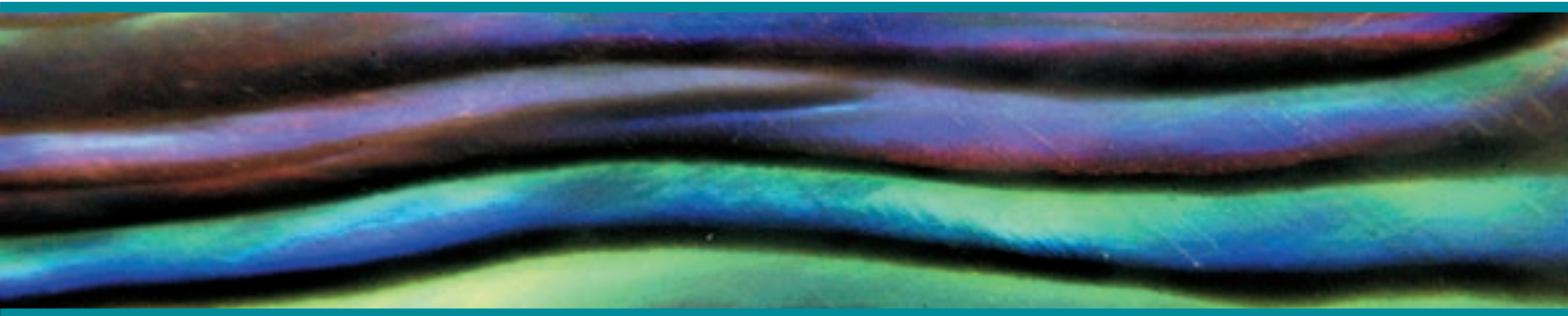




# STATEMENT OF INTENT



# 2005–08



## Desired future

- Taxpayers and other customers meet obligations of their own accord—and Inland Revenue makes this easy
- Increasingly, the community regards paying tax as contributing to society
- Inland Revenue is visible in the community, getting alongside taxpayers
- The community regards Inland Revenue as professional, approachable, effective and efficient.

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# Minister's foreword

A well-functioning tax administration is fundamental to our economic prosperity.

The government aims to build a confident and dynamic nation, based on an innovative and growing economy that can deliver more jobs, more opportunities, higher living standards and strong social services—especially in health and education.

The Inland Revenue Department plays a vital role in ensuring that the government has the revenue to fund its priorities through assessing over 80% of taxation revenue. The department also helps to deliver important social policy measures such as child support, student loans, family assistance and paid parental leave.

I am pleased to present Inland Revenue's *Statement of Intent* which describes how it will help the government to meet its goals and is consistent with the government's policies and performance expectations.



Hon Dr Michael Cullen  
Minister of Revenue

# Size and shape of Inland Revenue

Inland Revenue is a large organisation dealing with high volumes and frequently very complex matters. Our main functions are to:

- advise government, with The Treasury, on tax policy and social policy measures that interact with the tax system
- collect tax payments, child support and student loans
- make payments such as tax refunds and rebates, family assistance (including the *Working for Families* package of reforms), child support and paid parental leave.

## Our customer base<sup>1</sup>

- 5.7 million taxpayers (includes individuals, businesses, partnerships, trusts and other entities)
- 418,761 student loan borrowers
- 143,776 child support custodial parents
- 141,962 child support paying parents
- 297,308 family assistance registrants (registered for the 2003 tax year)
- 16,457 paid parental leave recipients.

## Resources

- 4,759<sup>2</sup> full-time equivalent people based in 17 cities and towns
- Annual appropriation for 2005–06 of \$474.9 million.

## Workload volume indicators

In 2003–04 we:

- assessed \$37.997 billion in revenue, 84% of core crown government tax revenue
- collected \$290 million in child support and \$447 million in student loan repayments
- distributed \$505 million in family assistance, \$296 million in child support and \$63.6 million in paid parental leave
- collected over \$1 billion dollars in debt.

In 2005–06 we expect to:

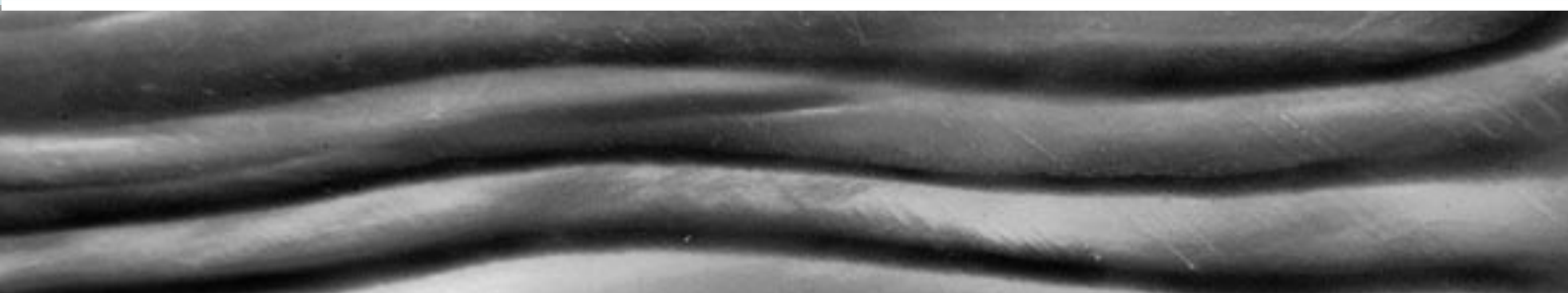
- process up to 8.02 million returns and up to 8.05 million payments
- action up to 9.48 million customer contacts, including child support
- assess \$43.543 billion in revenue
- assess \$789 million as a result of audit activity across all taxpayer groups.

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<sup>1</sup> As at 30 June 2004.

<sup>2</sup> As at 31 March 2005.

# Commissioner's introduction





## Our Senior Management Team

*Standing: Martin Smith, Colin MacDonald, Robin Oliver. Sitting: Carolyn Tremain, David Butler, Naomi Ferguson.*

Inland Revenue's primary outcome is *Improving the economic and social wellbeing of New Zealanders*. The revenue we assess helps fund the Government's programmes, and the payments people receive helps New Zealanders to participate in society.

Most New Zealanders are willing to meet their obligations of their own accord and this means we need to make it easy for them to do so. At the same time, we need to make it hard for people to avoid or evade their obligations.

People tell us that we carry out our work well, with 86%<sup>3</sup> of people who have recently contacted us rating our services as good or very good.

To maintain this level of satisfaction, along with strengthening the confidence of the wider community in Inland Revenue, we need to be responsive to a wide range of factors. We work in a challenging environment where we need to balance efficiency and effectiveness.

<sup>3</sup> Annual result 2003–04.



Challenges arise from the nature of our tax and social support responsibilities and the sheer size of our customer base. Understanding these factors is vital for planning the services and compliance programmes that will meet the needs of the government and the community.

## Strategic direction setting

Inland Revenue contributes to the Government's goals and strategies<sup>4</sup> through its outcomes.

### Primary outcome

- Improving the economic and social wellbeing of New Zealanders.

### Intermediate outcomes

- Revenue is available to fund government programmes through people meeting payment obligations of their own accord.
- People receive payments they are entitled to, enabling them to participate in society.

Supporting our outcomes is the framework of legislation we administer. Together with The Treasury, we will continue to advise the government on all aspects of tax and tax-related social policy. The Government's tax policy work programme, which is updated periodically, will continue to determine our policy development priorities.

To achieve our outcomes we need to describe what we want to achieve as a department. This is set out in our desired future.

### Our desired future

- Taxpayers and other customers meet obligations of their own accord—and Inland Revenue makes this easy
- Increasingly, the community regards paying tax as contributing to society
- Inland Revenue is visible in the community, getting alongside taxpayers
- The community regards Inland Revenue as professional, approachable, effective and efficient.

Our strategic direction provides a framework for our strategies and plans to improve compliance over the next three years.

### Our strategic direction

- Streamline and simplify tax processes
- Create an environment which promotes compliance
- Enhance our people capability
- Enhance the administration of our social policy business.

The following section briefly covers our strategies and plans to improve compliance in the coming years. Further details on our strategic direction are set out in Part One of this document. Part Two talks in more detail about our strategies and plans to improve compliance.

## Strategies and plans to improve compliance

The strategies and plans described in this *Statement of Intent* will help us to move towards achieving our outcomes. They will also help us improve compliance and encourage people to meet their obligations and receive their entitlements.

These plans need to be achieved in a time of increased challenges for us from implementing government initiatives and a growing and increasingly diverse customer base.

### Streamline and simplify tax processes

We need simple and convenient processes that encourage people to meet their obligations of their own accord.

To achieve this we are focusing on:

- **improving online services** so that people have quick and easy access to online information and ways of making payments. For example, being able to securely view their Inland Revenue account (*Look at Account Information Service*), secure email, and services such as electronic filing and payment options.

<sup>4</sup> These include: the *Growth and Innovation Framework*, *Opportunity for all New Zealanders*, and the E-government strategy.

These services also help reduce the amount of time people need to spend meeting their obligations. We need to make sure people are aware of online services, and encouraged to use them.

- **simplifying tax for small- and medium-sized enterprises (SMEs)** to better tailor our services to help these businesses, at the same time addressing areas of non-compliance (such as the cash economy). This includes encouraging compliance in various industry sectors through our Industry Partnership initiative. We will also be implementing simplification and compliance cost reduction proposals contained in the Government's 2003 discussion document *Making tax easier for small businesses*.
- **working closely with tax agents**, who represent about 1.7 million taxpayers. Our Agent Account Managers will be further promoting the use of online services to tax agents, as well as assisting them with any problems which may arise.

### Create an environment which promotes compliance

We need to create an environment which encourages people to meet their obligations of their own accord. To encourage people to comply we give them information about their obligations and make it easier for them to meet these obligations. We also enforce the law if they do not comply.

We are providing quality services that meet our customer expectations. It is important that we continue to understand our customers and tailor our services to meet their needs and expectations.

### Providing information

Providing the right information at the right time is critical for increasing compliance. We provide information through our call centres, websites, brochures, and our business and community liaison officers. It is important we understand taxpayers' expectations, so we can tailor our services. Currently most taxpayers and other customers contact us through our call centres. To make it easier for people to get the information they need we are further developing our online services.

### Working in the community

Strengthening community confidence in the way we do our work is fundamental to our ongoing success. Our people working with community groups and individual taxpayers help us to form strong relationships. These relationships help to improve voluntary compliance, the take-up of entitlements, and allow us to show the community that:

- we apply the law in a consistent way
- we are willing to help resolve their particular problems
- we take action where people choose not to comply.

For example, Industry Partnership is a long-term initiative to improve compliance in small- and medium-sized industries operating in the cash economy. We are developing relationships with industry associations at both national and local level to encourage compliance among those willing to comply. With those who are not, we are targeting enforcement action through our investigation teams and taking prosecutions in key areas.

### Supporting cross-government strategies

A growing aspect of our role is working with other government agencies to achieve wider government outcomes. For example, the Government has announced a package of policies that New Zealand, as a signatory to the Kyoto Protocol, will implement in responding to climate change concerns. As part of this package the government has proposed that Inland Revenue and the Customs Service administer a carbon tax.

### Managing overdue debt and outstanding returns

Our focus is on developing more systematic solutions to make sure people pay and file on time. When debt does occur we are placing more emphasis on:

- collecting complex debt cases
- more proactive debt collection as part of our audit activities
- focusing on high-value debt while recognising the importance of dealing with small-value debt early
- making greater use of the tax agent relationship to manage the debt of their clients

- making it easier for people to make payments and meet their obligations.

### Improving compliance through our audit function

Although most people comply with the law, some choose not to and we need to enforce the law in these cases.

Our audit activity checks that people have paid the right amount of tax. It focuses on high-risk areas such as tax evasion (including the cash economy), avoidance, and corporate taxpayers (including high wealth individuals) as well as medium-term audits (for example, for GST and PAYE). Our audit strategy gives a clear direction for our future audit activity.

We will continue to:

- focus on high-risk areas while maintaining compliance among lower-risk groups
- develop our audit capability through technical excellence, improved risk assessment and case selection processes, and greater use of technology.

Where people choose not to comply with the law we will continue to take enforcement action, including litigation, to ensure compliance.

### Enhancing our people capability

We continue to invest in our people by developing their leadership, management and technical skills and making sure we recruit and retain people with the skills we need. Our people's capability is the most important factor in achieving our outcomes and meeting future challenges.

#### Leadership

Our leaders play a key role in creating an environment where people are keen to achieve. Our people need to have high levels of confidence in our leaders. In our 2004 climate survey, our people were seven percentage points more positive about our leadership than in 2003. Over the coming year, we have plans which will enable our team leaders and managers to have opportunities to further develop and apply their skills.

### Internal relationships

It is important that we have a good relationship with our people, especially as we are a large employer with 4,759<sup>5</sup> staff located in 17 cities and towns. Our 2004 climate survey measured our people's confidence in Inland Revenue as an employer; it showed that we are seven percentage points ahead of a private and public organisations' benchmark, placing us in the top 25% of organisations participating. As nearly 70% of our staff are represented by unions, we recognise the benefits that arise for the department and union members as a result of collective participation in a wide range of initiatives and projects.

### Technical capability

Tax and social policy are complex areas and many of the decisions we make need technical knowledge and expertise. It is vital that we continue to develop our technical expertise to achieve our outcomes and ensure confidence in the tax administration. Our technical development programme includes e-learning options and our qualifications strategy. The latter includes:

- **a parallel qualifications framework** with the New Zealand Qualifications Authority and the Public Service Training Organisation.
- **working with universities** to explore flexible ways of delivering selected components of standard courses. This would allow our people to structure both technical and non-technical qualifications to align more closely with our business objectives. Examples include our work with:
  - the University of Auckland in offering our staff an extramural postgraduate Master of Tax degree programme
  - Victoria University of Wellington, by providing presentations to public sector-related courses conducted by the School of Government
  - the Australia and New Zealand School of Government (ANZSoG).

<sup>5</sup> Full-time equivalents as at 31 March 2005.

- **our internal training framework** promotes ongoing training and professional membership. For example, we are the third largest employer of Institute of Chartered Accountants of New Zealand (ICANZ) members with 286 professionally qualified staff having membership. We are also an ICANZ Approved Training Organisation.

### Enhance the administration of our social policy business

Inland Revenue has an important and growing role in the delivery of some of the Government's key social support programmes. We deliver family assistance, child support and paid parental leave entitlements, and collect child support and student loan payments.

In the coming years, we will focus on:

- implementing two major Government initiatives: the work-based savings scheme and the further stages of the *Working for Families* package of social assistance reforms
- improving child support compliance (encouraging payment of child support in full and on time and addressing child support debt)
- making it easier for student loan borrowers to meet their repayment obligations.

#### Work-based savings scheme

The Government has announced the introduction of a savings package focused on encouraging a change in the savings behaviour of individuals. One element of the package is a work-based savings scheme, with a prime focus on long-term savings for retirement.

Inland Revenue will be the central administrator of the scheme, receiving contributions deducted from individuals' pay, by employers, and distributing them to selected fund providers or to default funds.

The design and implementation of the scheme will be a major challenge for us over the coming 21 months. We will be working closely with other government agencies (particularly the Ministry of Economic Development and The Treasury), and industry representatives to ensure the work-based savings scheme is operational from 1 April 2007.

#### Working for Families

Over the next three years we are focusing on the ongoing implementation of the Government's *Working for Families* package. We are working closely with the Ministry of Social Development (MSD) to make sure that:

- people know about the *Working for Families* package
- we offer a seamless service across Inland Revenue and MSD.

#### Child support

We are continuing to invest in our Child Support area to address non-compliance and debt. This investment will help us to increase the number of payments made in full and on time and reduce the growth of child support assessment debt. We will focus on informing new paying parents about the scheme, collecting debts earlier, and taking enforcement action when necessary.

We are also seeking to decrease the amount of child support owed by parents living in Australia, through our reciprocal agreement with the Australian Child Support Agency. Under the agreement, debts will be followed up for payment whether a person is living in Australia or New Zealand. Additional funding received in the 2005 Budget will allow us to increase initially by 3,000, the number of child support debt cases covered by the reciprocal agreement.

#### Paid parental leave

Inland Revenue disburses paid parental leave on behalf of the Department of Labour. Over the next year we will continue to implement the changes signalled by the Government including:

- an increase in the payment period from 13 to 14 weeks
- the extension of paid parental leave to include self-employed people.

## Student loans

We are focusing on making it easier for student loan borrowers to repay their loans. We are continuing to work with other government agencies on the delivery of the student loan scheme. A key aspect of this work is overdue student loan repayments, in particular the collection of student loan repayments from borrowers based overseas, as well as incentives to encourage voluntary repayments.

## Conclusion

The next three years will be very demanding as we address the many challenges we face in achieving our outcomes. These include:

- the progression of the Government's tax policy work programme
- major changes resulting from the development and implementation of Government initiatives including *Working for Families*, work-based savings scheme and carbon tax
- our work to improve compliance and ensure people meet their obligations and receive their entitlements
- developing our people.

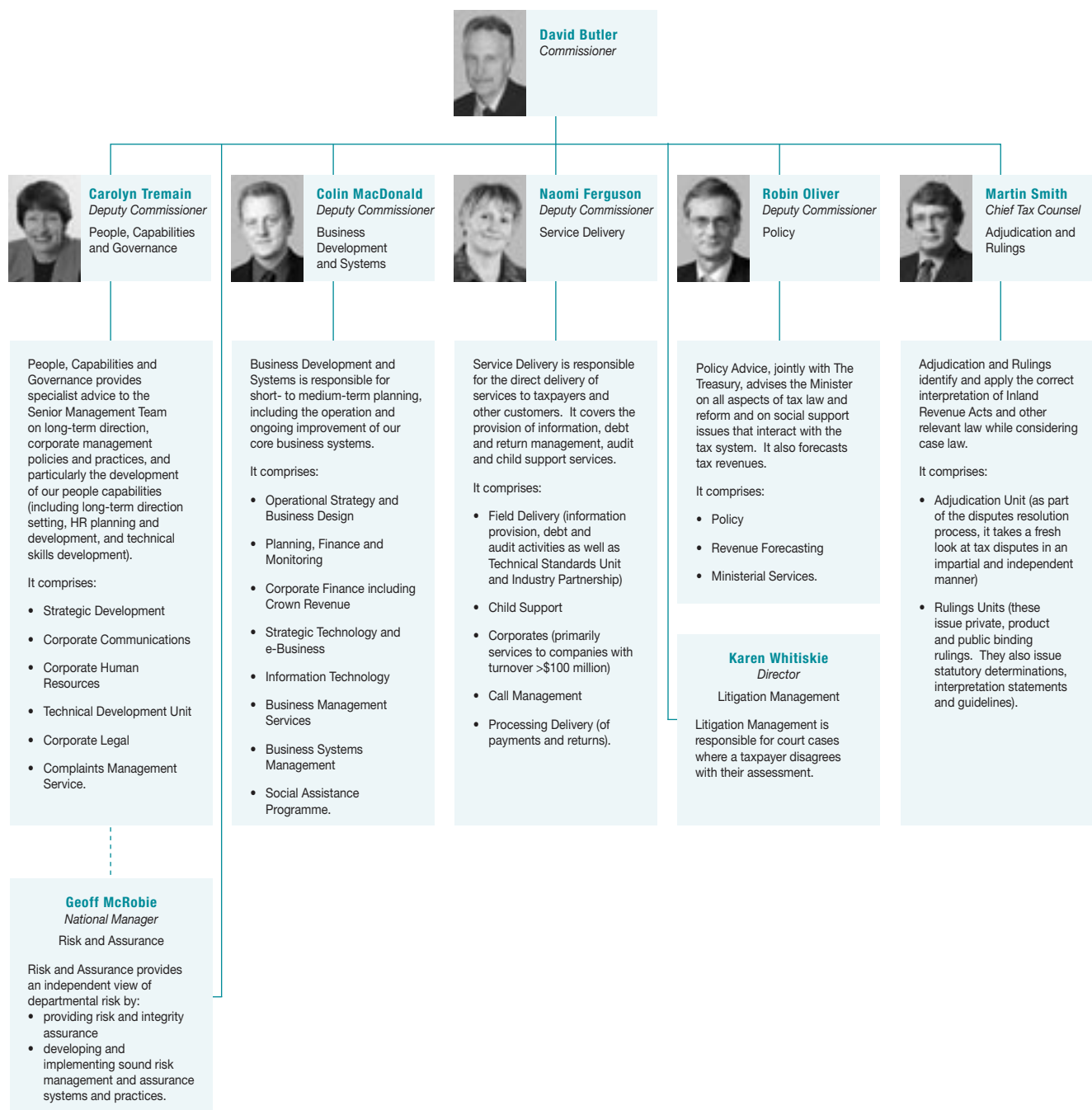
I believe that the strategies and plans set out in this *Statement of Intent*, along with the commitment of our people, will enable us to achieve our outcomes for the government and the community.



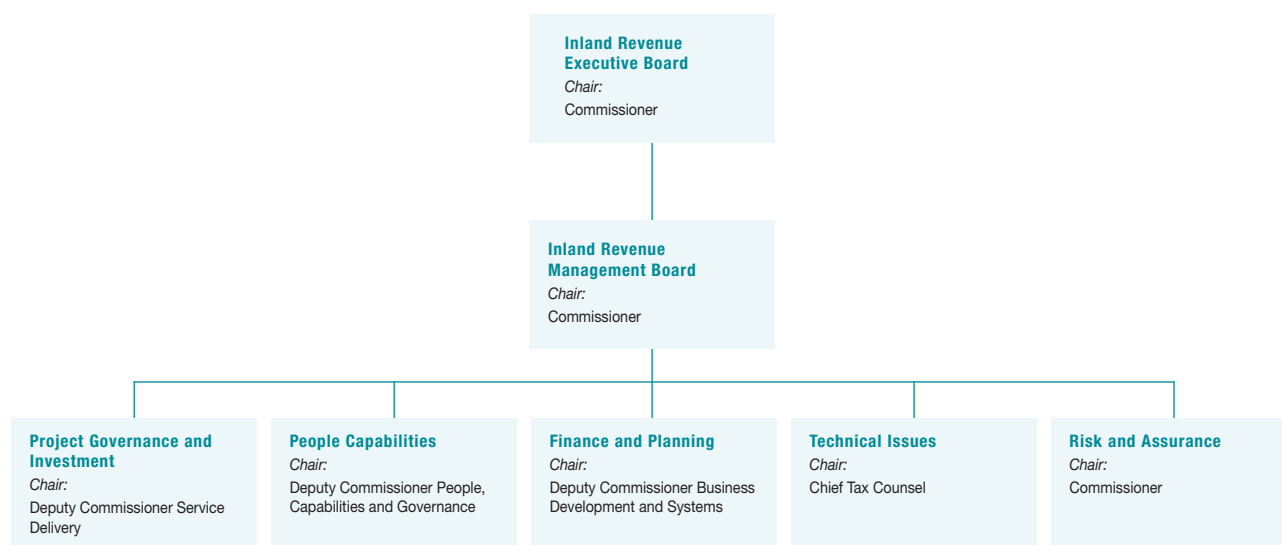
David Butler  
Commissioner of Inland Revenue

# Our structure and governance

**Figure 1 –  
Our structure**



**Figure 2 –  
Our governance structure**



Our governance arrangements allow:

- the Senior Management Team<sup>6</sup> to focus on setting the direction, identifying strategic risks and monitoring performance (including risk management strategies)
- the boards and committees to deal with specific management areas.

