub-leasing income	85
–	Other	295
28,653	Total revenue other	32,691

NOTE 2: PERSONNEL

2007–08 Actual \$000		2008–09 Actual \$000
327,613	Salaries and wages	357,452
31,180	Contractors and temporary staff	29,954
802	Terminating benefits	17,818
7,256	Employer contributions to defined contribution plans	8,092
3,074	Annual leave	2,452
2,019	ACC levies	2,328
3,468	Retiring, long-service, and sick leave	2,312
785	Bonuses	438
5,926	Other	2,882
382,123	Total personnel	423,728

Employer contributions to defined contribution plans include contributions to Inland Revenue Superannuation Scheme, KiwiSaver, State Sector Retirement Savings Scheme, and Government Superannuation Fund.

NOTE 3: OPERATING

2007–08 Actual \$000		2008–09 Actual \$000
32,835	Information technology costs	34,208
31,413	Operating lease rentals	31,433
21,727	Communication	21,095
12,353	Legal expenses	20,372
15,035	Office supplies	14,938
9,358	Premises costs	8,554
11,795	Travel and transport	8,205
8,948	Training and employee-related costs	7,187
9,174	Consultants	4,813
2,569	Bank fees	3,120
10,414	Advertising and publicity	1,644
1,831	Equipment maintenance	1,670
4	Increase/(decrease) in provision for onerous contracts	1,231
1,013	Audit fees for audit of the financial statements	1,139
60	Audit fees for transition to NZ IFRS	–
11	Net foreign exchange losses	270
46	Loss on sale of property, plant and equipment	161
30	Increase/(decrease) in provision for doubtful debts	33
37	Bad debts written off	6
5	Loss on sale of intangible assets	–
3,181	Other operating expenses	2,193
171,839	Total operating	162,272

NOTE 4: PROPERTY, PLANT AND EQUIPMENT BY CATEGORY

	IT equipment \$000	Furniture and office equipment \$000	Motor vehicles \$000	Leasehold improvements \$000	Asset under construction – leasehold \$000	Total \$000
Cost						
Balance as at 1 July 2008	67,718	32,138	4,654	46,480	15,898	166,888
Additions by purchase	10,528	1,702	1,341	2,750	2,945	19,266
Additions – other ¹	–	–	–	787	–	787
Transfers between category	106	(97)	–	15,888	(15,338)	559
Disposals	(7,286)	(5,879)	(1,332)	(3,141)	–	(17,638)
Balance as at 30 June 2009	71,066	27,864	4,663	62,764	3,505	169,862
Depreciation and impairment losses						
Balance as at 1 July 2008	51,240	21,471	2,238	41,511	–	116,460
Depreciation charge – expensed	8,574	2,743	375	5,231	–	16,923
Depreciation charge – capitalised ²	153	34	–	–	–	187
Lease make-good depreciation adjustment	–	–	–	(325)	–	(325)
Impairment losses	–	–	–	–	–	–
Disposals	(7,271)	(5,841)	(932)	(3,030)	–	(17,074)
Transfers between category	106	(106)	–	–	–	–
Balance as at 30 June 2009	52,802	18,301	1,681	43,387	–	116,171
Carrying amount as at 30 June 2009	18,264	9,563	2,982	19,377	3,505	53,691
Cost						
Balance as at 1 July 2007	59,566	28,386	4,625	59,136	4,814	156,527
Additions by purchase	10,429	5,038	74	166	11,378	27,085
Additions – other ³	–	–	–	4,171	–	4,171
Transfers between category	9	15	–	270	(294)	–
Disposals	(2,286)	(1,301)	(45)	(17,263)	–	(20,895)
Balance as at 30 June 2008	67,718	32,138	4,654	46,480	15,898	166,888
Depreciation and impairment losses						
Balance as at 1 July 2007	45,236	20,124	1,787	50,310	–	117,457
Depreciation charge – expensed	7,898	2,582	483	5,524	–	16,487
Depreciation charge – capitalised ²	266	44	–	–	–	310
Opening balance adjustment ³	–	–	–	2,694	–	2,694
Impairment losses	–	–	–	245	–	245
Disposals	(2,160)	(1,294)	(32)	(17,247)	–	(20,733)
Transfers between category	–	15	–	(15)	–	–
Balance as at 30 June 2008	51,240	21,471	2,238	41,511	–	116,460
Carrying amount as at 30 June 2008	16,478	10,667	2,416	4,969	15,898	50,428

¹ This relates to the additional lease make-good costs on leased buildings.

² Refers to the depreciation charge for existing assets that are used in the development of new intangible assets under construction.

³ This relates to the initial recognition of lease make-good costs on leased buildings.

NOTE 5: INTANGIBLE ASSETS BY CATEGORY

	Software – developed \$000	Business process design \$000	Software and licences – purchased \$000	Asset under construction – intangibles \$000	Total \$000
Cost					
Balance as at 1 July 2008	281,601	8,262	109,249	55,372	454,484
Additions by purchase	–	–	15,301	–	15,301
Additions internally developed	14,271	–	–	13,182	27,453
Transfers between category	34,575	–	16,296	(51,430)	(559)
Disposals	–	–	–	–	–
Balance as at 30 June 2009	330,447	8,262	140,846	17,124	496,679
Amortisation and impairment losses					
Balance as at 1 July 2008	224,181	1,960	62,417	2,451	291,009
Amortisation charge – expensed	20,746	1,036	18,194	–	39,976
Amortisation charge – capitalised ¹	63	–	–	–	63
Impairment losses	–	–	565	496	1,061
Transfers between category	–	–	–	–	–
Disposals	–	–	–	–	–
Balance as at 30 June 2009	244,990	2,996	81,176	2,947	332,109
Carrying amount as at 30 June 2009	85,457	5,266	59,670	14,177	164,570
Cost					
Balance as at 1 July 2007	243,875	965	96,306	52,519	393,665
Additions by purchase	–	–	29,573	–	29,573
Additions internally developed	11,456	797	–	40,963	53,216
Transfers between category	27,267	6,500	4,343	(38,110)	–
Disposals	(997)	–	(20,973)	–	(21,970)
Balance as at 30 June 2008	281,601	8,262	109,249	55,372	454,484
Amortisation and impairment losses					
Balance as at 1 July 2007	212,210	965	62,853	–	276,028
Amortisation charge – expensed	12,084	995	13,480	–	26,559
Amortisation charge – capitalised ¹	321	–	–	–	321
Impairment losses	–	–	–	2,451	2,451
Transfers between category	563	–	(563)	–	–
Disposals	(997)	–	(13,353)	–	(14,350)
Balance as at 30 June 2008	224,181	1,960	62,417	2,451	291,009
Carrying amount as at 30 June 2008	57,420	6,302	46,832	52,921	163,475

¹ Refers to the amortisation charge for existing assets that are utilised in the development of new intangible assets under construction.

Software – developed and business process design includes the following items and carrying amounts: FIRST technology environment \$41,089,000, KiwiSaver \$43,692,000, Student loans \$5,942,000 (2007–08, FIRST technology environment \$26,466,000, KiwiSaver \$34,158,000, Student loans \$3,098,000).

The amortisation period ranges from 5–10 years.

Software and licences – purchased includes the following items and carrying amounts: FIRST technology environment \$55,782,000, KiwiSaver \$3,888,000 (2007–08, FIRST technology environment \$42,475,000, KiwiSaver \$4,357,000).

The amortisation period ranges from 5–7 years.

NOTE 6: CAPITAL CHARGE

Inland Revenue pays a capital charge to the Crown on taxpayer's funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2009 was 7.5% per annum (2007–08, 7.5%).

NOTE 7: OTHER DEBTORS AND PREPAYMENTS

2007–08 Actual \$000		2008–09 Actual \$000
4,900	Other debtors	5,976
(101)	Less provision for doubtful debts	(94)
4,799	Net debtors	5,882
5,839	Prepayments	7,357
10,638	Total other debtors and prepayments	13,239

Given their short-term nature, the carrying value of other debtors approximates their fair value.

As at 30 June 2009 and 2008, all overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

Net debtors	Gross debtors \$000	Impairment \$000	Net debtors \$000
2008–09			
Overdue by < 30 days	5,232	–	5,232
Overdue by 31 to 60 days	256	–	256
Overdue by 61 to 90 days	35	–	35
Overdue by > 90 days	453	(94)	359
Total	5,976	(94)	5,882
2007–08			
Overdue by < 30 days	4,445	(1)	4,444
Overdue by 31 to 60 days	203	(13)	190
Overdue by 61 to 90 days	8	–	8
Overdue by > 90 days	244	(87)	157
Total	4,900	(101)	4,799

The provision for doubtful debts has been calculated based on expected losses for Inland Revenue's pool of debtors. Expected losses have been determined based on a review of each debtor.

