




ANNUAL REPORT

A horizontal band of spectral light waves, showing colors like purple, blue, green, and yellow, with a white line running through the middle.

2006



\$46.8 billion
revenue
assessed

\$980 million
assessed
in audit
discrepancies

\$341 million
child support
distributed

\$1.8 billion
debt
collected

\$499 million
student
loans collected

\$839 million
family
assistance
distributed

79%
customer
satisfaction

DESIRED FUTURE

- ▶ Inland Revenue is responsive in meeting the changing and increasing expectations of government and society
- ▶ We make it easy for customers to get it right and hard to get it wrong
- ▶ Society has confidence that appropriate action will be taken against customers who do not comply
- ▶ Increasingly, paying tax is seen as contributing to society
- ▶ We are professional, approachable, effective and efficient

CONTENTS

Commissioner's introduction	7
PART TWO	
Delivering on our outcomes	13
PART THREE	
Key strategies	25
Promoting compliance	26
Gaining organisational efficiency	37
Developing the capability of our people and providing the tools they need	41
PART FOUR	
Charter Report and Statement of Service Performance	47
Statement of responsibility	49
Inland Revenue's Charter	50
Our Charter commitments	51
Statement of Service Performance	54
PART FIVE	
Departmental financial statements	81
PART SIX	
Financial schedules for administered accounts – Crown	103
Audit report	129
Additional information	133

MINISTER OF REVENUE

In accordance with the provisions of the Public Finance Act 1989 and the Tax Administration Act 1994, I submit the following report on my administration of the Inland Revenue Acts for the year ended 30 June 2006 and on the operations of the Inland Revenue Department for that year, together with the audited financial statements.



David Butler
Chief Executive and Commissioner of Inland Revenue

SIZE AND SHAPE OF INLAND REVENUE

Inland Revenue is a large organisation dealing with high volumes of transactions which can frequently involve very complex matters. Our main functions include:

- ▶ advising government, with The Treasury, on tax policy and certain social policy measures
- ▶ collecting tax payments, child support and student loans
- ▶ distributing payments such as tax refunds and rebates, family assistance (including Working for Families), child support and paid parental leave.

Our customer base at 30 June 2006

- ▶ 6,179,957 taxpayers (includes individuals, businesses, partnerships, trusts and other entities)
- ▶ 470,507 student loan borrowers
- ▶ 142,976 child support custodians with a current year entitlement
- ▶ 140,897 child support paying parents with a current year liability
- ▶ approximately 229,000 family assistance recipients
- ▶ 19,906 paid parental leave recipients.

Our resources

- ▶ 5,358 full-time equivalent people based in 17 cities and towns (see map)
- ▶ annual appropriation for 2005–06 of \$475 million.

Workload volume indicators

In 2005–06 we:

- ▶ assessed \$46.8 billion in revenue, 85.1% of core Crown revenue
- ▶ collected \$341 million in net child support and \$499 million in student loan repayments
- ▶ distributed \$839 million in family assistance and \$101 million in paid parental leave
- ▶ collected \$1.8 billion dollars of debt
- ▶ assessed \$980 million as a result of audit activity across all taxpayer groups
- ▶ received 7.7 million returns and processed 7.7 million payments
- ▶ actioned 8.2 million customer contacts, including child support.



COMMISSIONER'S INTRODUCTION

FROM THE COMMISSIONER



Senior management team: David Butler, Naomi Ferguson, Colin MacDonald, Robin Oliver, Martin Smith and Carolyn Tremain

Inland Revenue's roles are to collect revenue for the government and disburse payments to customers through our social support responsibilities. The results we achieve contribute to the Government's priority areas of economic transformation, families—young and old, and national identity.

In the past year our achievements included:

- ▶ collecting \$46.8 billion in revenue
- ▶ responding to 8.2 million customer contacts including child support
- ▶ collecting \$1.8 billion in overdue payments
- ▶ assessing an additional \$980 million in audit discrepancies
- ▶ distributing \$839 million in family assistance.

During 2005–06, we also:

- ▶ delivered Government's commitments relating to Working for Families and student loans
- ▶ implemented full tax policy and administrative work programmes
- ▶ addressed customer expectations and compliance risks arising from a growing and diverse customer base
- ▶ recognised the need to respond quickly to changes in compliance and our operating environment.

New Zealand's tax system is fundamentally sound and we must continue to work at keeping it that way. During the year, we worked hard at addressing risks to revenue and maintaining the integrity of the tax system. Our activities focused on making it easy for customers to understand what they needed to do to comply and responding to non-compliance when this arises.

An important part of tackling deliberate non-compliance is our ability to apply the full force of the law when this is necessary and appropriate.

We continued to invest in our capability and infrastructure to ensure we successfully deliver on our outcomes. This included:

- ▶ further developing our people to provide them with the skills and knowledge they need to do their work
- ▶ implementing new technology-based systems to improve our performance, for example the introduction of an advanced telecommunications platform.

International relationships

We continued to build relationships with other tax administrations and international organisations. These relationships provide the opportunity to share experiences on administration and policy issues and identify risks to the tax base. They also allow us to be involved in developing appropriate solutions to those issues.

In 2005–06, Robin Oliver (Deputy Commissioner, Policy) was elected Deputy Chair of the Organisation of Economic Cooperation and Development's Committee on Fiscal Affairs. This is a great achievement for Robin as the Committee has an important role in setting international standards for taxation law and shaping tax policy thinking.

Key Government initiatives

During the year we invested significant resources in development work on Government initiatives, particularly in meeting the Government's election commitments. The introduction of interest-free student loans and the expansion of Working for Families both had major implications for us in terms of implementing and resourcing the changes.

We also continued to prepare for the introduction of the proposed KiwiSaver programme.

A key Government initiative is its Business Tax Review. As part of the Review, our Policy Advice Division, working with The Treasury, have advised Ministers on options to produce better incentives for productivity gains and improved competitiveness with Australia. This resulted in a discussion document that was released in late July 2006.

Inland Revenue's strategic business plan

During 2005–06, we refreshed our longer-term strategic direction and desired future, which are important platforms for achieving our outcomes over the next five years. The plan contains a balance of what needs to change and what needs to continue. It proposes the continuation of our efforts to create an environment which encourages compliance. It also strengthens our focus on optimising organisational efficiency and reducing compliance costs over time.

Associated with the refreshed strategic business plan, we have made changes to how we organise ourselves to ensure:

- ▶ a more focused approach to gaining an insight into our customers
- ▶ better cohesion in our assistance work
- ▶ greater alignment of our audit, technical and legal activities.

I am proud of what we have achieved and am confident that we will continue to deliver improved service in the coming years.



David Butler
Chief Executive and Commissioner of Inland Revenue

STRUCTURE AND GOVERNANCE

SENIOR MANAGEMENT APPOINTMENTS

In June 2006, we appointed Robert (Bob) Russell to the position of Deputy Commissioner (Service Delivery). Bob replaces Naomi Ferguson who has returned to the United Kingdom following a three-year secondment with us. Bob, currently the Assistant Commissioner for the Atlantic Region of the Canada Revenue Agency, takes up his position in October 2006.

During the year we also appointed a number of third-tier managers. We now have:

- ▶ five group managers reporting directly to the Deputy Commissioner (Service Delivery) and Deputy Commissioner (Business Development and Systems). They will support the introduction of five new groups: Customer Insight, Design, Assistance, Customer Operations and Assurance. The group managers were all internal appointments
- ▶ a new group manager (Finance and Planning) who is also our Chief Financial Officer
- ▶ a new group manager in Adjudication and Rulings.

GOVERNANCE

This section discusses our external accountability to Parliament and our internal governance arrangements.

External accountability to Parliament

In terms of our external accountability to Parliament, we attended two Finance and Expenditure Committee (FEC) hearings during the year:

- ▶ Financial Review for our 2004–05 annual report on 22 March 2006
- ▶ Estimates Review for the department's 2006–07 financial appropriation on 21 June 2006.

During the year, the department also attended FEC hearings considering tax and other legislation related to departmental areas of responsibility.

FEC findings are available on the Select Committee website at: www.parliament.nz/en-NZ/SC/Reports

Internal governance

Our internal governance arrangements are structured around internal boards and committees which provide appropriate managerial oversight for all our responsibilities.

There are two governance boards, both chaired by the Commissioner:

- ▶ **The Executive Board** examines longer-term strategy, ethics, external relationships, strategic risks, progress towards our long-term objectives and outcomes, and employee survey results.
- ▶ **The Management Board** focuses on and manages major operational issues, such as high-level business outcomes, outputs and performance risks.

These two boards are supported by four committees (chaired by the Commissioner or Deputy Commissioners) that provide oversight in specific areas:

- ▶ **Project Governance and Investment Committee**—oversees the approval, initiation and implementation of key projects. This committee has external members.
- ▶ **People and Capability Committee**—drives our key focus area of enhancing the capability of our people.
- ▶ **Technical Issues Committee**—facilitates and ensures the coordination of departmental effort on key legal and technical issues.
- ▶ **Risk and Assurance Committee**—provides independent assurance to the Commissioner on aspects of the effective and efficient discharge of his statutory responsibilities and accountabilities. This committee has external members.

MANAGING RISK

Informed decision-making and a robust priority-setting process enables us to deliver on our desired outcomes. We achieve this through our strong governance structures and the implementation of a sound risk management framework.

During the year, we initiated a review of the department's current Risk Management Framework to ensure the risk management process continues to meet industry standards and our changing business requirements. This review helps us to maintain the overall health of the framework and will assist us to:

- ▶ identify risks across our initiatives and activities
- ▶ develop appropriate risk mitigation strategies to address these.

We have continued to implement our coordinated risk management approach across the business to identify and manage key risks.

OUR WAY FORWARD

In 2006 we finalised a new five-year business plan, *Our Way Forward*. This plan sets out our desired future and describes how we plan to build on our strengths and position ourselves for the future.

The business plan emphasises the way we want to work with our customers and has four aspects to our strategic direction.

- ▶ Target and tailor our activities through understanding our customers.
- ▶ Optimise organisational efficiency and reduce compliance costs over time.
- ▶ Create an environment which promotes compliance.
- ▶ Continually invest in our people and the tools to deliver future outcomes.

Our Way Forward provides the ongoing focus for us to design and deliver the services the government and our customers expect and are directed at our primary outcome—improving the economic and social wellbeing of New Zealanders.

Our new business plan continues with aspects of our previous five-year plan and incorporates some new concepts and thinking. Our people are demonstrating a high level of understanding and commitment to *Our Way Forward* in line with their response to our previous business plan.

CHANGING ORGANISATIONAL ARRANGEMENTS

Over the last five years, we have achieved a great deal and have taken on additional responsibilities, such as Working for Families and KiwiSaver. At the same time, we have been experiencing the impact of a more complex and diverse customer base. Furthermore, community expectations have changed and we need to be responsive to these changes.

Given these issues, we are implementing a new operating model and realigning the organisational arrangements across the department. This will help us deliver new and existing business, develop an even stronger focus on our customers and take advantage of our increasing skills and new technologies.

In the design and delivery of services, our organisational arrangements now include redefined business groups that focus on large organisational functions:

- ▶ **Customer Insight**—brings the voice of the customer into the organisation, and helps identify and understand the needs of our customer groups and how to enhance our customer relationships.
- ▶ **Design**—provides specialist design services and capability for the wider organisation to ensure customer-focused business solutions and the integration of these new initiatives into our systems.
- ▶ **Assistance**—provides integrated, cost-effective customer contact, identifies when specialist tailored services are appropriate, and provides these as required.
- ▶ **Customer Operations**—efficiently manages customer processes across the department which do not require “person-to-person” intervention.
- ▶ **Assurance**—helps to increase voluntary compliance and deter non-compliance through the development and delivery of our compliance programme in a way that builds community confidence.

There are also changes to Adjudication and Rulings that include:

- ▶ the Chief Tax Counsel having greater oversight of legal technical issues across the department
- ▶ changing the business group name to “Office of The Chief Tax Counsel”.

These changes will result in closer involvement with service delivery and improved technical decision-making across the department.

The new operating model and organisational arrangements will be progressively implemented during late 2006.

KEY EVENTS IN 2005–06

2005		
<p>1 JULY Inland Revenue and the Australian Taxation Office join forces to launch new web-based information for business customers</p> <p>2 AUGUST Tightening of withholding payment regulations to address evasion of income tax and PAYE by fruit picking industry contractors announced (applying from 1 April 2006)</p> <p>1 SEPTEMBER Australian Inspector-General of Taxation and his advisory team visit Inland Revenue</p> <p>19 OCTOBER Hon Peter Dunne appointed Minister of Revenue</p> <p>8 NOVEMBER Tax bill introduced to Parliament to fast track changes to student loans and expand Working for Families</p> <p>16 NOVEMBER Release of Inland Revenue's briefing to the incoming Minister of Revenue</p>	JULY	<p>19 JULY Tax compliance cost research published</p> <p>29 JULY New Zealand and Spain sign double tax agreement</p>
	AUGUST	<p>5 AUGUST Child Support Bill introduced to allow a partial write-off of late payment penalties</p> <p>16 AUGUST New website for young people launched www.whatstax.govt.nz</p>
	SEPTEMBER	<p>17 SEPTEMBER General Election 2005</p>
	OCTOBER	<p>25 OCTOBER New imaging technology goes live at Southern Processing Centre for GST returns and employer monthly schedules</p>
	NOVEMBER	<p>17 NOVEMBER First Gallup engagement survey of our people</p>
	DECEMBER	<p>15 DECEMBER Issues paper on tax deductibility of drilling expenditure for geothermal wells released</p>
2006		
	FEBRUARY	<p>28 FEBRUARY KiwiSaver bill introduced</p>
	MARCH	<p>22 MARCH Inland Revenue attends Finance and Expenditure Committee hearing — Financial Review 2004–05</p>
	APRIL	<p>4 APRIL Taxation (Depreciation, Payment Dates Alignment, FBT and Miscellaneous Provisions) Act 2006 enacted</p> <p>7 APRIL Inland Revenue's website wins the "best government or community" website in NetGuide People's Choice web awards</p>
	MAY	<p>17 MAY Taxation (Annual Rates, Savings Investment, and Miscellaneous Provisions) Bill tabled in Parliament.</p> <p>18 MAY Budget 2006</p>
	JUNE	<p>22 JUNE Payroll subsidy set to encourage small businesses to make use of the services of payroll agents</p>
<p>20 MARCH Legislation tabled in Parliament to give Inland Revenue greater flexibility in imposing shortfall penalties for taking an unacceptable tax position and to change racing industry tax</p> <p>1 APRIL Working for Families Phase II starts Interest-free student loans and non-resident amnesty take effect</p> <p>2 MAY Inland Revenue's strategic business plan <i>Our Way Forward</i> launched</p> <p>21 JUNE Inland Revenue attends Finance and Expenditure Committee hearing — Estimates Review of Vote Revenue 2006–07</p>		

PART TWO

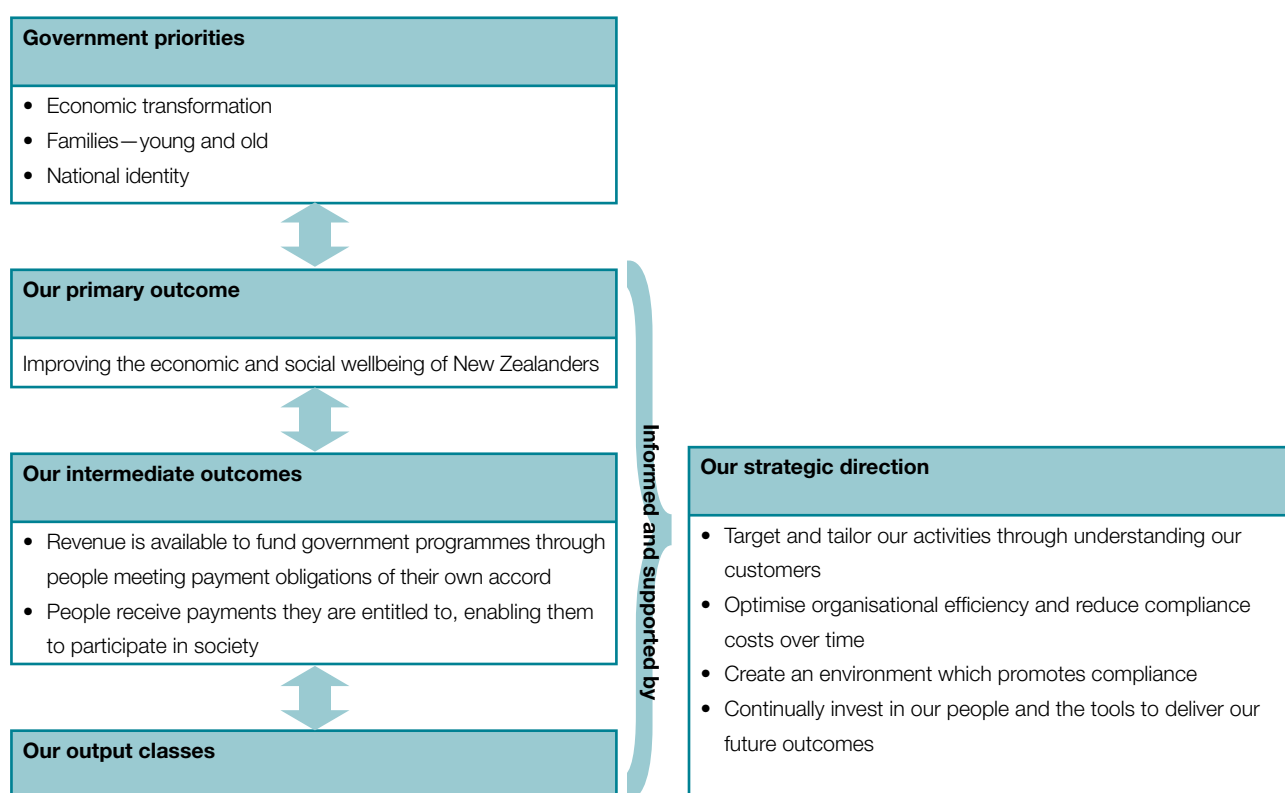
DELIVERING ON OUR OUTCOMES

DELIVERING ON OUR OUTCOMES

Our primary and intermediate outcomes align with the Government's priorities. These outcomes focus on our roles of collecting revenue and some social policy payments, and distributing family assistance (including Working for Families), child support and paid parental leave.