The roles of the two governance boards are:

- **Executive Board** which examines longer-term strategy, ethics and strategic risks to make sure that we are able to achieve our desired future and outcomes. It also undertakes regular reviews of strategic progress.

- **Management Board** which focuses on major operational issues to do with managing Inland Revenue on a day-to-day basis (for example, high-level business outcomes and outputs, department risks and climate survey results).

The boards are supported by five committees that are responsible for providing strategic overview, monitoring outcomes and performance.

This governance arrangement began in February 2005.

<sup>6</sup> The Senior Management Team is made up of the Commissioner, the four Deputy Commissioners and the Chief Tax Counsel.





## PART ONE

# Strategic direction setting



We are striving to achieve our primary outcome of  
*Improving the economic and social wellbeing of  
New Zealanders.*



An effective and efficient tax administration is fundamental to the functioning of the economy. However, Inland Revenue is more than a collector of taxes. Our primary outcome is *Improving the economic and social wellbeing of New Zealanders*.

We achieve this through:

- advising government, with The Treasury, on tax policy and social policy measures that interact with the tax system
- collecting tax, child support and student loan payments
- making payments such as tax refunds and rebates, family assistance (including the *Working for Families* package), child support and paid parental leave.

In Part One of our *Statement of Intent* we discuss:

- the environment we work in, and how understanding our environment helps us to plan for the future (our policy and legislative framework is an important part of our operating environment)
- the results we aim to achieve for government and the community—our outcomes (we also outline how we are measuring and evaluating our performance)
- the processes and strategies that help us choose the right activities to deliver our outcomes.

# Environment

We need to have a good understanding of the environment we work in so we can plan for emerging opportunities and risks.

We discuss our environment under these headings:

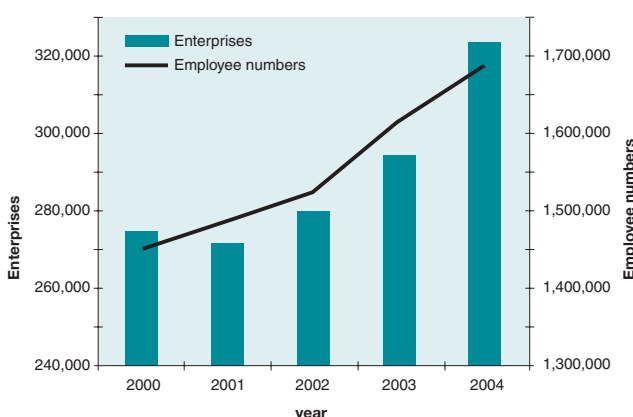
- New Zealand's business structures
- New Zealand in the international community
- New Zealand's diverse population
- Public perception of tax administration
- Public sector management
- Policy and legislation.

## New Zealand's business structures

Inland Revenue's role in the economy is to administer New Zealand's tax system and some social support programmes. To do this we need to understand the structure of New Zealand business and how it impacts on the economic and social wellbeing of New Zealanders.

Since 2000, the number of business enterprises and employees has grown significantly—see Figure 3. During this period tax revenue has grown 27%.

**Figure 3 –  
Growth in enterprises and employee numbers**



Source: Statistics New Zealand, *Enterprise and Employment Size Groups*, [www.stats.govt.nz](http://www.stats.govt.nz) accessed 4 April 2005.

New Zealand has relatively few large corporate businesses, but these corporates generate a high percentage of tax revenue. Most of New Zealand's businesses are small- and medium-sized enterprises (96.8% of businesses in New Zealand have 19 or fewer employees). These small- and medium-sized enterprises (SMEs) also employ 42.3% of all employees<sup>7</sup> and create 38.1% of the economy's output<sup>8</sup>.

Businesses have different needs for our services depending on their size and where they are in their lifecycles. We are meeting these needs by simplifying our processes and creating an environment that helps businesses meet their obligations. For example, we are offering tax advice to businesses and more electronic services to make it easier for them to make payments of their own accord.

## New Zealand in the international community

We continue to advise the government on overseas tax impacts on New Zealand business. They can affect the location of business and investment, New Zealand tax compliance behaviour and compliance costs. We need to consider:

- **strengthening trans-Tasman business relationship**—offers particular advantages because of our very close relationship.
- **New Zealanders moving to other countries to live and work**—in some cases people may still have obligations in New Zealand, such as repaying student loans or paying child support. We are dealing with these issues by:
  - introducing a wider range of payment options so that it is easy for people to make payments from overseas (for example, accepting credit card payments for student loan and child support payments)

<sup>7</sup> Calculated on a full-time equivalents basis.

<sup>8</sup> Industry and Regional Development Branch, Ministry of Economic Development, *SMEs in New Zealand: Structure and Dynamics*, September 2004.

- collecting child support payments using the reciprocal agreement between child support agencies. Under this agreement, a person's debts will be followed up whether they are based in Australia or New Zealand.
- **increasing links between New Zealand and the rest of the world through globalisation**—globalisation means that more people have electronic access to offshore markets. Because of this, people need to have a better understanding of international tax rules. We address international tax compliance issues in our ongoing policy and compliance work.

To maintain our position in the global economy and strengthen our links with international organisations, we are:

- keeping up-to-date with overseas tax developments, particularly changes to Australian tax policy, which can directly affect New Zealand businesses
- continuing to address the government's responsibilities under international conventions, for example, the Kyoto Protocol, the *Convention on the International Recovery of Child Support and other Forms of Family Maintenance*
- taking part in international forums, including the Organisation for Economic Cooperation and Development (OECD), the Commonwealth Association of Tax Administrations (CATA) and the Study Group on Asian Tax Administration and Research (SGATAR)
- ongoing liaison with other tax administrations and agencies, such as the Australian Taxation Office and the Australian Treasury, on issues of mutual interest at the strategic, policy and operational level
- maintaining and extending our network of double tax agreements, which are designed to reduce tax impediments to cross-border trade and investment and assist tax administration.

## New Zealand's diverse population

Over 5.7 million individuals, businesses, and other organisations are registered with Inland Revenue as taxpayers. The diversity of New Zealand's population influences the way we design and deliver the services people need to meet their obligations and receive their entitlements. In particular we need to be aware of New Zealand's changing age profile, our more ethnically diverse population, urbanisation and changing family profiles.

### New Zealand's changing age profile

New Zealand's population is ageing. The baby boomer generation is reaching retirement age and people are generally living longer. This change has implications for the economy (for example, pressures of supply and demand on government services in the future) and for workforce planning (for example, changing demands on an ageing workforce).

For Inland Revenue, the ageing population will affect the way we deliver our services and plan our future workforce. We have a range of initiatives that help us:

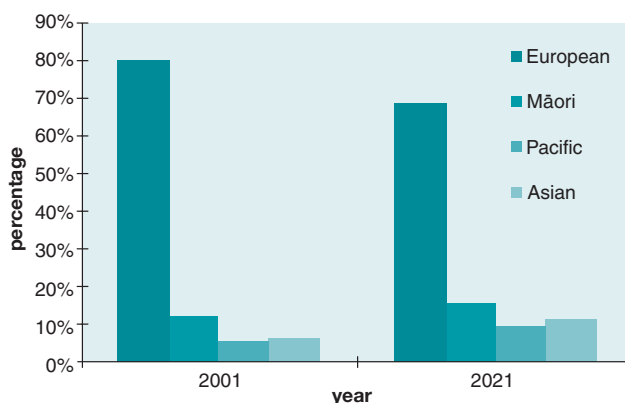
- meet the service needs of older customers
- identify future workforce trends, and develop policies to make better use of the knowledge, skills and experience of our older workers
- contribute to the Government's *Positive Ageing Strategy*<sup>9</sup>.

<sup>9</sup> A government-wide strategy that aims to improve the opportunities for older people to participate in the community in the ways they choose. The opportunities cover a range of social areas and include service delivery and the workplace.

## New Zealand's more ethnically diverse population

The proportion of Māori, Pacific and Asian people continues to grow. Immigration is adding to this diversity—one in five people living in New Zealand today was born overseas.

**Figure 4 – Comparison of ethnicity of population, 2001 to 2021 (forecast)**



Source: Statistics New Zealand, *Key Statistics – Ethnic Population Projections: Issues and Trends*, June 2004, p. 12.

We need to have the appropriate services and compliance activities to make sure that people are aware of and meet their obligations, as well as receive their entitlements. One way we reach diverse communities and respond to population change is through our liaison officers. We have 93<sup>10</sup> liaison officers who assist individual tax agents and businesses, carry out education seminars and work with various groups in the community. Some liaison officers also work with migrant and refugee communities and their networks (for example, through community newspapers).

Another way that we are responding to the changing diversity is through our *Valuing Diversity Strategy*. This strategy is helping us to build greater diversity in our workforce, so we can:

- reflect the diverse nature of New Zealand's population

- better understand the community's needs, so that we can help people meet their obligations and receive their entitlements.

## Urbanisation of the population

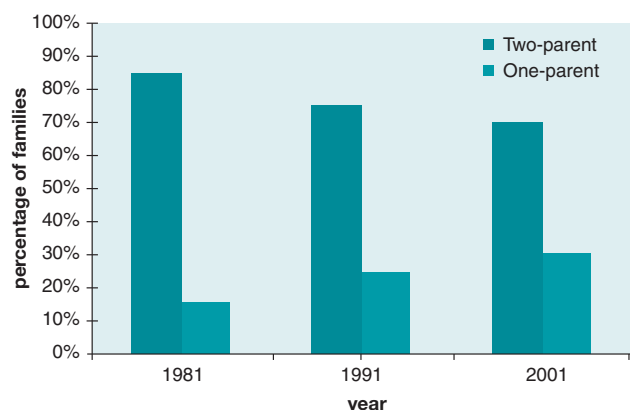
Over the past 50 years, the distribution of New Zealand's population has changed greatly with more people living in our towns and cities. This changes the pattern of demand for our services. By 2021, the Auckland region will be home to 37% of all New Zealanders and 47% of people living in the North Island, compared with 31% and 41% in 2001<sup>11</sup>. Ways we have responded to these changes include using new technology and taking part in *Heartlands* agencies in rural communities—but we need to continue to look at how we deliver the range of our services.

## Changing family profiles

We play an important role in the delivery of services to families by administering child support and family assistance, including *Working for Families*.

Over the last 20 years there has been a significant change in the profile of families—see Figure 5.

**Figure 5 – Trend in one- and two-parent families**



Source: Ministry of Social Development, *New Zealand Families Today*, June 2004.

<sup>10</sup> Full-time equivalents as at June 2004. Some advisory roles are full-time positions. In other cases, the function may be carried out as part of a wider job description.

<sup>11</sup> Statistics New Zealand, *Demographic Trends 2004*, January 2005, p. 161.

Our delivery of both child support and family assistance is affected by the changing profile of families and the increasing number of customers we are dealing with, as our social policy role grows.

Family incomes are also important. In 2003–04, 70% of one-parent families had an annual income before tax of \$37,899 or less<sup>12</sup>. The Government's *Working for Families* package will give financial support to:

- almost all families with incomes under \$45,000 a year
- many families with incomes between \$45,000 and \$70,000 a year.

Our growing social policy role means that more people need to contact us about a wider range of activities. For example, customers may receive child support payments and also qualify for *Working for Families* payments. To make sure people receive their entitlements, we are:

- informing the community by advertising and through the work of our liaison officers
- working closely with the Ministry of Social Development so customers receive a seamless service.

## Public perception of tax administration

How we go about delivering services and undertaking enforcement activities can influence the public's perception of our work. Our *Charter* (see page 30) sets out the standards that people can expect in their interactions with us. These help maintain and strengthen public confidence in our administration of the tax system. Our *Code of Conduct* helps us to exercise common sense judgement and the appropriate use of our powers.

Changes in public perception or confidence in our administration may reduce the overall level of compliance and make it more difficult to achieve our outcomes. The feedback from the many people who have recently contacted us shows that they find us approachable, responsive, professional and effective.

Our Complaints Management Service, and parliamentary and public scrutiny also helps us to maintain public confidence. We also research our customers' needs and analyse the reasons why they contact us. These activities help us to improve the services we offer so that they meet or exceed people's expectations.

## Public sector management

Public sector management is influenced by government and community expectations. For example, in March 2005, the State Services Commission released *Development Goals for the State Services*. We need to consider these expectations when looking at our workforce and the way we deliver our services to the government and the community.

Other factors influencing the way we work are:

- the continued focus on coordination with other organisations. For example, we are working closely with the Ministry of Social Development on *Working for Families*, and we are delivering our services in rural communities through *Heartlands* centres.
- the ongoing development of the E-government strategy to simplify access to government information through the internet, such as through the government portal [www.govt.nz](http://www.govt.nz). We are increasing our online services, and at the same time recognising the need to deliver services by other means<sup>13</sup>.
- the emphasis on *Managing for Outcomes* confirmed by the Public Finance Amendment Act 2004. This framework helps us to focus on the results we need to achieve for government and the community.

These influences provide opportunities for how we continue to develop our people capability and service delivery functions.

<sup>12</sup> Statistics New Zealand, *Hot Off The Press – Household Economic Survey Year Ended 30 June 2004*. One-parent families are "one family, one parent with children only" households.

<sup>13</sup> State Services Commission, *Achieving E-government 2004*, October 2004, pp. 10 and 11. Various surveys discussed in this report identified that there was a large percentage of New Zealanders that did not use the internet to access government services.

**Figure 6 –**  
**Development Goals for the State Services**

| Development Goals                                                                                             | State Services Commission aspirations for June 2007                                                                                                                          | How Inland Revenue is currently supporting the achievement of this goal                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Goal 1: Employer of Choice</b>                                                                             |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Ensure the State Services is an employer of choice attractive to high achievers with a commitment to service. | A comprehensive guide to good employment practice developed with input from State Service employers and unions, in place for use across government agencies.                 | By using and modelling good employment practices. Our people, through our climate survey continue to acknowledge us as a good employer. We maintain good relationships with the unions representing our people. This links to our focus on enhancing our people capability.                                |
| <b>Goal 2: Excellent State servants</b>                                                                       |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Develop a strong culture of constant learning in pursuit of excellence.                                       | A framework for learning and development across government agencies.                                                                                                         | By continuing to develop our people's leadership, management and technical capabilities. This links to our focus on enhancing our people capability.                                                                                                                                                       |
| <b>Goal 3: Networked State Services</b>                                                                       |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Use technology to transform the provision of services for New Zealanders.                                     | Networks and internet technologies are integral to the delivery of government information, services and processes.                                                           | By enhancing our electronic services through our e-enablement strategy. (This is consistent with the aims of the E-government strategy.) This links to our focus on streamlining and simplifying tax processes.                                                                                            |
| <b>Goal 4: Coordinated State agencies</b>                                                                     |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Ensure the total contribution of government agencies is greater than the sum of its parts.                    | Government agencies demonstrating improvement through <i>Managing for Outcomes</i> , including joint outcomes and other shared accountabilities across clusters of agencies. | By focusing on achieving our outcome to <i>Improving the economic and social wellbeing of New Zealanders</i> , we work closely with other government agencies to provide advice to the Government and deliver seamless social support services. This links to all the elements of our strategic direction. |
| <b>Goal 5: Accessible State Services</b>                                                                      |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Enhance access, responsiveness and effectiveness, and improve New Zealanders' experience of State Services.   | No wrong door—any New Zealander accessing government services will be referred appropriately to the organisation best able to address their concerns.                        | By referring customers to the right organisation to answer their query. For example <i>Working for Families</i> , where we can provide an overview of the entitlements from MSD, but would refer the customer to MSD for detailed information. This links to all the elements of our strategic direction.  |
| <b>Goal 6: Trusted State Services</b>                                                                         |                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                            |
| Strengthen trust in the State Services, and reinforce the spirit of service.                                  | Agencies of the State Services demonstrate their commitment to earning trust by working with the State Services Commissioner to develop and promote codes of conduct.        | By promoting our <i>Charter</i> (our commitment to the community) and refreshing our <i>Code of Conduct</i> , which builds on the <i>New Zealand Public Sector Code of Conduct</i> . This links to our focus on enhancing our people capability.                                                           |

We will continue to work with the State Services Commission to further develop our ability to contribute to these development goals.



## Policy and legislation

The operation of the tax system is governed by legislation enacted by Parliament. Inland Revenue's Policy Advice Division plays a key role in helping to shape policy and legislation—not outcomes in themselves, but means of achieving outcomes—through the advice it and The Treasury give to the government and parliamentary select committees.

To fulfil this role, Inland Revenue needs to be capable and well-respected and provide the highest possible quality advice to the government.

In managing the Generic Tax Policy Process, Inland Revenue consults extensively with the private sector, professional associations and other government departments, ensuring that policies are workable and can be delivered in the most effective way.

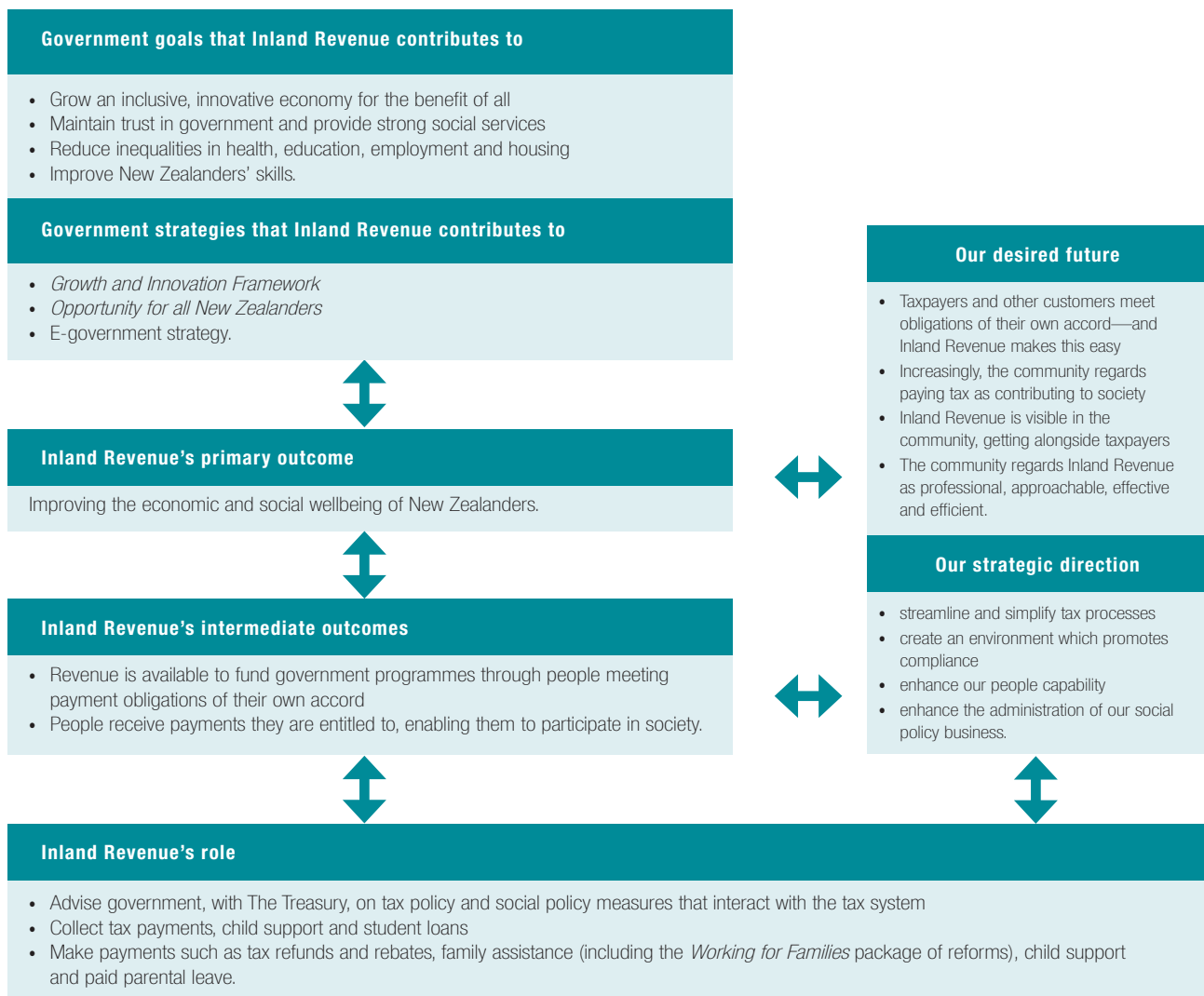
The work of Inland Revenue is determined largely by the priorities of the Government, with the main emphases of the Government's work programme being growth and innovation, social cohesion and revenue base maintenance.



# Our outcomes

Our outcomes represent what we are striving to achieve for government and the community. To achieve our outcomes, we need to align our strategic thinking and planning with our day-to-day activities and wider government goals.

**Figure 7 –**  
**The links between Government goals and our outcomes**



As part of our strategic planning for 2005–08, we aim to give government, the community and our people:

- a clear understanding of how our activities contribute to our outcomes
- better information about what we have achieved.

Part of this process has resulted in a new primary outcome and two related intermediate outcomes (see Figure 8) that cover all the activities that we do as an organisation.

**Figure 8 –  
Inland Revenue's outcomes**

|                              |                                                                                                                                                                                                                                                                      |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Primary outcome</b>       | <ul style="list-style-type: none"> <li>Improving the economic and social wellbeing of New Zealanders.</li> </ul>                                                                                                                                                     |
| <b>Intermediate outcomes</b> | <ul style="list-style-type: none"> <li>Revenue is available to fund government programmes through people meeting payment obligations of their own accord.</li> <li>People receive payments they are entitled to, enabling them to participate in society.</li> </ul> |

## Our primary outcome

- Improving the economic and social wellbeing of New Zealanders.

Our primary outcome provides a high-level focus for planning across all our work.