Movements in the provision for doubtful debts are as follows:

2007–08 Actual \$000		2008–09 Actual \$000
(71)	Opening balance	(101)
(64)	Additional provisions made during the year	(33)
34	Receivables written off during the year	40
(101)	Closing balance	(94)

NOTE 8: INVENTORIES HELD FOR EXTERNAL DISTRIBUTION

Inland Revenue holds inventories in the form of returns and guides for external distribution. The carrying amount of inventories held for distribution that are measured at cost as at 30 June 2009 amounted to \$1,442,000 (2007–08, \$1,792,000).

The write-down of inventories held for distribution amounted to \$11,000 (2007–08, \$nil). There have been no reversals of write-downs.

No inventories are pledged as security for liabilities.

NOTE 9: CREDITORS AND OTHER PAYABLES

2007–08 Actual \$000		2008–09 Actual \$000
4,161	Accounts payable	4,609
23,643	Accrued expenses – other	14,232
3,877	GST payable	5,590
31,681	Total creditors and other payables	24,431

Creditors and other payables are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 10: PROVISION FOR EMPLOYEE BENEFITS AND RESTRUCTURING

2007–08 Actual \$000		2008–09 Actual \$000
Current liabilities		
20,340	Annual leave	23,044
303	Restructuring – terminating benefits	17,549
12,108	Accrued salaries and wages	11,613
2,176	Sick leave	2,176
1,033	Retiring leave	1,347
416	Long-service leave	1,054
52	Time off in lieu	43
36,428	Total current portion	56,826
Non-current liabilities		
5,538	Sick leave	5,538
24,454	Retiring leave	24,778
6,556	Long-service leave	6,023
36,548	Total non-current portion	36,339
72,976	Total provision for employee benefits	93,165

The present value of sick leave, retiring, and long-service leave obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. Two key assumptions used in calculating these liabilities include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on the carrying amount of the liabilities.

To estimate the present value of the future cash outflows a discount rate of 5.25% was used for 2008–09. The salary increase rate was 1% on 1 July 2009, 2% on 1 July 2010, and 4% on each 1 July thereafter. The discount rate is based on the expected long-term return on 10-year New Zealand government bonds. The short-term salary increase rate is based on expected remuneration line increases for Inland Revenue. The long-term salary increase rate is based on a basic annual rate of 2.5% which represents long-term price inflation, determined after considering the published views of various economists, with an addition of 1.5% being the best estimate of the difference between salary inflation and price inflation.

Sick leave

If the discount rate were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$215,000 higher/lower.

If the salary inflation factor were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$223,000 higher/lower.

Long-service leave

If the discount rate were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$285,000 higher/lower.

If the salary inflation factor were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$295,000 higher/lower.

Retiring leave

If the discount rate were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$1,800,000 higher/lower.

If the salary inflation factor were to differ by $\pm 1\%$ from the estimate, with all other factors held constant, the carrying amount of the liabilities would be \$1,900,000 higher/lower.

2007–08 Actual \$000		2008–09 Actual \$000
	Restructuring – terminating benefits	
	– Opening balance	303
303	Additional provisions made	17,549
	– Amounts used	(303)
	– Unused amounts reversed	–
303	Closing balance	17,549

Restructuring – terminating benefits

The provision for restructuring – terminating benefits arises from a re-organisation within Inland Revenue. The provision is expected to be fully utilised in the 2009–10 year.

NOTE 11: PROVISION FOR OTHER LIABILITIES

2007–08 Actual \$000		2008–09 Actual \$000
	Current liabilities	
196	Onerous contracts	494
590	Lease make-good	–
120	Restructuring	–
906	Total current portion	494
	Non-current liabilities	
–	Onerous contracts	726
5,468	Lease make-good	6,085
5,468	Total non-current portion	6,811
6,374	Total provision for other liabilities	7,305

	Onerous contracts \$000	Lease make-good \$000	Restructuring \$000	Total \$000
2008–09				
Opening balance	196	6,058	120	6,374
Additional provisions made	1,221	1,533	–	2,754
Amounts used	(197)	(182)	(83)	(462)
Unused amounts reversed	–	(564)	(37)	(601)
Discount unwind	–	(760)	–	(760)
Closing balance	1,220	6,085	–	7,305
2007–08				
Opening balance	705	5,292	–	5,997
Additional provisions made	197	294	120	611
Amounts used	(92)	(7)	–	(99)
Unused amounts reversed	(614)	(56)	–	(670)
Discount unwind	–	535	–	535
Closing balance	196	6,058	120	6,374

Onerous contracts

The provision for onerous contracts arises from non-cancellable operating leases where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. Inland Revenue currently has two leases where it is no longer able to use the surplus space due to restructuring and floor plan revision. One lease is due to expire in January 2010 and the other in April 2012.

Lease make-good

For a number of its leased premises, Inland Revenue is required at the expiry of the lease term to make-good any damage caused to the premises and remove any fixtures and fittings it has installed.

Where leases include make-good clauses, an asset and a provision for lease make-good costs is recognised at the commencement of the lease, for the costs of removing the improvement and restoring any damage from its installation. In some cases, Inland Revenue has the option to renew these leases, which impacts on the timing of expected cash flows to make good the premises.

Restructuring

The restructuring provision arose from the closure of Inland Revenue's warehouse in Wellington.

NOTE 12: OTHER FINANCIAL LIABILITIES

2007–08 Actual \$000		2008–09 Actual \$000
	Current liabilities	
260	Leasing incentives	190
260	Total current portion	190
	Non-current liabilities	
1,329	Leasing incentives	1,150
1,329	Total non-current portion	1,150
1,589	Total other financial liabilities	1,340

NOTE 13: DERIVATIVE FINANCIAL INSTRUMENTS

To hedge its currency risk Inland Revenue enters into foreign currency forward exchange contracts with New Zealand Debt Management Office (NZDMO).

The notional principal amounts of outstanding foreign currency forward exchange contracts as at 30 June 2009 were \$AUS 1,940,000 (2007–08, \$nil).

The fair value of foreign currency forward exchange contracts has been determined by reference to published price quotations in an active market.

NOTE 14: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

2007–08 Actual \$000		2008–09 Actual \$000
5,961	Net surplus/(deficit)	6,094
	Add non-cash items	
16,732	Depreciation and impairment	16,923
29,010	Amortisation and impairment	41,037
45,742	Total non-cash items	57,960
	Add items classified as investing or financing activities	
46	Net loss on sale of property, plant and equipment	161
5	Net loss on sale of intangible assets	–
51	Total items classified as investing or financing activities	161
	Add/(less) working capital movements	
12,297	(Increase)/decrease in debtor Crown	(36,281)
(254)	(Increase)/decrease in other debtors and prepayments	(2,601)
(420)	(Increase)/decrease in inventories held for distribution	350
(8,406)	Increase/(decrease) in creditors and other payables	(7,250)
(49)	Increase/(decrease) in derivative financial instruments	17
10,531	Increase/(decrease) in provision for employee benefits	20,189
377	Increase/(decrease) in provision for other liabilities	931
1,235	Increase/(decrease) in other financial liabilities	(249)
15,311	Net movements in working capital items	(24,894)
67,065	Net cash inflow from operating activities	39,321

NOTE 15: COMMITMENTS

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or recognised as a liability at the balance sheet date.

Operating commitments

Inland Revenue's operating commitments consist of non-cancellable accommodation leases, and cancellable contracts for the supply of goods and services, where a penalty or exit cost is charged for cancelling the contract.

Commitments for non-cancellable accommodation leases relate to Inland Revenue's long-term leases on its premises at many locations throughout New Zealand. The annual lease payments are regularly reviewed and the amounts disclosed as future commitments are based on current rental rates. These commitments also include office space vacated by Inland Revenue as a result of organisational restructuring and sub-leased. Provision has been made in the financial statements for the expected net expenses for the duration of these leases.

The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is \$86,000 (2007–08, \$281,000).

Inland Revenue's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on Inland Revenue by any of its leasing arrangements.

Inland Revenue has also entered into cancellable contracts for computer maintenance and other contracts for the supply of goods and services.

NOTE 16: CONTINGENT LIABILITIES

Legal proceedings and disputes

The legal proceedings and disputes contingent liability relates to potential net claims against Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. It only relates to court costs; the actual revenue under dispute is recognised as Crown contingent assets and liabilities (refer to Crown Schedules of contingent assets and liabilities).

The expected value of the contingent liability is calculated using an outcome probability model that weighs the total potential liability against outcome probabilities. An estimate of potential court cost recoveries is made and netted off against the contingent liability. Independent confirmation on the liability has been ascertained on all legal proceedings and tax disputes.

Personal grievances

Personal grievances represent amounts claimed by employees for personal grievances cases. They all relate to an alleged breach of contract.

NOTE 17: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

Inland Revenue is a wholly owned entity of the Crown. The government significantly influences the roles of Inland Revenue as well as being its major source of revenue.