Our strategic direction guides our activities to achieve these results which we deliver through our output class structure.

**FIGURE 1 –
OUR OUTCOMES¹**



In Part Two we summarise this year's activities under the following areas:

- ▶ advising on government policy
- ▶ tax revenue
- ▶ debt management
- ▶ audit discrepancies
- ▶ social support programmes (child support, student loans, family assistance and paid parental leave)
- ▶ other services.

1. This chart reflects the Government priorities released in March 2006 and the department's new Strategic Direction statement released in May 2006 as part of *Our Way Forward*.

ADVISING ON GOVERNMENT POLICY

Inland Revenue's Policy Advice Division, working together with The Treasury, advises the government on all aspects of tax policy and on social policy measures that interact with the tax system. It also drafts tax legislation, supports bills through the parliamentary process, negotiates and maintains New Zealand's network of double tax agreements with other countries, and forecasts tax revenue.

It manages the government's Generic Tax Policy Process, which ensures that proposed tax reforms are the subject of consultation with affected taxpayers at key points in the policy-making process. Early consultation on potential changes makes for workable policy and helps interested parties to understand the rationale behind the changes and how they are intended to work.

The work of the division is based on the government's tax policy work programme, which is updated regularly. Key items on the work programme announced in March 2006 are the Business Tax Review, tax measures to increase productivity and growth, and fundamental changes to savings policy and New Zealand's international tax rules.

Meeting the Government's election commitments

The September 2005 general election had a major influence on the year's policy development. Family assistance and student loan commitments announced in the lead-up to the election required policy development and drafting of legislation in preparation for a bill subsequently introduced in November 2005. The bill boosted income assistance for working families, removed interest on student loans for most borrowers, and provided for an amnesty on student loan penalties for certain borrowers who live overseas. The legislation was enacted in December 2005.

Business Tax Review

One of the major projects resulting from post-election confidence and supply agreements was the Business Tax Review. Its stated purpose is to ensure that the tax system provides better incentives for productivity gains and improved competitiveness with Australia. Officials began work on the review in December 2005, in preparation for release in July 2006 of a discussion document outlining possible business tax reforms.

Other business initiatives

Legislation enacted in March 2006 brought in the major package of business tax changes announced in Budget 2005, which were intended to promote economic growth. They included changes to the tax depreciation rates and fringe benefit tax rules, alignment of GST and provisional tax payment dates, introduction of a temporary tax exemption on foreign income of certain migrants and returning New Zealanders, and updating the tax rules on securities lending to make New Zealand more attractive to international capital.

Business-friendly measures in the taxation bill introduced in May 2006 included improvements to the tax treatment of expenditure on geothermal wells, and changes relating to the sale of patent rights, to remove a potential barrier to investment in research and technology.

A Government discussion document released in June 2006 proposed codifying the tax rules on general partnerships and introducing new rules on limited partnerships, to complement the planned introduction of modern regulatory rules for limited partnerships.

Savings policy

The year saw continued consultation on the proposed reform of the taxation of income from share investments, whether through managed funds or direct investment by individuals. That reform was the main feature of the taxation bill introduced in May 2006.

Also proposed in the May bill were changes to the employer superannuation contribution rules to minimise the use of excessive "salary sacrifice" as a means of paying less tax, and changes to resolve compliance problems for people in New Zealand who have interests in Australian superannuation schemes.

Inland Revenue worked together with the Ministry of Economic Development and The Treasury on policy development for the KiwiSaver work-based savings scheme, the subject of a bill introduced in February 2006 by the Minister of Finance.

Rewrite of income tax law

The rewrite of the Income Tax Act continued through the year, resulting in the progressive release for public comment of exposure drafts of rewritten Parts F to O. The next step is the development of a rewrite bill for introduction into Parliament.

Child support legislation

The Child Support Amendment Bill, introduced in 2005, passed its second reading in Parliament by year's end. The bill allows a partial write-off of late payment penalties as an incentive for defaulters to begin making regular payments. It also gives Inland Revenue the powers to initiate administrative reviews of liable parents' financial affairs.

International arena

By year's end the new double tax agreements with Spain and Poland had passed through their final legislative stages in New Zealand and were awaiting entry into force. Amending protocols updating our double tax agreements with Australia and Singapore were awaiting completion of legislative procedures in those countries. The new double tax agreement with Chile, our thirtieth such agreement and our first with a Latin American country, came into force in June 2006.

The division continued to put considerable effort into OECD tax policy work, since international tax rules are increasingly set by the OECD. The focal point of our efforts during the year was to ensure that proposals affecting the taxation of branch profits maintain a reasonable balance between the interests of capital-exporting countries and capital-importing countries.

Revenue forecasting

Our Revenue Forecasting and Analysis unit regularly informed the government of the amount of tax collected against forecasts. It costed a wide range of tax and social policy initiatives and prepared tax revenue and social expenditure forecasts for the December 2005 fiscal update and Budget 2006.

TAX REVENUE

During 2005–06 we assessed tax revenue of \$46.8² billion, which was \$3.3 billion above forecast for 2005–06. This includes \$1.8 billion favourable variance due to changing the accounting recognition policy for provisional tax from a cash to an accruals basis. It was also \$4.8 billion more than in 2004–05.

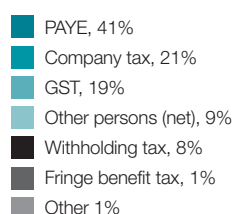
During the year, we assessed 85.1% of core Crown revenue³ (compared to 85.0% in 2004–05). Our contribution has increased by 4.0 percentage points over the past five years, largely due to the growth in tax collected from companies and individuals. Other agencies, such as the New Zealand Customs Service, account for the balance of core Crown revenue.

The breakdown of the actual revenue assessed into direct and indirect taxation⁴ and tax type are shown below.

FIGURE 2 –
COMPOSITION OF ACTUAL REVENUE ASSESSED

	2003–04 \$ billion	2004–05 \$ billion	2005–06 \$ billion
Direct tax	\$29.2	\$32.8	\$37.3
Indirect tax	\$8.8	\$9.2	\$9.5
TOTAL	\$38.0	\$42.0	\$46.8

FIGURE 3 –
TAX REVENUE BY TAX TYPE



2. For details of the change in accounting policy see Part Six, Financial Schedules for Administered Accounts – Crown.
3. Total revenue levied through the Crown's sovereign power. It comprises taxation, levies, fees, fines and penalties, but excludes investment income, sales of goods and services, and other sources of revenue.
4. Direct taxation relates to the economic action of the agents that bear it. The most common example is income tax. Indirect taxation does not relate to the economic action of the agent, for example, GST.

To illustrate the composition of tax revenue across other countries' tax administrations, the following table shows the percentage of major tax types for the 2004–05 tax year. As the table shows there is a reasonable degree of commonality between the composition of Australian and New Zealand tax revenue.

**FIGURE 4 –
COMPOSITION OF 2004–05 TAX REVENUE BY MAJOR TYPE⁵**

	Ireland	Canada	United Kingdom	Australia	New Zealand
Income tax	26%	42%	34%	49%	51%
Company tax	11%	12%	9%	19%	19%
GST/VAT	29%	4%	19%	16%	21%
Other ⁶	34%	42%	38%	16%	9%

DEBT MANAGEMENT

In 2005–06 we:

- ▶ collected \$1,774 million in overdue debt, 18.9% more than last year
- ▶ cleared 496,213 debt cases, an increase of 2.8% on last year's total.

This year, greater emphasis was placed on the collection of higher risk debt. This change in emphasis resulted in more debt cases being cleared, especially high value cases, and the substantial increase in overdue debt collected.

Although more debt has been collected, overdue debt at the end of June 2006 was \$3,515 million, 21.9% more than June 2005. This increase was influenced by a number of factors including:

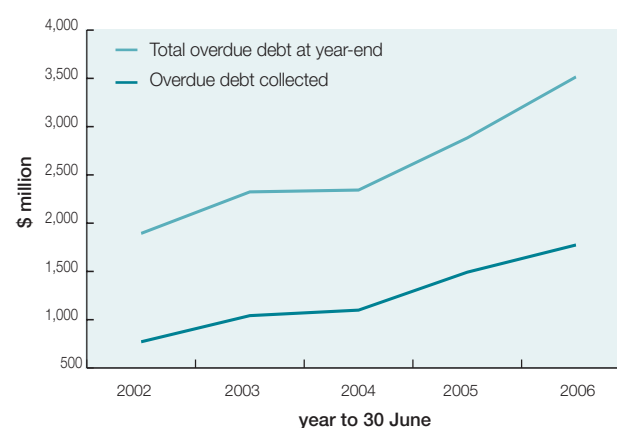
- ▶ buoyant economic conditions
- ▶ continued growth in the number of income tax registrations (3.9%)
- ▶ more debt arising as a result of our audit activity.

5. This table is illustrative only. Because each country has a different tax system structure, the data is not strictly comparable.

6. "Other" contains the balance of taxes collected. Note that there is variation in what is included in "other", including indirect taxes and duties and national superannuation contributions.

The debt resulting from our audit activity—especially audits of tax avoidance schemes—was \$514 million at the end of June 2006. Much of this is non-collectable debt because the tax liabilities resulting from the audits have been deferred or are under dispute in the courts.

**FIGURE 5 –
OVERDUE DEBT COLLECTED**



New Zealand's ratio of gross year-end debt to revenue is comparable to other countries in the OECD with similar tax systems. Figure 6 shows the ratio for selected countries. The OECD cautions that care should be taken with this analysis particularly because countries have differing write-off policies and approaches to enforcement and verification activities.

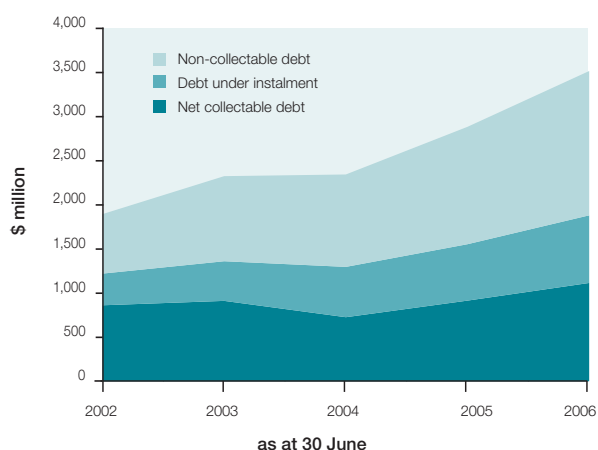
**FIGURE 6 –
TOTAL YEAR-END GROSS DEBT AS PERCENTAGE OF ANNUAL REVENUE (2004)**

Country	2004 ratio of gross debt to revenue %
Canada	9.0%
Australia	8.1%
United States of America	6.2%
New Zealand	6.2%
Ireland	3.4%

Source: OECD Comparative Information Series, April 2006

In 2006–07 we will be focusing more closely on the collection of overdue debt and the factors that lead taxpayers into debt situations.

**FIGURE 7 –
COMPONENTS OF OVERDUE DEBT**



Total overdue debt is the total of all debt types recorded in the debt system. This includes student loan overdue repayments and family assistance debt, but excludes child support debt.

Non-collectable debt is debt that cannot currently be collected. It includes:

- ▶ debt deferred or under dispute in the courts (\$739 million, compared to \$570 million last year). Much of this debt relates to litigation following tax audits, and the increase reflects the larger and more complex cases being handled
- ▶ assessments raised by Inland Revenue in the absence of a return filed by a taxpayer (\$670 million compared to \$564 million last year). This increase reflects the higher number of outstanding returns
- ▶ tax owing that is subject to bankruptcy, liquidation or receivership action, that is debt with the Official Assignee or Liquidator (\$92 million compared to \$63 million last year)
- ▶ debt identified as possibly eligible for write-off (\$134 million compared to \$132 million last year).

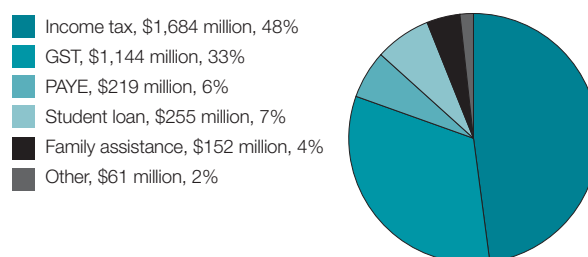
Collectable debt includes:

- ▶ debt being repaid under instalment (\$766 million compared to \$639 million last year)
- ▶ net collectable debt where collection action has started or is pending (\$1,114 million compared to \$914 million last year).

Total overdue debt	\$3,515 million
Increase in past year	\$632 million
Non-collectable debt	\$1,635 million
Increase in past year	\$305 million
Debt under instalment	\$766 million
Increase in past year	\$127 million
Net collectable debt	\$1,114 million
Increase in past year	\$200 million

The composition of total overdue debt by tax type has remained relatively steady since last year.

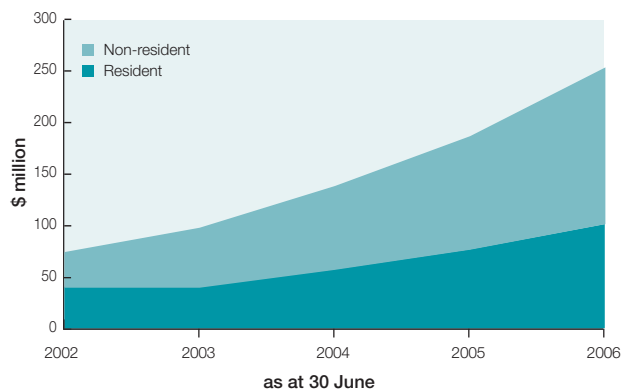
**FIGURE 8 –
TOTAL OVERDUE DEBT BY TAX TYPE**



Overdue student loan repayments

At 30 June 2006, 72,888 borrowers had overdue repayments totalling \$254 million (15.5% of all borrowers and 3.4% of the total amount borrowed). Non-resident borrowers have a major impact on the level of overdue repayments. 50.4% have overdue obligations compared to 13.3% of resident borrowers. They have an average overdue repayment of \$10,900 compared to \$1,735 for resident borrowers.

**FIGURE 9 –
OVERDUE STUDENT LOAN REPAYMENTS**



Family assistance debt

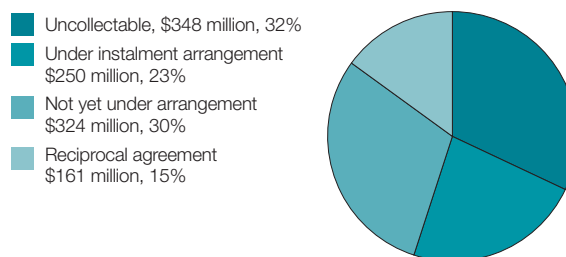
Family assistance debt was down by \$20 million to \$152 million at 30 June 2006. At the same time, the total amount of family assistance distributed by Inland Revenue and the Ministry of Social Development has risen from \$1,001 million to \$1,455 million.

To reduce the likelihood of people receiving an over- or under-payment of family assistance when their circumstances change, we take proactive steps, such as checking actual income throughout the year against predicted earnings. This aims to ensure that customers receive their correct entitlements and minimise any debt that does occur. We introduced a new calculation process in April 2005, called “accumulative adjustments”, which provides customers with additional protection from overpayments. When family circumstances change, the accumulative adjustments process takes into account payments already made in calculating future payments for the year.

Child support debt⁷

At 30 June 2006, total New Zealand child support debt was \$1,083 million.

**FIGURE 10 –
COMPONENTS OF CHILD SUPPORT DEBT**



Growth in overall debt this year was 8.1%, which was significantly better than our target of less than 12% growth. The rate of growth has slowed in the past three years. This is partly due to the effect of our compliance and enforcement strategy actions, such as preventing new parents from falling into debt and clearing high value debt cases.

The provisions in the Child Support Amendment Bill that provide for partial penalty write-off, if a customer keeps to a repayment arrangement, will further slow the growth of debt and will assist in the greater recovery of overdue payments.

Approximately 72% of paying parents have a child support debt. Of these, 30% owe less than \$500, 10% owe between \$500 and \$1,000 and 20% owe more than \$10,000.

Uncollectable debt—debt where repayments are unlikely in the foreseeable future because the debtor is in hospital or prison, or cannot be located after rigorous efforts.

Under instalment arrangement—debtors who have an arrangement with us to make regular repayments.

Not yet under arrangement—for those who remain unwilling to make regular repayments, we consider legal action. Our options for legal action include distress warrants, charging orders, examinations, and arrest warrants.

7. Debt (\$30.2 million) being collected from Australian paying parents on behalf of the Australian Child Support Agency has been excluded from all debt measures.

Reciprocal agreement—debt of New Zealand paying parents living in Australia under collection by the Australian Child Support Agency.

The reciprocal agreement for the collection of child support with the Australian Child Support Agency has been in place since July 2000. We received additional funding to transfer a further 4,000 cases to Australia by 30 June 2007.