We can influence the achievement of the primary outcome by:

- working with The Treasury, Ministry of Social Development, Ministry of Education and other government agencies to advise the government on the design of tax and social policy (that interacts with the tax system) and legislative framework
- collecting revenue and other payments effectively and efficiently
- paying refunds and other entitlements quickly and accurately
- effectively administering social support programmes including aspects of the student loan scheme
- making sure that people have confidence in our administration of the tax system by being professional, approachable, effective and efficient.

The primary outcome is supported by two intermediate outcomes.

## Intermediate outcomes

- Revenue is available to fund government programmes through people meeting payment obligations of their own accord.
- People receive payments they are entitled to, enabling them to participate in society.

The intermediate outcomes help us focus on the results we want to achieve and what we need to do to achieve them.

These outcomes help us to:

- collect tax and other payments (for example, child support and student loan repayments)
- make sure people receive what they are entitled to (such as family assistance, child support, paid parental leave, and tax refunds and rebates).

To do this, we need to create an environment which promotes compliance and encourages people to comply with their tax and social support obligations of their own accord. At the same time, we need to enforce the law when people choose not to comply.

Our outcomes are supported by:

- our desired future and our strategic direction (see Figures 12 and 13), which set out our longer-term business
- our output expense structure and related outputs (see Part Three) that show how we advise on policy and deliver tax and social support services.

**Figure 9 –**  
**How our output expenses contribute to our outcomes**

| Output expense                                    | How it contributes to outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Policy advice</b>                              | <p>Together with The Treasury, we provide advice to the government that is consistent with its tax and social policy outcomes. The policy advice function also includes:</p> <ul style="list-style-type: none"> <li>• maintaining our position in the international arena through negotiating double tax agreements and keeping abreast of international developments</li> <li>• forecasting future tax flows to assist the government in budgeting for the goods and services it wishes to deliver to the community</li> <li>• providing services to Ministers' offices.</li> </ul> |
| <b>Adjudication and Rulings</b>                   | <p>Our Adjudication and Rulings Unit helps maintain taxpayers' confidence in the tax administration. It gives guidance on the correct interpretation of the Inland Revenue Acts and other relevant laws. The Adjudication Unit, as part of the disputes resolution process, takes a fresh, impartial and independent look at tax disputes. The Taxpayer Rulings Unit makes private and product rulings and some taxpayer determinations. The Public Rulings Unit considers complex tax issues and issues public rulings, interpretation statements and guidelines.</p>               |
| <b>Information services</b>                       | <p>Our information services advise taxpayers and other customers on new and existing laws to help them meet obligations in full and on time and to receive their social support payments. We also provide a complaints management service.</p>                                                                                                                                                                                                                                                                                                                                       |
| <b>Revenue assessment and collection</b>          | <p>People want quick and easy ways to pay their obligations and receive their entitlements. This includes: applying for IRD numbers, calculating and paying their taxes and student loans, and receiving rebates, tax refunds and social support payments. Inland Revenue needs to process revenue quickly and efficiently to maximise the availability of revenue to fund government programmes.</p>                                                                                                                                                                                |
| <b>Management of debt and outstanding returns</b> | <p>Inland Revenue follows up when taxpayers have not filed a return when expected, or they have not made payments in full and on time. By doing this we make sure that the government receives the correct revenue.</p>                                                                                                                                                                                                                                                                                                                                                              |
| <b>Taxpayer audit</b>                             | <p>Inland Revenue audits taxpayers to check that the government has received the right amount of tax. We aim to improve overall tax compliance by auditing high-risk taxpayers while continuing to maintain compliance in lower risk areas. This output expense also includes the management of tax litigation.</p>                                                                                                                                                                                                                                                                  |

| Output expense                    | How it contributes to outcomes                                                                                                                                                                                                                                                                                           |
|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Child Support</b>              | Parents who live apart from their children need to support them financially so they can participate in society. Our Child Support area encourages compliance with the Child Support Act 1991. This activity ranges from advising people through to taking action to make sure they meet their child support obligations. |
| <b>ACC employee earners' levy</b> | We collect the ACC employee earners' levy as part of PAYE deductions—contributing to government's revenue.                                                                                                                                                                                                               |

## Measuring and evaluating our performance

Our outcomes show what we are striving to achieve. Our strategies set out how we will achieve our outcomes and are explained in Part Two. Our outputs show how we will deliver our outcomes for taxpayers and social support customers (see Part Three).

We need to measure how well our activities are helping us achieve our outcomes and desired future.

We already have some high-level indicators that link directly to our outcomes (see Figure 10). During 2005–06, we are further developing these indicators as part of our commitment to a stronger performance measurement framework. This framework will measure high-level achievement of our outcomes as well as help in the day-to-day running of Inland Revenue.

**Figure 10 –**  
**Measuring our performance**

| Outcome                                                                                                                   | Indicator                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue is available to fund government programmes through people meeting payment obligations of their own accord.</b> | <ul style="list-style-type: none"> <li>the amount of revenue collected compared to forecast revenue</li> <li>the number of people who file their returns and pay on time</li> <li>the level of collectable debt.</li> </ul>                                                              |
| <b>People receive payments they are entitled to, enabling them to participate in society.</b>                             | <ul style="list-style-type: none"> <li>the level of people's awareness of social support entitlements (measures are being developed during 2005–06)</li> <li>the number of people who take up what they are entitled to (specific measure is being developed during 2005–06).</li> </ul> |

These indicators are backed by a range of other measures based around individual functions, services and capability. For example:

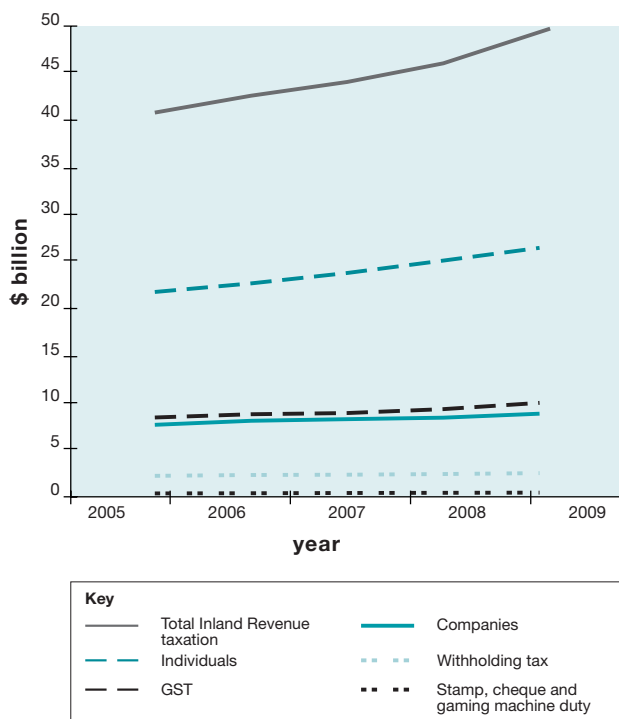
- student loans repaid
- percentage of paying parents who pay in full and on time

- climate survey of our people
- benchmarking some of our organisational efficiency measures against other tax authorities.

## Revenue forecast

Our revenue forecasts provide a measure against our intermediate outcome of *Revenue is available to fund government programmes through people meeting payment obligations of their own accord*. For the 2005–06 financial year, we forecast that we will assess \$43.543 billion in direct and indirect taxation. Figure 11 shows the revenue forecast broken down into major tax categories.

**Figure 11 –  
Inland Revenue – revenue forecast**



## Evaluation

An important aspect of managing our performance is evaluating the impact of our work and how it has contributed to our outcomes. We do this through:

- **project reviews.** All major projects must have a “post-implementation” review. These reviews look at project management and whether the project goals were achieved.
- **our Evaluation Services Unit** helps us shape both our ongoing activities and new initiatives. It carries out independent evaluations that:
  - focus on what outcomes have been or will be achieved
  - look across functions or areas of responsibility
  - are linked to our strategic direction.

A major piece of work from now to 2008 is evaluating the implementation of the *Working for Families* package.

# Choosing the right activities to achieve our outcomes

We have a desired future for Inland Revenue which shapes our thinking on the way we go about our work.

**Figure 12 –  
Our desired future**

- Taxpayers and other customers meet obligations of their own accord—and Inland Revenue makes this easy
- Increasingly, the community regards paying tax as contributing to society
- Inland Revenue is visible in the community, getting alongside taxpayers
- The community regards Inland Revenue as professional, approachable, effective and efficient.

Our desired future is supported by a strategic direction that keeps us focused on achieving our outcomes.

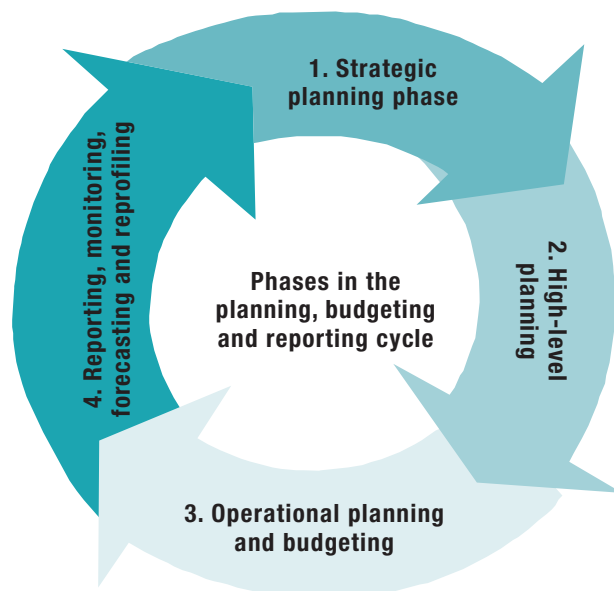
**Figure 13 –  
Our strategic direction**

- streamline and simplify tax processes
- create an environment which promotes compliance
- enhance our people capability
- enhance the administration of our social policy business.

## Our planning process

To deliver our desired future, we need to assess future opportunities and risks, and identify our priorities. We have developed a set of integrated planning and thinking tools to help us achieve this. The process is shown in Figure 14.

**Figure 14 –  
Our planning process**



We are continuing to strengthen our high-level strategic planning so that we:

- improve the way we monitor our progress towards our desired future
- assess our goals and strategic direction, including scanning our environment to understand its implications for the future direction of our business
- improve our understanding of what is important and our ability to prioritise
- link high-level strategy with detailed planning of how we deliver our services.

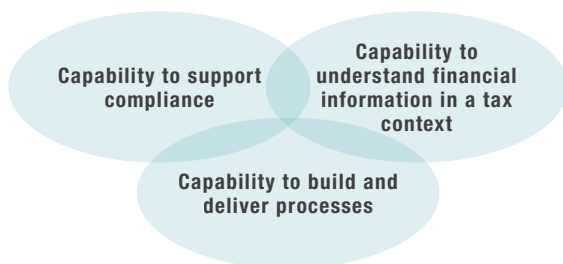
## Our core capabilities

Our core capabilities reflect our current and future strengths. They represent our organisational skills. Understanding these capabilities helps us to maximise and preserve our strengths, and to better understand how we can achieve our desired future.

In deciding on our core capabilities, we looked for characteristics that:

- are sustainable—the capability lasts
- provide points of leverage for the organisation (that we can still look to improve on)
- align with what others think we are good at
- are difficult for others to replicate.

**Figure 15 –  
Our core capabilities**



Inland Revenue's three distinct capabilities are:

- **Capability to understand financial information in a tax context.** Most of our tax and social support work relies on the financial information we hold. Understanding this information, and how it relates to the tax and social support services we deliver, helps us to make sure people meet their obligations and receive their entitlements.
- **Capability to build and deliver processes.** Over a number of years, we have improved our ability to design and deliver high-volume processes (for example, payments processing). We have strong process and project management ability. We have shown that we can run these processes in a cost-effective way that compares well with a range of international business practices.

- **Capability to support compliance.** This capability is based on our role, reputation and culture. The majority of taxpayers and other customers meet their responsibilities of their own accord. We support compliance through:
  - the systems, processes and deterrents we have in place
  - the rules we operate under to make sure that the community see us as professional, approachable, effective and efficient
  - our *Charter* and *Code of Conduct*
  - our organisational knowledge, practices and expertise that encourage and, when needed, enforce compliance.

## Mitigating risk

Our ability to achieve our outcomes depends on our ability to identify and manage risks. This is achieved by having strong governance structures and sound risk assurance frameworks.

Last year we made changes to our governance structures to improve our ability to manage significant strategic and business decisions appropriately. The new internal governance boards and committees (as discussed earlier) began in February 2005.

Inland Revenue also uses the standard Australia/New Zealand risk management framework that enables risk to be identified, analysed and managed. The risk management framework applies to strategic or operational initiatives and activities or projects.



# Inland Revenue's *Charter* Te Tutohinga a Te Tari Taake

**Figure 16 –  
Inland Revenue's *Charter***



**Inland Revenue collects money to pay for public services and helps people to meet their obligations. We work within the Inland Revenue Acts and other relevant laws. We also work in ways consistent with the spirit of the Treaty of Waitangi.**

**HOW WE WILL WORK WITH YOU**

- We will be prompt, courteous and professional.
- We will follow through on what we say we will do.
- We acknowledge your individual, cultural and special needs and will look for solutions to them.
- The person you are dealing with will give you their name.
- We will continually improve our service by collecting information about how we are doing and using it to raise our performance.

**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 new and better ways to give you advice and information.

**Confidentiality and privacy**

- We respect your privacy and treat all information about you as private and confidential. Information you provide will be kept secure and will be used or disclosed only as required by law.

**Consistency and equity**

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

**Your right to question us**

- You can question the information, advice and service we give you.
- We will inform you about options available for resolving disagreements and we will work with you to reach an outcome quickly and simply.

**For this *Charter* to work effectively, we rely on each taxpayer to provide all the relevant information when dealing with Inland Revenue.**



Inland Revenue  
Te Tari Taake



David Butler  
Commissioner of Inland Revenue

**For more information about this *Charter***

**Phone:** Business Taxpayers 0800-377 774 Personal Taxpayers 0800-227 774  
Child Support Customers 0800-221 221

**Write to:** The Commissioner of Inland Revenue PO Box 2198 Wellington



## PART TWO

# Strategies and plans to improve compliance



Our strategies and plans to improve compliance over the next three years are directed at achieving our desired future and outcomes.

To do this we will:

- deliver the right mix of outputs
- continue to build our capability
- look for new ways to make it easier for people to meet their obligations and receive their entitlements
- look for new ways to improve our effectiveness and efficiency.

Some changes to the way we work will reflect new initiatives such as *Working for Families*. Others focus on improving compliance, for example on-time filing of returns and payments, and auditing.

Our strategies and plans fit into the four strands of our strategic direction, which are to:

- streamline and simplify tax processes
- create an environment which promotes compliance
- enhance our people capability
- enhance the administration of our social policy business.

# Streamline and simplify tax processes

We need simple and convenient processes to encourage people to meet payment obligations of their own accord.

We are focusing on:

- improving online services
- simplifying tax for small- and medium-sized enterprises (SMEs)
- working closely with tax agents.

Our initiatives link into wider government strategies including:

- **the E-government strategy** that aims to make it easier for people to get online information about government services
- **the Growth and Innovation Framework** that is designed to deliver the long-term sustainable growth needed to improve the quality of life of all New Zealanders
- **Opportunity for all New Zealanders**—the Government's coordinating framework for sustainable social development.

## Improving online services

We want taxpayers and social support customers to be able to interact with us whenever they want to. It is important we make it easy and cost-effective for people to receive payments and meet obligations.

Currently, we offer a range of online information and services, and recently redesigned and upgraded our website. Our services include:

- online filing of returns and payment services—with all major banks accepting online payments
- our *Look at Account Information Service* that allows some groups of taxpayers, tax agents and customers to securely view their accounts online
- secure email that allows taxpayers and other customers to exchange (send and receive) secure mail with us.

We are continuing to improve these services.

For example:

- making the *Look at Account Information Service* available to a wider range of taxpayers and customers
- adding features to our secure email service and making sure that our online services are clear and user-friendly.

In the coming years, we will deliver a new e-business strategy to strengthen our alignment with the E-government vision and goals. The focus of this strategy is on understanding our taxpayers' needs and designing tailored services using electronic opportunities, which will streamline and simplify our processes. We are aiming to increase the number of people who use our online services.

In line with the E-government strategy, we will work closely with other agencies to provide citizens with joined-up services. A specific example of this is our collaboration with the Companies Office on a proposal to use business-to-business (B2B) technology to provide a seamless service for new company registrations and the application for an IRD number.

Our e-enablement strategy is an important part of our wider technology initiatives. We have had a technology strategy since 2002 and are continuing to deliver initiatives under this strategy to improve our organisational capability (for example, supporting our audit strategy with improved case selection technology).

## Simplifying tax for small- and medium-sized enterprises (SMEs)

Our focus reflects the fact that small- and medium-sized enterprises make up most of New Zealand's businesses and employ 43% of the workforce. As a group they are important to revenue: 570,000 are registered GST payers and about a third of these are employers deducting PAYE. SMEs also account for a significant part of our debt and returns activity—they represent 32% of debt and 23% of outstanding returns. We also know that certain industries with many small businesses represent a high risk of non-compliance because their work is more likely to be cash-based.

### Simplification proposals

Over the past five years there have been a number of initiatives to assist SMEs, including:

- re-introduction of freepost envelopes for PAYE, GST and FBT returns and accompanying payments
- enhancement of services through our network of Business Tax Information Officers
- dedicated phone lines for GST and PAYE enquiries
- greater flexibility to deal with debt problems under revised debt and hardship rules.

A significant and ongoing part of our work is developing and implementing the Government's compliance cost reduction programme. Inland Revenue is currently working on the proposals in the Government's 2003 discussion document *Making tax easier for small businesses*. This discussion document proposed:

- subsidies for people who employ payroll agents to handle PAYE
- alignment of provisional tax and GST so they are paid together
- provisional tax payment calculations based on GST turnover.

Since its release, our role has been leading consultation on the proposals in the discussion document. Once the Government has made decisions, we will have a key role in implementing them. The proposal to discount tax payment in the first year of a new business took effect for the tax year starting on 1 April 2005.

### Future challenges

SMEs are a large and diverse group. We are increasingly understanding their characteristics, for example, the nature of the industry, the size of the businesses, and their use of technology. We are tailoring our services so that it is easier for businesses to comply, and harder to evade or avoid paying tax.

In working with SMEs we are:

- **encouraging the use of online services** for information, filing, and payment
- **making tax obligations easier** when businesses are starting up or ending
- **updating our services** to keep pace with increasing regional diversity and growth
- **responding earlier** and using smart methods to deal with non-filing of returns and debt
- **working out the issues faced** at various stages in the lifecycle of a business. This will help us better understand the impact of changes to the tax system.
- **continuing our Industry Partnership initiative** with small- and medium-sized industries. The feedback from these industries, which include a large number of SMEs, is essential to make sure we design and tailor our services appropriately.

## Working closely with tax agents

Tax agents play a key role in making the tax system work effectively. About 4,800 tax agents are registered with Inland Revenue and they handle the tax business of some 1.7 million taxpayers. We receive 74%<sup>14</sup> of income tax returns through tax agents.

### Institute of Chartered Accountants of New Zealand (ICANZ)

We already have a long-standing, valued relationship with tax professionals through ICANZ. We discuss common issues and take part in presentations to their members around the country. This allows us to pass on useful information, and to listen to what is happening within the tax profession.

By working together, we can develop enhanced tax policy advice (through the Generic Tax Policy Process). We can also set up better administrative systems based on an improved understanding of how the industry works and its concerns. Joint initiatives such as developing best practice guides will continue to strengthen this valued partnership.

### Streamline services to tax agents

Using online services is one of the best ways people can reduce their compliance costs. Only about half the tax agents in New Zealand communicate with us electronically. One of the key aims of our tax agent strategy is to increase the use of these online services by promoting them through our Agent Account Managers.

Tax agents can access accurate information about their clients' accounts and order stationery whenever they need it by using our *Look at Account Information Service* and our automated phone services (some of which use natural voice recognition technology). We aim to increase the number of returns filed electronically by tax agents from 38% in 2004 to 50% in 2006.

In response to feedback from tax agents, we are planning to:

- **expand the *Look at Account Information Service*** by improving the timeliness of summary of earnings information of their clients through supplying it on a year-to-date basis and in bulk
- **provide access to all their clients' information** through our website and as bulk information through E-file, our electronic link to tax agents.

<sup>14</sup> Excludes salary and wage earners.

# Create an environment which promotes compliance

A key component of our outcomes is people meeting payment obligations of their own accord.

To encourage compliance we are:

- informing people of their responsibilities
- making it easy for people to make enquiries and payments
- giving people confidence that what they have done is right
- helping people who are having problems meeting their obligations
- enforcing the law if people choose not to comply.

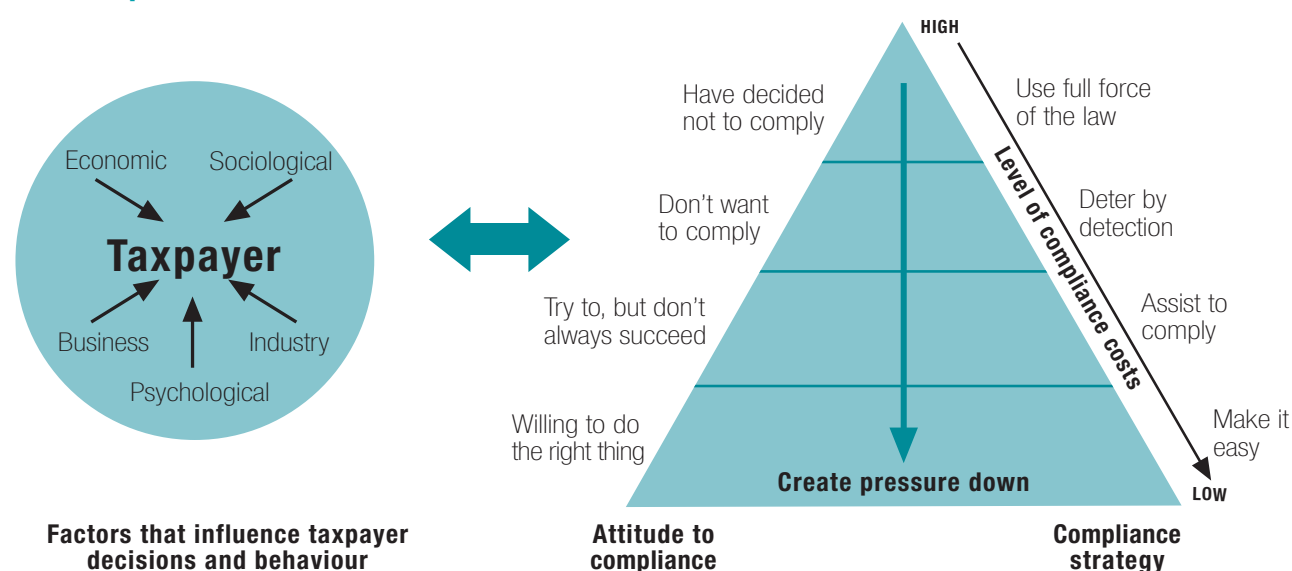
In this section we talk about what we are doing to encourage compliance under the following headings:

- our compliance model
- providing information
- working in the community
- process improvements
- managing outstanding returns and overdue debt
- improving compliance through our audit function
- Adjudication and Rulings.