Inland Revenue enters into numerous transactions with other government departments, Crown agencies, and state-owned enterprises on an arm's-length basis. Where those parties are acting in the course of their normal dealings with Inland Revenue, related party disclosures have not been made for these transactions. Any transactions not conducted at arm's-length have been disclosed in the financial statements.

No transactions were carried out with related parties during the year. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Compensation to key management personnel

The remuneration of key management personnel during the year was as follows:

2007–08 Actual \$000		2008–09 Actual \$000
2,230	Short-term employee benefits	2,252
23	Post employment benefits	26
12	Other long-term benefits	6
17	Termination benefits	–
2,282	Total compensation to key management personnel	2,284

Key management personnel include the Commissioner, four Deputy Commissioners, Chief Tax Counsel, Chief Financial Officer, and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined by the State Services Commission.

NOTE 18: FINANCIAL INSTRUMENT RISKS

Market risk

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates is called currency risk.

As Inland Revenue purchases fixed assets and services from overseas suppliers it is exposed to currency risk arising from various currency exposures, primarily for the United States and Australian dollars. Currency risk arises from future purchases of fixed assets and services which are denominated in a foreign currency.

Inland Revenue has policies in place to manage the risks associated with financial instruments and, being risk averse, seeks to minimise exposure from its treasury activities. Inland Revenue does not enter into transactions that are speculative in nature.

Under its Foreign Exchange Policy, Inland Revenue enters into foreign currency forward exchange contracts to manage foreign exchange exposures when single foreign exchange transactions exceed NZ \$100,000, or the transaction exposure for an individual currency exceeds NZ \$100,000. This policy has been approved by The Treasury and is in line with the requirements of The Treasury "Guidelines for the Management of Crown and Departmental Foreign-exchange Exposure".

Sensitivity analysis

A sensitivity analysis has not been undertaken as there is no significant foreign exchange rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate or, the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

Inland Revenue has no interest-bearing financial instruments so it has no exposure to interest rate risk.

Credit risk

The risk that a third party will default on its obligations to Inland Revenue, causing a loss to be incurred is called credit risk. In the normal course of its business credit risk from trade debtors is concentrated with the Crown and other government agencies.

The carrying amount of financial assets recognised in the Statement of Financial Position best represents Inland Revenue's maximum exposure to credit risk at balance date.

Inland Revenue does not require any collateral, security, or other credit enhancements to support financial instruments with financial institutions that it deals with or the New Zealand Debt Management Office, because these entities have high credit ratings. For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

The carrying amount of financial assets that would otherwise be past due or impaired, because terms have been renegotiated, is not material.

Liquidity risk

Liquidity risk is the risk that Inland Revenue will encounter difficulty raising liquid funds to meet commitments as they fall due.

As all but an insignificant proportion of funds come from the New Zealand Government and cash is drawn down on a fortnightly basis, Inland Revenue does not have significant liquidity risk. In meeting its liquidity requirements, Inland Revenue closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. Inland Revenue maintains a target level of available cash to meet liquidity requirements.

The table on page 104 analyses Inland Revenue's financial liabilities that will be settled, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

LIQUIDITY RISKS

	Notes	Up to 1 year \$000	Greater than 1 year but less than 5 years \$000	Over 5 years \$000	Total \$000
2008–09					
Creditors and other payables	9	24,431	–	–	24,431
Derivative financial instrument liabilities	13	17	–	–	17
Other financial liabilities	12	190	502	648	1,340
Closing balance		24,638	502	648	25,788
2007–08					
Creditors and other payables	9	31,681	–	–	31,681
Other financial liabilities	12	260	563	766	1,589
Closing balance		31,941	563	766	33,270

NOTE 19: CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

2007–08 Actual \$000		Notes	2008–09 Actual \$000
	Loans and receivables		
18,677	Cash and cash equivalents		12,456
73,092	Debtor Crown		109,373
4,799	Other debtors	7	5,882
96,568	Total loans and receivables		127,711
	Fair value through profit or loss		
–	Derivative financial instrument liabilities		17
–	Total fair value through profit or loss		17
	Financial liabilities measured at amortised cost		
31,681	Creditors and other payables	9	24,431
1,589	Other financial liabilities	12	1,340
33,270	Total financial liabilities measured at amortised cost		25,771

NOTE 20: CAPITAL MANAGEMENT

Inland Revenue's capital is its equity (or taxpayers' funds), which comprise of general funds. Equity is represented by net assets.

Inland Revenue manages its revenues, expenses, assets, liabilities, and general financial dealings prudently. Inland Revenue's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions.

The objective of managing Inland Revenue's equity is to ensure that it effectively achieves its goals and objectives, while remaining a going concern.

NOTE 21: EXPLANATION OF MAJOR VARIANCES

Statement of Financial Performance

The following major variations occurred in the Statement of Financial Performance between the 30 June 2009 Actuals and 30 June 2008 Actuals:

- *Revenue Crown* was higher than last year's actual by \$43,314,000 (7%). This increase in baseline was to fund KiwiSaver enhancements, implementation of personal tax changes, working for families tax credits enhancements, Student loan initiatives, operating pressure contingency, and improved compliance and customer experience.
- *Revenue Other* was higher than last year's actual by \$4,038,000 (14%). This increase was due to an increase in court cost recoveries, and income from other departments (increased State Sector Retirement Savings Scheme contribution and funding related to Standardised Business Reporting).
- *Personnel* expenses were higher than last year's actual by \$41,605,000 (11%). This increase was due to an update to remuneration lines, an increase in staff numbers to deliver new initiatives (refer to Revenue Crown), and the inclusion of a provision for voluntary redundancy.
- *Operating* expenses were lower than last year's actual by \$9,566,000 (6%). This decrease is mainly due to a concerted effort to reduce discretionary expenditure during the year. Also having an impact was a reduction in the level of advertising and publicity for KiwiSaver compared to the previous financial year.
- *Amortisation and impairment* were higher than last year's actual by \$12,027,000 (41%). This increase was due to the capitalisation of a number of government initiatives that went "live" during the financial year, a change in the estimated useful lives of certain project assets, the accelerated amortisation of the KiwiSaver employer tax credit intangible asset, and the impairment of certain licences.

- *Capital charge* expenses were higher than last year's actual by \$2,963,000 (25%). This increase was due to injections of additional capital by Government in 2008–09. These were largely approved to fund the enhancement of KiwiSaver as well as other initiatives (refer to Revenue Crown).

The following major budget variations occurred between Actuals and the 2008–09 Estimates of Appropriations (Main Estimates) in the Statement of Financial Performance for the year ended 30 June 2009:

- *Revenue Crown* was higher than budget by \$37,568,000 (6%). This was due to additional funding including KiwiSaver enhancements, tax initiatives and an operating pressure contingency.
- *Personnel* expenses were higher than budget by \$33,932,000 (9%). This increase was due to the inclusion of a voluntary redundancy provision, as well as an underestimation in the original budget in particular around personnel related costs.
- *Depreciation and impairment* were lower than budget by \$1,364,000 (7%). This decrease was due to a review of fixed asset useful lives.
- *Amortisation and impairment* were higher than budget by \$7,503,000 (22%). This increase was due to a change in the estimated useful lives of certain project assets and the impairment of certain licences.

The following major budget variations occurred between the 2008–09 Estimates of Appropriations (Main Estimates) and the 2008–09 Supplementary Estimates of Appropriations (Supplementary Estimates) in the Statement of Financial Performance:

- *Total income and total expenditure.* The approved departmental expenditure baseline and matching revenue for 2008–09 increased by \$40,052,000 (6.4%) in the period following the Main Estimates for this year. Cabinet approved additional funding of \$42,983,000 during this period, and Ministers approved operating transfers of \$2,931,000 from 2008–09 to 2009–10. The majority of the additional funding (\$31,570,000), related to the implementation of KiwiSaver enhancements (\$9,120,000), implementing tax and KiwiSaver changes (\$7,450,000) and operating pressure contingency (\$16,100,000). Other significant increases related to student loans, and other legislative initiatives.

Statement of Financial Position

The following major variations occurred in the Statement of Financial Position between 30 June 2009 Actuals and 30 June 2008 Actuals:

- *Cash and cash equivalents* were lower than last year's actual by \$6,221,000 (33%). This was mainly due to a reduction in overall spending which reduced the required cash drawdown to meet anticipated expenditure. Also having an impact was an increased focus on prompt payment of trade payables.
- *Debtor Crown* was higher than last year's actual by \$36,280,000 (50%). This was due to the voluntary redundancy spending which will occur in the 2009–10 year, and project, IT, and capital spending which was deferred to the 2009–10 year.
- *Other debtors and prepayments* were higher than last year's actual by \$2,601,000 (24%). This was due to an increase in IT maintenance contracts.
- *Property, plant and equipment* were higher than last year's actual by \$3,264,000 (6%). This was due to the capitalisation of leasehold improvements during the year.
- *Creditors and other payables* were lower than last year's actual by \$7,250,000 (23%). This was due to a reduction in discretionary expenditure this year.
- *Provision for employee benefits and restructuring* was higher than last year's actual by \$20,189,000 (28%). This was due to the inclusion of the voluntary redundancy provision, and an increase in accrued annual leave.
- *Provision for other liabilities* was higher than last year's actual by \$931,000 (15%). This was due to an increase in the provision for onerous rental contracts this financial year.