**FIGURE 11 –
RECIPROCAL AGREEMENT FOR COLLECTION OF CHILD SUPPORT**

	Cases	Debt owed	Debt received this year
		\$ million	\$ million
New Zealand cases handled by Australian Child Support Agency	5,478	\$161.3	\$8.3
Australian cases handled by New Zealand Child Support	3,846	\$30.2	\$6.3

AUDIT DISCREPANCIES

The level of audit-assessed discrepancies is an important measure of the effectiveness of our audit work. Discrepancies are the difference between the tax ascertained as a result of our audit activity and that previously returned or ascertained by the taxpayer, plus penalties and interest.

In 2005–06 we identified an additional \$980 million in audit discrepancies. A significant portion of this related to tax avoidance and evasion cases (\$326 million).

**FIGURE 12 –
AUDIT DISCREPANCIES – ACTUAL VERSUS BUDGET**

	Actual 2004–05 \$ million	Budget 2005–06 \$ million	Actual 2005–06 \$ million
Non-business and business audit	\$254	\$310	\$297
Aggressive tax issues	\$165	\$105	\$254
Tax evasion and fraud	\$76	\$53	\$72
Corporates	\$268	\$321	\$357
TOTAL	\$763	\$789	\$980

NOTE:

1. Net discrepancies = gross discrepancies less timing adjustments (these adjustments are for errors found in a filed return for one period, but in fact are claimable in another).
2. Not all net discrepancies result in immediate tax liability or payment of additional tax. Adjustments to losses have an impact on current or future tax, and imputation credit adjustments similarly affect future tax liabilities. For 2005–06:

Net total discrepancies	\$980 million
Less loss reduction adjustments	\$217 million
Less imputation credit adjustments	\$ 76 million
Additional tax assessed	\$687 million

CHILD SUPPORT

Child support is money paid by parents not living with their children to help financially support those children. Currently, the child support scheme serves as an intermediary for approximately 172,000⁸ paying parents and 177,500 custodians, who support an estimated 291,000 children.

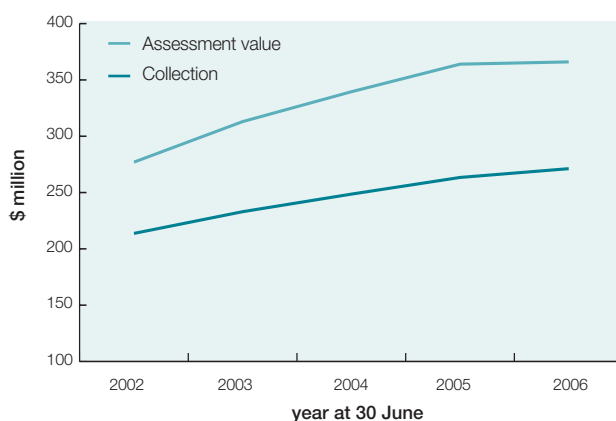
Since the scheme began in 1992 we have collected 87.6% of the total of \$3.3 billion child support assessed, compared to the 40.7% collection rate achieved before the 1992 scheme. Our collection rates are comparable with those of other countries⁹.

8. Paying parents with a current liability or debt (including cases we administer under the reciprocal agreement) and custodians with a current or outstanding entitlement. There are more custodians than paying parents because some paying parents are linked to several custodians (the reverse also applies).
9. Source: *Child support schemes – Australia and comparisons* (Child Support Agency, Australia, 2006).

This year we collected \$341.3 million in child support payments, compared to \$309.1 million for 2004–05. This figure includes assessments and penalties collected for both this year and any previous years, less any refunds. 21% of the amount collected was for previous year assessment arrears and penalties.

For the 2005–06 year, we collected \$271.2 million (74.1%) of the \$366.1 million child support assessed, \$7.8 million more than last year. Of the amount collected, 61.2% was paid in full and on time.

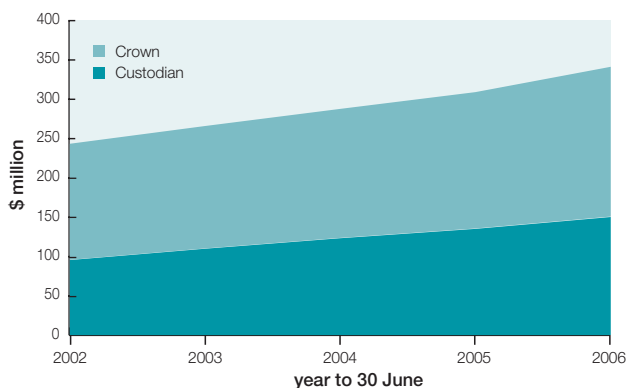
**FIGURE 13 –
CHILD SUPPORT COLLECTED VERSUS ASSESSED (CURRENT YEAR)**



Child support distribution

This year we paid \$151.0 million of child support to custodians and \$190.4 million to the Crown to offset benefits paid to custodians through the Ministry of Social Development. Payments to the Crown include penalties as well as assessments paid.

**FIGURE 14 –
TOTAL CHILD SUPPORT DISTRIBUTED**



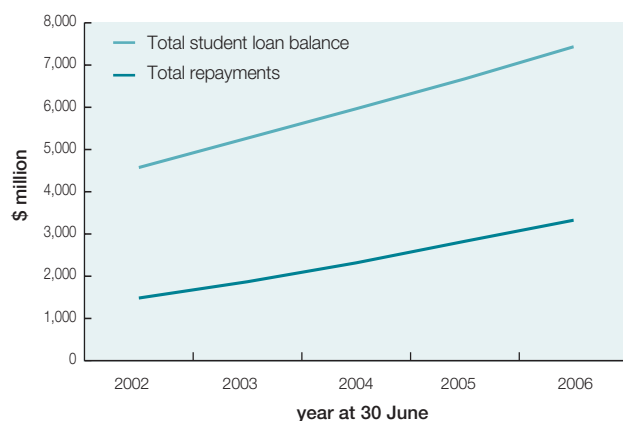
STUDENT LOANS

Inland Revenue's role in administering the student loan scheme is to collect repayments from student loan borrowers. This year we received \$499.2 million in loan repayments, compared to \$510.3 million last year. During this year, the total loan borrowings increased from \$6.7 billion to \$7.4 billion. 16,287 borrowers finished repaying their loan this year, compared to 21,079 last year¹⁰.

As at 30 June 2006:

- ▶ there were 470,507 student loan borrowers, compared to 445,074 last year. 94.1% of borrowers are resident in New Zealand and 5.9% have non-resident status
- ▶ the median value of a student loan was \$10,652, compared to \$10,404 last year.

**FIGURE 15 –
TOTAL STUDENT LOAN BALANCE AND TOTAL AMOUNT REPAID**



10. As at the end of each year. Student loan accounts can be finalised after the end of the fiscal year, so the number of loans repaid each year will increase after 30 June. The number of loans repaid for 2004–05 was 21,079 as at 30 June 2005 and 24,605 as at 30 June 2006.

Changes to the student loan scheme

The government made major changes to the scheme at the end of 2005. These changes removed interest payments for most borrowers and created an amnesty for non-resident borrowers¹¹. The main conditions of the changes are:

- **Interest-free student loans**—from 1 April 2006, student loans for borrowers living in New Zealand for 183 or more consecutive days became interest free. For those who are eligible, interest will be written off automatically after the end of each tax year. The first interest write-offs will be in April 2007.
- **Non-resident amnesty**—borrowers who qualify for the amnesty will have late payment penalties written off up to the date we receive their application. The amnesty period runs from 1 April 2006 to 31 March 2007 and applies to borrowers who meet specific qualification requirements.

For more detailed information see the Student Loan Scheme Annual Report 2006, a joint publication of the Ministry of Social Development, the Ministry of Education and Inland Revenue. This can be found at:

<http://educationcounts.edcentre.govt.nz/publications>

FAMILY ASSISTANCE

Inland Revenue administers family assistance jointly with the Ministry of Social Development. This year Inland Revenue distributed \$839 million (55.0%) of the total amount of family assistance.

We estimate 285,000 families will receive family assistance distributions for the tax year ending 31 March 2006 compared to 269,219 in 2005¹². The total amount distributed is expected to rise to \$2.6 billion to 350,000 families in 2008.

Early findings from the joint Inland Revenue and Ministry of Social Development evaluation of the implementation of Working for Families show that overall awareness of the package is high and that the take-up is higher than was forecast.

11. The amnesty aims to: remove one of the barriers to borrowers wanting to return to New Zealand; encourage borrowers into making regular loan repayments; and help borrowers with overdue repayments manage their loans better.

12. A number of customers receive their family assistance payments as a lump sum at the end of the tax year. The total number of family assistance recipients will be available once our end-of-year reconciliations are complete.

FIGURE 16 –
FAMILY ASSISTANCE DISTRIBUTED

	2005 \$ million	2006 \$ million
Inland Revenue	520	839
Ministry of Social Development	481	686
TOTAL	1,001	1,525

Family assistance components

Family assistance is made up of five components. Family support is available to all families who meet the income criteria. It is jointly distributed by Inland Revenue and the Ministry of Social Development. We administer the other four entitlements available to families¹³. These are child tax credit, family tax credit, parental tax credit and in-work payment.

Impact of Working for Families

The first phase of Working for Families, which increased the levels of family assistance payments, was in effect from 1 April 2005 until 31 March 2006. 83,000 families received family assistance from Inland Revenue during March 2006—15,500 more families than during the same month last year.

The second phase of Working for Families came into effect on 1 April 2006. It introduced the in-work payment and increased the levels of family assistance payments. Inland Revenue distributed \$256 million of the \$839 million in family assistance payments made this year, in the period from 1 April 2006 to 30 June 2006. 112,000 of the 159,000 families who received family assistance in June 2006 received the in-work payment.

The third phase of Working for Families will come into effect on 1 April 2007, further increasing the levels of family assistance payments.

13. For those who meet the income criteria and who are not on a benefit.

**FIGURE 17 –
FAMILY ASSISTANCE COMPONENTS AS AT 30 JUNE**

	2002	2003	2004	2005	2006
	\$ million	\$ million	\$ million	\$ million	\$ million
Family support	848	847	819	833	1,280
Child tax credit	157	143	155	141	154
Family tax credit ¹⁴	14	16	14	13	5
Parental tax credit	18	12	14	14	16
In-work payment ¹⁵	–	–	–	–	70
Total family assistance	1,037	1,018	1,002	1,001	1,525

PAID PARENTAL LEAVE

Paid parental leave is a government-funded payment for parents who take leave from their job to care for a new baby or adopted child. Inland Revenue distributes paid parental leave on behalf of the Department of Labour.

This year we distributed \$101 million in paid parental leave to 19,906 parents, compared to \$76 million to 19,264 parents last year. This increase was influenced by legislation changes¹⁶.

The maximum amount of paid parental leave is inflation-indexed each year. It was paid out at a weekly rate of \$357.30 from July 2005, and \$372.12 from July 2006. The average payment this year was \$345.30 per week and 87% of applicants received the maximum rate. This year we processed 94% of applications within five working days.

Paid parental leave has been extended to cover self-employed mothers from July 2006 if they have been working an average of 10 hours a week or more for either six or 12 months immediately before the birth or adoption of a child. They are able to transfer this leave to their eligible partners in the same way as employees.

OTHER SERVICES

Refunds and rebates

This year we issued 46% of refunds by direct credit, compared to our target of 40%. 93% of GST refunds were issued within 15 working days of receipt.

We processed 424,885 rebate claims for donations, childcare and housekeeper costs¹⁷ and issued rebate claim refunds of \$122.5 million. 92% of rebate claim refunds were issued within 3 weeks of receipt, and 99% within 8 weeks.

An audit may find that a taxpayer should actually receive a refund or a credit. This year we identified \$48.4 million in audit identified tax refunds, compared to \$46.8 million in 2004–05.

Unclaimed monies

Generally, money held in an account where there is no activity for six consecutive years becomes unclaimed money¹⁸. This year we repaid \$1.1 million of unclaimed money to its rightful owners. In the same period we received \$6.6 million from unclaimed money-holders for the Crown. Since we introduced a computer-based system in February 1992, we have received a total of \$43.4 million of unclaimed monies and paid out \$7.4 million.

14. This requires a minimum number of hours of work per week.

15. As the in-work payment is new to family assistance, customers need to confirm their eligibility. Current recipients of the child tax credit, not eligible for the in-work payment, will continue to receive the child tax credit until they are no longer eligible.

16. From 1 December 2004, parents became eligible for payments if they had worked for the same employer for six months (previously 12 months) before the expected date of delivery or adoption of a child, and the payment period increased from 12 to 13 weeks. From 1 December 2005, the payment period increased from 13 to 14 weeks.

17. Figures in this section relate to rebates processed during the year to 30 June 2006. This includes rebates for the 2005–06 tax year and all other years. Note that taxpayers have up to eight years to file rebate claims.

18. Unclaimed money falls into three broad groups—deposits of money, life assurance proceeds, and certain types of trade debts (including wages and unrepresented cheques). A list of the names of people recently identified as being owed money under the Unclaimed Money Act 1971 is available on our website www.ird.govt.nz

PART THREE

KEY STRATEGIES

PROMOTING COMPLIANCE

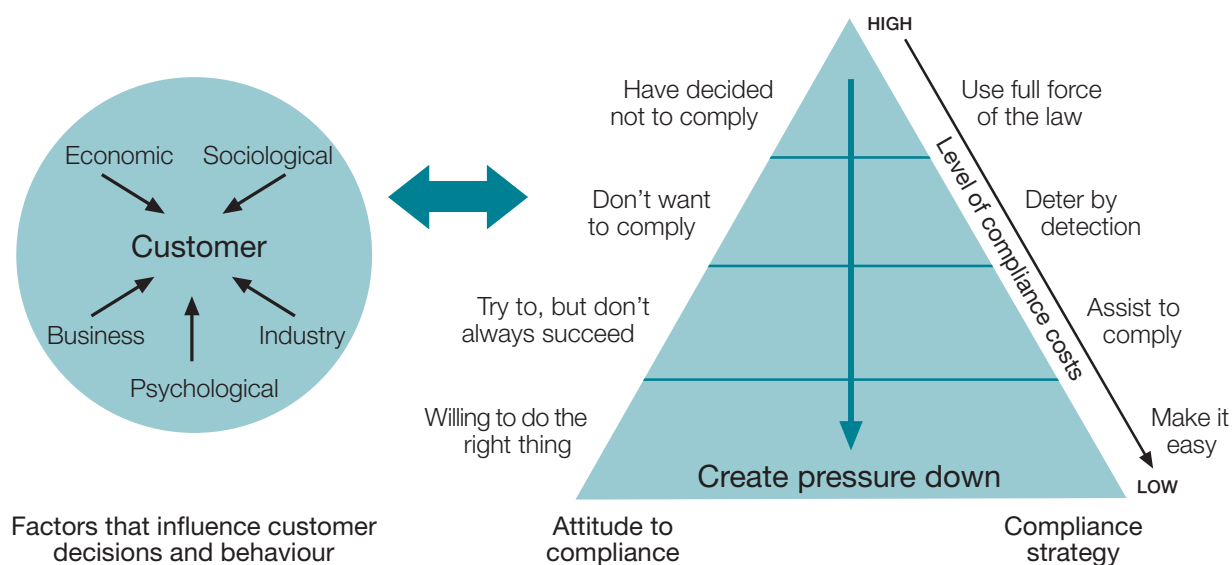
The majority of our customers willingly meet their obligations of their own accord and we try to make it as easy as possible for them to do so. We also need to make it as difficult as possible for our customers to avoid or evade their obligations.

In tailoring our compliance activities we use our compliance model to help us to determine the best response to apply to any given situation. It is important that we use an appropriate response to fit the seriousness of the offence, with the aim of improving long-term compliance behaviour. The top of the compliance model recognises situations where it is appropriate to use our powers to obtain information and to prosecute in cases of deliberate non-compliance.

Maintaining a high level of voluntary compliance is critical to the effective and efficient operation of our tax system. We continually focus on delivering a wide range of services that allow us to:

- ▶ provide customers with advice and support through services that are easy and convenient for them to use
- ▶ undertake complex investigative and legal activities that ensure customers are complying with the tax laws.

FIGURE 18 –
COMPLIANCE MODEL



PROVIDING INFORMATION AND SUPPORT

New Zealand operates a self-assessment system (where people calculate the tax they have to pay) that requires a high level of voluntary compliance (where people meet obligations of their own accord). One of our main approaches to maintaining voluntary compliance is to make sure that our customers have access to easy-to-use and convenient services and information. This helps them to understand what they need to do to meet their obligations and/or receive their entitlements. We take a broad approach to the design and delivery of these services, ranging from:

- ▶ understanding customers' requirements to design services and products that will meet those requirements
- ▶ making a wide range of information and services available through electronic channels
- ▶ providing customer assistance either by telephone or face-to-face and providing specific information on tax issues.

Understanding our customers

This year we have continued to identify and use information about our customers' requirements to design services appropriate to meet them. Two examples of using this approach are small and medium enterprises and working with tax agents.

Small and medium enterprises

In August 2005, we established a Small and Medium Enterprise (SME) team to strengthen relationships with the business community, other government departments and related stakeholders in the SME sector (such as the New Zealand Centre for SME Research). The SME team works:

- ▶ across Inland Revenue as champions for SMEs, ensuring that the "voice of small business" is heard and considered. Reaction to the initiative, which follows the recommendations from the government's Small Business Advisory Group, has been positive.
- ▶ with other government departments to use their experience and knowledge of the SME sector and to provide seamless delivery across the sector. For example, we collaborated with New Zealand Trade and Enterprise (NZTE) in the redevelopment of www.biz.org.nz a website (administered by NZTE) that provides information to SMEs about how services provided by the government will help them run their businesses better.

Tax agents

We also recognise the key role that tax agents have in maintaining an effective tax administration. We have a very constructive and positive relationship with agents and the New Zealand Institute of Chartered Accountants and we greatly value this. We have identified a number of initiatives to enhance the relationships we have with tax agents and their professional bodies. These initiatives will provide tax agents with the ongoing capability to work with us to ensure their clients are compliant with the tax laws. This reflects our increased focus on outstanding debt and returns for tax agents and their clients.