## Our compliance model

The compliance model (see Figure 17) shows how we should respond to the various attitudes towards compliance that we are likely to encounter.

**Figure 17 –**  
**Our compliance model**



The model promotes a tailored, responsive approach to taxpayers. It takes account of the external factors that influence taxpayers' attitudes and behaviours. Our risk analysis recognises these differences in attitude and helps us develop appropriate ways of improving compliance.

A key concept behind the model is that the majority of taxpayers comply voluntarily or aim to comply. For these taxpayers our response to a compliance concern is to make it easy to comply.

At the same time suitable sanctions are needed for cases where people deliberately do not comply. Enforcing the law in such cases helps to maintain overall taxpayer confidence in the tax system and encourages ongoing compliance. However, when we are undertaking work to enforce the law our approach needs to be designed to move taxpayers to a position where they are likely to comply voluntarily in the future.

The compliance model thinking also applies to child support, family assistance and student loans.

## Example: Industry Partnership experience

Industry Partnership is a long-term initiative to improve compliance in small- and medium-sized industries operating in the cash economy. By working more closely with industry groups, Inland Revenue is identifying common problems and reasons for non-compliance.

Industry Partnership shows the compliance model in action. By developing relationships with industry associations at both national and local level, and with individual small businesses, we encourage compliance among those who are willing. This approach is unlikely to be effective for those who choose not to comply. In the nine months to March 2005, our auditors found a total of \$12.7 million in discrepancies in the industries covered by Industry Partnership. When people choose not to comply, our investigation teams are targeting enforcement and taking prosecutions in key areas.

We are working with the various industry groups to devise strategies to improve overall compliance.

This combined approach has improved compliance, resulting in fewer debt cases and outstanding returns in the first eight industries covered by the partnership arrangements. Between May 2002 and December 2004 the:

- number of debt cases decreased by 15%
- number of outstanding returns decreased by 11%
- value of child support debt decreased by 33%.



We are also developing our understanding of the broader impacts of our Industry Partnership approach on overall compliance. For example, based on the first year of the initiative (2002–03), when there were relatively few industries involved and relationships were being formed throughout the year, our estimates are that additional taxable income of over \$5 million was declared.

Industry Partnership has relationships with 15 industries in a variety of sectors. We support these relationships with targeted communication, and education and enforcement programmes in the community.

Industry Partnership is but one of our approaches to addressing the cash economy. For example, in the 2005 Budget we have received additional funding for two dedicated teams of people who will be actively engaged in tracing people who are operating outside of the tax system.

## Providing information

Getting the right information to people at the right time is fundamental to achieving compliance. A critical part of our operations is our telephone service, with 4.888 million phone contacts, and 1.878 million calls to our automated phone service, handled in 2003–04. In addition to our phone services we:

- respond to correspondence, emails and visitors to our offices
- distribute information through our main website, [www.ird.govt.nz](http://www.ird.govt.nz) (the most visited government site), and two specialist sites, [www.taxpolicy.ird.govt.nz](http://www.taxpolicy.ird.govt.nz) and [www.owezero.org.nz](http://www.owezero.org.nz) (for student loan borrowers)
- visit businesses, accountants and social policy groups to talk to them about their obligations and entitlements.

These activities improve the community's understanding of Inland Revenue and our role in the community. A particular challenge for the future is addressing the growing customer base with its diverse range of information needs.

We are also continuing to build our understanding of people's expectations and how we influence their behaviour. By knowing why people contact us, we can better manage those contacts.

We also need to be responsive to taxpayer and other customer demands. We do this by:

- seeking and listening to feedback on our products and services
- being flexible with our resources to deal with high demand periods, such as peak calling periods in our call centres
- continuing to develop services that meet the needs of New Zealand's diverse population
- improving our online services, including developing a specialist website for young people joining the workforce.



## Working in the community

We have developed positive relationships with a variety of public and private sector organisations<sup>15</sup> and communities. These relationships reflect the Government's commitment to strengthen community-government relationships<sup>16</sup> and directly help us achieve our outcomes.

Our *Charter* (see Part One) is our commitment to the community. It supports our desired future and defines the standards of service that taxpayers and other customers can expect from us. It supports our desired future of being visible in the community, helping people to meet their responsibilities and thereby supporting our outcome that people meet their payment obligations of their own accord.

Our *Charter* acknowledges people's individual, cultural and special needs. For example, face-to-face communication with various communities remains an important way to work with people whose needs are not adequately met by our generic services.

Our network of liaison officers provides a direct and visible way of helping taxpayers and other customers meet their obligations and receive what they are entitled to. Our liaison officers work with:

- small businesses and tax professionals
- ethnic communities—helping Māori, Pacific peoples, new migrants and refugees
- community groups—informing people about child support, family assistance (including *Working for Families*), paid parental leave and student loans. Liaison officers attend seminars and other promotional activities.

## Being visible in the community

New migrants and refugees coming to New Zealand may not understand the New Zealand tax system. Our Migrant Community Liaison Officer in Auckland talks to a wide range of migrant groups about tax and social support programmes, and provides other information through community newspapers. When people become aware of their obligations, they are more likely to comply.

Our Māori Community Officers (MCOs) work with Māori by providing tax and social support information. Our MCOs need to interact with the community in a culturally appropriate way to make sure that we build effective relationships.



From left: Migrant Community Liaison Officer Abdul Rafik, at the Auckland Regional Migrant Resource Centre in Three Kings, Auckland, with Mrs Moturu Rajeeva, a volunteer and Mr Sri Mysore, a customer service officer at the centre.

<sup>15</sup> These organisations include the Ministry of Social Development and the Ministry of Education, and private organisations such as Citizens Advice Bureaux, budget advisory services, migrant support groups and tax agents.

<sup>16</sup> As set out in the *Statement of Government Intentions for an Improved Community-Government Relationship*, released in December 2001.

## Supporting cross-government strategies

We contribute to a number of cross-government strategies that aim to improve the outcomes for specific groups within the community. These include:

- **New Zealand Disability Strategy.** People need to have access to our buildings so we are making sure that there are no physical barriers to our buildings for people with disabilities. We are also continuing to improve our website in line with E-government guidelines to improve access for people with disabilities.
- **Positive Ageing Strategy.** Our initiatives include making sure our services are appropriate for older taxpayers and looking at our future workforce needs.
- **Relationships with community, voluntary and tangata whenua organisations.** The Government made a commitment in 2001 to strengthen its relationships with New Zealand's different communities. Inland Revenue has recognised this commitment and we have been assessing our relationships to the many groups with links to taxpayers and other customer groups.
- **Reducing inequalities.** This government goal aims to reduce disadvantages and promote equal opportunity. We contribute to this by administering family assistance programmes that give extra income support to eligible families.
- **Development Goals for the State Services.** How we are contributing to the State Services Commission goal of *A system of world class professional State Services serving the government of the day and meeting the needs of New Zealanders* is outlined under **Environment**—see page 21.

## Carbon tax

In 2002 the Government announced a package of policies that New Zealand, as a signatory to the Kyoto Protocol, will implement in responding to climate change concerns. As part of the package, the international price of emissions will initially be reflected in the New Zealand economy through a carbon tax.

The Government has proposed that Inland Revenue and the Customs Service administer the carbon tax. Details of its implementation are the subject of further policy work and consultation with the industries that are directly affected.

Once enacted, the carbon tax is intended to come into force from 1 April 2007.

## Process improvements

Our business environment is characterised by high volumes, reflecting that we provide services to over 5.7 million taxpayers. Both the government and the community expect that we handle these volumes quickly and accurately.

There is also an expectation that we tailor our services to groups of individuals, and take into account personal circumstances. We have introduced new technology that manages the correspondence we send to taxpayers and social policy customers. This has allowed us to tailor and customise our letters to make it easier for people to understand.

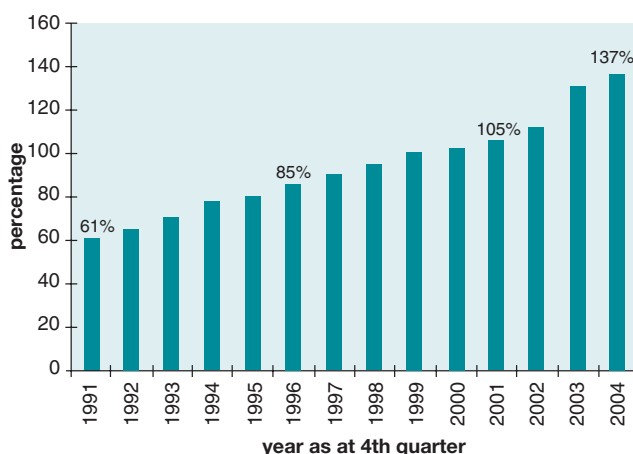
We are also making sure that our publications and forms are free of jargon, focus on what the customer requires, and use plain language. Recently, a number of our Child Support publications received a quality award for the use of plain English.

## Managing outstanding returns and overdue debt

Managing outstanding returns and overdue debt is an important part of improving compliance. We actively support taxpayers and other customers who want to comply but whose financial circumstances make it difficult for them.

We do this in an environment where the community seems to be changing its attitude to debt, as shown by rising levels of household debt (see Figure 18).

**Figure 18 – Household debt as a percentage of nominal disposable income**



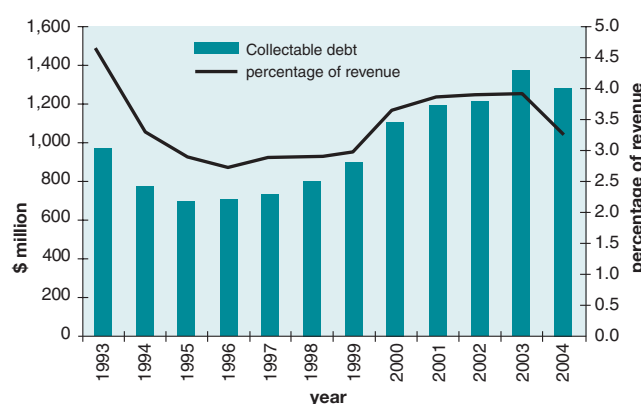
Source: Reserve Bank of New Zealand

Since 1990 household debt has tripled in dollar terms and doubled as a percentage of households' disposable income but is similar to those found in Australia, the United Kingdom and the United States. Although debt servicing burdens have not increased at the same rate due to lower interest rates, households with increased debt levels may be more vulnerable to an unexpected increase in interest rates or a slowdown in income growth. This may impact on our ability to collect debt.

Inland Revenue's collectable overdue debt<sup>17</sup> levels have followed a slightly different pattern to household debt over the past 10 years. This results from a variety of factors:

- the growth in revenue over the period
- changes in our approaches, systems and resourcing
- changes in policy on debt recovery.

**Figure 19 – Collectable debt**



In 2003–04 we collected over \$1 billion in overdue debt and increased the amount of debt paid by instalment by \$120 million. Our collectable debt position improved by \$64 million—the first time that collectable debt has gone down in five years. We have been performing well, but maintaining our debt performance is particularly challenging in the current environment.

We have more complex debt cases as a result of:

- our work on tax schemes where disputes about the amount of tax due are more likely to arise
- taxpayers dissipating their assets and seeking relief on hardship grounds.

We also expect further growth in debt as a result of increased revenue, economic growth and increased tax reassessments from audits.

<sup>17</sup> Overdue debt includes tax, student loan, and family assistance debt. It excludes child support.

## Strategies to reduce debt

We are addressing debt at three levels.

Firstly, we are focusing on systematic ways of improving on-time filing and payment compliance so more people file and pay of their own accord—this approach is in line with our compliance model thinking. The strategy includes better targeting of our debt activities, with particular emphasis on risk, and continuing to develop our people capability to manage this work. We are also continuing to compare our work practices with those of other tax authorities to incorporate best practice.

Secondly, we are focusing on:

- the more complex areas of debt collection, including the collection of audit-assessed debt, such as from tax evasion activity
- high-value debt while recognising the importance of dealing with small-value debt early
- working through our Agent Account Managers to reduce debt from taxpayers who use tax agents
- developing our people's skills in managing the debt from more complex business arrangements used to avoid paying tax
- promoting online services as a way of reducing the level of debt (online services make it easier for taxpayers to meet their obligations, make payments, and reduce compliance costs)
- investigating the reasons for salary and wage earner debt and ways of better managing this debt
- investigating alternatives for managing taxpayers who receive a personal tax summary.

Our third approach is our Industry Partnership initiative. This initiative is proving successful in improving the debt profile of the first eight industries that have been involved. Between May 2002 and December 2004 the number of debt cases decreased by 15% and the number of outstanding returns reduced by 11%. We are:

- focusing on debt prevention by continued education of taxpayers on their obligations as well as the impact on the rest of the community of not paying tax

- forming relationships with migrant groups and those for whom English is not their main language, to educate them on tax obligations and debt options
- making taxpayers aware of the tools and assistance available to them through our website and advisory services
- continuing to use the relationships established with industry associations to encourage taxpayers to contact us about their debt
- gaining insights from our Industry Partnership success and applying them to other aspects of our work.

## Improving compliance through our audit function

Most taxpayers assess and pay their tax voluntarily. Inland Revenue audits selected taxpayers to check that the right amount of tax has been paid. This will have the added benefit of improving compliance among all taxpayers. Currently, we are concentrating on investigating risk areas such as evasion (including the cash economy), avoidance, corporate taxpayers, and business activities that need medium-timeframe audits such as GST and PAYE. While we are doing this we are also making sure that compliance is maintained among lower-risk taxpayers.

### Audit strategy

The compliance model has influenced our approach to audit work and how it may improve taxpayer compliance. We aim to assess risks more accurately and raise overall compliance levels with new approaches. Our audit strategy includes the recommendations from the 2003 report of the Office of the Auditor-General<sup>18</sup>. This report focused on ways of improving audit systems and practices as well as improving the skills of audit staff.

<sup>18</sup> Controller and Auditor-General, *Inland Revenue Department: Performance of Taxpayer Audit*, 2003.

Our audit strategy objectives are to:

- have a consistent audit framework
- show clearly the links between the compliance model and our audit activities
- develop our skills to deal with the changing demands of the audit role
- provide technology and tools to support our people capability, the audit process and knowledge management
- develop a process to manage our audit knowledge and improve our decision-making capability.

Over the next five years, we will improve audit capability by:

- improving the techniques and processes we use to identify compliance risks
- training and developing audit staff across a range of communication, negotiation and technical skills
- making auditors more mobile and efficient through technology
- developing effective performance measures.

As we make these changes, we need to carry out research to help us understand the taxpayer's view of audits and the effect of auditing on compliance.

### Focus areas for audit work in the future

We will continue to focus our audit work on high-risk taxpayers while making sure that compliance is maintained among lower-risk taxpayers. Our focus areas are:

- **large enterprises**—these are mainly companies with turnover of more than \$100 million and other taxpayers covered by special arrangements. They are handled by our Corporates group. In this area we are focusing on:
  - improving risk identification tools and methodologies to allow more targeted responses. This will allow us to improve the focus and allocation of resources on significant areas of risk including: allocation of purchase price to underlying assets, cross-border issues and structuring of intellectual property.
- developing “real-time” auditing methods, that is auditing the taxpayer's current position, rather than the existing retrospective process.
- high wealth individuals, where there are often complex legal structures with international links. Consequently, we have been focusing on getting a better understanding of their arrangements and have commenced full audits in a number of cases.
- transfer pricing mechanisms. Although these are mainly an issue for large multinational enterprises, we are also addressing the significant number of such transactions carried out by small- and medium-sized enterprises.
- gaining a greater understanding of tax arrangements in trading partners' jurisdictions such as Australia, as these arrangements are likely to affect the pattern of investment in New Zealand.
- structured financing arrangements where we continue to review such arrangements.
- **avoidance schemes**—tax avoidance schemes are frequently marketed to investors with offers of a disproportionate tax benefit compared to their investment. Their purpose is to reduce or even completely eliminate tax obligations. We will continue to build on our success in this area and challenge these schemes as they may arise.
- **tax evasion**—these are cash transactions kept outside recording systems (the cash economy), employers who deliberately understate their income, do not keep PAYE records, and fraud that is based on attempting to claim false GST credits. Identifying and taking action in the cash economy is a particular focus of our Industry Partnership work.
- **medium-timeframe audits**—these audits are mainly to verify GST and PAYE payments.



## Example: Tax evasion in the fruitpicking industry

Our audit activities in the fruitpicking industry illustrate our approach to dealing with tax evasion. Our activities have been centred on the large fruitgrowing regions of Bay of Plenty, Hawke's Bay, Otago and Marlborough. We are providing education, carrying out audits and working with industry bodies to improve compliance. Over the last nine months we have:

- completed 123 cases, with a further 180 under way
- assessed \$7 million in audit discrepancies
- successfully prosecuted nine cases with the average sentence handed down being 15 months' imprisonment.

To further prevent non-compliance we also intend to strengthen the proof of identity required to issue an IRD number and reviewing withholding tax regulations for companies in the agricultural contracting sector.

Legitimate orchardists, contractors and pickers working in the industry are welcoming Inland Revenue's efforts to stamp out tax fraud.



## Adjudication and rulings

Taxpayers can obtain binding rulings to give certainty on how the tax law applies to their particular circumstances. Our Rulings Units issue private, product and public binding rulings, as well as statutory determinations, and interpretation statements and guidelines. Fees are charged for private rulings and rulings are generally sought when there are large amounts of revenue at issue. Our Rulings Units also deal with issues which may be escalated when there are different views about how the law should apply to particular arrangements or matters.

The Adjudication Unit, as part of the disputes resolution process, takes a fresh look at tax disputes in an impartial and independent way. Disputes are referred to Adjudication for a final decision before matters go to Court.

Over the next three to five years, key issues include:

- maintaining our efficiency and timeliness in relation to adjudications and rulings
- developing our capability to effectively handle issues escalated from other areas of Inland Revenue
- streamlining business processes
- improving internal and external communications.

Developing our staff capability is central to achieving improvement in these areas. We will continue to recruit staff with the necessary skills and experience to handle our work, and have already introduced a number of initiatives to enhance retention of existing staff.

Adjudication and Rulings will continue to improve its internal and external communications, including effective liaison with other areas of Inland Revenue. It will also continue to work closely with organisations such as ICANZ, the Law Society and the International Fiscal Association.

# Enhance our people capability

We need to have the right capability to achieve our outcomes both now and in the future. Building our people skills is the most important part of our capability development.

The main focus of our people capability development is our *Human Resources Strategy (2004–06)*. The strategy supports the goals of the State Services Commission's *HR Framework*. It describes our development priorities to:

- support our outcomes, desired future and strategic direction
- meet government and community expectations, and those we set for ourselves.

The strategy focuses on three key areas: leadership, internal relationships, and people capability. Our people capability is also important to the strengthening of our external relationships.

## Leadership

Given the complexity and dynamic nature of our work our leaders need to be highly skilled. They need to:

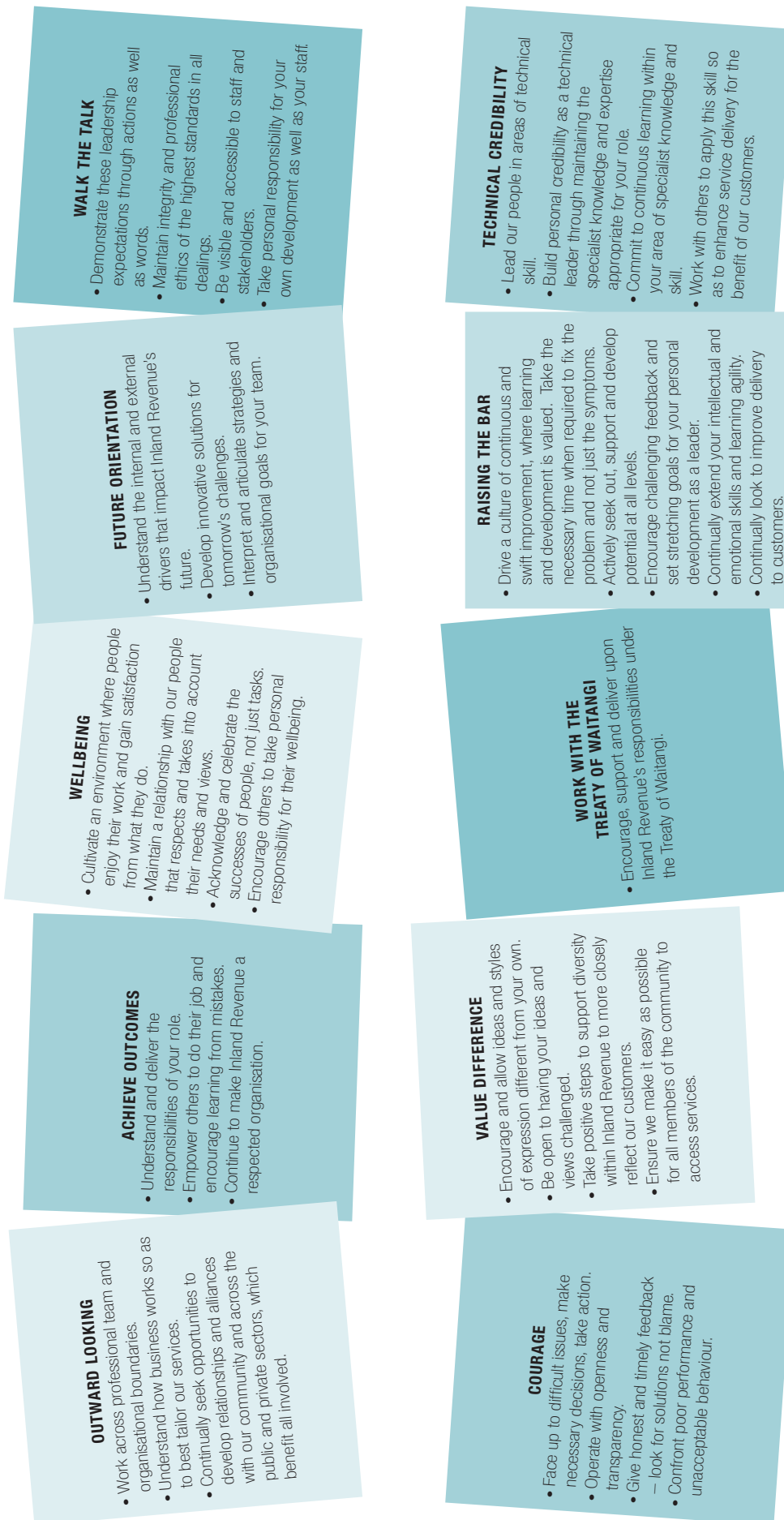
- create an environment where people are keen to learn, grow and deliver on our outcomes
- understand the community and business environment and how it relates to their work
- make sure our people have confidence in their leadership.