The following major budget variations occurred between Actuals and the 2008–09 Estimates of Appropriations (Main Estimates) in the Statement of Financial Position as at 30 June 2009:

- *Cash and cash equivalents* were higher than budget by \$2,456,000 (25%). This was due to timing in relation to the payment of expenses and employee benefits.
- *Debtor Crown* was higher than budget by \$41,530,000 (61%). This was due to the voluntary redundancy spending which will occur in the 2009–10 year, and project, IT, and capital spending which was deferred to the 2009–10 year.
- *Other debtors and prepayments* were higher than budget by \$4,255,000 (47%). This was due to an increase in trade receivables from departments and third parties, and an increase in prepaid IT maintenance contracts.
- *Property, plant and equipment* were higher than budget by \$2,562,000 (5%). This was due to an increase in leasehold improvements.

- *Intangible assets* were lower than budget by \$32,900,000 (17%). This was due to an overestimation in the original budget of additional software that would be developed or purchased during the year. Also having an impact is project underspending and a change in the estimated useful lives of some assets.
- *Creditors and other payables* were lower than budget by \$18,569,000 (43%). This reflects a concerted effort to reduce discretionary expenditure over the year, as well as a decrease of trade payables to third parties.
- *Provision for employee benefits and restructuring* were higher than budget by \$25,016,000 (37%). This was due to the inclusion of the voluntary redundancy provision. Also impacting were increases in accrued annual leave, and retiring leave.
- *Provision for other liabilities (non-current)* were higher than budget by \$1,641,000 (32%). This was due to an increase in the provision for onerous rental contracts.

The following major budget variations occurred between the 2008–09 Estimates of Appropriations (Main Estimates) and 2008–09 Supplementary Estimates of Appropriations (Supplementary Estimates) in the Statement of Financial Position for the year ended 30 June 2009:

- *Total taxpayers' funds* increased by \$2,820,000 in the period after the Main Estimates. Cabinet approved capital injections of \$5,414,000 in this period, and Ministers approved capital withdrawals of \$2,577,000.

The majority of the new capital (\$3,914,000) related to the implementation of KiwiSaver changes.

Statement of Commitments

The following major variations occurred in the Statement of Commitments between 30 June 2009 Actuals and 30 June 2008 Actuals:

- *Total capital commitments* were higher than last year's actual by \$9,258,000 (83%). This was mainly due to the IR on Featherston project (expected completion date June 2011).
- *Total supply commitments* were higher than last year's actual by \$2,431,000 (11%). This was due to an increase in cancellable contracts for the supply of goods and services.

NOTE 22: EVENTS AFTER BALANCE DATE

No events have occurred between the balance date and date of signing these financial statements that materially affect these financial statements.

SUMMARY OF DEPARTMENTAL FINANCIAL RESULTS

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000
	Operating results	
617,666	Total revenue	665,018
611,705	Total output expenses	658,924
17,962	Operating surplus before capital charge	21,058
5,961	Net surplus/(deficit)	6,094
	Working capital	
1.28	Liquid ratio	1.45
1.38	Current ratio	1.55
	Resource utilisation	
	<i>Property, plant and equipment and Intangibles (PPE and IA)</i>	
67%	As % of total assets	62%
52%	Additions as % of PPE and IA	29%
	<i>Taxpayers' funds</i>	
199,521	Level at year-end	222,402
63%	Taxpayers' funds as % of total assets	63%
	Net cash flows	
67,065	Surplus from operating activities	39,321
(102,988)	(Deficit) from investing activities	(62,479)
41,066	Surplus from financing activities	16,937
5,143	Net increase in cash held	(6,221)

Part 8

FINANCIAL SCHEDULES – CROWN AS ADMINISTERED BY INLAND REVENUE

SCHEDULE OF REVENUE – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
	Direct taxation			
	Income tax			
	Individuals			
23,108,940	Source deductions	22,340,542	22,541,000	22,641,000
5,071,276	Other persons	4,408,140	4,986,000	4,639,000
(1,470,176)	Other person refunds	(1,636,053)	(1,199,000)	(1,731,000)
522,220	Fringe benefit tax	500,120	523,000	499,000
27,232,260	Sub-total individuals	25,612,749	26,851,000	26,048,000
	Company tax			
9,345,230	Gross company tax – other	8,724,241	8,697,000	7,417,000
(241,726)	Company tax refunds	(429,930)	(300,000)	(535,000)
9,103,504	Sub-total company tax	8,294,311	8,397,000	6,882,000
	Withholding tax			
2,698,766	Resident withholding tax on interest income	2,570,902	2,740,000	2,763,000
69,496	Resident withholding tax on dividend income	65,137	91,000	61,000
71,121	Foreign-source dividend withholding payments	9,591	109,000	5,000
1,505,633	Non-resident withholding tax on income	1,451,471	1,402,000	1,409,000
659,879	Employer superannuation contribution tax	625,607	651,000	642,000
5,004,895	Sub-total withholding tax	4,722,708	4,993,000	4,880,000
41,340,659	Total income tax	38,629,768	40,241,000	37,810,000
	Other direct taxation			
2,620	Estate and gift duties	1,486	3,000	2,000
2,620	Sub-total other direct taxation	1,486	3,000	2,000
41,343,279	Total direct taxation	38,631,254	40,244,000	37,812,000

SCHEDULE OF REVENUE – CROWN AS ADMINISTERED BY INLAND REVENUE (CONTINUED)

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
	Indirect taxation			
	Goods and services tax			
19,003,976	Gross goods and services tax – Inland Revenue	19,051,132	19,127,000	20,688,000
(9,516,358)	Goods and services tax refunds	(9,000,136)	(8,578,000)	(10,655,000)
9,487,618	Sub-total goods and services tax	10,050,996	10,549,000	10,033,000
	Other indirect taxation			
6,313	Stamp and cheque duties	4,833	7,000	5,000
85,220	Approved issuer levy	85,557	84,000	87,000
301,889	Gaming duties	264,853	298,000	257,000
30,530	Other indirect taxation	7,745	26,000	15,000
423,952	Sub-total other indirect taxation	362,988	415,000	364,000
9,911,570	Total indirect taxation	10,413,984	10,964,000	10,397,000
	Other revenue			
307,714	Compulsory fees, fines, penalties and levies – child support	375,022	274,000	345,000
361,219	Interest on impaired student loans	401,269	391,000	414,706
668,933	Total other revenue	776,291	665,000	759,706
51,923,782	Total operating revenue	49,821,529	51,873,000	48,968,706

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF EXPENDITURE – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
	Benefits and other unrequited expenses			
11,242	Child tax credit	5,984	6,100	6,000
1,880,113	Family tax credit	2,052,622	2,118,400	2,113,100
562,875	In-work tax credit	584,461	586,700	586,000
37,469	KiwiSaver: Employer tax credit	205,809	447,000	313,000
22,815	KiwiSaver: Fee subsidy	31,056	31,000	33,000
5,052	KiwiSaver: Interest	11,748	2,100	16,000
706,662	KiwiSaver: Kickstart payment	381,264	297,000	397,000
328,731	KiwiSaver: Member tax credit	651,091	593,000	661,000
16,841	Minimum family tax credit	9,475	13,300	9,500
134,767	Paid parental leave payments	142,787	146,350	142,500
22,716	Parental tax credit	20,346	22,200	20,400
962	Payroll subsidy	919	1,730	1,200
37,000	Research and development tax credit	154,000	208,000	154,000
428	Retirement Commissioner	–	–	–
3,767,673	Total benefits and other unrequited expenses	4,251,562	4,472,880	4,452,700
	Borrowing expenses			
7	Adverse event interest	7	10	10
745	Environmental restoration account interest	1,289	1,000	1,500
401	Income equalisation interest	4,049	1,700	1,500
1,153	Total borrowing expenses	5,345	2,710	3,010
	Bad debts and impairment			
700,749	General tax and family support bad debt write-offs	722,366	722,000	685,000
147,044	Impairment – child support	193,258	64,000	164,000
245,239	Impairment – general tax and family support	970,319	31,500	350,000
(136,967)	Impairment – student loans	782,800	50,000	150,000
956,065	Total bad debts and impairment	2,668,743	867,500	1,349,000
4,724,891	Total expenditure	6,925,650	5,343,090	5,804,710

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF ASSETS – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2009