Tax agents continue to appreciate the service we give them — 92% of tax agents surveyed this year rated our service as good or very good.

Electronic service delivery

During the year we continued to introduce electronic-based services that are easy and convenient for our customers to use and deliver significant benefits for customers, the Government and our people. The development of our electronic services aligns with the government's development goal of **"networks and internet technologies will be integral to the delivery of government information, services and processes"**¹⁹.

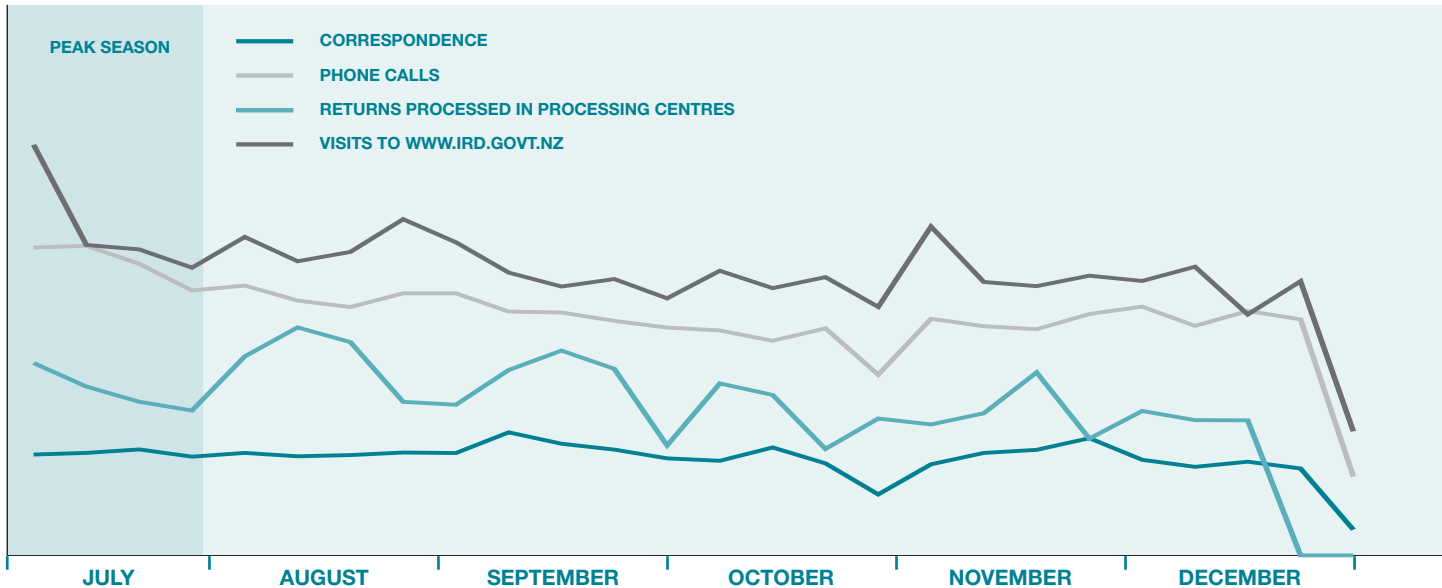
Our success in delivering electronic services was reflected in our main website (www.ird.govt.nz) winning a *Hitwise Online Performance Award* for being the number one website in the "Government – National" category for 2005 and also the best government or community website in the 2006 *NetGuide People's Choice* awards.

During 2005–06, we:

- ▶ experienced considerable growth in the number of visits to our websites
- ▶ introduced our e-business strategy that provides a common direction and focus for development of e-business across Inland Revenue
- ▶ introduced our youth website (www.whatstax.govt.nz) to provide tax information to young people.

19. As set out in the Development Goals for the State Services, released by the State Services Commission in March 2005.

SUMMARY OF KEY OPERATIONS



SUPPORTING OUR YOUNGER CUSTOMERS



An increasing proportion of younger customers are registered with us. It is sensible for us to build positive relationships with them at an early stage. Our approach to achieve this is by providing information and support, so they are aware of their entitlements and obligations.

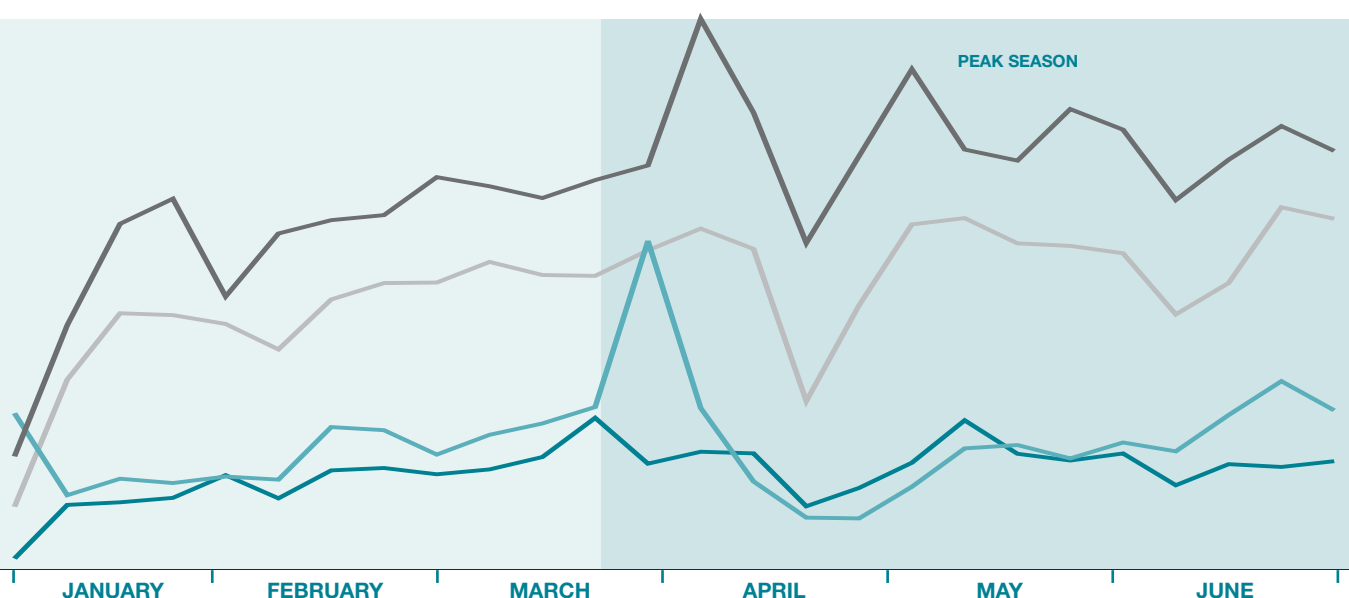
We continue to be an active supporter of the Enterprise New Zealand Trust's "Financial Education" programmes that are available to year nine to 13 students throughout

New Zealand. The programme modules aim to develop financial literacy in students and give them the ability to make informed judgements about the use and management of money.

To support student loan borrowers, Inland Revenue's main website has a dedicated section for student loan issues. This provides general information and forms, and electronic tools to help borrowers manage their student loan repayments.

This year, Inland Revenue developed an innovative website called "What's Tax?" aimed at young people starting their first job. The site (www.whatstax.govt.nz) aims to give young people a resource to help them understand their basic tax obligations when they start work.

We believe that providing a resource using language school-leavers can relate to, through a website designed specifically to appeal to them, creates a positive relationship with Inland Revenue from the start. Educating young people and encouraging voluntary compliance is a strong message we want to send to the community.



This year we continued to develop “self-service” products for tax agents. We introduced a real time, online service that lets tax agents link clients to their agency record. In addition, tax agents accessed accounts 3.4 million times during the year using our Look at Account Information service. This had a positive flow-on effect of reducing telephone calls to our tax agents’ 0800 line. Further proposed services include providing agents with direct access to their client list and access to a variety of client information such as return and account details.

Providing customer assistance

In delivering customer assistance, we seek to build strong relationships with our customers and the community. In the long-term, we want to drive down the need for repeat customer contacts by increasing the value of each contact—without reducing compliance with the laws we administer.

SUMMARY OF OPERATION

	2005–06	2004–05
Customer contacts		
Phone calls	3,942,057	3,756,890
INFOexpress calls	1,315,786	1,504,190
Correspondence items	1,579,999	1,495,790
Office appointments	196,806	174,156
Advisory hours	127,385	124,369
Website visits	5.0 million	3.6 million
Returns processed		
Income tax	2,060,245	1,913,704
GST	3,023,700	2,959,231
Employer monthly schedules	2,119,304	2,134,678
FBT	97,296	127,053
Rebate claims	442,391	416,927
Audit hours		
SMEs	850,086	824,600
Corporates	195,296	198,697

We have made considerable and ongoing efforts to raise our capability to provide more effective customer assistance, including:

- ▶ investing in new telecommunications technology
- ▶ raising our people's skills and knowledge
- ▶ building strong community relationships.

Over 2005–06, we further enhanced our telecommunications capability by introducing a new platform that provides a consistent customer experience and can also deliver further internal efficiencies.

We responded to approximately 8.2 million contacts this year. These contacts occurred mainly during peak tax periods. However, a large number of contacts also related to phase two of Working for Families and the changes to student loan legislation. We responded to this demand primarily through our call centres, although we experienced an increase in counter enquiries and advisories. Despite the large volume of contacts we received, we were able to achieve a high level of customer satisfaction with our services (79%).

Child support telephone calls are answered by specialist staff in our regional and branch offices, not in our call centres. 74% of child support calls were answered within 30 seconds on non-peak days, compared to a target of 70%.

The total number of telephone contacts through our automated telephone service INFOexpress was 13% less than last year. This was attributed mainly to tax agents increasingly using the online Look at Account Information service, which provides access to a wider range of clients' income details.

Building strong relationships with the community is valuable in maintaining compliance. Our liaison officers work in the community, addressing a wide range of tax and social support programmes. We also work closely with community groups which are able to influence large numbers of our customers.

Providing rulings on tax issues

By issuing private rulings on specific tax issues, we give customers certainty about specific tax positions they may be considering as part of their business activities. During the year, we finalised 79 private rulings that contained a total of 480 technical issues.

We also completed a total of 30 public items this year, including five interpretation statements or guidelines relating to:

- ▶ shortfall penalties – for not taking reasonable care
- ▶ shortfall penalties – unacceptable interpretation and unacceptable tax position
- ▶ shortfall penalties – for taking an abusive tax position
- ▶ income tax treatment for New Zealand patents
- ▶ Public Trustee Interpretation Statement.

All public items for current and previous years are published on our website: www.ird.govt.nz/technical-tax/public-rulings/

SUPPORTING COMMUNITY NETWORKS



Kerry Dalton and Bryre Patchell

Being visible in the community and working alongside our customers helps us to develop strong relationships and maintain voluntary compliance.

Inland Revenue works in the community through our advisory officers and our support to community groups which also assist many of our customers. Two examples of these are our involvement with rural community networks at Heartlands centres and our relationship with the New Zealand Association of Citizens Advice Bureaux (CAB).

There are 40 Heartlands centres around New Zealand where people can access many government services²⁰ in one place. Inland Revenue provides assistance on tax matters, family assistance and child support. Inland Revenue queries account for 14% of the total that come through the centres.

Luana Poata, a social policy liaison officer in Whangarei, who regularly delivers assistance to the Kaitia Heartlands centre, says “It’s important that Inland Revenue is accessible to all communities. By being visible we’re helping to break down the barriers and provide a link into Inland Revenue”.

The New Zealand Association of Citizens Advice Bureaux provides a range of free and impartial information to over 2,000 New Zealanders each day. In late 2004, Inland Revenue formalised its long-standing relationship with CAB by signing a service level agreement. Inland Revenue provides CAB with information, delivered in a way that is best for them so they can help their customers with Inland Revenue matters.

Bryre Patchell, Group Manager Field Delivery, says “Our relationship with CAB helps us to break down barriers with customers who may initially not want to contact Inland Revenue”.

Kerry Dalton, Chief Executive CAB, added that “CAB recognises the positive direction that Inland Revenue is going in and the change happening throughout the organisation. This has led to a natural relationship with the focus on achieving better outcomes for our society”.

20. Other government agencies include Work and Income, Housing New Zealand, The Community Law Service, Employment Relations Service and Child, Youth and Family.

MAINTAINING COMPLIANCE WITH THE LAW

Our compliance activities help to maintain and improve voluntary compliance. In doing this, the compliance model (see page 26) guides us on how to best handle particular compliance issues. We provide assistance that makes it easy for our customers to file their returns and make their payments by due dates. When customers try to meet their obligations but do not succeed, we work hard to help them comply. We also take firm action against deliberate non-compliers. This may be through our audit or other scrutiny activities.

Managing outstanding returns

Our approach to managing outstanding returns focuses on making it easier for taxpayers to file returns before the due date. In 2005–06 we sent out 12.1 million return forms²¹ to customers, 4.6% more than last year. Overall, taxpayers filed 82% of returns promptly.

In addressing returns outstanding after the due date, we use a range of collection actions and take a risk-based approach. For example, this year we took action on the 2,000 oldest outstanding returns. 86.4% of the 2,000 oldest returns were finalised by year-end. During 2005–06, we finalised 1.1 million outstanding returns, a similar volume to last year. 81.5% of these returns were collected within 12 months of their due dates.

In addition, when other remedies have not proved effective, we successfully prosecuted:

- ▶ 579 taxpayers for failing to file an income tax return
- ▶ 378 taxpayers for failure to file a GST return.

Managing overdue debt

The collection of overdue debt helps to maintain compliance, sustain revenue cash flow and can positively influence community confidence in the tax administration. In managing our overdue debt portfolio, we use a risk-based approach to target debt collection activities.

During the year, we focused on the following areas:

- ▶ high-value debt (debt over \$100,000), which makes up 56% of overdue debt. In the past year, the amount of high-value debt has increased by 29%. We targeted the 1,000 largest debt cases and 97% were resolved or under positive collection action²² at the end of June 2006
- ▶ tax agent client debt and returns (47% of overdue debt and 34% of outstanding returns). Agent account managers are targeting tax agents who have clients with tax arrears over \$10,000 and where no positive collection action is being taken
- ▶ the 2,000 oldest debt cases (5% of overdue debt). By the end of the year, 49.2% of these debt cases had been finalised.

We have also set up dedicated teams to work on complex debt arrangements. These teams are identifying and developing processes to better manage cases where the taxpayer takes steps to make the collection of the overdue tax more difficult.

Our audit activity

Our approach to audit activity is guided by the compliance model and our Audit Strategy. The Strategy helps us to focus on the areas of greatest compliance risk and develop the capability required to respond to these risks. Since the introduction of the Audit Strategy in July 2004, we have made improvements to consolidate our working practices and develop our capability in all aspects of the business.

In 2005–06, the results of audits in high-risk areas such as corporate taxpayers, and tax evasion and tax avoidance schemes have been particularly successful. During the year we identified \$980 million in discrepancies, 24% over our objective. A large part of the additional discrepancies came from cases relating to avoidance schemes, which exceeded our objective by \$149 million (142% over the objective for this discrepancy type).

21. Including GST, income tax, employer monthly schedule and fringe benefit tax return forms.

22. Under instalment arrangement, written off, deferred, under investigation or objection, under bankruptcy receivership or liquidation, under negotiation, subject to legal action or direct deduction.

Small and medium enterprises

In looking at small and medium enterprises, we made good progress on audits against our current national risk categories, with 79% of the audit hours being directly attributed to case work on the following risk areas:

- ▶ real property
- ▶ tax evasion and tax avoidance
- ▶ technical non-compliance
- ▶ return and filing obligations.

During the year, we also identified other risk areas through our risk analysis processes. Areas that we will continue to focus on include:

- ▶ aggressive tax planning, particularly income splitting where customers aim to minimise the amount of tax they need to pay on their income
- ▶ income suppression—we have now incorporated a more direct link to people who pay child support where income has been concealed to reduce child support liability.

Corporates

Corporates²³ are an important part of our audit focus. These taxpayers typically have tax affairs that are complex and sophisticated and often conduct business in an international context. They may also have headquarters outside New Zealand.

In 2005–06 our audit activity focused on high-risk taxpayers and issues, while making sure that compliance was maintained among lower-risk taxpayers. For 2005–06 the high-risk issues included:

- ▶ **related-party financing into New Zealand**—we identified instances where related-party financing has been used to create what we consider to be inappropriate deductions
- ▶ **intangible property**—including sale and leaseback of intangible property across tax jurisdictions and the pricing of transactions between associated parties
- ▶ **asset valuations and the allocation of depreciation**—we reviewed a number of depreciation issues that relate to the valuation and asset allocations of significant asset purchase

- ▶ **dividend withholding payments (DWP)**—we reviewed a number of structures that either use DWP in inappropriate ways or that defer or avoid DWP liability altogether
- ▶ **international financial reporting standards (IFRS)**—early adopters of IFRS are now starting to disclose the financial effects through reporting disclosures. Understanding transitional year tax filing disclosures and tax adjustments will be a key issue when 2006 tax returns are filed
- ▶ **financing expenses paid to non-resident associates**—we reviewed a number of taxpayers for rates of interest applied, guarantee fees and financing costs, to ensure that excessive rates are not being paid.

During the year, we worked with company chairpersons and directors to raise their awareness of the benefits of adopting risk management practices for taxation. We also discussed tax risk management at a number of conferences, for example, the Trans-Tasman Business Circle conference in September 2005.