We measure confidence in our leadership through our climate survey. In 2004 our people were seven percentage points more positive about our leadership than they were in 2003.

Helping us to build our leadership capability are our leadership expectations and leadership programmes.

Our Leadership Framework (Figure 20) describes what we expect from our leaders. We measure how well our leaders meet the leadership expectations through performance management, climate surveys (see *Internal relationships*) and 360-degree feedback results.

**Figure 20 –  
Our leadership expectations**





## Developing capable team leaders

Almost all our team leaders have attended a specially designed development course, introduced in 2002–03. The programme aims to create a common understanding of our leadership expectations, and consistent understanding and use of core management tools across Inland Revenue. Initial feedback indicates that the programme is achieving its aims. We are continuing to tailor the course for new team leaders. Our focus will be ongoing leadership development for existing and aspiring team leaders, including improving communications among team leaders.



Commissioner David Butler addresses participants in a leadership development course for Inland Revenue team leaders. From left: Anu Anand, Jacqui Smith, Rita Aiono, Bevan Spalding.

All our managers attend our *Leadership in Inland Revenue* course, take part in learning groups, management forums, and other opportunities. We are focusing on:

- identifying additional skill development modules that will lead to more individual development programmes
- linking our programmes more directly to the Leadership Development Centre's Executive Leadership Programme with continued work on succession planning and talent management.

## Internal relationships

Inland Revenue is a large employer with 4,759<sup>19</sup> staff located in 17 cities and towns. We spend 61.6% of the department's budget on personnel. We have a significant investment in investigators, call centre operators and information technology specialists. This investment reflects our roles in processing high volumes of transactions, providing information, and making sure people comply.

It is important that we have a good relationship with our people. Our annual climate survey gives us a clear benchmark of the relationship we have with our people, see Figure 21.

**Figure 21 –  
Climate survey results**

|                                             | Inland Revenue's results |      |      |      | Benchmark<br>(Public and private<br>sector organisations) |
|---------------------------------------------|--------------------------|------|------|------|-----------------------------------------------------------|
|                                             | 2001                     | 2002 | 2003 | 2004 |                                                           |
| Support for our business plan               | 57%                      | 60%  | 59%  | 72%  | 45%                                                       |
| Confidence in Inland Revenue as an employer | 37%                      | 43%  | 47%  | 52%  | 45%                                                       |

<sup>19</sup> Full-time equivalents as at March 2005.

The result for “confidence in Inland Revenue as an employer” is in the top 25% of organisations participating in the benchmark, and for support for our business plan we are in the top 5% of organisations.

The information we receive from our climate survey helps us to ensure we are meeting the standards of a good employer, while identifying any areas for further development. This includes Inland Revenue responding to the Government’s *Pay and Employment Equity* plan. We will agree with the State Services Commission the timing for an audit of our organisational policies and practices about pay and employment equity outcomes.

We will be using the audit methodology and tools established by the Department of Labour’s Pay and Employment Equity Unit. The audit and any improvements to our organisational policies and practices are expected to be completed by December 2006.

## Health and wellbeing

One of the leadership expectations is wellbeing. Leaders are expected to encourage others to take responsibility for their own safety and wellbeing. Inland Revenue’s safety and wellbeing needs are influenced by the way we deliver our services to taxpayers and other customers. Over the next five years we will see an increase in staff working away from their offices. We will need to make sure that our health and wellbeing systems give them effective support.

Our current focus is on making sure that we have got the basics right. This includes:

- having committed, well-trained, and knowledgeable health and safety committees
- having hazard management processes that meet best practice standards
- identifying any areas of possible risk to the organisation.

We must also make sure that existing practices such as the *Workplace Safety Management Programme* are working effectively and comply with relevant health and safety legislation<sup>20</sup>.

## Relationships with unions

Nearly 70%<sup>21</sup> of our staff are represented by unions.

Inland Revenue’s strong relationship with the Public Service Association (PSA), which represents nearly 2,700 staff, is reflected in the Partnership Agreement entered into in July 2004. We recognise the benefits that arise for the department and PSA members as a result of their collective participation (through the PSA) in a wide range of initiatives and projects. The Partnership Agreement (which is consistent with the *Partnership for Quality Agreement* between the PSA and the government) formally outlines the nature of our relationship and provides the framework for the way we work together. The Agreement recognises our common interests, confirms our commitment to engaging each other with openness and integrity, and also acknowledges our independence as separate organisations with distinct and sometimes different aims.

Inland Revenue also has a strong relationship with Taxpro, which represents more than 750 of our people. The strength of the Inland Revenue–Taxpro relationship is reflected in our 2004 agreement and in the constructive way we engage in a wide range of activities together.

New collective employment agreements will be negotiated and agreed with the PSA and Taxpro during the year.

<sup>20</sup> *Health and Safety in Employment Act 1992.*

<sup>21</sup> As at December 2004.

## People capability

We need to have a thorough understanding of our current capability so we can address current and future needs. We have recently reviewed our dedicated people capability resources. From that review, we are strengthening our people capability function so that it clearly links strategic direction with:

- learning and development
- talent management
- succession planning
- technology to accurately access, track and project our future people capability needs.

In addition, our diversity strategy sets out our commitment to valuing the differences among our people. Through research and improving our understanding of the needs of the various groups in the community, our diversity strategy contributes to our ability to achieve outcomes that benefit Inland Revenue.

## Technical capability

Many of our business areas need more staff who are qualified and technically skilled to manage:

- the increasingly complex tax technical administration work
- our growing social policy role, especially resulting from implementing the *Working for Families* package.

Our technical capability is critical for the achievement of our outcomes. Our approach to enhancing our tax and social policy technical capability is through internal and external training, and the influences of our qualifications and e-learning strategies. We have increased our level of tax and social policy technical competencies by an average staff movement of 5.7% in the period from 1 July to 31 December 2004.

## Capability strategies

To achieve our future outcomes, we need to recruit and retain highly trained and technically competent people, and develop greater flexibility to deal with external changes. We will also need to give talented people career choices within Inland Revenue. This aim is in line with the State Services Commission's development goal of the state sector being an employer of choice, attractive to high achievers.

We need to provide ongoing learning for our people to support the outcomes we strive to achieve. We introduced our qualifications and e-learning strategies in 2003–04 to address our need for more qualified and skilled staff.

Our qualifications strategy will be delivered through:

- **a parallel qualifications framework** with the New Zealand Qualifications Authority and the Public Service Training Organisation. This will give our people the opportunity to complete technical and non-technical qualifications in a range of subject areas. We have 37 Inland Revenue-specific unit standards registered on the qualifications framework.
- **working with universities** to explore flexible ways of delivering selected components of standard courses. This would allow our people to structure both technical and non-technical qualifications to align more closely with our business objectives. For example, our *Headstart* programme has helped 43 people to complete the National Certificate in Administration of Revenue Law within an accelerated 12-month timeframe, instead of the standard two to three years. Other examples include our work with:
  - the University of Auckland in offering our staff an extramural postgraduate Master of Tax degree programme
  - Victoria University of Wellington, by providing presentations to public sector-related courses conducted by the School of Government
  - the Australia and New Zealand School of Government (ANZSoG).

- **our internal training framework** promotes ongoing training and professional membership. For example, we are the third largest employer of ICANZ members with 286 professionally qualified staff having membership. We are also an ICANZ Approved Training Organisation. This means we are able to offer our accounting graduates the type of work that fulfils the practical experience requirements for admission to the College of Chartered Accountants and College of Accounting Technicians.

In addition, our audit capability work and our investment in our investigators training framework will mean our competence levels in audit will be markedly increased over previous years and this will place us well for the future. For example, in the 2003–04 year, over 80% of external recruits to investigator, advisor and senior positions in the Corporates group, had one or more undergraduate degrees. We continue to promote further training with over 150<sup>22</sup> of our investigation staff studying towards gaining a qualification or professional membership.

## External relationships

The strength of our relationships with the community, business, tax professionals, the wider public sector, and other tax administrations contributes directly to our ability to achieve our outcomes. (Relationships with the community, tax professionals, and businesses are covered in earlier sections of this document.)

### Public sector

We deliver a wide range of tax and social support services to the community. We need to work closely with other agencies, especially government agencies, to deliver these services in the best possible way. This is illustrated by:

- **Working for Families** where we are working closely with the Ministry of Social Development
- **student loans** where we are working closely with the Ministry of Education and StudyLink

- **paid parental leave** where we deliver services on behalf of the Department of Labour.

We work with central agencies, such as the State Services Commission, The Treasury and Te Puni Kōkiri so that we align with government priorities and deal with cross-sector issues. Because tax affects so many areas, our Policy Advice Division works with many other government departments in the development of tax policy. For example, we are currently working with the Ministry of Economic Development and The Treasury on the Government's work-based savings scheme.

### International organisations

We have strong relationships with other tax administrations, the Organisation for Economic Cooperation and Development (OECD), Commonwealth Association of Tax Administrations (CATA) and the Study Group on Asian Tax Administration and Research (SGATAR). This allows us to benefit from the expertise of other tax administrations and develop best practice policy and processes. Closer relations between Inland Revenue and other international tax organisations will also allow us to minimise the risks and make the most of the opportunities from e-commerce and economic globalisation. In particular, we have frequent and ongoing discussions and liaison with the Australian Taxation Office and the Australian Treasury on issues of mutual interest at strategic, policy and operational levels.

We are also continuing to compare our performance with that of other tax administrations. This comparison helps us to determine areas of possible risk or where we need to improve our performance.

<sup>22</sup> As at June 2004.

# Enhance the administration of our social policy business

Inland Revenue has an important and growing role in delivering key aspects of the Government's social assistance programme. We make sure people receive their family assistance, child support and paid parental leave entitlements, and that they make child support and student loan payments.

Over the next three years we will be working on:

- implementing two major government initiatives: the work-based savings scheme and the further stages of the *Working for Families* package of social assistance reforms
- improving child support compliance (by encouraging payment of child support in full and on time and addressing child support debt)
- implementing Government changes to paid parental leave
- making it easy for student loan borrowers to meet their repayment obligations.

## Work-based savings scheme

Budget 2005 includes a savings package focused on encouraging a change in the savings behaviour of individuals. One element of the savings package is the introduction of a work-based savings scheme (WBSS). Inland Revenue will be the central administrator of the WBSS, receiving contributions that have been deducted from individuals' pay by employers and distributing them to selected fund providers or to default fund(s).

The design of the WBSS will provide a simple process so that individuals can make contributions from their wages and salary. This is to encourage participation by making it as easy as possible for people to begin saving in the scheme, while minimising compliance costs for employers by using existing Inland Revenue systems.

Over the next 21 months, the detailed scheme design will be largely completed and Inland Revenue, working closely with a number of other government agencies and in consultation with industry groups, will implement the systems and processes required for the WBSS to be operational from 1 April 2007.

## Family assistance and *Working for Families*

There is a range of entitlements under the family assistance umbrella that provide financial support for low- and middle-income families with dependent children. Family assistance programmes are administered jointly by Inland Revenue and the Ministry of Social Development (MSD). We are mainly responsible for delivering family income assistance to working families. MSD is responsible for the delivery of family support (one of the components of family assistance) to people on a benefit and other supplementary assistance.

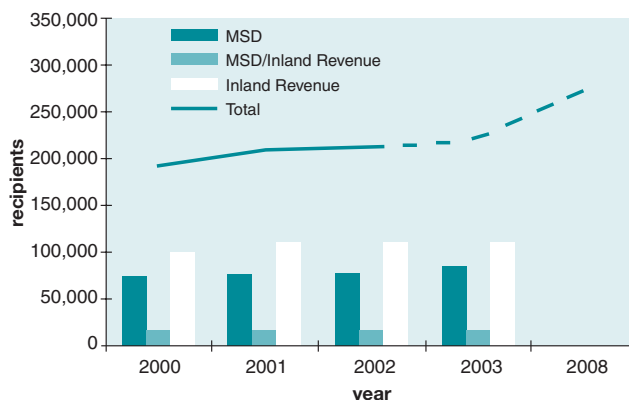
We are working in partnership with MSD to develop and implement the *Working for Families* package over the next three years. *Working for Families* contributes to the Government's goal of *Reducing inequalities* in health, education, employment and housing by making sure people are better off being in work.

In April 2005, *Working for Families* enhancements were introduced for a number of entitlements and further enhancements will be implemented progressively over the next two years. One important change for Inland Revenue will be the introduction, in April 2006, of the In-Work Payment to replace the child tax credit (another component of family assistance).

When *Working for Families* is fully implemented in 2007–08, the total amount delivered by the two agencies will provide help to nearly 290,000 working families (about 61% of all families). This will include an extra 48,000 families who were not previously eligible for assistance.



**Figure 22 –  
Family assistance recipients**



By implementing *Working for Families*, we are:

- making sure we provide a seamless service for customers moving from benefit to work
- accommodating the larger number of customers by improving our existing systems and delivery services
- encouraging our customers to take up the additional entitlements available through MSD, such as childcare and accommodation assistance.

Making sure families know about the changes to family assistance is an important part of our work. We are working with MSD to tell people about the help *Working for Families* can offer them. We are encouraging people to apply to us and MSD so they receive the full range of financial help to which they are entitled.

We will carry out joint evaluation studies with MSD to monitor the success of the *Working for Families* programme. Over the next four years the studies will:

- report on the impact the changes have had on incomes and employment of eligible families
- give feedback on the way the programme has been implemented.



## Child support

The Child Support Scheme was implemented in 1992. Child support is money paid by parents not living with their children to help financially support those children. The payments received from paying parents are either passed on to the person caring for the child(ren) or directly to the Crown if the custodian receives a benefit. Since the Child Support Scheme began, we have collected 86.4% of the child support assessed. This performance is at a similar level to Australia<sup>23</sup> and compares very well to the 40.7% collection rate achieved before the 1992 scheme. It is also among the highest collection rates achieved by any similar scheme used in other countries.

We have primary responsibility for administering child support and providing policy advice. We encourage paying parents to meet payment obligations of their own accord, so that custodians receive the payments they are entitled to and children are able to participate in society. The compliance model helps us understand how we can promote an environment where paying parents voluntarily meet their obligations.

Our Child Support plan, *Looking Forward to 2010*, has three goals:

- **customer independence** means that we encourage parents to negotiate their own agreements, removing the need for our involvement. We will further develop customer independence by improving our relationships with the community. We will make sure our services meet customers' needs, be easy to use, and help people to manage their own arrangements.
- **highly capable Child Support team.** To deliver our outcomes for customers and government we need to have people who are customer-focused, knowledgeable, and professional. They need to acquire, apply, and reinforce their learning, and show that they understand the impact and consequences of our work. We will continue to develop our people capability now and in the future, and recognise and reward our people for their achievements.

- **adding value to the community.** We support families by:
  - encouraging payment of child support in full and on time
  - actively managing debt when it does occur so custodial parents receive their entitlements
  - influencing public attitudes to child support so the community sees paying child support as contributing to families
  - working with other government agencies (for example, on issues such as family debt).

### Addressing child support non-compliance and debt

We are investing in Child Support to further address non-compliance and debt. This will allow us to:

- limit the growth of child support assessment debt (excluding debt from overseas agencies) to no more than 12% for 2005–06
- increase the percentage of payments made in full and on time to at least 70% by 2006–07
- decrease the amount of child support owed by parents now living in Australia.

We expect to achieve these improvements in compliance by:

- **better informing** new paying parents about the scheme
- **collecting debts earlier** (for example, coordinating with other areas of Inland Revenue about tax, and family assistance debt)
- **enforcing the law** when necessary (including court hearings to examine the parents' financial position and charging orders against property)
- **liaising** with other government agencies (for example, coordinating with the Customs Service regarding border movements).

<sup>23</sup> Excludes private collections.

Legislative changes are proposed as part of the Child Support Amendment Bill. These also focus on improving compliance and seek to address child support avoidance.

We are working to decrease the amount of child support owed by parents now living in Australia. The reciprocal agreement with the Australian Child Support Agency has been operating since 1 July 2000 and provides for the exchange of up to 100 cases per month. Between April and August 2004, a bulk exchange was negotiated resulting in approximately 2,300 New Zealand cases being transferred to Australia. At the end of December 2004, Australia was following up 3,528 cases worth \$93 million for New Zealand Child Support. Additional funding received in the 2005 Budget will allow us to increase initially by 3,000, the number of child support debt cases covered by the reciprocal agreement.

We have agreed that our joint long-term aim is to ensure that, regardless of whether parents live in New Zealand or Australia, moving between countries will not become a reason to default on their child support responsibilities. Both agencies will make sure that similar action is taken to enforce the law for people who do not comply. We are also discussing ways to improve international arrangements for child support issues in the longer term.

## Paid parental leave

Inland Revenue pays out paid parental leave on behalf of the Department of Labour. Over the next year we will continue to implement government changes including:

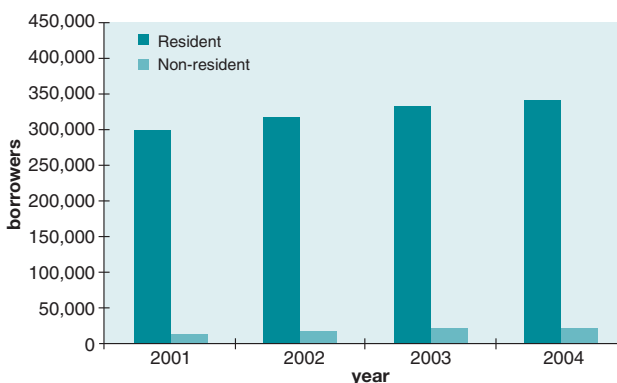
- an increase in the payment period from 13 to 14 weeks
- the extension of paid parental leave to include self-employed people.

This area of our work, like other social policy areas, will continue to grow because of increasing birth rates and changes signalled by the Government.

## Student loans

We provide student loan services to approximately 420,000 student loan borrowers, who collectively repaid \$447.2 million in 2003–04.

**Figure 23 –  
Student loan borrowers**



Over the next five years we will continue to encourage repayment of student loans by making it easy for borrowers to meet their repayment obligations. This focus will include undertaking research to improve our understanding of the various aspects of a student loan borrower's experience. The research will contribute to the development of strategies to enable us to more effectively respond to the expectations of borrowers and to improve compliance levels.

We are also continuing to work with other government agencies on the delivery of the student loan scheme. A key aspect of this work is overdue student loan repayments, in particular the collection of student loan repayments from borrowers based overseas, as well as incentives to encourage voluntary repayments.

In May 2004 we introduced credit card payments to aid borrowers based overseas. By 31 March 2005 we had received 2,836 payments totalling \$2.8 million. We have now extended the scheme to Child Support customers living overseas.



To help student loan borrowers to understand their repayment obligations and to improve compliance we will continue to promote:

- the specialist [www.owezero.org.nz](http://www.owezero.org.nz) website, which has online calculators and gives repayment scenarios
- information seminars (in conjunction with StudyLink)
- our Social Policy Liaison Officers who attend events to inform people about student loan responsibilities.



## PART THREE

# Forecast departmental financial statements and service performance



# Statement of responsibility

The forecast financial statements for Inland Revenue for the year ending 30 June 2006 contained in this report were prepared in accordance with sections 38–42 of the Public Finance Act 1989.

The Chief Executive of Inland Revenue acknowledges, in signing this statement, that he is responsible for the forecast financial statements contained in this report.

The financial performance forecast to be achieved by Inland Revenue for the year ending 30 June 2006 that is specified in the statement of forecast service performance is as agreed with the Minister of Revenue, who is the Minister responsible for the financial performance of the Inland Revenue Department.

The performance for each class of outputs forecast to be achieved by Inland Revenue for the year ending 30 June 2006 that is specified in the statement of forecast service performance, is as agreed with the Minister of Revenue, who is responsible for the Vote administered by the department.

We certify that the information contained in this report is consistent with the existing appropriations and the appropriations contained in the Estimates for the year ending 30 June 2006 that are being laid before the House of Representatives under section 9 of the Public Finance Act 1989.

Signed



Chief Executive

11 April 2005

Countersigned



Acting Chief Financial Officer

11 April 2005

# Statement of accounting policies

for the year ending 30 June 2006

## Reporting entity

Inland Revenue is a government department as defined by section 5(9) of the Public Finance Act 1989.

These are the forecast financial statements of Inland Revenue prepared pursuant to sections 38–42 of the Public Finance Act 1989.

## Measurement system

These financial statements have been prepared on the basis of historical cost unless otherwise stated.

## Accounting policies

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

### Revenue

Inland Revenue derives revenue through the provision of outputs to the Crown, other government departments, and for services to third parties. Such revenue is recognised when earned and is reported in the financial period it relates to.

### 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 the key functional activities within the department. 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 actual hours and relevant activity drivers. Premises costs are charged to business processes based on a combined floor space and actual hours allocation.

Business process costs are allocated to outputs based on specific historical activity drivers for each business process.

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 directly attributed to a business process are apportioned to outputs based on planned business process activity allocations to outputs.

### Capital charge

The Crown charges Inland Revenue a levy on taxpayers' funds at the rate of 8% on the capital employed. This charge is based on the taxpayers' funds held by Inland Revenue as at 31 December and 30 June each financial year, and paid in arrears.

### Debtors and receivables

Receivables are recorded at estimated realisable value, after providing for doubtful and uncollectable debts.

## Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Inland Revenue leases office premises, computer hardware and office equipment. Inland Revenue has no leases classified as finance leases.

## Fixed assets

The cost of a fixed asset 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. The capitalisation thresholds are:

|                                |                   |
|--------------------------------|-------------------|
| Computers                      | All               |
| Software development           | \$50,000 and over |
| Software purchases             | \$5,000 and over  |
| Set up of new site or activity | \$20,000 and over |
| Other assets                   | \$2,000 and over  |
| Grouped assets                 | \$20,000 and over |

Any write-down of an item to its recoverable amount is recognised in the *Statement of Forecast Financial Performance*.

Assets under construction represent the costs of assets under development. The cost comprises direct labour, material purchased and overheads, if appropriate. There are currently two categories:

- leasehold improvements
- software and IT equipment.