2007–08 Actual \$000	Notes	2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
Assets				
Current assets				
1,276,850	Cash and cash equivalents	1,079,070	311,302	600,000
23,541	Receivables – child support	23,541	16,794	23,541
–	Receivables – government department	–	85,965	–
6,232,460	Receivables – tax	6,991,666	5,498,069	6,889,013
550,048	Student loans	701,000	670,000	704,650
8,082,899	Total current assets	8,795,277	6,582,130	8,217,204
Non-current assets				
Receivables and advances – non-current				
562,552	Receivables – tax	411,448	–	–
5,490,252	Student loans	5,124,704	5,469,587	5,764,640
6,052,804	Total non-current assets	5,536,152	5,469,587	5,764,640
14,135,703	Total assets	14,331,429	12,051,717	13,981,844

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF LIABILITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2009

2007–08 Actual	Notes	2008–09 Actual	2008–09 Main Estimates	2008–09 Supp Estimates
\$000		\$000	\$000	\$000
Liabilities				
Current liabilities				
Payables and provisions				
4,472	Unclaimed monies	5,716	4,472	4,472
31,084	Child support	30,207	31,085	31,085
4,420,142	Refundables and payables	4	3,148,403	4,420,141
4,455,698	Total payables and provisions	3,764,651	3,183,960	4,455,698
Reserve schemes				
119,471	Reserve schemes	5	109,875	276,152
119,471	Total value of the reserve schemes	298,641	109,875	276,152
4,575,169	Total liabilities	4,063,292	3,293,835	4,731,850

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF MOVEMENTS BETWEEN DEPARTMENTS – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Supp Estimates
\$000		\$000	\$000	\$000
47,198,891	Net result from operating activities	42,895,879	46,529,910	43,163,996
9,898,841	Opening balance	9,560,534	8,232,539	9,560,534
664,001	Asset transfer between departments – Ministry of Social Development	778,289	630,513	796,184
(48,201,199)	New Zealand Debt Management Office	(42,966,565)	(46,635,080)	(44,270,720)
9,560,534	Closing balance	10,268,137	8,757,882	9,249,994

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

STATEMENT OF APPROPRIATIONS – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
Vote: Revenue				
Benefits and other unrequited expenses				
192,945	Child support payments	204,741	222,000	205,000
11,242	Child tax credit	5,984	6,100	6,000
1,880,113	Family tax credit	2,052,622	2,118,400	2,113,100
562,875	In-work tax credit	584,461	586,700	586,000
37,469	KiwiSaver: Employer tax credit	205,809	447,000	313,000
22,815	KiwiSaver: Fee subsidy	31,056	31,000	33,000
5,052	KiwiSaver: Interest	11,748	2,100	16,000
706,662	KiwiSaver: Kickstart payment	381,264	297,000	397,000
328,731	KiwiSaver: Member tax credit	651,091	593,000	661,000
16,841	Minimum family tax credit	9,475	13,300	9,500
75,957	On-payment of employee KiwiSaver contributions to KiwiSaver providers	–	636,000	–
134,767	Paid parental leave payments	142,787	146,350	142,500
22,716	Parental tax credit	20,346	22,200	20,400
962	Payroll subsidy	919	1,730	1,200
37,000	Research and development tax credit	154,000	208,000	154,000
380	Retirement Commissioner	–	–	–
4,036,527	Total benefits and other unrequited expenses	4,456,303	5,330,880	4,657,700
Borrowing expenses				
7	Adverse event interest	7	10	10
745	Environmental restoration account interest	1,289	1,000	1,500
401	Income equalisation interest	4,049	1,700	1,500
1,153	Total borrowing expenses	5,345	2,710	3,010
Other expenses to be incurred by the Crown				
700,749	General tax and family support bad debt write-offs	722,366	722,000	753,500
147,044	Impairment of debt relating to child support	193,258	64,000	164,000
245,239	Impairment of debt relating to general tax and family support*	931,319	157,500	475,000
(136,967)	Impairment of debt relating to student loans*	592,100	50,000	200,000
956,065	Total other expenses	2,439,043	993,500	1,592,500
4,993,745	Total appropriations	6,900,691	6,327,090	6,253,210

* Excludes remeasurement.

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

Impairments in the Statement of Appropriations exclude remeasurement adjustments, if any.

STATEMENT OF UNAPPROPRIATED EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2009

	Actual	Remeasurement	Actual	Authority	Expenses
		Adjustments	Adjusted		in excess of
	\$000	\$000	\$000	\$000	appropriation
					\$000
Other expenses to be incurred by the Crown					
Impairment of debt relating to general tax and family support	970,319	(39,000)	931,319	475,000	456,319
Impairment of debt relating to child support	193,258	–	193,258	164,000	29,258
Impairment of debt relating to student loans	782,800	(190,700)	592,100	200,000	392,100
Benefits and other unrequited expenses:					
KiwiSaver interest: September	2,610	–	2,610	2,100	510
KiwiSaver interest: October	3,771	–	3,771	2,360	1,411

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

Remeasurement means revisions of prices or estimates that result from revised expectations of future economic benefits or obligations that change the carrying amounts of assets or liabilities. It does not include revisions that result from transactions or events (in the period) that give rise to the initial recognition of assets and liabilities in the reporting period or revisions that result from transactions directly attributable to actions or decisions taken by the Crown. It does not include expenses that arise from the consumption of assets during the reporting period, interest income or expenses. In both instances above, the remeasurements relate to changes in the macroeconomic assumptions used for the valuations of the receivables, ie, tax and student loans between 30 June 2008 and 30 June 2009.

There are three instances of unappropriated expenses:

Impairment of debt relating to general tax and family support is calculated as part of an annual valuation of the scheme by an external actuary. The result of this year's valuation and impairment were substantively due to growth in the overdue debt book (particularly in the last three months of the financial year), lower than expected repayments (reflecting the economic recession), changes to the valuation model, and an accounting policy change relating to non-overdue debt. The impact of these changes were not fully anticipated when forecasts were prepared for the 2008–09 Supplementary Estimates of Appropriations.

Impairment of debt relating to child support was higher than forecast in the 2008–09 Supplementary Estimates of Appropriations. This was due to higher than expected growth in outstanding child support assessments and associated penalties and interest. The growth is in part due to limited provisions in the Child Support Act to write-off this debt.

The impairment of debt relating to student loans is calculated as part of an annual valuation of the scheme by an external actuary. The result of this year's valuation and impairment were substantively driven by macroeconomic assumptions, including lower projected salary inflation, and actuarial modelling changes associated with refinements to the model for underpayments for New Zealand and overseas-based borrowers. The impact of macroeconomic assumptions and actuarial modelling changes were not fully anticipated when forecasts were prepared for the 2008–09 Supplementary Estimates of Appropriations.

There were two instances of unappropriated expenses during the financial year that were subsequently approved with the passing of the Supplementary Estimates of Appropriations for 2008–09 in June 2009.

KiwiSaver interest exceeded authority in September 2008 and October 2008 due to higher than expected interest payable relating to higher take-up volumes and unforeseen delays in processing. This resulted in longer holding periods before contributions are passed to providers.

SCHEDULE OF CONTINGENT ASSETS – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2009

2007–08 Actual		Note	2008–09 Actual
\$000			\$000
307,127	Legal proceedings and disputes – non-assessed		311,689
–	Use-of-money-interest relating to structured finance	8	1,190,600
307,127	Total contingent assets		1,502,289

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF CONTINGENT LIABILITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2009

2007–08 Actual		Note	2008–09 Actual
\$000			\$000
248,805	Legal proceedings and disputes – assessed	8	1,661,310
42,481	Unclaimed monies		46,251
291,286	Total quantifiable contingent liabilities		1,707,561

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

SCHEDULE OF TRUST MONIES – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2009

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Contributions \$000	2008–09 Distributions \$000
	Child support			
1,313	Child support trust account	15,354	217,594	(203,553)
129	Reciprocal child support agreement trust account	273	12,355	(12,211)
1,442	Total child support trust accounts	15,627	229,949	(215,764)
	KiwiSaver			
–	KiwiSaver employer trust account	–	–	–
–	KiwiSaver returned transactions trust account	20,457	20,457	–
–	Total KiwiSaver trust accounts	20,457	20,457	–
1,442	Total trust monies	36,084	250,406	(215,764)

Inland Revenue administers the child support trust accounts for amounts collected for non-custodial parents and the subsequent child support payments that are paid to the custodial parents. The Child Support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991.

Inland Revenue administers the KiwiSaver trust accounts to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, while the financial transaction is being completed. The KiwiSaver trust accounts were established in accordance with section 74(4) of the KiwiSaver Act.

The accompanying accounting policies and notes form part of these financial schedules.

For full understanding of the Crown's financial position and the results of its operations for the period, refer to the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

The financial schedules (Crown as administered by Inland Revenue) have been prepared and administered by Inland Revenue in accordance with the requirements of the Public Finance Act 1989.

The schedules represent extracts of Crown activity. The activities include elements of income, expenditure, assets and liabilities. These form part of the Financial Statements of the Government of New Zealand.