We also completed a risk review process for our largest taxpayers. Risk reviews provide a number of benefits for both corporates and Inland Revenue. For example, they:

- ▶ ensure our audits are shorter and targeted, which will reduce costs to both parties
- ▶ provide greater transparency, for example, we discuss significant risks we have identified at the end of the risk review, rather than waiting to disclose them during the audit process.

This year, we also focused on 104 high wealth individuals and their associated entities. Results of our audit activity this year included:

- ▶ assessment of additional tax of \$23 million from 63 individuals
- ▶ assessment of a further \$181 million from 17 individuals. However, these cases are in the disputes process.

23. Entities with an annual turnover exceeding \$100 million.

TACKLING THE HARDER END OF COMPLIANCE

The Tax Administration Act requires our customers to meet certain obligations around record keeping, filing and paying. If a customer fails to do so, we need to take the appropriate corrective action. Taking this action is important for maintaining the overall integrity of New Zealand's tax system.

Fortunately, only a small percentage of our customers deliberately decide not to meet their obligations or engage in evasion—these people form the top of the compliance model (refer to page 26). In many cases, our only recourse is to address these customers by using the full force of the law, including using our powers to obtain information, and taking prosecution and litigation action.

Use of our powers

Inland Revenue has broad powers to ensure that people meet their obligations under the Inland Revenue Acts and other legislation we administer. It is important that we use these powers carefully when making decisions that directly impact on the customer.

When we use our powers we also need to consider how they help to create an environment which promotes compliance. There is a clear expectation in the community that we will make it easy for customers to meet their obligations of their own accord. Equally, the community also expects that we will take appropriate action against those people who do not comply with the laws. The powers we have to help achieve this are shown in Figure 19.

During 2005–06 we used these powers 815 times (506 in 2004–05), of which 93% related to the use of section 17 notices and section 17A court orders and the remainder to sections 16, 18 and 19.

FIGURE 19 –
INLAND REVENUE POWERS

Power	Tax Administration Act 1994
We can access premises to obtain information	Section 16
We can remove and copy documents	Section 16B
We can require that information be provided in writing	Section 17
If a customer fails to provide information we seek we can apply to a Court for an order requiring that information to be supplied	Section 17A
If we believe it is necessary to hold an inquiry to obtain information, we can apply to a District Court Judge for such an inquiry	Section 18(1)
We can require people to attend and give evidence before a delegated officer of the department and this may be required to be under oath	Section 19

Use of the Companies Act 1993 provisions

In addition to using the Tax Administration Act 1994, we have become more active in moving to take action under the Companies Act 1993, particularly where:

- ▶ a director has misapplied or retained money or property or where there may have been reckless trading or failure to keep adequate records (Section 301, Companies Act 1993)
- ▶ there is a need to actively work with a liquidator to assist with the recovery of tax debt
- ▶ it is believed that the independence of a liquidator may be an issue. In these cases we have taken steps to remove or replace a liquidator, or at the very least, ensure there is active compliance with the requirements of the Companies Act 1993.

Although it does not represent the bulk of our work in our collection activity, we take this action when we need to make sure that we are in the best possible position to recover any tax and penalties due at the end of an investigation.

Legal action

When appropriate, Inland Revenue continued to use the legal system to encourage compliance with the tax laws. This action ranged from prosecution for failure to file returns through to more involved and complex legal action.

During the year, we had success with a number of prosecutions for serious breaches of the Tax Administration Act 1994 and Crimes Act 1961. Some of the prosecutions we undertook this year included:

► **CIR v David James Judson: failure to comply with section 17 requests**

Charges were laid in Christchurch against Mr Judson, a wholesaler/processor under section 143B(1)(b) and (f) of the Tax Administration Act 1994 for not complying with section 17 requests. Mr Judson was sentenced to 200 hours of community work and an order to pay \$25,000 in reparation.

► **R v David Lawrence Marsters: filing false returns**

Mr Marsters, a farmer/helicopter pilot/concrete cutter, filed 48 false GST returns over a three-year period claiming a myriad of items that included multiple claims for land, concrete cutting equipment and vehicles. Mr Marsters was convicted in the High Court and sentenced to four years' imprisonment with a six-month reduction for an early guilty plea. Mr Marsters appealed the ruling but the Court of Appeal upheld the original sentence of three and a half years.

► **R v Gavin Harris: tax and GST fraud**

Mr Harris was a property developer who entered into alleged agreements between his associated entities to either purchase property or undertake building contracts. GST was claimed on the input (invoice basis) but no output tax (payments basis) was declared. In December 2005, Mr Harris was convicted and sentenced on one representative charge of nine counts under section 229A of the Crimes Act 1961 for GST fraud totalling \$455,310. He received two and a half years' imprisonment.

► **R v Sione Tuimana: fraudulent use of identity records to defraud family support**

Mr Tuimana defrauded \$364,000 of family support by assuming the identity of family and immigration clients and claiming family assistance using birth certificates of children not resident in New Zealand. In May 2005, Mr Tuimana

was convicted and sentenced to four years' imprisonment for 65 charges under section 229A of the Crimes Act 1961. Mr Tuimana appealed this sentence on the basis that the sentencing judge did not take into consideration his ability to repay or make reparation. In September 2005, he was re-sentenced in the Palmerston North District Court to three years and nine months' imprisonment.

► **CIR v Josephine Robertson: filing false returns and failing to account**

25 charges were laid against Ms Robertson, an agricultural contractor, for failing to keep books of account, filing false returns and failing to deduct PAYE over a number of years. Ms Robertson was sentenced to six months' imprisonment with deferral of two months to seek home detention.

Litigation

In 2005–06 most of Inland Revenue's litigation efforts focused on large and complex cases where we have challenged arrangements designed to reduce or eliminate a tax liability. Before reaching the litigation stage, these cases have typically involved detailed investigations into sophisticated structures that are often based on international arrangements. In most cases, taxpayers subsequently disputed the assessment arising from an audit.

In 2005–06 Inland Revenue's success rate continued to be high, with over 80% of substantive judgments delivered during the year favouring our view of the law.

Two major groups of cases have taken up a large part of our effort: the Trinity case and litigation of structured finance arrangements.

The Trinity case has involved several years' of work by our investigations and legal teams. The case itself involved a forestry venture on land owned by the Trinity Foundation. The scheme gave investors a very large and disproportionate tax advantage in return for their investment. The High Court decision in December 2004 supported Inland Revenue's view that the arrangement constituted tax avoidance and also confirmed the proper imposition of shortfall penalties of 100% in the case. An appeal in this case has been set to be heard by the Court of Appeal in September 2006.

Another area of focus for legal action related to structured finance transactions, which are now before the courts. Investigations by our Corporates group have led to tax assessments being issued to financial institutions. These assessments have been disputed, but litigation to date has been to decide procedural (including disputes resolution procedures) or interlocutory issues. A substantive hearing is expected in late 2007.

During the year, Inland Revenue was also successful in its first Supreme Court case. The Supreme Court found for Inland Revenue in *Allen v CIR*. The decision confirms the process which a taxpayer must follow to dispute an assessment when there has been a default in filing a return.

GAINING ORGANISATIONAL EFFICIENCY

During 2005–06, we continued to seek ongoing efficiencies across our functions and service delivery activities. We have focused on developing smarter ways of working and organising ourselves to deliver services that are effective and efficient for our customers.

Overall, we have successfully coped with strong growth in customer numbers and interactions while having a baseline that has remained relatively constant.

OUR APPROACH TO MEASURING ORGANISATIONAL EFFICIENCY

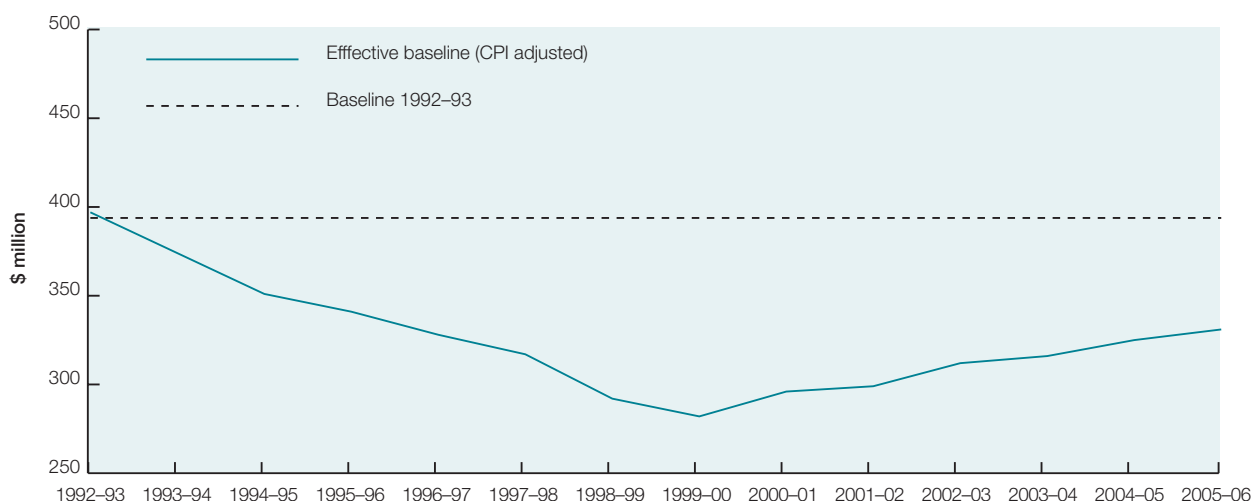
The approach we have used to measure our organisational efficiency reflects the relationship between:

- ▶ the workload we have had to address over the years (exclusive of the workload associated with new responsibilities²⁴ we have received in recent years)
- ▶ the effective baseline²⁵ we have had to address that workload.

During this time we have also maintained the high level of our output delivery performance.

In taking this approach we recognise that there is still work to be completed on improving the measurement of the efficiency of our activities.

**FIGURE 20 –
EFFECTIVE BASELINE (CPI ADJUSTED)**



24. These include, for example: student loans, Working for Families, paid parental leave and KiwiSaver.

25. Effective baseline is the level of funding we would have if we did not receive additional funding for new responsibilities, government-funded initiatives and one-off initiatives.

Workload versus our effective baseline

As our responsibilities have increased, we have also seen increases in the size of our customer base and the volume of interactions and transactions we have had to address.

Over the past five years (since 2001–02), we have seen growth across a range of areas, including:

- ▶ 9.5% growth in the number of customers filing returns²⁶
- ▶ 9.4% growth in the number of taxpayers registered for PAYE
- ▶ Debt collected increased to \$1,774 million (\$771 million in 2001–02)
- ▶ 1.7% growth in correspondence (with a 6.1% increase between 2004–05 and 2005–06)
- ▶ 7.1% more child support customers
- ▶ 30.6% increase in student loan borrowers.

Although our funding (since 2000–01) has included additional funding for new responsibilities, our effective baseline has remained relatively constant. In the six years since 1999–00, our effective baseline increased by a total of \$49 million. This funding has been used to develop our people capability and infrastructure, but did not fully address workload increases.

Figure 20 shows the trend in our effective baseline between 1992–93 and 2005–06.

26. These include income tax, employer schedules, GST and FBT returns only.

To address the increased workload in transaction processing, customer contacts and debt management, we have developed and implemented a number of improvements to more effectively and efficiently deal with an increasing workload. This has included:

- ▶ actively reprioritising resources to enable the development of online self-service delivery options
- ▶ in negotiating service contracts, we have actively sought cost reductions and/or productivity gains.
- ▶ using technology to deliver cost-effective services, such as the ability to file returns and send correspondence online (for example, electronic correspondence received has increased by 107% since 2001–02)
- ▶ making use of relationships with third-party intermediaries (such as tax agents and agencies representing various community groups) to help us reach greater numbers of customers.

Despite the growth in our workload, we have also consistently delivered our services in line with our performance expectations. We will continue to use a variety of methods (including lower cost electronic channels) to effectively and efficiently deliver our services and products.

Support for the Govt³ initiative

We are committed to implementing the Govt³ initiatives and its sustainability principles²⁷. A policy to integrate these principles into the governance and ongoing activities of Inland Revenue is being developed. This initiative is led by our people but also has representation and external support from experts at the Ministry for the Environment and Massey University.

Our immediate focus is on minimising waste and improving energy efficiency. Initial results from our recycling efforts in one of our offices showed a reduction of around 25% of the amount of waste we send to the landfill.

In future annual reports we will continue to report on our progress towards achieving environmentally sustainable practices.

REDUCING COMPLIANCE COSTS

Inland Revenue's strategic direction recognises the need to reduce customers' compliance costs over time. One of our main approaches to this has been to deliver more cost-efficient electronic options for our customers and tax agents, such as our websites, online return filing and our Look at Account Information service. The delivery of more electronic services can also reduce workload pressures, particularly for our call centres.

It is important that our electronic services are consistent with wider government initiatives, for example the Development Goals for the State Services. In light of this, we are taking a more coordinated approach to developing our electronic services.

However, reducing compliance costs is not just limited to delivering cost-efficient electronic services. In 2005–06, we continued to implement policy measures that simplify tax for small and medium enterprises. These measures are discussed at the end of this section.

Electronic formats for financial information

Inland Revenue is leading a cross-government initiative (reporting to the e-Government Interoperability Framework Management Committee) to examine the suitability of the use of the "extensible business reporting language" (XBRL)²⁸ within government.

Some of the benefits of using XBRL include:

- ▶ regulators will be able to receive the financial information they need almost instantly
- ▶ the generation of cost savings, greater efficiency and improved accuracy to all those involved in preparing, analysing or communicating business information.

27. The principles of the Govt³ programme relate to the "three pillars of sustainability", which are environmental, social, and economic.

28. XBRL enables individual items of financial data to be turned from a simple block of text into information that can be understood and processed automatically by computer software. This can make financial information more accessible and usable across a range of areas.

WHERE IS XBRL BEING USED?

Extensible business reporting language (XBRL) is being developed by an international, non-profit consortium of approximately 400 major companies, organisations and government agencies. Internationally, the adoption of XBRL is moving ahead quickly. Presently, there are about 20 formal XBRL jurisdictions around the world.

These include: the United States of America's Securities and Exchange Commission is running a pilot programme to evaluate XBRL, and the Dutch government is using XBRL extensively in three important reporting chains for taxes, annual accounts and economic statistics. In the United Kingdom XBRL will become mandatory for tax returns and accounts from 2010. Other countries already using or examining the use of XBRL include China, Belgium, South Korea, Singapore and Spain.

Collaborating on e-government initiatives

One of the Development Goals for the State Services is **Networked state services** that aims to "use technology to transform the provision of services for New Zealanders". Additionally, the Government has a focus on transforming the operation of government through the use of the internet by 2010.

Over the past year, we have been working with a number of agencies including the State Services Commission (SSC) and New Zealand Trade and Enterprise (NZTE):

- ▶ we took a leading role in improving the New Zealand Government Web Guidelines as part of a SSC e-government working group. These guidelines ensure government information and services are accessible and can be used by the widest possible audience.
- ▶ we worked with NZTE on their project to redevelop one of their key websites www.biz.org.nz

Initiatives for small and medium enterprises (SMEs)

In 2005–06 we also made further progress with the Government's programme to specifically target the reduction of compliance costs for SMEs. The initiatives were originally put forward in the Government's 2003 discussion document *Making tax easier for small businesses*, and followed consultation with business operators and their advisors.

Two of the initiatives are already in place:

- ▶ a subsidy for payroll agencies (comes into effect in October 2006), and
- ▶ a discount on early payment of income tax (introduced for the 2005–06 tax year).

Two other initiatives are now also being implemented after receiving Royal Assent in April 2006. The new arrangements will reduce the financial strain on businesses by more closely aligning the payment of provisional tax and GST and providing an alternative method of calculating provisional tax by basing it on a percentage of their GST taxable supplies. These changes will be progressively implemented over the coming years.

Operational developments

During the year, we established a dedicated SME team and SME champion to represent the "voice of small business" within Inland Revenue. The team worked closely with industry associations and other SME stakeholders to understand their needs and the realities of running a business. As a result, we have developed solutions that make it easier for businesses to meet their compliance obligations.

The dedicated SME team supplements the work done by our Industry Partnership programme and business tax information officers. Over the past year, both of these areas have continued to focus on delivering information and other services to assist industry groups and, in particular, small and medium enterprises.

We are also undertaking a four-year programme dedicated to SMEs. Examples of the work include:

- ▶ establishing a SME strategy, reflecting the customer perspective and the actions that will support enhanced compliance over time
- ▶ establishing a SME information strategy to understand how businesses use information so that over time, we target and tailor our information to meet customer needs
- ▶ commencing an early intervention initiative for new businesses that sees us proactively contacting customers who are late in filing and paying to address their behaviour early so that cash flow is not adversely affected due to unpaid taxes.

In our work with SMEs, we emphasise tax compliance as a key outcome of a company's good financial management. For example, we are engaging with education providers to integrate tax compliance information into their financial management education.

DEVELOPING THE CAPABILITY OF OUR PEOPLE AND PROVIDING THE TOOLS THEY NEED

Our work in this area contributes to the achievement of the Development Goals for the State Services—see below.

To successfully deliver the results we want for New Zealanders, we rely heavily on the capabilities and commitment of our people. During the year, we continued to develop our people's skills and provide the tools they need to do their various activities.