When assets under construction are completed and become operational they are recognised as fixed assets and depreciated over their useful lives.

## Depreciation

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

|                        |             |
|------------------------|-------------|
| Motor vehicles         | 5 years     |
| IT equipment           | 3 – 5 years |
| Office equipment       | 5 years     |
| Furniture              | 7 years     |
| Leasehold improvements | 5 – 7 years |
| Software               | 5 – 7 years |

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease, or the estimated remaining useful lives of the improvements, whichever is shorter.

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.

## Employee entitlements

Provision is made for Inland Revenue's liability for annual, long-service and retirement leave and time off in lieu. Annual leave, time off in lieu and other entitlements that are expected to be settled within 12 months of reporting date are measured at nominal values on an actual entitlement basis at current rates of pay.

Entitlements that are payable beyond 12 months, such as long-service leave and retiring leave, have been calculated on an actuarial basis based on the present value of expected future entitlements.

## Statement of forecast cash flows

*Cash* means cash balances on hand, and held in bank accounts.

*Operating activities* include cash received from all income sources of Inland Revenue, and record the 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.

## Foreign currency

Foreign currency transactions are converted into New Zealand dollars at the exchange rate at the date of the transaction. Where a foreign exchange cover has been used to establish the price of a transaction, the forward rate specified in that foreign exchange cover is used to convert that transaction to New Zealand dollars. Consequently, no exchange gain or loss resulting from the difference between the forward exchange contract rate and the spot exchange rate on date of settlement is recognised.

## Financial instruments

Inland Revenue is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, debtors and creditors. All financial instruments are recognised in the *Statement of Forecast Financial Position* and all revenues and expenses in relation to financial instruments are recognised in the *Statement of Forecast Financial Performance*. All financial instruments are shown at their estimated fair values.

## Goods and services tax (GST)

The *Statement of Forecast Financial Position* is exclusive of GST except for creditors and payables, and debtors and receivables, which are GST-inclusive. All other financial statements and notes are GST-exclusive.

The 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 payables, or debtors and receivables (as appropriate).

## Taxation

Government departments are exempt from the payment of income tax in terms of the Income Tax Act 1994.

Accordingly, no charge for income tax has been provided for.

## Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that they are equally unperformed obligations.

## Taxpayers' funds

This is the Crown's net investment in Inland Revenue.

## **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.

All policies have been applied on a basis consistent with the previous year.



# Statement of Forecast Financial Performance

## for the year ending 30 June 2006

|                                 | Budgeted       | Estimated<br>actual | Forecast       |
|---------------------------------|----------------|---------------------|----------------|
|                                 | 2005           | 2005                | 2006           |
|                                 | \$000          | \$000               | \$000          |
| <b>Revenue</b>                  |                |                     |                |
| Crown                           | 405,194        | 405,194             | 445,485        |
| Other                           | 27,835         | 27,835              | 29,436         |
| <b>Total operating revenue</b>  | <b>433,029</b> | <b>433,029</b>      | <b>474,921</b> |
| <b>Expenditure</b>              |                |                     |                |
| Personnel expenses              | 262,535        | 262,535             | 295,571        |
| Operating expenses              | 128,648        | 128,648             | 135,828        |
| Depreciation                    | 34,823         | 34,823              | 34,823         |
| Capital charge                  | 7,023          | 7,023               | 8,699          |
| Loss on sale of fixed assets    | 0              | 0                   | 0              |
| <b>Total operating expenses</b> | <b>433,029</b> | <b>433,029</b>      | <b>474,921</b> |
| <b>Net surplus/(deficit)</b>    | <b>0</b>       | <b>0</b>            | <b>0</b>       |

The accompanying accounting policies form part of these financial statements.

# Statement of Forecast Movements in Equity

## for the year ending 30 June 2006

|                                                            | Budgeted      | Estimated<br>actual | Forecast       |
|------------------------------------------------------------|---------------|---------------------|----------------|
|                                                            | 2005<br>\$000 | 2005<br>\$000       | 2006<br>\$000  |
| Surplus/(deficit) for year                                 | 0             | 0                   | 0              |
| <b>Total recognised revenues and expenses for the year</b> | <b>0</b>      | <b>0</b>            | <b>0</b>       |
| Equity at start of year                                    | 87,793        | 87,793              | 95,892         |
| Capital expenditure                                        | 8,099         | 8,099               | 22,518         |
| Repayment of capital to the Crown                          | 0             | 0                   | (679)          |
| Provision for repayment of surplus to the Crown            | 0             | 0                   | 0              |
| <b>Equity at end of year</b>                               | <b>95,892</b> | <b>95,892</b>       | <b>117,731</b> |

The accompanying accounting policies form part of these financial statements.

# Statement of Forecast Financial Position

as at 30 June 2006

|                                                 | Budgeted       | Estimated<br>actual | Forecast       |
|-------------------------------------------------|----------------|---------------------|----------------|
|                                                 | 2005<br>\$000  | 2005<br>\$000       | 2006<br>\$000  |
| <b>Taxpayers' funds</b>                         |                |                     |                |
| Taxpayers' funds                                | 95,892         | 95,892              | 117,731        |
| <b>Total taxpayers' funds</b>                   | <b>95,892</b>  | <b>95,892</b>       | <b>117,731</b> |
| Represented by:                                 |                |                     |                |
| <b>Current assets</b>                           |                |                     |                |
| Cash                                            | 9,922          | 9,922               | 10,567         |
| Prepayments                                     | 3,000          | 3,000               | 3,000          |
| Debtor Crown                                    | 22,000         | 22,000              | 27,000         |
| Debtors and receivables                         | 2,837          | 2,837               | 2,887          |
| <b>Total current assets</b>                     | <b>37,759</b>  | <b>37,759</b>       | <b>43,454</b>  |
| <b>Non-current assets</b>                       |                |                     |                |
| Fixed assets                                    | 114,644        | 114,644             | 132,532        |
| <b>Total non-current assets</b>                 | <b>114,644</b> | <b>114,644</b>      | <b>132,532</b> |
| <b>Total assets</b>                             | <b>152,403</b> | <b>152,403</b>      | <b>175,986</b> |
| <b>Current liabilities</b>                      |                |                     |                |
| Creditors and payables                          | 17,898         | 17,898              | 19,213         |
| Provision for repayment of surplus to the Crown | 0              | 0                   | 0              |
| Provision for employee entitlements             | 12,875         | 12,875              | 13,722         |
| Provision for restructuring expenses            | 722            | 722                 | 570            |
| <b>Total current liabilities</b>                | <b>31,495</b>  | <b>31,495</b>       | <b>33,555</b>  |
| <b>Non-current liabilities</b>                  |                |                     |                |
| Provision for employee entitlements             | 23,540         | 23,540              | 23,794         |
| Provision for restructuring expenses            | 1,476          | 1,476               | 906            |
| <b>Total non-current liabilities</b>            | <b>25,016</b>  | <b>25,016</b>       | <b>24,700</b>  |
| <b>Total liabilities</b>                        | <b>56,511</b>  | <b>56,511</b>       | <b>58,255</b>  |
| <b>Net assets</b>                               | <b>95,892</b>  | <b>95,892</b>       | <b>117,731</b> |

The accompanying accounting policies form part of these financial statements.

# Statement of Forecast Cash Flows

## for the year ending 30 June 2006

|                                                     | Budgeted               | Estimated<br>actual    | Forecast               |
|-----------------------------------------------------|------------------------|------------------------|------------------------|
|                                                     | 2005<br>\$000          | 2005<br>\$000          | 2006<br>\$000          |
| <b>Cash flows – operating activities</b>            |                        |                        |                        |
| <b>Cash provided from:</b>                          |                        |                        |                        |
| Supply of outputs to                                |                        |                        |                        |
| – Crown                                             | 419,360                | 419,360                | 440,485                |
| – departments                                       | 2,817                  | 2,817                  | 4,418                  |
| – other                                             | 25,018                 | 25,018                 | 25,018                 |
| Interest                                            | 0                      | 0                      | 0                      |
|                                                     | <u>447,195</u>         | <u>447,195</u>         | <u>469,921</u>         |
| <br>Cash applied to:                                |                        |                        |                        |
| Cost of producing outputs                           |                        |                        |                        |
| – personnel                                         | 267,786                | 267,786                | 302,423                |
| – operating                                         | 122,442                | 122,442                | 127,250                |
| – net GST paid                                      | 1,091                  | 1,091                  | 32                     |
| – capital charge                                    | 7,023                  | 7,023                  | 8,699                  |
|                                                     | <u>398,342</u>         | <u>398,342</u>         | <u>438,404</u>         |
| <b>Net cash inflow from operating activities</b>    | <u><b>48,853</b></u>   | <u><b>48,853</b></u>   | <u><b>31,517</b></u>   |
| <br><b>Cash flows – investing activities</b>        |                        |                        |                        |
| <b>Cash provided from:</b>                          |                        |                        |                        |
| Sale of fixed assets                                | 0                      | 0                      | 0                      |
| <br><b>Cash disbursed for:</b>                      |                        |                        |                        |
| Purchase of fixed assets                            | (60,717)               | (60,717)               | (52,711)               |
| <b>Net cash (outflow) from investing activities</b> | <u><b>(60,717)</b></u> | <u><b>(60,717)</b></u> | <u><b>(52,711)</b></u> |
| <br><b>Cash flows – financing activities</b>        |                        |                        |                        |
| <b>Cash provided from:</b>                          |                        |                        |                        |
| Capital expenditure                                 | 8,099                  | 8,099                  | 22,518                 |
| <br><b>Cash disbursed for:</b>                      |                        |                        |                        |
| Repayment of surplus                                | 0                      | 0                      | 0                      |
| Capital repayment                                   | 0                      | 0                      | (679)                  |
|                                                     | <u>0</u>               | <u>0</u>               | <u>(679)</u>           |
| <b>Net cash (outflow) from financing activities</b> | <u><b>8,099</b></u>    | <u><b>8,099</b></u>    | <u><b>21,839</b></u>   |
| <br>Net inc/(dec) in cash held                      | (3,765)                | (3,765)                | 645                    |
| Opening cash                                        | 13,687                 | 13,687                 | 9,922                  |
| <b>Closing cash</b>                                 | <u><b>9,922</b></u>    | <u><b>9,922</b></u>    | <u><b>10,567</b></u>   |

The accompanying accounting policies form part of these financial statements.

# Reconciliation of Net Surplus to Net Cash Flow from Operating Activities

for the year ending 30 June 2006

|                                                  | Budgeted      | Estimated<br>actual | Forecast       |
|--------------------------------------------------|---------------|---------------------|----------------|
|                                                  | 2005<br>\$000 | 2005<br>\$000       | 2006<br>\$000  |
| Net surplus/(deficit)                            | 0             | 0                   | 0              |
| <b>Add non-cash items</b>                        |               |                     |                |
| Depreciation                                     | 34,823        | 34,823              | 34,823         |
| Inc/(dec) in non-current employee entitlements   | 243           | 243                 | 254            |
| Inc/(dec) in non-current restructuring expenses  | (722)         | (722)               | (570)          |
| Total non-cash items                             | <u>34,344</u> | <u>34,344</u>       | <u>34,507</u>  |
| <b>Add/(less) working capital movements</b>      |               |                     |                |
| Inc/(dec) in debtors and receivables             | 2,721         | 2,721               | (50)           |
| Inc/(dec) in prepayments                         | 4,389         | 4,389               | 0              |
| Inc/(dec) in debtor Crown                        | 14,166        | 14,166              | (5,000)        |
| Inc/(dec) in creditors and payables              | (3,889)       | (3,889)             | 1,315          |
| Inc/(dec) in current employee entitlements       | (1,343)       | (1,343)             | 897            |
| Inc/(dec) in current restructuring expenses      | (1,535)       | (1,535)             | (152)          |
| Working capital movements – net                  | <u>14,509</u> | <u>14,509</u>       | <u>(2,990)</u> |
| <b>Add/(less) investing activity items</b>       |               |                     |                |
| Net loss on sale of fixed assets                 | 0             | 0                   | 0              |
| Total investing activity items                   | <u>0</u>      | <u>0</u>            | <u>0</u>       |
| <b>Net cash inflow from operating activities</b> | <u>48,853</u> | <u>48,853</u>       | <u>31,517</u>  |

The accompanying accounting policies form part of these financial statements.

# Statement of Forecast Commitments

## as at 30 June 2006

|                                                                       | Budgeted       | Estimated actual | Forecast       |
|-----------------------------------------------------------------------|----------------|------------------|----------------|
|                                                                       | 2005           | 2005             | 2006           |
|                                                                       | \$000          | \$000            | \$000          |
| <b>Capital commitments</b>                                            |                |                  |                |
| <i>Equipment</i>                                                      |                |                  |                |
| Less than one year                                                    | 512            | 1,614            | 1,614          |
| <b>Total capital commitments</b>                                      | <b>512</b>     | <b>1,614</b>     | <b>1,614</b>   |
| <b>Operating commitments</b>                                          |                |                  |                |
| <i>Non-cancellable accommodation leases</i>                           |                |                  |                |
| Less than one year                                                    | 19,294         | 19,223           | 15,211         |
| One to two years                                                      | 16,490         | 15,211           | 11,251         |
| Two to five years                                                     | 29,099         | 19,198           | 11,154         |
| Over five years                                                       | 34,689         | 3,217            | 2,092          |
| <b>Total accommodation commitments</b>                                | <b>99,572</b>  | <b>56,849</b>    | <b>39,708</b>  |
| <i>Other non-cancellable leases</i>                                   |                |                  |                |
| Less than one year                                                    | 12,096         | 8,435            | 21,135         |
| One to two years                                                      | 0              | 7,865            | 20,465         |
| Two to five years                                                     | 0              | 23,596           | 59,737         |
| Over five years                                                       | 0              | 7,865            | 23,819         |
| <b>Total other lease commitments</b>                                  | <b>12,096</b>  | <b>47,761</b>    | <b>125,156</b> |
| <i>Non-cancellable contracts for the supply of goods and services</i> |                |                  |                |
| Less than one year                                                    | 6,919          | 7,708            | 6,044          |
| One to two years                                                      | 241            | 365              | 216            |
| Two to five years                                                     | 0              | 648              | 648            |
| Over five years                                                       | 0              | 270              | 54             |
| <b>Total supply commitments</b>                                       | <b>7,160</b>   | <b>8,991</b>     | <b>6,962</b>   |
| <b>Total operating commitments</b>                                    | <b>118,828</b> | <b>113,601</b>   | <b>171,826</b> |
| <b>Total commitments</b>                                              | <b>119,340</b> | <b>115,215</b>   | <b>173,440</b> |

Operating leases include lease payments for premises, computer and IT equipment, and office equipment.

Inland Revenue has long-term leases on its premises at many locations throughout New Zealand. The annual lease payments are subject to regular reviews and the amounts disclosed as future commitments are based on the current rental rates.

Commitments for non-cancellable accommodation leases include commitments for the surplus space as a result of organisational restructuring. Provision has been made in the financial statements for the expected net expenses for the duration of the lease in respect of this surplus space.

Inland Revenue has entered into non-cancellable contracts for computer maintenance and other contracts for goods and services.

The accompanying accounting policies form part of these financial statements.

## Details of Forecast Fixed Assets by Category

as at 30 June 2006

|                                                    | At cost        | Accumulated depreciation | Net book value |
|----------------------------------------------------|----------------|--------------------------|----------------|
|                                                    | 2006           | 2006                     | 2006           |
|                                                    | \$000          | \$000                    | \$000          |
| Motor vehicles                                     | 4,939          | 1,567                    | 3,372          |
| IT equipment                                       | 55,041         | 36,275                   | 18,766         |
| Office equipment                                   | 20,276         | 16,611                   | 3,665          |
| Furniture                                          | 6,911          | 5,485                    | 1,426          |
| Leasehold improvements                             | 50,991         | 40,222                   | 10,769         |
| Software                                           | 333,872        | 254,916                  | 78,956         |
| Assets under construction (leasehold improvements) | 2,843          | 0                        | 2,843          |
| Assets under construction (software/IT equipment)  | 12,735         | 0                        | 12,735         |
| <b>Total</b>                                       | <b>487,608</b> | <b>355,076</b>           | <b>132,532</b> |

## Details of Historical Capital Expenditure

|                                                    | Actual<br>2001<br>\$000 | Actual<br>2002<br>\$000 | Actual<br>2003<br>\$000 | Actual<br>2004<br>\$000 |
|----------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Motor vehicles                                     | 694                     | 26                      | 605                     | 46                      |
| IT equipment                                       | 2,072                   | 8,420                   | 12,084                  | 6,387                   |
| Office equipment                                   | 1,605                   | 2,797                   | 1,314                   | 2,203                   |
| Furniture                                          | 151                     | 110                     | 64                      | 399                     |
| Leasehold improvements                             | 7,173                   | 6,122                   | 3,448                   | 2,842                   |
| Software                                           | 24,805                  | 8,510                   | 14,856                  | 10,799                  |
| Assets under construction (leasehold improvements) | (2,400)                 | 110                     | (925)                   | 156                     |
| Assets under construction (software/IT equipment)  | (11,312)                | 4,224                   | (6,855)                 | 10,895                  |
| <b>Total</b>                                       | <b>22,788</b>           | <b>30,319</b>           | <b>24,591</b>           | <b>33,727</b>           |



## Details of Forecast Capital Expenditure

|                                                    | Budgeted      | Estimated<br>actual | Forecast      |
|----------------------------------------------------|---------------|---------------------|---------------|
|                                                    | 2005<br>\$000 | 2005<br>\$000       | 2006<br>\$000 |
| Motor vehicles                                     | 1,500         | 1,500               | 1,500         |
| IT equipment                                       | 10,576        | 10,576              | 4,197         |
| Office equipment                                   | 1,107         | 1,107               | 1,103         |
| Furniture                                          | 200           | 200                 | 200           |
| Leasehold improvements                             | 3,286         | 3,286               | 2,000         |
| Software                                           | 33,685        | 33,685              | 24,147        |
| Assets under construction (leasehold improvements) | 2,500         | 2,500               | 3,000         |
| Assets under construction (software/IT equipment)  | 10,000        | 10,000              | 25,000        |
| <b>Total</b>                                       | <b>62,854</b> | <b>62,854</b>       | <b>61,147</b> |

Capital expenditure is forecast to be \$61,147,000 for the 2005–06 year. The authority for Inland Revenue's capital expenditure is section 24 of the Public Finance Act 1989.

The forecast capital expenditure for the 2005–06 financial year includes the routine replacement and upgrade of the department's assets to maintain and enhance capability, as well as the development of systems (software) for new Government initiatives.

# Summary of Departmental Output Expenses

for the year ending 30 June 2006

|  | Revenue<br>Crown<br>2006<br>\$000 | Revenue<br>other<br>2006<br>\$000 | Total<br>revenue<br>2006<br>\$000 | Total<br>expenses<br>2006<br>\$000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
|--|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------------|

## Vote: Revenue

### Output expense appropriations

|                                            |                |               |                |                |
|--------------------------------------------|----------------|---------------|----------------|----------------|
| Policy advice                              | 9,963          | 73            | 10,036         | 10,036         |
| Adjudication and Rulings                   | 5,885          | 1,140         | 7,025          | 7,025          |
| Information services                       | 115,988        | 929           | 116,917        | 116,917        |
| Revenue assessment and collection          | 64,749         | 1,958         | 66,707         | 66,707         |
| Management of debt and outstanding returns | 64,445         | 3,241         | 67,686         | 67,686         |
| Taxpayer audit                             | 117,842        | 919           | 118,761        | 118,761        |
| Assessment and collection of child support | 66,613         | 676           | 67,289         | 67,289         |
| Collection of ACC levies                   | 0              | 20,500        | 20,500         | 20,500         |
| <b>Total</b>                               | <b>445,485</b> | <b>29,436</b> | <b>474,921</b> | <b>474,921</b> |

All figures are GST-exclusive.

# Summary of Forecast Departmental Financial Results

for the year ending 30 June 2006

|                                           | Unit  | Budgeted<br>2005 | Estimated<br>actual<br>2005 | Forecast<br>2006 |
|-------------------------------------------|-------|------------------|-----------------------------|------------------|
| <b>Operating results</b>                  |       |                  |                             |                  |
| Revenue: Third parties                    | \$000 | 27,835           | 27,835                      | 29,436           |
| Output expenses                           | \$000 | 433,029          | 433,029                     | 474,921          |
| Operating surplus before capital charge   | \$000 | 7,023            | 7,023                       | 8,699            |
| Net surplus/(deficit)                     | \$000 | 0                | 0                           | 0                |
| <b>Working capital</b>                    |       |                  |                             |                  |
| Liquid ratio                              |       | 1.10             | 1.10                        | 1.21             |
| Current ratio                             |       | 1.20             | 1.20                        | 1.30             |
| Average payment period of trade creditors | Days  | 19.35            | 19.35                       | 19.40            |
| <b>Resource utilisation</b>               |       |                  |                             |                  |
| <i>Physical assets</i>                    |       |                  |                             |                  |
| Physical assets as % of total assets      | %     | 75%              | 75%                         | 75%              |
| Additions as % of physical assets         | %     | 53%              | 53%                         | 40%              |
| <i>Taxpayers' funds</i>                   |       |                  |                             |                  |
| Level at year-end                         | \$000 | 95,892           | 95,892                      | 117,731          |
| Taxpayers' funds as % of total assets     | %     | 63%              | 63%                         | 67%              |
| <b>Forecast net cash flows</b>            |       |                  |                             |                  |
| Surplus from operating activities         | \$000 | 48,853           | 48,853                      | 31,517           |
| (Deficit) from investing activities       | \$000 | (60,717)         | (60,717)                    | (52,711)         |
| Surplus from financing activities         | \$000 | 8,099            | 8,099                       | 21,839           |
| Net inc/(dec) in cash held                | \$000 | (3,765)          | (3,765)                     | 645              |

# Forecast service performance

The figures in brackets refer to performance standards for 2004–05.

All figures are GST-exclusive.

## 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.

### Output 1.1 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

##### Quantity

We will provide the Minister with:

- tax and social policy advice
- tax legislation
- rewritten tax legislation
- revenue forecasts in accordance with the agreed work programme.

### Quality

We will deliver all advice, legislation and forecasts in accordance with agreed quality criteria.

We will manage the development of policy in accordance with the Generic Tax Policy Process.

We will ensure that the Minister is satisfied with the quality of policy advice, tax legislation, revenue forecasts and rewritten legislation provided.

### Timeliness

We will provide or deliver:

- all reports and advice
- the tax and social policy work programme
- tax legislation
- rewritten legislation
- revenue forecasts

within the agreed timeframes.