REPORTING PERIOD

The reporting period for these financial schedules is for the year ended 30 June 2009. The Chief Executive of Inland Revenue authorised the issue of these financial schedules on 22 September 2009.

STATEMENT OF COMPLIANCE

The financial schedules have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). Compliance with NZ GAAP in this instance means the figures for the year ended 30 June 2009 comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and where appropriate, standards issued by the International Public Sector Accounting Standards Board (IPSAS) as appropriate for public benefit entities.

BASIS OF PREPARATION

The accounting policies set out below have been applied consistently to all periods presented in these financial schedules.

These financial schedules have been prepared on a historical cost basis, unless otherwise stated.

The accrual basis of accounting has been used unless otherwise stated. These financial schedules are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000). The functional currency of Inland Revenue is New Zealand dollars.

JUDGEMENTS AND ESTIMATIONS

The preparation of financial schedules in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Material judgements, estimates and assumptions impact on student loan debt, tax receivables, child support receivables and structured finance. See notes 1, 2, 3 and 8 respectively for more information on these.

ACCOUNTING POLICIES

The following particular accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

Budget figures

The budget figures are those included in the information supporting the *2008–09 Estimates of Appropriations (Main Estimates)* and the information supporting the *2008–09 Supplementary Estimates of Appropriations (Supplementary Estimates)*.

Revenue

Taxation receipts

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, in itself, entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers. Where possible, revenue is recognised at the time the debt to the Crown arises.

Taxation and duties is accounted for as income under NZ IFRS with an accounting treatment consistent with IPSAS 23 – Revenue from Non-Exchange transactions (Taxes and Transfers). The Crown account recognises income from taxes and duties as follows:

Revenue type	Revenue recognition point
Source deductions	When an individual earns income that is subject to PAYE
Resident withholding tax	When an individual is paid interest or dividends subject to deduction at source
FBT	When benefits are provided that give rise to fringe benefits
Provisional tax	When taxable income is earned
Terminal tax	When the terminal assessment is filed
GST	When the liability to the Crown is incurred
Stamp, cheque and credit card duties	When the liability to the Crown is incurred
Other indirect taxes	When the debt to the Crown arises

Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

General

Expenses are recognised in the period to which they relate.

Benefits and other required expenses

Child tax credit – extra assistance for low to middle income families who do not depend on the state for financial support (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

Family tax credit – family support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

In-work tax credit – extra assistance for low to middle income families where the person works a minimum of 20 hours per week and does not have a partner, or a person and their partner work a minimum of 30 hours per week (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

KiwiSaver : Employer tax credit – tax credit to employers in respect of their contributions to KiwiSaver as set out in the Income Tax Act 2007.

KiwiSaver : Fee subsidy – fee subsidy to members for provider fees as set out in the KiwiSaver Act 2006.

KiwiSaver : Interest – interest on KiwiSaver contributions as set out in the KiwiSaver Act 2006.

KiwiSaver : Kickstart payment – one-off payment made on opening a KiwiSaver account for members who meet the required eligibility criteria as set in the KiwiSaver Act 2006.

KiwiSaver : Member tax credit – tax credit to KiwiSaver members as set out in the Income Tax Act 2007.

Minimum family tax credit – extra payment made to families where at least one parent is working for salary or wages (expenses incurred pursuant to section 185 of the Tax Administration Act).

Paid parental leave payments – paid parental leave payments made to parents eligible under the Parental Leave and Employment Protection Act 1987.

Parental tax credit – additional financial support made to working families for the eight-week period following the birth of a child (expenses incurred pursuant to section 185 of the Tax Administration Act).

Payroll subsidy – subsidy to a payroll agent undertaking employers' payroll-related tax compliance activities on their behalf (expenses incurred pursuant to section 185 of the Tax Administration Act).

Research and development tax credit – tax credits to businesses that are undertaking research and development as set out in the Income Tax Act 2007.

Borrowing expenses

Adverse event interest – interest on adverse event income equalisation reserve accounts held for taxpayers in the farming and agriculture business.

Environmental restoration account interest – interest on environmental restoration accounts.

Income equalisation interest – interest on income equalisation reserve scheme accounts held by taxpayers in the farming, fishing or forestry industries.

Bad debts and impairment

General tax and family support bad debt write-offs – bad debt write-offs for Crown debt administered by Crown Revenue.

Impairment – child support – impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of child support debt.

Impairment – general tax and family support – impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the Crown debt book.

Impairment – student loans – impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the loan, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loan debt.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, and funds held in bank accounts.

Financial instruments

Financial assets

Inland Revenue has significant debtor portfolios which include tax receivables, child support receivables, family support receivables, and student loans.

Under NZ IAS 39, “loans and receivables” are recognised initially at fair value plus transaction costs, and subsequently measured at amortised cost using the effective interest rate method (refer interest income policy).

Student loans

In accordance with NZ IAS 39, student loans are recognised initially at fair value, plus transaction costs, and subsequently measured at amortised cost using the effective interest rate method, and adjusted for impairment movements. Fair value on initial recognition of student loans is determined by projecting forward expected repayments and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown’s interest income across the life of the loan and determines the loan’s carrying value at each reporting date.

Receivables

Receivables arising from taxes, child support and family support meet the definition of assets but are not within the scope of any specific standard and are specifically excluded from the definition of financial instruments (NZ IAS 32, AG 12). In accordance with generally accepted accounting practice, these receivables are initially recognised at nominal value and tested annually for impairment. Accordingly, tax receivables are recognised initially at the amount of tax owed, subsequently adjusted for penalties and interest as they are charged, and tested for impairment. Interest and penalties charged on tax receivables is presented as tax revenue in the *Schedule of Revenue*. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Impairment movements are recognised in the *Schedule of Expenditure*.

Impairment of financial assets

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and a loss event has an impact on the estimated future cash flows of the loan that can be reliably measured. The amount of the provision is the difference between the asset’s carrying amount and estimated impaired value. The impairment losses are recognised in the *Schedule of Expenditure*.

Impairment losses can be reversed where there is evidence that the impaired value of the financial asset has increased.

Financial models have been constructed for Inland Revenue to calculate the general tax and family support and child support impairments. These models apply a number of assumptions on future repayment behaviour as well as economic assumptions such as the discount rate and inflation.

Financial liabilities

Financial liabilities are recognised initially at fair value, less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material.

Contingent assets

Contingent assets are recorded in the *Schedule of Contingent Assets* at the point at which the contingency is evident.

Contingent assets are disclosed if it is probable that the benefits will be realised.

Contingent assets arise where Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment. There has been no amended assessment issued at this point or revenue recognised so these are recorded in the *Schedule of Contingent Assets* as legal proceedings and disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely outcome of the disputes process based on experience and similar prior cases.

Contingent liabilities

Contingent liabilities are recorded in the *Schedule of Contingent Liabilities* at the point at which the contingency is evident.

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

If the case is still not resolved at the end of the disputes process, Inland Revenue will issue an amended assessment to the taxpayer and recognise revenue. The taxpayer is then able to file proceedings with the Taxation Review Authority or the High Court disputing the assessment. These are recorded in the *Schedule of Contingent Liabilities* as legal proceedings and disputes – assessed. The contingent liability is the maximum liability Inland Revenue has in respect of these cases.

In line with our policy above, we have recognised the structured finance transactions in the *Schedule of Contingent Liabilities* as these transactions have been assessed.

In addition, we have recognised in the *Schedule of Contingent Assets* an estimate of the maximum amount of use-of-money-interest due to Inland Revenue as a result of the structured finance cases. Use-of-money-interest is not formally assessed until completion of any legal proceedings.

Unclaimed monies are administered by Inland Revenue under the Unclaimed Monies Act 1971.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed voluntarily, comparative figures have been restated to ensure consistency with the current period, unless it is impracticable to do so.

Changes in accounting policies

There have been no changes in accounting policies applicable to the preparation of financial schedules of Crown administered by Inland Revenue. All policies have been applied on a basis consistent with the previous year.

NOTES TO THE FINANCIAL SCHEDULES

NOTE 1: STUDENT LOANS

2007–08 Actual \$000		2008–09 Actual \$000	2008–09 Main Estimates \$000	2008–09 Supp Estimates \$000
8,552,630	Nominal value	9,108,429	7,274,791	9,165,055
8,552,630	Student loans	9,108,429	7,274,791	9,165,055
(2,512,330)	Adjustment to fair value	(3,282,725)	(1,135,204)	(2,695,765)
6,040,300	Carrying value student loans	5,825,704	6,139,587	6,469,290
	Current and non-current apportionment			
550,048	Student loans – current	701,000	670,000	704,650
5,490,252	Student loans – non-current	5,124,704	5,469,587	5,764,640
6,040,300	Carrying value student loans	5,825,704	6,139,587	6,469,290
	Movement during the year			
5,429,246	Opening balance	6,040,300	5,761,072	6,040,300
136,967	Impairment reversal/(impairment)	(782,800)	(50,000)	(150,000)
1,118,556	Loans transferred from Ministry of Social Development to Inland Revenue	1,138,790	1,157,000	1,156,000
(454,556)	Fair value write-down on new borrowings transferred	(360,501)	(526,487)	(359,816)
(550,048)	Repayments	(619,054)	(592,998)	(631,900)
361,219	Interest on impaired student loans	408,969	391,000	414,706
(1,084)	Other	–	–	–
6,040,300	Carrying value student loans	5,825,704	6,139,587	6,469,290
4,945,700	Fair value student loans*	4,883,300		

* Fair value is a note disclosure and is not required to be forecasted for the main and supplementary estimates.