FIGURE 21 –
DEVELOPMENT GOALS FOR THE STATE SERVICES

Development goals	Development goals by June 2007	Inland Revenue's 2005–06 position
Goal 1: Employer of choice		
Ensure that 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 services employers and unions, in place for use across government agencies.	<ul style="list-style-type: none"> ▶ Engagement survey indicates that our people see us as a good employer. ▶ Strong and positive relationships with the unions that represent our people.
Goal 2: Excellent state servants		
Develop a strong culture of constant learning in pursuit of excellence.	A framework for learning and development across government agencies.	<ul style="list-style-type: none"> ▶ Delivery of our leadership programmes and technical development training ongoing. ▶ Our people's technical competency continues to increase.
Goal 3: Networked state services		
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.	<ul style="list-style-type: none"> ▶ E-business strategy focuses on further development of electronic service delivery options. ▶ Ongoing expansion of electronic services. ▶ We also have the most visited government website.
Goal 4: Coordinated state agencies		
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.	<ul style="list-style-type: none"> ▶ Ongoing delivery of Working for Families payments and student loans with other agencies. ▶ Continued focus on improving service delivery across relevant agencies.
Goal 5: Accessible state services		
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.	<ul style="list-style-type: none"> ▶ Continued to work closely with the Ministry of Social Development in delivering Working for Families. This ensures New Zealanders receive their correct payments.
Goal 6: Trusted state services		
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.	<ul style="list-style-type: none"> ▶ Introduced a revised Code of Conduct, which sets out the expectations we have of our people in delivering services to New Zealanders. ▶ Our people have a very good understanding of our Code of Conduct and adherence to it is high.

BECOMING AN EMPLOYER OF CHOICE

An engaged workforce

One of our major initiatives, designed to assist us to achieve the goal of employer of choice, was to understand and develop our level of employee engagement. International research shows that a highly engaged workforce is highly productive, improving organisational performance and employee retention rates.

To help us determine our level of engagement we conducted our first Gallup engagement survey in November 2005. The survey results showed that we have a strong and positive climate, with our people recognising that the organisation provides good opportunities to learn and grow in the job. The survey identified some opportunities for improvement and we are developing action plans to address these areas. For example, to address the statement, "I know what is expected of me", we have introduced improved, clearer business plans and job expectations.

Attracting and recruiting employees

During the year, we completed a review of our recruitment processes. The review identified a number of enhancements to our recruitment processes to meet our strategic workforce goals. We plan to implement improvements over the coming year.

A major area of focus is on enhancing job seekers' perceptions that Inland Revenue is an attractive place to work. Initial activities include our participation in the State Services Commission's employment brand research, which will be complemented by further work on identifying and developing value as an employer.

Relationships with the unions who represent our people

We are committed to building positive relationships with the unions who represent our people. These are:

- ▶ Public Service Association (representing approximately 2,900 of our people) who have actively participated in a wide range of initiatives and projects with us this year
- ▶ Taxpro (representing nearly 700 of our people) also have a strong relationship and work with us in a constructive and positive manner.

Examples of initiatives that our unions have contributed to during the year include the introduction of our new imaging technology, Working for Families, the Audit Strategy and the development of the business plan *Our Way Forward*.

EXCELLENT STATE SERVANTS

Developing our capability and learning

To deliver the services that will help our customers comply with their obligations and receive their entitlements, our people need to have well-developed technical skills. These skills let them interpret the law, provide accurate information and undertake complex tax and social policy work.

Tax technical training

During the year our tax technical training product range was updated to reflect recently enacted legislation, new policy and case law. We encourage our people to work towards a range of formal qualifications that recognise their growing technical capability, through both in-house tax technical training and other educational programmes. As a result of our efforts, our overall technical competency increased by 7% over the 2004–05 level.

We initiated a review of the effectiveness of our tax training to ensure we reflect leading practice and are well-positioned to meet future business needs. The recent changes to organisational arrangements ensure that the Chief Tax Counsel provides greater oversight of our tax technical development over the coming years.

Delivering and monitoring our training

To deliver our training material effectively and efficiently across the department, we introduced innovative electronic technologies. For example, we have developed several electronic learning modules and a learning management system that creates an effective "e-learning" environment and builds on the department's e-business strategy.

We also recently adopted a general competency framework that will enable us to maximise the impact of our technical skills and improve our ability to achieve our outcomes. The competency framework is aligned with frameworks in use by other state sector agencies and will be implemented next year.

Building our leadership

We retain our strong focus on excellence in leadership at both the individual and organisational level. As we adapt and change, and as we deliver a diverse range of functions and activities, strong leadership is critical.

Inland Revenue has well-established programmes for developing our managers and team leaders. Since the introduction of our leadership programmes in 2002, 210 of our managers and 583 of our team leaders have attended an in-house leadership course.

Specific initiatives undertaken during the year included:

- ▶ upgrading the job expectations for our team leaders to better reflect our understanding of the nature of the leader's role and how this is aligned with the achievement of our outcomes
- ▶ refreshing our current leadership framework, which provides the foundation for leadership training and helps our leaders to improve employee engagement and develop more flexible and adaptive leadership styles
- ▶ developing a leadership talent management plan to ensure we have a pool of future leaders and provide appropriate development based on their aspirations, ability and engagement.

WINNERS OF INLAND REVENUE AWARDS

Leadership and learning are the inspiration behind the Inland Revenue Awards which were presented to three 2005 winners.



From left, Richard Owen, Uma Mukherjee, and Packiam Skinnon receive their awards from Naomi Ferguson, Deputy Commissioner (Service Delivery)

Inland Revenue has an ongoing commitment to offering opportunities that will ensure people's growth and development along their chosen career paths. The Inland Revenue Awards provide financial support to current and future leaders who want to take up learning and

development opportunities that would normally be outside the scope of most training budgets.

The award is aimed at team leaders and managers (or equivalent positions) who demonstrate a strong potential to contribute to our organisation in a leadership role and who are looking for new ideas, perspectives and intellectual stretch.

The 2005 winners were:

- ▶ **Richard Owen (Advisor to Group Manager, Field Delivery)**, who will be attending the Accelerated Development Program at the Australian Graduate School of Management
- ▶ **Uma Mukherjee, (Senior Advisor, Strategic Information Technology)**, who will be attending an executive development programme at Mt Eliza Business School.
- ▶ **Packiam Skinnon, (Business Manager, Operational Strategy and Business Design)**, who will be attending the senior executive programme at Mt Eliza Business School.

TRUSTED STATE SERVANTS

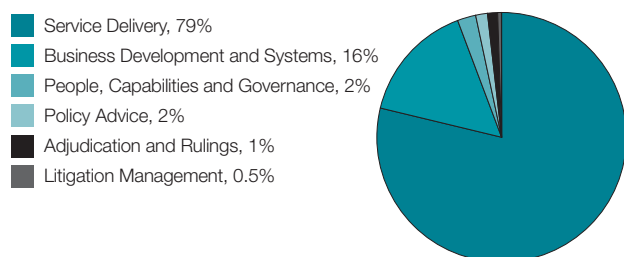
The community needs to have confidence in our ability to apply the law consistently and impartially. We also need to be seen to uphold the integrity of the tax system, which requires us to meet the highest standards of integrity and exercise good judgement in everything we do.

Our success is built on the commitment and behaviours we demonstrate when delivering our services. Our Code of Conduct, which builds on the requirements set out in the Public Service Code of Conduct, was reviewed and reissued during the year, supported by training for our people. The Code of Conduct is a statement of how we will deliver our services, how we will behave, and how we will demonstrate the high standards of integrity and behaviour expected of us as employees of Inland Revenue and as public servants.

KEY PEOPLE STATISTICS

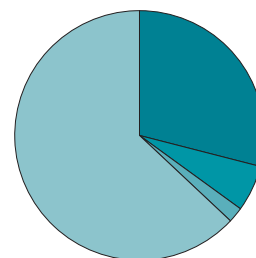
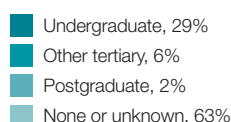
The following charts provide details of the number of full-time equivalent (FTEs) employees by business group. The majority of people continue to be engaged in customer-focused roles in our Service Delivery business unit.

**FIGURE 22 –
EMPLOYEE DISTRIBUTION BY BUSINESS UNIT
(5,358 FTEs)**



The qualifications profile of our people illustrates a continued increase in the number of employees with tertiary qualifications. This reflects both a greater uptake and successful completion of tertiary study by our people and increasing recruitment of individuals with qualifications.

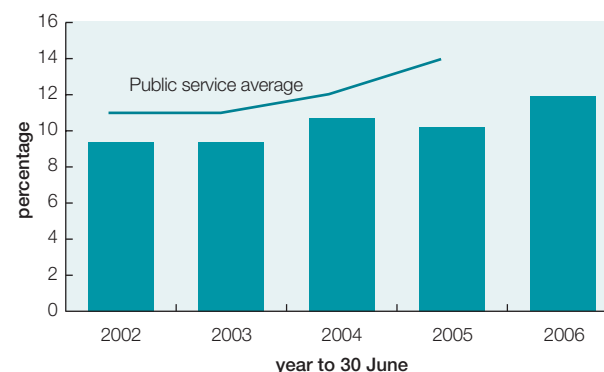
**FIGURE 23 –
QUALIFICATIONS**



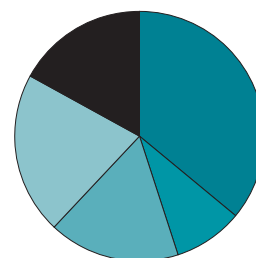
Turnover and length of service

Although turnover of our people as at 30 June 2006 was 11.9%, up from the previous year's 10.2%, our turnover rate continues to be lower than the state sector average. This increase is not unusual, given New Zealand's current unemployment levels. However, we have identified that turnover is higher for people with shorter lengths of service and we are using the engagement survey results to better understand reasons for this.

**FIGURE 24 –
STAFF TURNOVER**



**FIGURE 25 –
LENGTH OF SERVICE**



Equal employment opportunities (EEO) statistics

During the year we continued to work on initiatives that contribute to diversity and EEO outcomes. For example we:

- ▶ progressed our Positive Ageing Strategy initiatives that support our older employees
- ▶ continued to implement our Māori Language Strategy and were joint winner (central government section) of the Māori Language Week awards, supported by Te Taura Whiri i te Reo Māori
- ▶ committed to the Pay and Employment Equity Review and a refresh of our Valuing Diversity Strategy.

FIGURE 26 –
EEO STATISTICS BY ETHNICITY

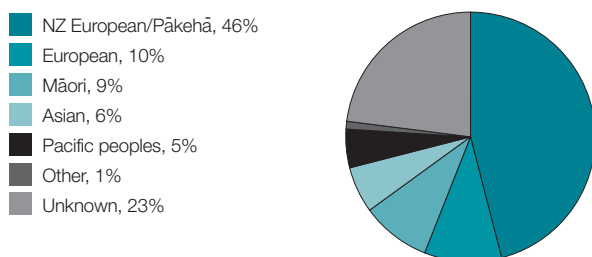


FIGURE 27 –
EEO STATISTICS BY TARGET GROUP

Percentage of staff	2004–05	2005–06
Women	64%	66%
Men	36%	34%
People with disabilities	3%	3%
Percentage of team leaders and managers		
Women team leaders	65%	66%
Women managers	38%	38%

DEVELOPING OUR TOOLS

Information technology strategy

During 2005–06 we introduced a new information technology strategy (covering the next three to five years), which is aligned with *Our Way Forward*. The strategy seeks to improve our technological infrastructure and platforms for the future and closely aligns our information technology activities with our business direction.

FIRST system

Our current technology platform is based on FIRST (Future Inland Revenue System Technology) that was introduced in 1992. In the intervening 15 years our functions have grown considerably. The activities that support these functions have been integrated into FIRST, creating a more complex system environment.

While the FIRST system has served us well, the information technology strategy outlines the need for us to modernise and redesign FIRST to ensure that it meets the needs of our changing business as outlined in *Our Way Forward*.

Telecommunication network roll-out

Last year, we signed a six-year telecommunications services agreement covering voice, data, mobile and internet services using a converged voice and data network.

The roll-out of our new voice and data network was completed in May 2006. The new network allows us to improve the delivery of customer telephone enquiries to all our staff. The technology has also allowed us to centralise many processes, giving us greater flexibility in providing customer service and generating internal efficiencies.

Electronic data storage and retrieval

Development of our electronic data storage and retrieval system is now complete. The system implementation was completed in July 2006.

This system will progressively allow a faster response to customer enquiries and reduce the amount of paper being moved across the organisation. Our people will be able to resolve a greater percentage of customer calls and enquiries at

the first point of contact by immediately accessing electronic images of documents and correspondence that the customer has sent in and received. Ultimately, it is our intention to enable customers to access this information online as well.

This will result in significant savings in time and paper storage cost, as well as the opportunity to redesign work processes. It also supports Inland Revenue's commitment to improving its environmental performance by minimising the need to print documents and reducing the amount of consumables used.

ELECTRONIC ARCHIVE IS ON THE WAY

Working with bulky paper documents and files will gradually decrease for our people with the recent introduction of imaging and our electronic data storage and retrieval (EDSR) system. EDSR allows Inland Revenue to electronically access some of our paper-based interactions with our customers, such as GST returns and payment and remittance details.

Heather Daly, Group Manager (Customer Operations) says "It's a great project that will bring much greater efficiency to our systems. Over time, many more of our paper documents will be able to be accessed through EDSR. We also expect that EDSR will lay the foundation for future digital storage and retrieval of data such as email, voice recordings, web content and other documents."

Research into industry trends suggests that there is potential for the use of EDSR in business process management, records management, compliance with regulations, managing call recording, electronic document delivery, internal-external process integration, consolidation and standardisation of content storage and knowledge management.

ACCOMMODATION ISSUES

During the year, we began projects to assess our future accommodation requirements in Auckland and Wellington, with solutions to be in place when current leases come up for renewal between 2008 and 2012. Our property management service provider has begun advertising for registrations of interest in the Wellington and Auckland property market to identify accommodation opportunities.

PART FOUR

**CHARTER REPORT AND
STATEMENT OF SERVICE
PERFORMANCE**

STATEMENT OF RESPONSIBILITY

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

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

In my opinion, these financial statements fairly reflect the financial position and operations of the department for the year ended 30 June 2006.



David Butler
Chief Executive and Commissioner of Inland Revenue
29 September 2006

Countersigned by:



Gordon Davidson
Chief Financial Officer
29 September 2006

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.



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 6140

OUR CHARTER COMMITMENTS

Inland Revenue's Charter is our commitment to ensuring that we have effective relationships with our customers. It sets out our aspirations for providing advice and information, acting consistently, and guarding privacy and confidentiality. By continuing to improve the standard of our service and observing the safeguards in our Charter, we will strengthen the community's confidence in Inland Revenue. This is reinforced by customers having the opportunity to question us through our Complaints Management Service.

Many of our important initiatives and ongoing activities are detailed elsewhere in this report. The following outlines how many of our initiatives and activities support our Charter.

HOW WE WILL WORK WITH YOU

We regularly survey our customers about the service we provide and ways in which we can improve. We have sustained consistently high levels of customer satisfaction with our service. This year, despite meeting high levels of customer demand, 79% of our customers rated our service as good or very good.

In July 2005 we made significant changes to our customer satisfaction survey to improve our understanding of our eight key customer groups²⁹. Results for each customer group are shown in figure 28.

**FIGURE 28 –
CUSTOMER SATISFACTION**

	Overall satisfaction	Margin of error
Overall customer satisfaction (all customer groups)	79%	+/- 1.3%
Tax agents	92%	+/- 2.9%
Small and medium enterprises	81%	+/- 3.5%
Family assistance	82%	+/- 3.4%
Corporates	84%	+/- 3.7%
Student loans	81%	+/- 3.5%
Individuals	77%	+/- 3.8%
Not-for-profits	79%	+/- 3.7%
Child support	63%	+/- 4.1%

29. Previously, only customer groups associated with the information services output class were used to calculate overall customer satisfaction. Because of the changes to the survey, satisfaction ratings from 1 July 2005 are not directly comparable to previous results.

This year, we improved services to deaf, hearing-impaired and speech-impaired people with the introduction of call centre services through New Zealand Relay. Using this system the customer speaks or types their message which is passed on to Inland Revenue's customer service representative by the relay assistant. The relay assistant then types back the customer service representative's response to the customer.

We also meet with and provide information to groups and individuals on tax and social support issues. This year, we continued to focus on informing people about Working for Families and providing general advisories to our business customers (for example, small and medium enterprises). Our participation in the multi-agency Heartlands centres, and support of Citizens Advice Bureaux, also enables us to engage with our customers in the community. We have approximately 150 people involved in advisory work and this year we maintained a customer satisfaction rating of 97% for this work.

We achieved our correspondence timeliness performance standards this year while dealing with increased correspondence volumes. 82% of general correspondence was answered within three weeks, and 96% within six weeks.

RELIABLE ADVICE AND INFORMATION

Ensuring that our people have the appropriate skills and technical competencies is essential for providing correct tax information and advice.

Every six months we measure the change in our people's technical competency rating. Their overall competency rating has increased by 7% between June 2005 and June 2006. We record calls to our call centres and use these to assist training our people and to help design better customer service methods. By monitoring calls we can ensure that the information we provide is consistent, clear and accurate.

In all cases we aim to give our customers an answer that is correct, complete, clear, timely and appropriately referenced. We achieved a result of 73%³⁰ for our child support customers and 83% for our other customers.

30. Child support changed its technical quality survey methodology this year. Results are not directly comparable to previous years as the previous methodology produced different results.

We have continued to implement new and better ways to provide advice and information. For business users of our services we have:

- ▶ developed industry specific educational seminars to support customers with new businesses
- ▶ supported the television series *Business is Booming*—a programme designed to help businesses understand a range of issues related to taxation and present this with other business-focused information
- ▶ begun an early intervention initiative where we contact customers who are late in filing and paying. It is aimed at ensuring their cash flow is not adversely affected due to unpaid taxes.

CONFIDENTIALITY AND PRIVACY

To help maintain the integrity of the tax system, the community must have confidence in our ability to keep their personal information confidential. We use our training programme on integrity and ethics, *Judge for Yourself*, and our *Code of Conduct* to focus our people on their obligations to maintain secrecy of the information we hold.