## Output 1.2 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 and family assistance ministerial correspondence and supply of information.

### Performance measures

#### Quality

We will ensure that all answers are correct, complete, clear and appropriately referenced.

#### Timeliness

We will ensure that:

- at least 80% of replies to ministerial correspondence are forwarded for ministerial signature within 6 working days
- 100% within 10 working days

of receipt, where the information required to provide a response is readily available.

We will ensure that all responses to parliamentary questions are forwarded for ministerial approval in time to meet parliamentary deadlines.

### Activity forecast

#### Quantity

We will draft responses to an expected:

- 800 to 1,000 pieces of ministerial correspondence
- 200 to 250 parliamentary questions.

## Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$10,036,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 9,963                     | 73                        | 10,036                    | 10,036        |
| 2004–05          | 9,695                     | 34                        | 9,729                     | 9,729         |
| 2003–04          | 9,925                     | 6                         | 9,931                     | 9,997         |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                                                    |             |
|----------------------------------------------------|-------------|
| Policy advice in relation to tax and social policy | \$8,762,354 |
| Ministerial services                               | \$1,273,646 |

# OUTPUT EXPENSE 2

## ADJUDICATION AND RULINGS

### Description

This output expense provides services that contribute to people meeting payment obligations of their own accord and maintaining their confidence in the tax administration system. This is achieved by providing clear, correct, impartial and independent interpretations of Inland Revenue Acts (including other relevant laws and consideration of case law), to give guidance and (in some cases) certainty to taxpayers.

Activities undertaken:

- 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.

### Output 2.1 Adjudication

#### Description

This output involves:

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

#### Performance measures

##### Quality

We will ensure that all adjudication reports supporting each decision meet the purpose, logic and alternatives standards.

##### Timeliness

On average, we will complete all adjudication cases within 20 weeks of receipt of all necessary information.

#### Activity forecast

##### Quantity

We will complete an expected 50 to 70 adjudication cases.

### Output 2.2 Rulings

#### Description

This output involves:

- considering applications for and providing binding public, private and product rulings, and statutory determinations
- developing and publishing non-binding statements on the Commissioner's view of the law administered by Inland Revenue, for example interpretation statements and interpretation guidelines
- preparing and publishing statutory determinations and valuations (for example livestock valuations, taxpayer-specific accruals and depreciation determinations) and handling technical correspondence about these matters.

## Performance measures

### Quality

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.

We will ensure that all public items giving the Commissioner's view of the law meet the purpose, logic, alternatives, consultation and practicality standards.

We will ensure that all technical correspondence is correct, complete and clear.

### Timeliness

We will deliver at least:

- 50% of draft private and product binding rulings and draft taxpayer-specific statutory determinations within 3 months
- 70% within 5 months
- 80% within 9 months

of the receipt of any additional information necessary and the applicant accepting the cost estimate.

## Activity forecasts

### Quantity

We will finalise the Commissioner's ruling for an expected 700 to 1,100 technical issues contained in:

- applications for private and product binding rulings
- accrual and taxpayer-specific depreciation determinations
- technical correspondence.

We will publish or finalise consideration of an expected 30 to 50 public items, giving the Commissioner's interpretation of the law.

## Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$7,025,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 5,885                     | 1,140                     | 7,025                     | 7,025         |
| 2004–05          | 5,351                     | 1,111                     | 6,462                     | 6,462         |
| 2003–04          | 5,818                     | 1,091                     | 6,909                     | 6,942         |

During 2005–06, the costs of outputs to be supplied within this expense are:

|              |             |
|--------------|-------------|
| Adjudication | \$1,111,988 |
| Rulings      | \$5,913,012 |



# OUTPUT EXPENSE 3

## INFORMATION SERVICES

### 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 clients (excluding child support—see output expense 7)
- providing assistance to the public, businesses and tax agents.

### Output 3.1 Information services

#### Description

This output involves responding to public enquiries on tax and social support programme matters through correspondence, telephone, personal appointments and the Complaints Management Service.

#### Performance measures

##### Quality

We will give taxpayers an answer that is correct, complete, clear, timely and appropriately referenced, that also shows an understanding of their environment. We will improve performance in this area to at least 85% (78.5%).

We will ensure that at least 87% of taxpayers and other customers who have contacted us are satisfied with the quality of the service we provide.

We will fully resolve at least 85% of all calls at the time, requiring no follow-up action.

We will ensure that at least 70% of family assistance recipients who receive a weekly or fortnightly payment are not overpaid.

We will ensure that at least 90% of resident student loan borrowers meet their repayment obligations.

We will collect at least 75% of student loan repayments due.

We will ensure that the number of new debt cases is less than 505,000 (475,000).

##### Timeliness

We will respond to:

- at least 85% of correspondence within 3 weeks
- 100% of correspondence within 6 weeks

of receipt.

We will answer at least 80% of:

- tax agents' telephone enquiries
- employers' telephone enquiries
- returns and debt collection telephone enquiries

within 20 seconds.

We will answer at least 50% of all other calls<sup>16</sup> within 60 seconds, except on days when the total number of calls exceed 17,500. For the days when total calls exceed 17,500:

- the average speed-to-answer will be 5 minutes or less, and
- callers will be advised of the potential delay and offered alternative services.

We will ensure that at least 49% of taxpayers file their returns on time.

### Activity forecast

#### Quantity

We will answer an expected 7.3 to 8.4 (7.1 to 7.8) million specific customer contacts.

## Output 3.2 Advisory services

### Description

This output involves proactively providing advice to the public and tax agents on tax and social support programmes through visits, meetings, temporary tax offices and seminars.

### Performance measures

#### Quality

We will ensure that at least 97% of taxpayers and other customers are satisfied with the quality of advisory services we provide.

### Activity forecast

#### Quantity

We will complete between 112,000 and 129,000 (96,000 and 111,000) hours of advisory services.

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<sup>16</sup> Other calls are calls that are not tax agent, employer and return and debt collection calls.

## Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$116,917,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 115,988                   | 929                       | 116,917                   | 116,917       |
| 2004–05          | 104,050                   | 521                       | 104,571                   | 104,571       |
| 2003–04          | 94,302                    | 220                       | 94,522                    | 96,015        |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                      |               |
|----------------------|---------------|
| Information services | \$104,528,540 |
| Advisory services    | \$12,388,460  |

# OUTPUT EXPENSE 4

## REVENUE ASSESSMENT AND COLLECTION

### 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, rebates and refunds for taxpayers
- 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.

### Output 4.1 Return and payment processing

#### Description

This output involves processing all tax returns, issuing assessments, rebates, refunds, notices and statements as well as processing and banking payments, and accounting and reporting the collection of Crown revenue.

#### Performance measures

##### Quantity

We will ensure that at least 20% of returns are filed electronically.

##### Quality

We will correctly process 100% of notices, statements, certificates of entitlement, and loan transfer letters.

We will correctly process 100% of all payments to accounts.

##### Timeliness

We will issue:

- at least 80% of income tax return assessments within 6 weeks
- 100% within 10 weeks

of receipt.

We will issue:

- at least 95% of FBT and GST return and employer monthly schedule assessments within 3 weeks
- 100% within 6 weeks

of receipt.

We will issue 100% of all non-queried GST refunds within 15 working days of receipt.

We will process and issue:

- at least 90% of rebate claim refunds within 3 weeks of receipt
- 100% within 8 weeks

of receipt.

We will process paid parental leave applications within 5 working days of receipt.

We will bank 100% of payments within 1 working day of receipt.

## Activity forecast

### Quantity

We will process an expected:

- 7.26 to 8.02 (6.7 to 7.4) million returns
- 7.28 to 8.05 (7.1 to 7.8) million payments.

## Output 4.2 Supply of information to other agencies

### Description

This output involves the supply of information to other government agencies, in line with the agreements between Inland Revenue and those agencies.

### Performance measure

#### Quantity and timeliness

We will ensure that all information provided to other agencies meets agreed standards.

### Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$66,707,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 64,749                    | 1,958                     | 66,707                    | 66,707        |
| 2004–05          | 55,815                    | 1,718                     | 57,533                    | 57,533        |
| 2003–04          | 57,052                    | 1,544                     | 58,596                    | 59,282        |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                                         |              |
|-----------------------------------------|--------------|
| Return and payment processing           | \$65,170,971 |
| Supply of information to other agencies | \$1,536,029  |

# OUTPUT EXPENSE 5

## 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 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.

The performance measure detailed below applies to all outputs in this expense.

### Performance measure

#### Quality

We will action all debt and return collection activity appropriately and in accordance with the law.

### Output 5.1 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

#### Quantity

We will ensure that the number of outstanding returns is less than 573,000 by year-end.

#### Timeliness

We will ensure that at least 80% of all returns that were not filed by the due date are filed or brought to completion within 12 months.

### Output 5.2 Overdue debt

#### Description

This output involves all activities associated with collecting overdue debt, including taking appropriate follow-up action against those who do not make payments when they are due.

### Performance measures

#### Quantity

We will ensure that the number of debt cases is less than 284,000 by year-end.

### Timeliness

We will resolve at least 85% (80%) of all new debt cases within 12 months of the due date for payment.

### Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$67,686,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 64,445                    | 3,241                     | 67,686                    | 67,686        |
| 2004–05          | 60,249                    | 3,000                     | 63,249                    | 63,249        |
| 2003–04          | 56,466                    | 2,822                     | 59,288                    | 60,161        |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                     |              |
|---------------------|--------------|
| Outstanding returns | \$22,039,738 |
| Overdue debt        | \$45,646,262 |

# OUTPUT EXPENSE 6

## 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.

The performance measure detailed below applies to all outputs in this expense.

### Performance measure

#### Quality

We will ensure that at least 85% of all cases completed meet our quality standards.

### Output 6.1 Individual and small to medium enterprise audit

#### Description

This output involves the audit of businesses with a turnover of up to \$100 million (excluding groups in the Corporates segment). It includes audits of duties, non-residents, investments and salary and wage earners.

#### Performance measures

##### Quality

We will assess at least \$535 per hour for all audit activity, including aggressive tax issues and tax evasion.

##### Timeliness

On average, we will complete:

- general audits within 6 months
- all risk audits within 12 months
- disputed cases (excluding aggressive tax issues) within 18 (24) months.

We will ensure that at least 90% of open cases (excluding aggressive tax issues) are less than 24 months old.

#### Activity forecast

##### Quantity

We will complete between 793,000 and 877,000 (778,000 and 863,000) hours conducting all audit activities.

### Output 6.2 Corporate audit

#### Description

This output involves auditing and providing services to large businesses with a group turnover of more than \$100 million, plus other specific groups.



## Performance measures

### Timeliness

On average we will complete investigations within 17 months.

We will ensure that at least 85% of all open cases (excluding disputed open cases) are less than 24 months old.

## Activity forecast

### Quantity

We will complete between 185,000 and 210,000 (168,000 and 198,000) hours conducting all audit activities.

## Output 6.3 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

### Quality

No judgments in the courts will contain adverse judicial comments on the department's conduct of the litigation.

### Timeliness

We will ensure that all timetable requirements imposed by the courts on the department's solicitors in tax cases are met.

## Activity forecast

### Quantity

We will finally resolve 75 to 100 litigation cases.

## Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$118,761,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 117,842                   | 919                       | 118,761                   | 118,761       |
| 2004–05          | 110,027                   | 511                       | 110,538                   | 110,538       |
| 2003–04          | 96,971                    | 215                       | 97,186                    | 98,318        |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                                                 |              |
|-------------------------------------------------|--------------|
| Individual and small to medium enterprise audit | \$88,860,623 |
| Corporate audit                                 | \$22,252,506 |
| Litigation management                           | \$7,647,871  |

# OUTPUT EXPENSE 7

## ASSESSMENT AND COLLECTION OF CHILD SUPPORT

### Description

This output expense provides services to ensure that parents living apart maintain financial responsibility for their children so the children are better able to participate in society. This includes:

- contributing to the development of the policy framework
- encouraging parents to voluntarily meet their support obligations and where necessary, taking appropriate enforcement action to ensure compliance with the law
- disbursing payments to custodians and the Crown to offset the benefits paid to those custodians.

Activities undertaken:

- providing information and responding to enquiries so that people are aware of their entitlements and obligations under the law
- assessing liabilities
- banking payments
- disbursing payments to custodians
- managing debt and taking appropriate enforcement action against those who do not comply with the law
- providing an administrative process for reviewing assessments that is inexpensive and readily accessible to custodians and paying parents.

### Output 7.1 Customer information services

#### Description

This output involves responding to customer enquiries and providing advice and information on child support matters.

#### Performance measures

##### Quality

We will give customers an answer that is correct, complete, clear and appropriately referenced, that also shows an understanding of their environment. We will maintain performance in this area to at least 88% (92%).

##### Timeliness

We will answer at least 70% of all phone calls within 30 seconds, except on days when the total volume of calls exceed 3,500. For the days when total calls exceed 3,500:

- the average speed-to-answer will be 3 minutes or less, and
- callers will be advised of the potential delay and offered alternative services.

We will respond to:

- at least 85% of correspondence within 2 weeks
- 100% of correspondence within 6 weeks

of receipt.

### Activity forecast

#### Quantity

We will answer an expected 930,000 to 980,000 customer contacts.

## Output 7.2 Registration and assessment

### Description

This output involves the registration and assessment of new child support customers together with the issuing of annual assessments and reassessments to paying parents.

### Performance measure

#### Timeliness

We will issue assessments to at least:

- 70% of paying parents within 2 weeks
- 95% within 6 weeks

of receipt of the properly made application.

### Activity forecast

#### Quantity

We will process an expected 52,250 to 55,000 applications for child support.

## Output 7.3 Collection of payments

### Description

This output involves collecting and banking child support payments from paying parents.

### Performance measures

#### Quantity and timeliness

We will collect at least 80% of child support assessments (excluding cases we manage on behalf of overseas agencies) for the year ending 31 March 2006.

We will ensure that at least 65% of assessed paying parents (excluding cases we manage on behalf of overseas agencies) will pay their whole liability by the due date.

## Output 7.4 Disbursements to custodians and the Crown

### Description

This output involves the disbursement of child support payments to custodians and the Crown.

## Performance measure

### Timeliness

We will make at least 95% of identified payments received by the due date (20th of the month) to custodians on or before the 7th day of the following month. We will disburse the balance, and any previous payments received prior to the 7th day of the following month, by the 20th of that month.

## Output 7.5 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

#### Quantity

We will reduce the number of paying parents in debt (excluding cases we manage on behalf of overseas agencies) by at least 2%.

#### Quality and timeliness

We will collect at least 90% of the value of all assessments due (excluding cases we manage on behalf of overseas agencies) from the start of the child support scheme in 1992 through to 31 March 2005.

#### Quantity and timeliness

We will limit the growth of total debt (excluding penalties and debt we manage on behalf of overseas agencies) to less than 12%.

We will clear at least 55% of paying parent debt cases (excluding cases we manage on behalf of overseas agencies) within 5 months from the end of the month that they are identified as a new arrears case.

## Output 7.6 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 measure

#### Timeliness

We will issue:

- at least 90% of administrative review decisions within 7 weeks
- 100% within 10 weeks

of receipt of the application.

### Activity forecast

#### Quantity

We will complete an expected 4,600 to 4,850 applications for administrative review of child support assessments.

## Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$67,289,000.

| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          | 66,613                    | 676                       | 67,289                    | 67,289        |
| 2004–05          | 60,007                    | 440                       | 60,447                    | 60,447        |
| 2003–04          | 55,195                    | 267                       | 55,462                    | 56,179        |

During 2005–06, the costs of outputs to be supplied within this expense are:

|                                          |              |
|------------------------------------------|--------------|
| Customer information services            | \$6,720,010  |
| Registration and assessment              | \$16,064,110 |
| Collection and payment                   | \$11,620,874 |
| Disbursement to custodians and the Crown | \$2,176,970  |
| Debt management                          | \$27,997,320 |
| Child support administration reviews     | \$2,709,717  |

## OUTPUT EXPENSE 8

### COLLECTION OF ACC LEVIES

#### Description

This output expense involves collecting a levy that contributes to government funding for accident compensation programmes.

Activities undertaken:

- collecting ACC employee earners' levy as a component of PAYE deductions
- providing information.

#### Performance measure

##### Quality and timeliness

We will pay ACC the determined amounts of earners' levy collected as a component of PAYE, within the agreed timeframes.

#### Cost

During 2005–06, this output expense will be provided within the appropriated sum of \$20,500,000.

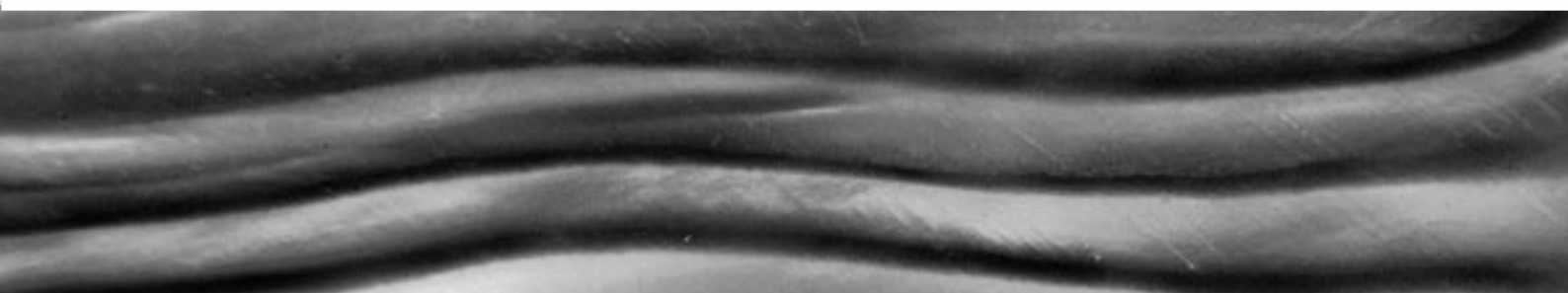
| Year<br>(Budget) | Revenue<br>Crown<br>\$000 | Revenue<br>other<br>\$000 | Total<br>revenue<br>\$000 | Cost<br>\$000 |
|------------------|---------------------------|---------------------------|---------------------------|---------------|
| 2005–06          |                           | 20,500                    | 20,500                    | 20,500        |
| 2004–05          | 0                         | 20,500                    | 20,500                    | 20,500        |
| 2003–04          | 0                         | 20,650                    | 20,650                    | 20,650        |

During 2005–06, the cost of the output to be supplied within this expense is:

|                          |              |
|--------------------------|--------------|
| Collection of ACC levies | \$20,500,000 |
|--------------------------|--------------|

## PART FOUR

# Forecast financial schedules for administered accounts – Crown



# Statement of accounting policies

for the year ending 30 June 2006

## Reporting entity

The forecast Crown Financial Schedules have been prepared in accordance with the requirements of the Public Finance Act 1989.

Inland Revenue administers activities on an agency basis on the Crown's behalf. These activities comprise elements of income, expenditure, assets, liabilities and cash flows, which form part of the consolidated forecast financial statements of the government.

The forecast financial information has been prepared by Inland Revenue and represents extract information of the Crown activities which are administered by Inland Revenue.

## Measurement system

These schedules have been prepared on the basis of modified historical cost unless otherwise stated.

## Accounting policies

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

### Revenue

The Crown provides many services and benefits that do not give rise to revenue. Further, payment of tax does not, of itself, entitle a taxpayer to an equivalent value of services or benefits, as 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.

| Revenue type                         | Revenue recognition point                                                       |
|--------------------------------------|---------------------------------------------------------------------------------|
| Source deductions (PAYE)             | 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 |
| Fringe benefit tax (FBT)             | When benefits are provided that give rise to FBT                                |
| Provisional tax                      | Payment due date for other persons and companies                                |
| Terminal tax                         | Assessment filed date for other persons and companies                           |
| Goods and services tax               | 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                                               |



## Investment income

Investment income is recognised in the period in which it is earned.

## Receivables and advances

Receivables and advances are recorded at the amounts expected to be ultimately collected in cash.

## Liabilities

All liabilities are recorded at the estimated obligation to pay.

## Specific accounting policies and forecast assumptions

### Forecast assumptions

For forecast purposes, no revaluations are projected beyond the current year.

### Finalisation dates

The forecast financial statements were finalised on 11 April 2005.

### Forecast periods

The reporting periods covered by these forecast financial schedules are the years ending 30 June 2005 and 30 June 2006. The forecasts for 30 June 2005 have generally been prepared using actual data to 31 March 2005. Transactions for the remainder of the year are forecast in accordance with the Crown's accounting policies and forecast assumptions.

## Changes in accounting policies

There have been no changes in the Crown accounting policies applicable to the preparation of forecast financial statements of Crown activities administered by Inland Revenue for Crown consolidation, from those used in the previous year. All Crown accounting policies have been applied on a basis consistent with the previous year.