Student loan valuation model

The student loan valuation model has been adapted to reflect current student loans policy. As such, the book value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and the discount rates used to determine the effective interest rate on new borrowers.

The data for the student loan valuation model has been integrated from files provided by Inland Revenue, Ministry of Social Development and Ministry of Education. The current data is up to 31 March 2008 and contains information on borrowings, repayments, income, educational factors and socio-economic factors amongst others, and has been analysed and incorporated into the valuation model. This integrated data has been supplemented by less detailed, but more recent data to value student loans at balance date. Given the lead time required to compile and analyse the detailed integrated data it is expected that there will always be a lag time between the integrated dataset and balance date. The significant assumptions behind the impaired value and fair value are shown below:

	30 June 2009	30 June 2008
Carrying value		
Effective interest rate	9.43%	8.44%
Interest rate applied to loans for overseas borrowers	6.7%–6.8%	6.7%–6.8%
Consumer Price Index	1.5%–2.5%	2.5%–4.0%
Future salary inflation	1.5%–3.5%	3.5%–4.7%

Fair value is the amount for which the loan book value could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2009. It is determined by discounting the future cash flows at an appropriate discount rate.

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes whereas the fair value was calculated on a discount rate that was current at 30 June 2009. At that date the fair value was calculated on a discount rate of 9.18% whereas a weighted average discount rate of 6.73% was used for the carrying value. The difference between fair value and carrying value does not represent an impairment of the asset.

	30 June 2009 \$000	30 June 2008 \$000
Fair value		
Fair value	4,883,300	4,945,700
Discount rate	9.18%	9.19%
Impact on fair value of a 1% increase in discount rate	(240,800)	(287,000)
Impact on fair value of a 1% decrease in discount rate	268,300	327,000

The Student Loan Scheme Annual Report contains more information on the student loan scheme.

The main factors relating to the impairment of student loans in 2008–09 are: \$190 million due to macroeconomic assumptions including lower projected salary inflation which reduces future borrower repayments, and \$421 million of actuarial modelling changes associated with refinements to the model used this year to project underpayments for New Zealand and overseas-based borrowers. These factors account for 78% of the impairment.

The remeasurement adjustment portion of the impairment totals \$190 million. The *Schedule of Expenditure* and the note above includes remeasurement adjustments in the impairment figure. However, the *Statement of Appropriations* excludes remeasurement adjustments.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The student loan scheme does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the student loan scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by collection of compulsory repayments through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the government.

NOTE 2: RECEIVABLES – TAX

Tax receivables include general tax receivables, working for families tax credit debt and KiwiSaver debt and exclude overdue student loan repayments. Tax receivables as at 30 June 2009 include structured finance assessments.

The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current use-of-money-interest rate, plus an additional 5% to allow for recessionary impacts. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount.

	30 June 2009 \$000	30 June 2008 \$000
Receivables – tax		
Tax receivables – gross	11,398,360	9,819,938
Tax receivables – impairment	(3,995,246)	(3,024,926)
Carrying value receivables – tax	7,403,114	6,795,012
Current and non-current apportionment		
Tax receivables – current	6,991,666	6,232,460
Tax receivables – non-current	411,448	562,552
Carrying value receivables – tax	7,403,114	6,795,012
Ageing profile of tax receivables – gross		
Not due	6,644,090	5,615,160
Past due		
Less than 6 months	1,549,491	1,458,314
6-12 months	518,656	458,299
1-2 years	947,448	700,796
Greater than 2 years	1,738,675	1,587,369
Total past due	4,754,270	4,204,778
Total tax receivables – gross	11,398,360	9,819,938
% Past due	42%	43%
Tax receivables – impairment		
Opening balance	3,024,926	2,779,688
Impairment losses recognised	1,692,686	945,988
Amounts written off as uncollectible	(722,366)	(700,750)
Closing balance	3,995,246	3,024,926

The ageing profile of total past due in this note is based on debt element data that separates each component of a taxpayer's debt with Inland Revenue. The debt ageing profile presented in the front of this Annual Report is based on case information which uses a weighted average of debt element information. An individual taxpayer may have multiple debt elements (eg, by tax type by return period) that are represented within a single debt case.

Tax receivables are classified as past due when any outstanding tax is not paid by the taxpayer's due date. Due dates will vary depending on the type of tax outstanding (eg, income tax, GST, PAYE) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio and key assumptions underpinning the valuation are:

	30 June 2009 \$000	30 June 2008 \$000
Recoverable amount of tax receivables not due	6,566,332	5,615,160
Recoverable amount of tax receivables past due	836,782	1,179,852
Use-of-money-interest rate	8.91%	14.24%
Discount rate	13.91%	14.24%
Impact on a recoverable amount of a 2% increase in discount rate	(16,000)	(18,000)
Impact on a recoverable amount of a 2% decrease in discount rate	17,000	19,000

The fair value of tax receivables is not materially different from the carrying value.

The main factors relating to the impairment of tax receivables are: \$375 million pertaining to growth in overdue debt; \$302 million relating to lower than expected repayments, \$176 million of actuarial modelling changes to more accurately model June quarter repayments which, due to tax pooling, are significantly higher than repayments in other quarters.

The remeasurement adjustment portion of the impairment totals \$39 million. The *Schedule of Expenditure* and the note above includes remeasurement adjustments in the impairment figure. However, the *Statement of Appropriations* excludes remeasurement adjustments.

Credit risk

In determining the recoverability of tax receivables Inland Revenue uses information about the extent to which the taxpayer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment and other information obtained from credit collection actions taken. Due to the size of the tax base the concentration of credit risk is limited and not actively managed.

Under the Tax Administration Act 1994 Inland Revenue has broad powers to ensure that people meet their obligations. Part 10 of the Act sets out the powers of the Commissioner to recover unpaid tax.

The Crown does not hold any collateral or any other credit enhancements over receivables which are past due.

NOTE 3: RECEIVABLES – CHILD SUPPORT

The Crown collects monies from non-custodial parents and remits this to custodial parents. The child support receivable represents penalties and some overdue assessments which have been incurred as a result of the under-collection of the debt.

Impairment is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting at the current use-of-money-interest rate.

The concentration of credit risk is limited and this is not a risk that is actively managed. The Crown does not hold any collateral or other credit enhancements over these receivables.

Child support debt relates to penalties imposed on non-custodial parents who default on their payments. This includes, in some instances, debt relating to the assessment of child support obligations.

Child support penalties grow exponentially due to their compounding nature. The recovery of debt is challenging as 96% of child support debt is greater than two years old. There are limited provisions under child support legislation to remit penalties. The non recoverability of penalties has been allowed for in the impairment figure.

The main factor relating to the impairment of child support is higher than expected growth in outstanding child support assessments and associated penalties and interest.

	30 June 2009 \$000	30 June 2008 \$000
Receivables – child support		
Gross receivables	1,058,811	865,553
Impairment receivables	(1,035,270)	(842,012)
Total receivables – child support	23,541	23,541
Impairment of receivables – child support		
Balance at beginning of the year	842,012	694,968
Impairment losses recognised	193,258	147,044
Balance at the end of the year	1,035,270	842,012

NOTE 4: REFUNDABLES AND PAYABLES

Refundables and payables are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to taxpayers as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete.

	30 June 2009 \$000	30 June 2008 \$000
Refundables and payables		
KiwiSaver payables	860,231	696,546
Parental leave payable	3,309	2,818
Research and development tax credits payable	191,000	37,000
Taxes refundable	2,674,188	3,683,778
Total refundables and payables	3,728,728	4,420,142

NOTE 5: RESERVE ACCOUNTS

	30 June 2009 \$000	30 June 2008 \$000
Reserve schemes		
Adverse event income equalisation	106	79
Environmental restoration	48,082	26,401
Income equalisation	250,453	92,991
Total reserve schemes	298,641	119,471

The adverse event income equalisation scheme operates in addition to the ordinary income equalisation scheme. Interest at a rate of 6.5% is paid on deposits. Deposits can be withdrawn immediately, but are transferred to the main income equalisation account if not withdrawn within 12 months of the deposit.

The environmental restoration scheme is a scheme where a business deposits funds into an environmental restoration account. The environmental restoration scheme allows businesses to set aside money to cover restoration costs for monitoring, avoiding, remedying or mitigating the detrimental environmental effects which may occur in later years. Interest at a rate of 3% is paid on the deposit while it is held in the scheme. Payment is made when the environmental restoration costs are incurred.