When new staff join Inland Revenue they are required to complete the *Judge for Yourself* programme and *Code of Conduct* training as part of their induction. We regularly explore new initiatives to evaluate what further improvements could be made in helping staff understand their obligations in this area.

To help ensure compliance with the Tax Administration Act 1994 and the *Code of Conduct* we constantly monitor our computer systems to ensure that staff access to customer data is for business reasons only. We fully investigate and take appropriate action against any breaches of secrecy or unauthorised access to customer information.

CONSISTENCY AND EQUITY

We need to provide our customers with a consistent interpretation of the law. We also need to apply the law in a way that considers the individual circumstances of each customer. For example, by putting in place instalment arrangements to clear debt in a way that is realistic and sustainable for the customer.

We show our commitment to achieving consistency and equity by our efforts to ensure that customers receive their correct family support entitlement. We take proactive steps, such as checking actual income against predicted earnings, to avoid debt being incurred or an overpayment being made if customers' circumstances change. In 2005–06 83% of family assistance customers were not overpaid, an improvement from 78% last year.

YOUR RIGHT TO QUESTION US

Our customers have a range of options for questioning our decisions and resolving disagreements. These include contacting:

- ▶ our Complaints Management Service if they do not want to approach the office that originally handled their case, or are dissatisfied with a proposed resolution
- ▶ the Minister, the Commissioner of Inland Revenue, or other authorities dealing with complaints or disputes.

Complaints Management Service

Our Complaints Management Service features extensively on our website and in our publications.

In 2005–06 there were 6,684 complaints received, compared to 5,923 last year. Most of the increase occurred during the first quarter of the year and was related to increasing service demand as a result of implementing changes to Working for Families and student loans.

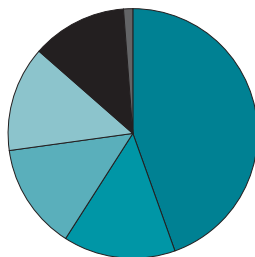
We use the feedback from complaints to improve our processes and service to our customers. For example, feedback about the style and wording of GST reminder letters was incorporated into replacement letters from 1 January 2006.

The information gained from complaints is also used to help plan, implement and review our peak period of customer demand, and to ensure we are improving our service in areas which are of most benefit to our customers and organisational efficiency.

There has been little change in the proportion of each type of complaint, except for an increase in complaints about our telephone services to 15% from 7% last year. 44% of all complaints were about Inland Revenue procedures, a similar level to last year (47%). Complaints about correspondence remained the same as last year at 14%, while complaints about our staff decreased by 3% to 12%.

**FIGURE 29 –
REASON FOR COMPLAINT**

Procedures, 44.3%
Phones, 14.6%
Legislation, 13.8%
Correspondence, 13.7%
Staff, 12.4%
Other, 1.2%



We determined 47.5% of all completed complaints were valid, 19.4% partially valid and 33.1% were not valid. Of those customers we were able to contact after their complaint had been completed, 88% felt their complaint had been partially or full resolved.

Approaches to the Minister, Commissioner and other authorities

We dealt with 3,848 (2004–05: 2,332) approaches to the Minister of Revenue, the Commissioner of Inland Revenue, Ombudsmen, the Privacy Commissioner and the Human Rights Commissioner, the majority of which was written correspondence.

This year, income tax was the main issue raised in correspondence (83%), with a significant number relating to the Government's proposed changes to the taxation of offshore investments. Other issues related to child support (10%), family assistance (2%), student loans (1%) and GST (4%).

89% of correspondence was resolved by providing an explanation or information and 2% did not require any action or response. A further 6% was referred to other areas of Inland Revenue for action. 2% required changes to the customer's account (including financial relief by way of remission of penalties) and 1% required an apology.

The issues raised by customers contribute to our continuous improvement and organisational learning. For example, we received complaints about certain situations where customers had to apply in writing for remission of child support penalties. A policy change took effect in October 2005 to allow staff to accept child support penalty remissions of less than \$100 by telephone instead of only in writing.

Ombudsmen and Privacy Act complaints

The Office of the Ombudsmen and the Privacy Commissioner are independent review authorities which undertake investigations for customers who have been unable to resolve their issues with Inland Revenue. We assist by providing impartial information about the cases they are investigating.

We received 114 (2004–05: 96) new Ombudsmen cases during the year. 109 cases were fully resolved during the year, including 12 from the previous year. Of these, 79 were informal enquiries and were resolved by a telephone call. 20 cases are still incomplete. Of the 28 formal cases completed, 23 were not sustained and 5 were partly sustained.

This year, we received 13 new privacy cases. Of these cases, five were resolved with none being sustained.

STATEMENT OF SERVICE PERFORMANCE

For the year ended 30 June 2006

SUMMARY OF DEPARTMENTAL OUTPUT EXPENSES

Departmental output expenses delivered by Inland Revenue during the year ended 30 June 2006, and their associated revenue, expenses and surplus or deficit are summarised below. All figures are GST-exclusive.

Output expense description	Revenue	Expenses	Net surplus/ (deficit)
	\$000	\$000	\$000
1. Policy advice	10,035	10,032	3
2. Adjudication and Rulings	6,982	7,155	(173)
3. Information services	127,993	124,473	3,520
4. Revenue assessment and collection	61,230	59,654	1,576
5. Management of debt and outstanding returns	69,554	71,275	(1,721)
6. Taxpayer audit	120,965	118,737	2,228
7. Assessment and collection of child support	69,210	67,828	1,382
8. Collection of ACC levies	20,500	20,500	0
Total	486,469	479,654	6,815

REPORTING PERFORMANCE

In our *Statement of Intent* we provide forecast service performance indicators. These indicators are divided into two groups:

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

The following sections report on forecast service performance indicators. Where a performance measure is expressed in terms of a range of characteristics that the output should meet, the result is expressed as “achieved” or “not achieved”.

Inland Revenue reports explanations for:

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

Where additional context is required to explain performance it is included in the Statement of Service Performance.

OUTPUT EXPENSE 1 POLICY ADVICE

Description

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

Activities undertaken:

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

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
10,035	10,032	3

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

	Actual
Quantity	
We will provide the Minister with:	
• tax and social policy advice	Achieved
• tax legislation	Achieved
• rewritten tax legislation	Achieved
• revenue forecasts	Achieved
in accordance with the agreed work programme.	
Quality	
We will deliver all advice, legislation and forecasts in accordance with agreed quality criteria.	Achieved
We will manage the development of policy in accordance with the Generic Tax Policy Process.	Achieved
We will ensure that the Minister is satisfied with the quality of policy advice, tax legislation, revenue forecasts and rewritten legislation provided.	Achieved
Timeliness	
We will provide or deliver:	
• all reports and advice	Achieved
• the tax and social policy work programme	Achieved
• tax legislation	Achieved
• rewritten legislation	Achieved
• revenue forecasts	Achieved
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

	Budget	Actual
Quality		
We will ensure that all answers are correct, complete, clear and appropriately referenced.		Achieved
Timeliness		
We will ensure that:		
• at least 80% of replies to ministerial correspondence are forwarded for ministerial signature within 6 working days	80%	92.0%
• 100% within 10 working days	100%	99.4%
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.	100%	100%

Activity forecasts

	Budget	Actual
Quantity		
We will draft responses to an estimated:		
• 800 to 1,000 pieces of ministerial correspondence	800 – 1,000	2,787 ³¹
• 200 to 250 parliamentary questions.	200 – 250	149 ³²

³¹ A high number of pieces of ministerial correspondence were received about proposed changes to the taxation of income from direct portfolio investment in overseas shares.

³² The low number of parliamentary questions is attributed to the break for the 2005 general election.

Output statement: Policy advice

for the year ended 30 June 2006

Actual		Actual	Main	Final
2005		2006	Estimates	voted
\$000		\$000	2006	2006
			\$000	\$000
Revenue				
9,695	Crown	9,963	9,963	9,963
31	Other	72	73	73
9,726	Total revenue	10,035	10,036	10,036
Expenses				
9,610	Annual appropriations	10,032	10,036	10,036
0	Other appropriations	0	0	0
9,610	Total expenses	10,032	10,036	10,036
116	Net surplus/(deficit)	3	0	0
8,238	Output 1.1 Policy advice in relation to tax and social policy	8,890	8,762	8,762
1,372	Output 1.2 Ministerial services	1,142	1,274	1,274
9,610	Output expense cost	10,032	10,036	10,036

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
6,982	7,155	(173)

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

	Budget	Actual
Quality We will ensure that all adjudication reports supporting each decision meet the purpose, logic and alternatives standard		Achieved
Timeliness On average, we will complete all adjudication cases within 20 weeks of receipt of all necessary information.	20	28.3 ³³

³³ The average time from allocation until completion of cases reduced substantially from last year. The large number of cases received in the fourth quarter of 2004–05 impacted on our allocation time for the whole 2005–06 year and consequently, our ability to complete cases within 20 weeks.

Activity forecast

	Budget	Actual
Quantity		
We will complete an estimated 50 to 70 adjudication cases.	50–70	82

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

	Budget	Actual
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.		Achieved
We will ensure that all public items giving the Commissioner's view of the law meet the purpose, logic, alternatives, consultation and practicality standards.		Achieved
We will ensure that all technical correspondence is correct, complete and clear.		Achieved
Timeliness		
We will deliver at least:		
<ul style="list-style-type: none"> • 50% of draft private and product binding rulings and draft taxpayer-specific statutory determinations within 3 months 	50%	57.7%
<ul style="list-style-type: none"> • 70% within 5 months 	70%	73.2%
<ul style="list-style-type: none"> • 80% within 9 months 	80%	91.5%
of the receipt of any additional information necessary and the applicant accepting the cost estimate.		

Activity forecasts

	Budget	Actual
Quantity		
We will finalise the Commissioner's ruling for an expected 700 to 1,100 technical issues contained in:		
<ul style="list-style-type: none"> • applications for private and product binding rulings • accrual and taxpayer-specific depreciation determinations • technical correspondence. 	700-1,100	480 ³⁴
We will publish or finalise consideration of an expected 30 to 50 public items, giving the Commissioner's interpretation of the law.	30-50	30

³⁴ A number of matters contributed to the rulings finalised for the year being below forecast. We carried out a substantial amount of work on a project, but were unable to count the issues because we have declined to rule under the Tax Administration Act 1994. We were unable to finalise 215 issues contained in draft rulings issued before 30 June because we were addressing agent submissions and waiting for agent responses.

Output statement: Adjudication and Rulings

for the year ended 30 June 2006

Actual		Actual	Main Estimates	Final voted
2005		2006	2006	2006
\$000		\$000	\$000	\$000
Revenue				
5,351	Crown	6,135	5,885	6,135
643	Other	847	1,140	1,140
5,994	Total revenue	6,982	7,025	7,275
Expenses				
6,459	Annual appropriations	7,155	7,025	7,275
0	Other appropriations	0	0	0
6,459	Total expenses	7,155	7,025	7,275
(465)	Net surplus/(deficit)	(173)	0	0
922	Output 2.1 Adjudication	1,837	1,112	1,152
5,537	Output 2.2 Rulings	5,318	5,913	6,123
6,459	Output expense cost	7,155	7,025	7,275

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
127,993	124,473	3,520

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

	Budget	Actual
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%.	85%	82.5%
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.	87%	79% ³⁵
We will fully resolve at least 85% of all calls at the time, requiring no follow-up action.	85%	77.3% ³⁶
We will ensure that at least 70% of family assistance recipients who receive a weekly or fortnightly payment are not overpaid.	70%	83.0%
We will ensure that at least 90% of resident student loan borrowers meet their repayment obligations.	90%	92.6% ³⁷
We will collect at least 75% of student loan repayments due.	75%	78.6%
We will ensure that the number of new debt cases is less than 505,000.	< 505,000	485,328

	Budget	Actual
Timeliness		
We will respond to:		
• at least 85% of correspondence within 3 weeks	85%	81.8%
• 100% of correspondence within 6 weeks of receipt.	100%	95.5%
We will answer at least 80% of:		
• tax agents' telephone enquiries	80%	49.5% ³⁸
• employers' telephone enquiries	80%	52.6% ³⁹
• returns and debt collection telephone enquiries within 20 seconds.	80%	33.1% ⁴⁰
We will answer at least 50% of all other calls within 60 seconds, except on days when the total number of calls exceed 17,500.	50%	41.2% ⁴¹
For the days when total calls exceed 17,500:		
• the average speed-to-answer will be 5 minutes or less, and	5 min	5:17 min ⁴²
• 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.	49%	47.9%

³⁵ Results this year are not directly comparable to previous years because we made significant changes to our customer satisfaction survey to improve our understanding of our eight key customer groups. Results for the individual customer groups range from 63% to 92%. The reported figure is the overall customer satisfaction level across all eight customer groups. Customer satisfaction gradually improved during the year.

³⁶ Due to the higher number of less experienced staff this result is slightly down on last year's performance. Refer to "Context for call management performance".

³⁷ Our reported performance for this output has improved significantly this year because we have included non-resident borrowers in the past. This has resulted in our performance being under-reported because the percentage of non-resident borrowers who meet their obligations is significantly lower than for resident borrowers.

³⁸ Although we did not achieve our performance target, 93% of customers who called our tax agent line were satisfied with our service this year. The average speed-to-answer for the year was 1:20 minutes. Refer to "Context for call management performance".

^{39 and 40} Performance standards were not met for the period. However the average speed-to-answer in the employer's line was 1:27 minutes and for the returns and debt collection line it was 3:13 minutes. Refer to "Context for call management performance".

⁴¹ Results in the third and fourth quarters improved from the same period last year. Refer to "Context for call management performance".

⁴² There were 100 days during the period where call volumes exceeded the threshold, which was 34 more days than planned. The call volumes on those days represent 49% of all calls received during the year. This result shows a significant improvement of 39 seconds from 5:56 minutes last year. Refer to "Context for call management performance".

Activity forecast

	Budget	Actual
Quantity		
We will answer an expected 7.3 to 8.4 million specific customer contacts.	7.3-8.4 million	7.4 million

Context for call management performance

Call Management had a challenging year with performance measures not being achieved, although we maintained a high level of customer satisfaction with our general enquiries at 81% and the tax agent line at 93%.

We have developed a performance improvement plan to address the challenges we faced this year. The plan will be in place by September 2006.

Overall, a combination of factors (summarised below) have had flow-on effects on our call management performance measures.

New telecommunications provider

In the third and fourth quarters, we changed to a new telecommunications provider and platform. This was a significant change to the way in which we manage our telephony environment. There were periods where customers experienced difficulties in accessing our services due to the system's instability and this also increased our call volumes on subsequent days.

Growing call complexity

During the year, our customer service representatives were anecdotally saying that customers who previously contacted us with straightforward enquiries are making greater use of self-service options (such as our website) to obtain information. As a result, a greater proportion of telephone customer enquiries cover a range of increasingly complex or involved issues. Therefore, it takes longer to address each enquiry, which is evidenced by the increasing call handling times. Call centres in other industries (for example banking) report similar trends.

The average call handling time in the tax agents' and return and debt collection queues increased by 20 seconds and 87 seconds respectively. The average call handling time for all other queues was 57 seconds longer this year.

During the year, we implemented the Influencing Call Outcome initiative so that our customer service representatives were more skilled in dealing with the changing nature of our customer enquiries. This approach focuses on training staff to control call lengths while still meeting customer service.

Staff capability

During the year, we made greater use of experienced customer service representatives to train two large intakes of new recruits to respond largely to the heightened demand from Working for Families and student loans initiatives.

These initiatives were, and still are, a high priority for Government and Inland Revenue. These new initiatives have also increased the complexity of training requirements for our customer service representatives.

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 measure

	Budget	Actual
Quality		
We will ensure that at least 97% of taxpayers and other customers are satisfied with the quality of advisory services we provide.	97%	97.3%

Activity forecast

	Budget	Actual
Quantity		
We will complete between 112,000 and 129,000 hours of advisory services.	112,000-129,000	127,385

Output statement: Information services

for the year ended 30 June 2006

Actual		Actual	Main Estimates	Final voted
2005		2006	2006	2006
\$000		\$000	\$000	\$000
Revenue				
104,050	Crown	126,685	115,988	126,685
425	Other	1,308	929	929
104,475	Total revenue	127,993	116,917	127,614
Expenses				
104,696	Annual appropriations	124,473	116,917	127,614
0	Other appropriations	0	0	0
104,696	Total expenses	124,473	116,917	127,614
(221)	Net surplus/(deficit)	3,520	0	0
93,327	Output 3.1 Information services	111,395	104,529	114,092
11,369	Output 3.2 Advisory services	13,078	12,388	13,522
104,696	Output expense cost	124,473	116,917	127,614

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
61,230	59,654	1,576

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

	Budget	Actual
Quantity		
We will ensure that at least 20% of returns are filed electronically.	20%	26.5%
Quality		
We will correctly process 100% of notices, statements, certificates of entitlement, and loan transfer letters.	100%	96.2%
We will correctly process 100% of all payments to accounts.	100%	99.8%

	Budget	Actual
Timeliness		
We will issue:		
• at least 80% of income tax return assessments within 6 weeks	80%	87.1%
• 100% within 10 weeks of receipt.	100%	94.3% ⁴³
We will issue:		
• at least 95% of FBT and GST return and employer monthly schedule assessments within 3 weeks	95%	92.9%
• 100% within 6 weeks of receipt.	100%	97.4%
We will issue 100% of all non-queried GST refunds within 15 working days of receipt.	100%	96.2%
We will process and issue:		
• at least 90% of rebate claim refunds within 3 weeks of receipt	90%	92.0%
• 100% within 8 weeks.	100%	99.0%
We will process paid parental leave applications within 5 working days of receipt.	100%	94.2% ⁴⁴
We will bank 100% of payments within 1 working day of receipt.	100%	99.1%

⁴³ Achievement of the standard was impacted by the number of income tax returns received being 8% higher than forecast and staff being redeployed to address high customer demand in other areas of the organisation.