# Schedule of Forecast Revenue – Crown as administered by Inland Revenue for the year ending 30 June 2006

|                                             | Budgeted          | Estimated<br>actual | Forecast          |
|---------------------------------------------|-------------------|---------------------|-------------------|
|                                             | 2005<br>\$000     | 2005<br>\$000       | 2006<br>\$000     |
| <b>Direct taxation</b>                      |                   |                     |                   |
| <b>Income tax</b>                           |                   |                     |                   |
| <b>Individuals</b>                          |                   |                     |                   |
| Source deductions                           | 17,650,000        | 17,654,000          | 18,653,000        |
| Other persons                               | 4,040,000         | 4,001,000           | 4,070,000         |
| Refunds                                     | (880,000)         | (880,000)           | (900,000)         |
| Fringe benefit tax                          | 426,000           | 435,000             | 451,000           |
| Sub-total individuals                       | <u>21,236,000</u> | <u>21,210,000</u>   | <u>22,274,000</u> |
| <b>Companies</b>                            |                   |                     |                   |
| Gross company tax – other                   | 6,495,000         | 7,286,000           | 7,797,000         |
| Gross company tax – state-owned enterprises | 385,000           | 394,000             | 435,000           |
| Gross company tax – Crown entities          | 54,000            | 48,000              | 57,000            |
| Gross company tax – NZS fund                | 181,000           | 234,000             | 341,000           |
| Refunds                                     | (163,000)         | (168,000)           | (180,000)         |
| Sub-total companies                         | <u>6,952,000</u>  | <u>7,794,000</u>    | <u>8,450,000</u>  |
| <b>Withholding tax</b>                      |                   |                     |                   |
| Residents' interest                         | 1,300,000         | 1,470,000           | 1,529,000         |
| Residents' dividends                        | 55,000            | 59,000              | 65,000            |
| Foreign source dividends                    | 135,000           | 166,000             | 182,000           |
| Non-residents' income                       | 816,000           | 937,000             | 813,000           |
| Specified superannuation tax                | 0                 | 546,000             | 577,000           |
| Sub-total withholding tax                   | <u>2,306,000</u>  | <u>3,178,000</u>    | <u>3,166,000</u>  |
| <b>Total income tax</b>                     | <u>30,494,000</u> | <u>32,182,000</u>   | <u>33,890,000</u> |
| <b>Other direct taxation</b>                |                   |                     |                   |
| Estate and gift duties                      | 2,000             | 2,000               | 2,000             |
| Sub-total other direct taxation             | <u>2,000</u>      | <u>2,000</u>        | <u>2,000</u>      |
| <b>Total direct taxation</b>                | <u>30,496,000</u> | <u>32,184,000</u>   | <u>33,892,000</u> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Revenue – Crown as administered by Inland Revenue (continued)

for the year ending 30 June 2006

|                                              | Budgeted          | Estimated actual  | Forecast          |
|----------------------------------------------|-------------------|-------------------|-------------------|
|                                              | 2005<br>\$000     | 2005<br>\$000     | 2006<br>\$000     |
| <b>Indirect taxation</b>                     |                   |                   |                   |
| <b>Goods and services tax</b>                |                   |                   |                   |
| GST (Inland Revenue)                         | 15,917,000        | 15,837,000        | 16,572,000        |
| GST (refunds)                                | (7,172,000)       | (6,939,000)       | (7,311,000)       |
| Sub-total GST                                | <u>8,745,000</u>  | <u>8,898,000</u>  | <u>9,261,000</u>  |
| <b>Other indirect tax</b>                    |                   |                   |                   |
| Stamp and cheque duties                      | 54,000            | 9,000             | 8,000             |
| Approved issuer levy                         | 0                 | 53,000            | 54,000            |
| Gaming duties                                | 318,000           | 314,000           | 328,000           |
| Other indirect tax                           | <u>1,000</u>      | <u>0</u>          | <u>0</u>          |
| Sub-total other indirect tax                 | <u>373,000</u>    | <u>376,000</u>    | <u>390,000</u>    |
| Total indirect taxation                      | <u>9,118,000</u>  | <u>9,274,000</u>  | <u>9,651,000</u>  |
| <b>Total taxation</b>                        | <b>39,614,000</b> | <b>41,458,000</b> | <b>43,543,000</b> |
| Compulsory fees, fines, penalties and levies | 241,100           | 278,800           | 314,200           |
| Investment income                            | <u>448,530</u>    | <u>444,618</u>    | <u>496,180</u>    |
| <b>Total operating revenue</b>               | <b>40,303,630</b> | <b>42,181,418</b> | <b>44,353,380</b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Expenditure – Crown as administered by Inland Revenue for the year ending 30 June 2006

|                                                     | Budgeted         | Estimated<br>actual | Forecast         |
|-----------------------------------------------------|------------------|---------------------|------------------|
|                                                     | 2005<br>\$000    | 2005<br>\$000       | 2006<br>\$000    |
| <b>Benefits and other unrequited expenses</b>       |                  |                     |                  |
| Family support tax credit                           | 918,000          | 902,000             | 1,298,000        |
| Family tax credit                                   | 14,000           | 13,000              | 14,000           |
| Child tax credit                                    | 150,000          | 142,000             | 141,000          |
| Parental tax credit                                 | 15,000           | 14,000              | 16,000           |
| In-work payment                                     | 0                | 0                   | 57,000           |
| Paid parental leave                                 | 74,300           | 77,500              | 97,900           |
| <b>Total benefits and other unrequited expenses</b> | <b>1,171,300</b> | <b>1,148,500</b>    | <b>1,623,900</b> |
| <b>Change in debt provisions</b>                    |                  |                     |                  |
| General tax provision                               | 4,620            | 77,858              | 77,967           |
| Student loan provision                              | 88,674           | 78,132              | 79,189           |
| Child support provision                             | 56,492           | 85,547              | (29,423)         |
| <b>Total change in debt provisions</b>              | <b>149,786</b>   | <b>241,537</b>      | <b>127,733</b>   |
| Student loan write-offs                             | 210,383          | 248,788             | 259,963          |
| <b>Borrowing expenses</b>                           |                  |                     |                  |
| Income equalisation reserve interest                | 1,700            | 5,000               | 4,000            |
| Adverse event income equalisation interest          | 100              | 6                   | 13               |
| <b>Total borrowing expenses</b>                     | <b>1,800</b>     | <b>5,006</b>        | <b>4,013</b>     |
| <b>Total expenses</b>                               | <b>1,533,269</b> | <b>1,643,831</b>    | <b>2,015,609</b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Assets – Crown as administered by Inland Revenue as at 30 June 2006

|                                            | Budgeted          | Estimated<br>actual | Forecast          |
|--------------------------------------------|-------------------|---------------------|-------------------|
|                                            | 2005<br>\$000     | 2005<br>\$000       | 2006<br>\$000     |
| <b>Assets</b>                              |                   |                     |                   |
| <b>Current assets</b>                      |                   |                     |                   |
| Cash and bank balances                     | 1,600,417         | 1,379,830           | 1,379,830         |
| Receivables and advances                   | 5,521,902         | 5,639,765           | 5,756,323         |
| <b>Total current assets</b>                | <b>7,122,319</b>  | <b>7,019,595</b>    | <b>7,136,153</b>  |
| <b>Non-current assets</b>                  |                   |                     |                   |
| Student loans long-term                    | 6,326,561         | 6,065,221           | 6,668,143         |
| Student loans provision for doubtful debts | (734,649)         | (725,279)           | (797,078)         |
| <b>Total non-current assets</b>            | <b>5,591,912</b>  | <b>5,339,942</b>    | <b>5,871,065</b>  |
| <b>Total assets</b>                        | <b>12,714,231</b> | <b>12,359,537</b>   | <b>13,007,218</b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Liabilities – Crown as administered by Inland Revenue as at 30 June 2006

|                                  | Budgeted         | Estimated<br>actual | Forecast         |
|----------------------------------|------------------|---------------------|------------------|
|                                  | 2005<br>\$000    | 2005<br>\$000       | 2006<br>\$000    |
| <b>Liabilities</b>               |                  |                     |                  |
| <b>Current liabilities</b>       |                  |                     |                  |
| Payable and provisions           | 6,682,039        | 6,797,657           | 7,829,775        |
| Borrowings                       | 69,232           | 212,115             | 249,823          |
| <b>Total current liabilities</b> | <b>6,751,271</b> | <b>7,009,772</b>    | <b>8,079,598</b> |
| <b>Total liabilities</b>         | <b>6,751,271</b> | <b>7,009,772</b>    | <b>8,079,598</b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Movements in Equity

## – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                       | Budgeted                | Estimated<br>actual     | Forecast                |
|-------------------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                                       | 2005<br>\$000           | 2005<br>\$000           | 2006<br>\$000           |
| Opening balance                                       | 6,123,169               | 5,854,900               | 5,349,765               |
| Net result from Crown operating activities            | 38,770,361              | 40,537,587              | 42,337,771              |
| Asset transfer between departments                    | 0                       | 0                       | 0                       |
| Disbursements from New Zealand Debt Management Office | 11,508,600              | 10,728,963              | 11,822,463              |
| Paid to New Zealand Debt Management Office            | (50,439,170)            | (51,771,685)            | (54,582,379)            |
| <b>Closing balance</b>                                | <b><u>5,962,960</u></b> | <b><u>5,349,765</u></b> | <b><u>4,927,620</u></b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Cash Flows from Operating Activities – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                             | Budgeted          | Estimated actual  | Forecast          |
|---------------------------------------------|-------------------|-------------------|-------------------|
|                                             | 2005<br>\$000     | 2005<br>\$000     | 2006<br>\$000     |
| <b>Cash flows from operating activities</b> |                   |                   |                   |
| <b>Direct taxation</b>                      |                   |                   |                   |
| <b>Individuals</b>                          |                   |                   |                   |
| Source deductions                           | 17,650,000        | 17,654,000        | 18,653,000        |
| Other persons                               | 4,500,000         | 4,542,000         | 4,630,000         |
| Refunds                                     | (1,340,000)       | (1,372,000)       | (1,452,000)       |
| Fringe benefit tax                          | 431,000           | 427,000           | 445,000           |
| Sub-total individuals                       | <u>21,241,000</u> | <u>21,251,000</u> | <u>22,276,000</u> |
| <b>Companies</b>                            |                   |                   |                   |
| Gross company tax – other                   | 7,293,000         | 7,943,000         | 8,465,000         |
| Gross company tax – state-owned enterprises | 386,000           | 363,000           | 444,000           |
| Gross company tax – Crown entities          | 56,000            | 48,000            | 52,000            |
| Gross company tax – NZS fund                | 181,000           | 234,000           | 341,000           |
| Refunds                                     | (1,016,000)       | (782,000)         | (826,000)         |
| Sub-total companies                         | <u>6,900,000</u>  | <u>7,806,000</u>  | <u>8,476,000</u>  |
| <b>Withholding tax</b>                      |                   |                   |                   |
| Residents' interest                         | 1,300,000         | 1,470,000         | 1,529,000         |
| Residents' dividends                        | 55,000            | 60,000            | 65,000            |
| Foreign source dividends                    | 135,000           | 175,000           | 182,000           |
| Non-residents' income                       | 814,000           | 923,000           | 813,000           |
| Specified superannuation tax                | 0                 | 546,000           | 577,000           |
| Sub-total withholding tax                   | <u>2,304,000</u>  | <u>3,174,000</u>  | <u>3,166,000</u>  |
| <b>Total income tax</b>                     | <u>30,445,000</u> | <u>32,231,000</u> | <u>33,918,000</u> |
| <b>Other direct taxation</b>                |                   |                   |                   |
| Estate and gift duties                      | 2,000             | 2,000             | 2,000             |
| Sub-total other direct taxation             | <u>2,000</u>      | <u>2,000</u>      | <u>2,000</u>      |
| <b>Total direct taxation</b>                | <u>30,447,000</u> | <u>32,233,000</u> | <u>33,920,000</u> |

The accompanying accounting policies form part of these financial schedules.



# Schedule of Forecast Cash Flows from Operating Activities – Crown as administered by Inland Revenue (continued)

for the year ending 30 June 2006

|                                                            | Budgeted                  | Estimated actual          | Forecast                  |
|------------------------------------------------------------|---------------------------|---------------------------|---------------------------|
|                                                            | 2005                      | 2005                      | 2006                      |
|                                                            | \$000                     | \$000                     | \$000                     |
| <b>Indirect taxation</b>                                   |                           |                           |                           |
| <b>Goods and services tax</b>                              |                           |                           |                           |
| GST (Inland Revenue)                                       | 15,667,000                | 15,340,000                | 16,122,000                |
| GST (refunds)                                              | (6,922,000)               | (6,442,000)               | (6,861,000)               |
| Sub-total GST                                              | <u>8,745,000</u>          | <u>8,898,000</u>          | <u>9,261,000</u>          |
| <b>Other indirect taxation</b>                             |                           |                           |                           |
| Stamp and cheque duties                                    | 54,000                    | 9,000                     | 8,000                     |
| Approved issuer levy                                       | 0                         | 53,000                    | 54,000                    |
| Gaming duties                                              | 318,000                   | 314,000                   | 328,000                   |
| Other                                                      | <u>1,000</u>              | <u>3,000</u>              | <u>1,000</u>              |
| Sub-total other indirect taxation                          | <u>373,000</u>            | <u>379,000</u>            | <u>391,000</u>            |
| Total indirect taxation                                    | <u>9,118,000</u>          | <u>9,277,000</u>          | <u>9,652,000</u>          |
| <b>Total taxation receipts</b>                             | <b><u>39,565,000</u></b>  | <b><u>41,510,000</u></b>  | <b><u>43,572,000</u></b>  |
| Compulsory fees, fines and penalties (child support)       | 189,100                   | 174,800                   | 191,200                   |
| <b>Other receipts</b>                                      |                           |                           |                           |
| Interest from investment (student loan)                    | 204,452                   | 253,210                   | 252,806                   |
| Other operating receipts (ACC)                             | <u>0</u>                  | <u>0</u>                  | <u>0</u>                  |
| Total other receipts                                       | <u>204,452</u>            | <u>253,210</u>            | <u>252,806</u>            |
| <b>Total cash flows provided from operating activities</b> | <b><u>39,958,552</u></b>  | <b><u>41,938,010</u></b>  | <b><u>44,016,006</u></b>  |
| <b>Cash disbursed for:</b>                                 |                           |                           |                           |
| Finance cost                                               | (1,800)                   | (5,006)                   | (4,013)                   |
| Family assistance tax credits                              | <u>(1,166,300)</u>        | <u>(1,140,500)</u>        | <u>(1,624,900)</u>        |
| <b>Total cash disbursed to operations</b>                  | <b><u>(1,168,100)</u></b> | <b><u>(1,145,506)</u></b> | <b><u>(1,628,913)</u></b> |
| <b>Net cash flows from operating activities</b>            | <b><u>38,790,452</u></b>  | <b><u>40,792,504</u></b>  | <b><u>42,387,093</u></b>  |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Cash Flows from Investing Activities – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|  | Budgeted | Estimated actual | Forecast |
|--|----------|------------------|----------|
|  | 2005     | 2005             | 2006     |
|  | \$000    | \$000            | \$000    |

## Cash flows from investing activities

### Cash provided from:

|                                              |                |                |                |
|----------------------------------------------|----------------|----------------|----------------|
| Repayment of advances (student loan capital) | <u>271,018</u> | <u>251,614</u> | <u>335,115</u> |
|----------------------------------------------|----------------|----------------|----------------|

|                                                 |                       |                       |                       |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>Net cash flows from investing activities</b> | <u><b>271,018</b></u> | <u><b>251,614</b></u> | <u><b>335,115</b></u> |
|-------------------------------------------------|-----------------------|-----------------------|-----------------------|

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Cash Flows from Financing Activities – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                 | Budgeted         | Estimated actual | Forecast         |
|-------------------------------------------------|------------------|------------------|------------------|
|                                                 | 2005             | 2005             | 2006             |
|                                                 | \$000            | \$000            | \$000            |
| <b>Cash flows from financing activities</b>     |                  |                  |                  |
| <b>Cash provided from:</b>                      |                  |                  |                  |
| Income equalisation scheme                      | 74,000           | 110,461          | 115,658          |
| <b>Total cash provided</b>                      | <b>74,000</b>    | <b>110,461</b>   | <b>155,658</b>   |
| <b>Cash disbursed for:</b>                      |                  |                  |                  |
| Repayment of income equalisation                | (204,900)        | (111,857)        | (117,950)        |
| <b>Total cash disbursed</b>                     | <b>(204,900)</b> | <b>(111,857)</b> | <b>(117,950)</b> |
| <b>Net cash flows from financing activities</b> | <b>(130,900)</b> | <b>(1,396)</b>   | <b>37,708</b>    |

The accompanying accounting policies form part of these financial schedules.

## Schedule of Forecast Cash Flow Movements – Crown as administered by Inland Revenue for the year ending 30 June 2006

|                                                       | Budgeted                | Estimated<br>actual     | Forecast                |
|-------------------------------------------------------|-------------------------|-------------------------|-------------------------|
|                                                       | 2005<br>\$000           | 2005<br>\$000           | 2006<br>\$000           |
| Net movement in cash                                  | 38,930,570              | 41,042,722              | 42,759,916              |
| Opening cash balance                                  | 1,600,417               | 1,379,830               | 1,379,830               |
| Cash received from New Zealand Debt Management Office | 11,508,600              | 10,728,963              | 11,822,463              |
| Paid to New Zealand Debt Management Office            | (50,439,170)            | (51,771,685)            | (54,582,379)            |
| <b>Closing balance</b>                                | <b><u>1,600,417</u></b> | <b><u>1,379,830</u></b> | <b><u>1,379,830</u></b> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Operating Surplus to Operating Cash Flows – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                 | Budgeted          | Estimated actual  | Forecast          |
|-------------------------------------------------|-------------------|-------------------|-------------------|
|                                                 | 2005              | 2005              | 2006              |
|                                                 | \$000             | \$000             | \$000             |
| <b>Net Crown operating surplus</b>              | <b>38,770,361</b> | <b>40,537,587</b> | <b>42,337,771</b> |
| <b>Movement in working capital</b>              |                   |                   |                   |
| (Inc)/dec student loan short-term               | (46,383)          | (25,225)          | (77,492)          |
| (Inc)/dec provision bad debts                   | 64,448            | 167,236           | 55,934            |
| (Inc)/dec tax receivable (general tax)          | (44,000)          | 60,000            | 28,000            |
| (Inc)/dec GST debtors                           | 0                 | 0                 | 0                 |
| (Inc)/dec receivables (child support)           | (52,000)          | (104,000)         | (123,000)         |
| Inc/(dec) payables (student loan)               | 1,058,585         | 996,481           | 1,032,118         |
| Inc/(dec) payables others                       | 0                 | 0                 | 0                 |
| <b>Total working capital movements</b>          | <b>980,650</b>    | <b>1,094,492</b>  | <b>915,560</b>    |
| <b>Other non-cash items</b>                     |                   |                   |                   |
| Other non-cash items (student loan capital)     | (271,018)         | (251,614)         | (335,115)         |
| Student loan provision                          | (689,541)         | (587,961)         | (531,123)         |
| Ministry of Education student loan transfer     | 0                 | 0                 | 0                 |
| <b>Total other non-cash items</b>               | <b>(960,559)</b>  | <b>(839,575)</b>  | <b>(866,238)</b>  |
| <b>Net cash flows from operating activities</b> | <b>38,790,452</b> | <b>40,792,504</b> | <b>42,387,093</b> |

The accompanying accounting policies form part of these financial schedules.

## Schedule of Forecast Contingent Liabilities – Crown as administered by Inland Revenue as at 30 June 2006

|                                                  | Budgeted       | Estimated<br>actual | Forecast       |
|--------------------------------------------------|----------------|---------------------|----------------|
|                                                  | 2005<br>\$000  | 2005<br>\$000       | 2006<br>\$000  |
| <b>Tax in dispute</b>                            |                |                     |                |
| Tax in dispute                                   | <u>350,000</u> | <u>380,000</u>      | <u>380,000</u> |
| <b>Total quantifiable contingent liabilities</b> | <u>350,000</u> | <u>380,000</u>      | <u>380,000</u> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Accident Compensation Collection – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                    | Budgeted       | Estimated actual | Forecast       |
|----------------------------------------------------|----------------|------------------|----------------|
|                                                    | 2005           | 2005             | 2006           |
|                                                    | \$000          | \$000            | \$000          |
| <b>Accident compensation collection type</b>       |                |                  |                |
| Earners premium (employees – provisional)          | <u>711,700</u> | <u>737,800</u>   | <u>785,800</u> |
| <b>Total accident compensation collection type</b> | <u>711,700</u> | <u>737,800</u>   | <u>785,800</u> |

The accompanying accounting policies form part of these financial schedules.

# Schedule of Forecast Expenditure and Appropriations – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                                    | Budgeted         | Estimated actual | Forecast         |
|--------------------------------------------------------------------|------------------|------------------|------------------|
|                                                                    | 2005             | 2005             | 2006             |
|                                                                    | \$000            | \$000            | \$000            |
| <b>Appropriations for benefits and other unrequited expenses</b>   |                  |                  |                  |
| Child support payments                                             | 145,000          | 137,000          | 150,000          |
| Family support tax credit                                          | 918,000          | 902,000          | 1,298,000        |
| Family tax credit                                                  | 14,000           | 13,000           | 14,000           |
| Child tax credit                                                   | 150,000          | 142,000          | 141,000          |
| Parental tax credit                                                | 15,000           | 14,000           | 16,000           |
| In-work payment                                                    | 0                | 0                | 57,000           |
| Paid parental leave                                                | 74,300           | 77,500           | 97,900           |
| <b>Total benefit and other unrequited expenses</b>                 | <b>1,316,300</b> | <b>1,285,500</b> | <b>1,773,900</b> |
| <b>Appropriations for other expenses</b>                           |                  |                  |                  |
| Provision for doubtful debt – general tax                          | 0                | 75,046           | 80,398           |
| Interest write-offs and provision for doubtful debt – student loan | 0                | 326,920          | 339,152          |
| Provision for doubtful debt – child support                        | 0                | 85,547           | (29,423)         |
| <b>Total borrowing expenses</b>                                    | <b>0</b>         | <b>487,513</b>   | <b>390,127</b>   |
| <b>Total expenditure and appropriations</b>                        | <b>1,316,300</b> | <b>1,773,013</b> | <b>2,164,027</b> |

The accompanying accounting policies form part of these financial schedules.



# Schedule of Forecast Student Loan Movements – Crown as administered by Inland Revenue

for the year ending 30 June 2006

|                                                | Budgeted         | Estimated actual | Forecast         |
|------------------------------------------------|------------------|------------------|------------------|
|                                                | 2005             | 2005             | 2006             |
|                                                | \$000            | \$000            | \$000            |
| <b>Analysis of student loans</b>               |                  |                  |                  |
| <b>Outstanding balance</b>                     |                  |                  |                  |
| Total loans outstanding (including interest)   | 6,848,414        | 6,653,142        | 7,333,556        |
| Total provisions (capital and interest)        | (793,140)        | (796,907)        | (876,096)        |
| <b>Total student loans</b>                     | <b>6,055,274</b> | <b>5,856,235</b> | <b>6,457,460</b> |
| Opening balance                                | 5,322,686        | 5,246,880        | 5,856,235        |
| Amount advanced in current year                | 1,058,585        | 996,481          | 1,032,118        |
| Interest accrued on outstanding loan balances  | 448,530          | 444,618          | 496,180          |
| Repayment of base capital                      | (271,018)        | (251,614)        | (335,115)        |
| Repayment of accrued interest                  | (204,452)        | (253,210)        | (252,806)        |
| Interest written off and movement in provision | (210,383)        | (248,788)        | (259,963)        |
| Movement in provision                          | (88,674)         | (78,132)         | (79,189)         |
| <b>Closing balance</b>                         | <b>6,055,274</b> | <b>5,856,235</b> | <b>6,457,460</b> |

The accompanying accounting policies form part of these financial schedules.

# Inland Revenue office locations

- Regional office
- **Branch office**

The map is shaded to show the boundaries between our regional offices.



Inland Revenue  
National Office  
PO Box 2198  
Wellington  
Telephone 04 473 0920

## **Desired future**

- **Taxpayers and other customers meet obligations of their own accord —and Inland Revenue makes this easy**
- **Increasingly, the community regards paying tax as contributing to society**
- **Inland Revenue is visible in the community, getting alongside taxpayers**
- **The community regards Inland Revenue as professional, approachable, effective and efficient.**