Income equalisation is a scheme where taxpayers in the farming, fishing and forestry industries can elect to make payments during the year by way of income equalisation deposits. Interest is paid at a rate of 3%, provided that no withdrawals are made within 12 months of the date of the deposit.

NOTE 6: ACCIDENT COMPENSATION COLLECTIONS

2007–08 Actual		2008–09 Actual	2008–09 Main Estimates	2008–09 Supp Estimates
\$000		\$000	\$000	\$000
1,029,683	Earners premium – employees – provisional	1,141,033	1,125,520	1,125,520
1,029,683	Total accident compensation collection	1,141,033	1,125,520	1,125,520

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation and passes the monies directly to them. The levies do not appear on the Crown schedules.

NOTE 7: EVENTS AFTER BALANCE DATE

No events have occurred between the balance date and date of signing these financial schedules that materially affect the financial schedules.

NOTE 8: STRUCTURED FINANCE TRANSACTIONS

The Crown is currently in dispute with a number of financial institutions about the tax treatment of certain structured finance transactions. Due to a favourable High Court ruling for one structured finance case, all structured finance assessments have been recognised as revenue, \$1,423 million in the 2008–09 financial year. However, as legal proceedings are still ongoing for other structured finance cases and there is the likelihood of appeal, we have also recognised the assessed tax as a contingent liability of \$1,423 million.

A contingent asset of \$1,191 million has also been recognised in relation to the structured finance transactions. This relates to use-of-money-interest due on all structured finance cases as at 30 June 2009. The interest has been calculated based on the maximum amount which the taxpayers are due to pay to Inland Revenue at that date. However, some of these taxpayers may have money in the tax pooling account which they could transfer at an earlier date. As this is at the taxpayers' discretion, the exact amount of use-of-money-interest is not quantifiable until all cases are resolved and taxpayers have made final payment to Inland Revenue.

Shortfall penalties that Inland Revenue may impose have not been quantified because it is too uncertain at this stage. These penalties would not meet the asset definition or recognition criteria due to the fundamental uncertainty as to what penalty would be applied and the value of the penalty that Inland Revenue would impose. Penalties would be recognised following a final court decision when all appeals are exhausted.

NOTE 9: UNCLAIMED MONIES

Under the Unclaimed Monies Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

NOTE 10: BUDGET VARIANCES

Explanations of variances between actual and budget can be found in the Financial Statements of the Government of New Zealand for the year ended 30 June 2009.

AUDIT REPORT

AUDIT REPORT

To the readers of Inland Revenue Department's financial statements and statement of service performance for the year ended 30 June 2009

The Auditor General is the auditor of Inland Revenue Department (the Department). The Auditor General has appointed me, Robert Manktelow, using the staff and resources of Audit New Zealand, to carry out the audit. The audit covers the financial statements and statement of service performance included in the annual report of the Department for the year ended 30 June 2009.

Unqualified opinion

In our opinion:

- The financial statements of the Department on pages 78 to 107:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Department's financial position as at 30 June 2009;
 - the results of its operations and cash flows for the year ended on that date;
 - its expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009; and
 - its unappropriated expenses and capital expenditure for the year ended 30 June 2009.
- The schedules of non-departmental activities on pages 110 to 128 fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2009.
- The statement of service performance of the Department on pages 55 to 75:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards included in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses included in the statement of forecast service performance adopted at the start of the financial year.

The audit was completed on 22 September 2009, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and statement of service performance did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and statement of service performance. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and statement of service performance. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Chief Executive;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement and statement of service performance disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the Auditor

The Chief Executive is responsible for preparing the financial statements and statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2009 and the results of its operations and cash flows for the year ended on that date.

The financial statements must also fairly reflect the expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2009. The financial statements must also fairly reflect the Department's unappropriated expenses and capital expenditure for the year ended on that date.

In addition, the Chief Executive is responsible for preparing schedules of non-departmental activities, in accordance with the Treasury Instructions 2008 that must fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2009.

The statement of service performance must fairly reflect, for each class of outputs, the Department's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year.

The Chief Executive's responsibilities arise from sections 45A and 45B of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Department.



Robert Manktelow
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS, STATEMENT OF SERVICE PERFORMANCE AND SCHEDULES OF NON-DEPARTMENTAL ACTIVITIES

This audit report relates to the financial statements, statement of service performance and schedules of non-departmental activities of Inland Revenue Department for the year ended 30 June 2009 included on Inland Revenue Department's website. Inland Revenue Department's Chief Executive is responsible for the maintenance and integrity of Inland Revenue Department's website. We have not been engaged to report on the integrity of Inland Revenue Department's website. We accept no responsibility for any changes that may have occurred to the financial statements, statement of service performance and schedules of non-departmental activities since they were initially presented on the website.

The audit report refers only to the financial statements, statement of service performance and schedules of non-departmental activities named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements, statement of service performance and schedules of non-departmental activities. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements, statement of service performance and schedules of non-departmental activities and related audit report dated 22 September 2009 to confirm the information included in the audited financial statements, statement of service performance and schedules of non departmental activities presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

ADDITIONAL INFORMATION

FIGURE 35 – MAJOR LEGISLATION ADMINISTERED BY INLAND REVENUE

- Child Support Act 1991
- Estate and Gift Duties Act 1968
- Gaming Duties Act 1971
- Goods and Services Tax Act 1985
- Income Tax Act 1994
- Income Tax Act 2004
- Income Tax Act 2007
- Stamp and Cheque Duties Act 1971
- Student Loan Scheme Act 1992
- Tax Administration Act 1994
- Taxation Review Authorities Act 1994
- KiwiSaver Act 2006 Parts 1 to 3 and Schedule 3 and provisions in Part 5 as authorised by the Prime Minister. The Ministry of Economic Development administers Part 4 and Schedules 1 and 2 and provisions in Part 5 as authorised by the Prime Minister (refer to section 224).
- Aspects of the Parental Leave and Employment Protection (Paid Parental Leave) Act 2002 are administered by Inland Revenue under authority delegated (under section 71ZA of that Act) by the Chief Executive of the Department of Labour.

FIGURE 36 – INLAND REVENUE POWERS

Power	Tax Administration Act 1994
We can access premises to obtain information	Section 16
We can remove and copy documents	Section 16B
We can require that information be provided in writing	Section 17
If a customer fails to provide information we seek, we can apply to a Court for an order requiring that information to be supplied	Section 17A
If we believe it is necessary to hold an inquiry to obtain information we can apply to a District Court Judge for such an inquiry	Section 18(1)
We can require people to attend and give evidence before a delegated officer of the department and this may be required to be under oath	Section 19

FIGURE 37 – PROPERTY INFORMATION (AS AT 30 JUNE)

	2005	2006	2007	2008	2009
Accommodation area (m ²)	105,222	111,263	111,131	133,172	122,345
Other area (m ²)	7,896	6,864	6,864	7,720	5,764
Total area leases (m ²)	113,118	118,127	117,995	140,892	128,109
Vacant accommodation (m ²)	0	0	0	0	4,407
Vacant as a % of total	0.0%	0.0%	0.0%	0.0%	3.4%
Average space per person (m ²)	20.7	19.4	18.6	20.9	18.3
Total annual rental per person (\$)	4,279	4,370	4,426	5,012	4,787
Utility costs per person (\$)	836	862	855	894	887
Total occupancy cost per person (\$)	5,116	5,232	5,281	5,906	5,674
Fitout costs per person (\$)	3,030	2,472	2,288	3,277	2,637

Note: In 2008 there was an increase from the leasing of new premises in Christchurch (1 lease, 14,000m²) and Wellington (3 leases, 8,351m²), the latter as part of an interim accommodation arrangement. This was partly offset by the expiry of four leases (10,600m²) in Christchurch in the same year.

The reduction in 2009 was because three leases (11,180m²) expired in Wellington.

FIGURE 38 – HISTORICAL EXPENDITURE ON CONSULTANTS AND CONTRACTORS

	2004–05 \$000	2005–06 \$000	2006–07 \$000	2007–08 \$000	2008–09 \$000
Total expenditure on consultants and contractors	12,464	27,835	50,378	73,247	59,232
Expenditure as a % of total operating expenses	2.9%	5.8%	9.5%	12.0%	9.0%

FIGURE 39 – BREAKDOWN OF EXPENDITURE ON CONSULTANTS AND CONTRACTORS

2007–08 Actual \$000		2008–09 Actual \$000
46,051	Information technology	24,878
13,511	Specialist advice and project management	13,433
2,272	HR and change management services	1,605
4,560	Tax issues	12,698
1,969	Property	2,860
1,313	Research	1,000
1,119	Communications	662
2,452	Other	2,096
73,247	Total consultants and contractors	59,232