⁴⁴ This result is a significant improvement on 2004–05. As most parents made their application well in advance of their entitlement they were able to receive their entitlement on time despite not all applications being processed within 5 working days. This measure has been changed for next year to reflect customers receiving their entitlements on time.

Activity forecasts

	Budget	Actual
Quantity		
We will process an expected:		
• 7.26 to 8.02 million returns	7.26 to 8.02 million	7.75 million
• 7.28 to 8.05 million payments.	7.28 to 8.05 million	7.75 million

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

	Actual
Quantity and timeliness	
We will ensure that all information provided to other agencies meets agreed standards.	Achieved

Output statement: Revenue assessment and collection

for the year ended 30 June 2006

Actual		Actual	Main	Final
2005		2006	Estimates	voted
\$000		\$000	2006	2006
		\$000	\$000	\$000
Revenue				
55,815	Crown	59,402	64,749	59,402
1,611	Other	1,828	1,958	1,958
57,426	Total revenue	61,230	66,707	61,360
Expenses				
57,425	Annual appropriations	59,654	66,707	61,360
0	Other appropriations	0	0	0
57,425	Total expenses	59,654	66,707	61,360
1	Net surplus/(deficit)	1,576	0	0
56,097	Output 4.1 Return and payment processing	58,326	65,171	59,824
1,328	Output 4.2 Supply of information to other agencies	1,328	1,536	1,536
57,425	Output expense cost	59,654	66,707	61,360

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
69,554	71,275	(1,721)

For all management of debt and outstanding returns outputs

Performance measure

	Budget	Actual
Quality		
We will action all debt and return collection activity appropriately and in accordance with the law.	100%	95.4%

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

	Budget	Actual
Quantity		
We will ensure that the number of outstanding returns is less than 573,000 by year-end.	573,000	614, 657 ⁴⁵
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.	80%	81.5%

⁴⁵ Although this measure was not achieved, there was an increase in the number of outstanding returns of 5.1% this year, compared to a 13.7% increase in 2004–05.

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

	Budget	Actual
Quantity		
We will ensure that the number of debt cases is less than 284,000 by year-end.	284,000	278,100
Timeliness		
We will resolve at least 85% of all new debt cases within 12 months of the due date for payment.	85%	87.9%

Output statement: Management of debt and outstanding returns

for the year ended 30 June 2006

Actual		Actual	Main Estimates	Final voted
2005		2006	2006	2006
\$000		\$000	\$000	\$000
Revenue				
60,249	Crown	68,095	64,445	68,095
1,340	Other	1,459	3,241	3,241
61,589	Total revenue	69,554	67,686	71,336
Expenses				
62,146	Annual appropriations	71,275	67,686	71,336
0	Other appropriations	0	0	0
62,146	Total expenses	71,275	67,686	71,336
(557)	Net surplus/(deficit)	(1,721)	0	0
20,081	Output 5.1 Outstanding returns	25,096	22,040	23,228
42,065	Output 5.2 Overdue debt	46,179	45,646	48,108
62,146	Output expense cost	71,275	67,686	71,336

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
120,965	118,737	2,228

For all taxpayer audit outputs

Performance measure

	Budget	Actual
Quality		
We will ensure that at least 85% of all cases completed meet our quality standards.	85%	95.9%

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

	Budget	Actual
Quality		
We will assess at least \$535 per hour for all audit activity, including aggressive tax issues and tax evasion.	\$535	\$737
Timeliness		
On average we will complete:		
• general audits within 6 months	6 months	3.5 months
• all risk audits within 12 months	12 months	11.2 months
• disputed cases (excluding aggressive tax issues) within 18 months.	18 months	13.3 months
We will ensure that at least 90% of open cases (excluding aggressive tax issues) are less than 24 months old.	90%	92.9%

Activity forecast

	Budget	Actual
Quantity		
We will complete between 793,000 and 877,000 hours conducting all audit activities.	793,000-877,000	850,086

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.

	Budget	Actual
Timeliness		
On average, we will complete investigations within 17 months.	17 months	11 months
We will ensure that at least 85% of all open cases (excluding disputed open cases) are less than 24 months old.	85%	83%

Activity forecast

	Budget	Actual
Quantity		
We will complete between 185,000 and 210,000 hours conducting all audit activities.	185,000-210,000	195,296

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

	Budget	Actual
Quality		
No judgments in the courts will contain adverse judicial comments on the department's conduct of the litigation.		Not achieved ⁴⁶
Timeliness		
We will ensure that all timetable requirements imposed by the courts on the department's solicitors in tax cases are met.		Not achieved ⁴⁷

⁴⁶ One of the 26 judgments in the courts this year contained adverse judicial comment. In this judgment both the counsel for the taxpayer and Inland Revenue were criticised in the High Court on preliminary procedural matters. The criticism did not affect the outcome of the case, where Inland Revenue was successful.

⁴⁷ Timetable requirements were not met in two of the 690 cases on hand this year. There were no adverse consequences for this occurring.

Activity forecast

	Budget	Actual
Quantity		
We will finally resolve 75 to 100 litigation cases.	75-100	108

Output statement: Taxpayer audit

for the year ended 30 June 2006

Actual		Actual	Main	Final
2005		2006	Estimates	voted
\$000		\$000	2006	2006
			\$000	\$000
Revenue				
110,027	Crown	119,842	117,842	119,842
422	Other	1,123	919	919
110,449	Total revenue	120,965	118,761	120,761
Expenses				
109,215	Annual appropriations	118,737	118,761	120,761
0	Other appropriations	0	0	0
109,215	Total expenses	118,737	118,761	120,761
1,234	Net surplus/(deficit)	2,228	0	0
79,885	Output 6.1 Individual and small to medium enterprise audit	89,715	88,861	90,357
21,264	Output 6.2 Corporate audit	21,722	22,252	22,627
8,066	Output 6.3 Litigation management	7,300	7,648	7,777
109,215	Output expense cost	118,737	118,761	120,761

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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
69,210	67,828	1,382

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

	Budget	Actual
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%.	88%	73% ⁴⁸

⁴⁸ This year we changed the calculation of this performance measure to include weighting by contact type. The change in methodology makes the measurement more accurate, but has caused under-achievement in the results. The performance measure target was set based on the previous methodology which produced higher results.

	Budget	Actual
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.	70%	74.3%
For the days when total calls exceed 3,500:		
• the average speed-to-answer will be 3 minutes or less, and	3 min	1:59 min
• callers will be advised of the potential delay and offered alternative services.		
We will respond to:		
• at least 85% of correspondence within 2 weeks	85%	89.6%
• 100% of correspondence within 6 weeks	100%	98.5%
of receipt.		

Activity forecast

	Budget	Actual
Quantity		
We will answer an expected 930,000 to 980,000 customer contacts.	930,000-980,000	896,764

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 measures

	Budget	Actual
Timeliness		
We will issue assessments to at least:		
• 70% of paying parents within 2 weeks	70%	72.9%
• 95% within 6 weeks	95%	92.5%
of receipt of the properly made application.		

Activity forecast

	Budget	Actual
Quantity		
We will process an expected 52,250 to 55,000 applications for child support.	52,250-55,000	55,156

Output 7.3 Collection of payments

Description

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

Performance measures

	Budget	Actual
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.	80%	74.1% ⁴⁹
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.	65%	61.2% ⁵⁰

⁴⁹ This is the best end-of-year result since 2003 and can be attributed to Child Support's commitment and emphasis on improving compliance during 2005–06.

⁵⁰ This is a comparable result to last year and can be attributed to Child Support's commitment and emphasis on improving compliance during 2005–06.

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 measures

	Budget	Actual
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.	95%	97.7%
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.	100%	98.6%

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

	Budget	Actual
Quantity We will reduce the number of paying parents in debt (excluding cases we manage on behalf of overseas agencies) by at least 2%.	2% decrease	0.1% increase ⁵¹
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 2006.	90%	89.3%
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%.	<12% increase	8.1% increase
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.	55%	51.7% ⁵²

⁵¹ Although the number of paying parents in debt continues to grow we have reduced the rate of growth from 3% in 2004–05. Our increased focus on preventing new paying parents falling into debt and clearing high-value debt cases has contributed to this reduction.

⁵² It generally takes longer than five months to clear paying parent debt cases. In 2006–07 we have revised the measure to 12 months and the percentage that we expect to clear has been increased to 70%.

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 measures

	Budget	Actual
Timeliness We will issue:		
• at least 90% of administrative review decisions within 7 weeks	90%	83.5% ⁵³
• 100% within 10 weeks of receipt of the application.	100%	97.1%

⁵³ Child Support was on target to achieve this standard until the last month of the year when performance dipped due to slow progress on cases during our peak months. We are introducing streamlined procedures with the aim of a quicker turnaround of cases for next year.

Activity forecast

	Budget	Actual
Quantity		
We will complete an expected 4,600 to 4,850 applications for administrative review of child support assessments.	4,600-4,850	3,488 ⁵⁴

⁵⁴ Numbers have been falling consistently since 2002 due to an improvement in Child Support processes, including our specialist customer contact stream, which responds to all administrative review requests. Customers are being better informed as to when they should be submitting an administrative review application. We have amended this activity forecast to 3,400 – 3,600 for next year to reflect the shift in demand.

Output statement: Assessment and collection of child support

for the year ended 30 June 2006

Actual		Actual	Main Estimates	Final voted
2005		2006	2006	2006
\$000		\$000	\$000	\$000
Revenue				
60,007	Crown	68,565	66,613	68,565
301	Other	645	676	676
60,308	Total revenue	69,210	67,289	69,241
Expenses				
59,308	Annual appropriations	67,828	67,289	69,241
0	Other appropriations	0	0	0
59,308	Total expenses	67,828	67,289	69,241
1,000	Net surplus/(deficit)	1,382	0	0
6,182	Output 7.1 Customer information services	6,756	6,720	6,915
14,625	Output 7.2 Registration and assessment	15,730	16,064	16,530
10,445	Output 7.3 Collection of payments	10,833	11,621	11,958
1,995	Output 7.4 Disbursement to custodians and the Crown	2,155	2,177	2,240
23,914	Output 7.5 Debt management	29,490	27,997	28,810
2,147	Output 7.6 Child support administrative reviews	2,864	2,710	2,788
59,308	Output expense cost	67,828	67,289	69,241

OUTPUT CLASS 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.

Financial performance for the year ended 30 June 2006 (GST-exclusive) \$000

Revenue	Expenses	Net surplus/(deficit)
20,500	20,500	0

Output 8 Collection of ACC levies

Performance measure

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

Output statement: Collection of ACC levies

for the year ended 30 June 2006

Actual		Actual	Main	Final
2005		2006	Estimates	voted
\$000		\$000	\$000	\$000
Revenue				
0	Crown	0	0	0
20,500	Other	20,500	20,500	20,500
20,500	Total revenue	20,500	20,500	20,500
Expenses				
0	Annual appropriations	0	0	0
20,500	Other appropriations	20,500	20,500	20,500
20,500	Total expenses	20,500	20,500	20,500
0	Net surplus/(deficit)	0	0	0
20,500	Output 8 Collection of ACC levies	20,500	20,500	20,500
20,500	Output expense cost	20,500	20,500	20,500

PART FIVE

**DEPARTMENTAL FINANCIAL
STATEMENTS**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2006

Actual		Notes	Actual	Main	Supp
2005			2006	Estimates	Estimates
\$000			\$000	2006	2006
				\$000	\$000
Revenue					
405,194	Crown		458,687	445,485	458,687
25,273	Other	1	27,782	29,436	29,436
430,467	Total operating revenues		486,469	474,921	488,123
Expenditure					
264,907	Personnel expenses	2	298,670	295,571	310,739
126,170	Operating expenses	3	137,661	135,828	133,664
31,186	Depreciation expense	4	35,437	34,823	36,076
7,023	Capital charge	5	7,644	8,699	7,644
73	Loss on sale of fixed assets		242	0	0
429,359	Total operating expenses		479,654	474,921	488,123
1,108	Net surplus/(deficit)		6,815	0	0

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

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
87,793	Equity at start of year	95,892	95,892	95,892
1,108	Surplus/(deficit) for year	6,815	0	0
1,108	Total recognised revenues and expenses for year	6,815	0	0
8,099	Capital contributions	37,818	22,518	37,818
0	Repayment of capital to the Crown	(2,879)	(679)	(2,879)
(1,108)	Provision for repayment of surplus to the Crown	(6,815)	0	0
95,892	Equity at end of year	130,831	117,731	130,831

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
	Taxpayers' funds			
95,892	Taxpayers' funds	130,831	117,731	130,831
95,892	Total taxpayers' funds	130,831	117,731	130,831
	Represented by:			
	Current assets			
26,591	Cash	4,995	10,567	10,567
1,565	Prepayments	2,307	3,000	3,000
22,000	Debtor Crown	84,223	27,000	47,583
3,194	Debtors and receivables	5,018	2,887	2,887
53,350	Total current assets	96,543	43,454	64,037
	Non-current assets			
108,379	Fixed assets	122,162	132,532	135,294
108,379	Total non-current assets	122,162	132,532	135,294
161,729	Total assets	218,705	175,986	199,331
	Current liabilities			
21,291	Creditors and payables	36,233	19,213	22,524
1,108	Provision for repayment of surplus to the Crown	6,815	0	0
14,091	Provision for employee entitlements	16,107	13,772	14,000
1,053	Provision for restructuring expenses	650	570	570
37,543	Total current liabilities	59,805	33,555	37,094
	Non-current liabilities			
26,931	Provision for employee entitlements	27,069	23,794	30,500
1,363	Provision for restructuring expenses	1,000	906	906
28,294	Total non-current liabilities	28,069	24,700	31,406
65,837	Total liabilities	87,874	58,255	68,500
95,892	Net assets	130,831	117,731	130,831

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Cash flows – operating activities				
Cash provided from:				
Supply of outputs to				
419,360	– Crown	396,464	440,485	433,104
2,916	– departments	4,370	4,418	4,418
24,721	– other	21,588	25,018	25,018
446,997		422,422	469,921	462,540
Cash was disbursed for:				
Cost of producing outputs				
265,716	– personnel	295,662	302,423	310,739
118,758	– operating	125,914	127,250	131,018
(190)	– net GST paid	(828)	32	0
7,023	– capital charge	7,644	8,699	7,644
391,307		428,392	438,404	449,401
55,690	Net cash inflow/(outflow) from operating activities	(5,970)	31,517	13,139
Cash flows – investing activities				
Cash provided from:				
45	Sale of fixed assets	1,123	0	0
Cash disbursed for:				
50,930	Purchase of fixed assets	50,580	52,711	62,994
(50,885)	Net cash inflow/(outflow) from investing activities	(49,457)	(52,711)	(62,994)
Cash flows – financing activities				
Cash provided from:				
8,099	Capital expenditure	37,818	22,518	37,818
Cash disbursed for:				
0	Repayment of surplus	1,108	0	1,108
0	Capital repayments	2,879	679	2,879
0		3,987	679	3,987
8,099	Net cash inflow/(outflow) from financing activities	33,831	21,839	33,831
12,904	Net increase/(decrease) in cash held	(21,596)	645	(16,024)
13,687	Opening cash	26,591	9,922	26,591
26,591	Closing cash	4,995	10,567	10,567

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

STATEMENT OF COMMITMENTS

as at 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Capital commitments				
<i>Equipment</i>				
1,512	Less than one year	2,109	1,614	1,842
1,512	Total capital commitments	2,109	1,614	1,842
Operating commitments				
<i>Non-cancellable accommodation leases</i>				
23,710	Less than one year	25,350	15,211	24,935
21,659	One to two years	21,836	11,251	21,214
30,535	Two to five years	23,436	11,154	18,543
3,313	Over five years	3,984	2,092	1,638
79,217	Total accommodation commitments	74,606	39,708	66,330
<i>Other non-cancellable leases</i>				
8,436	Less than one year	0	21,135	8,151
7,865	One to two years	0	20,465	7,865
23,596	Two to five years	0	59,737	23,596
7,865	Over five years	0	23,819	0
47,762	Total other lease commitments	0	125,156	39,612
<i>Cancellable contracts for the supply of goods and services</i>				
20,114	Less than one year	29,548	6,044	28,869
445	One to two years	8,088	216	216
648	Two to five years	24,245	648	648
270	Over five years	54	54	54
21,477	Total supply commitments	61,935	6,962	29,787
148,456	Total operating commitments	136,541	171,826	135,729
149,968	Total commitments	138,650	173,440	137,571

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

Total other lease commitments were lower than budget by \$125.156 million due to a reclassification of a contract from an operating lease to a supply of services during the year.

STATEMENT OF CONTINGENT LIABILITIES

as at 30 June 2006

Actual 2005 \$000		Notes	Actual 2006 \$000
185	Personal grievances		140
981	Legal proceedings and disputes		1,591
1,166	Total contingent liabilities	13	1,731

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

STATEMENT OF UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE

for the year ended 30 June 2006

Inland Revenue incurred no unappropriated expenses and capital expenditure to 30 June 2006 (2005: nil).

STATEMENT OF APPROPRIATIONS

for the year ended 30 June 2006

Actual 2005 \$000		Actual 2006 \$000	Final voted* 2006 \$000
Vote: Revenue			
<i>Appropriations for output expenses</i>			
9,610	Policy advice	10,032	10,036
6,459	Adjudication and Rulings	7,155	7,275
104,696	Information services	124,473	127,614
57,425	Revenue assessment and collection	59,654	61,360
62,146	Management of debt and outstanding returns	71,275	71,336
109,215	Taxpayer audit	118,737	120,761
59,308	Assessment and collection of child support	67,828	69,241
20,500	Collection of ACC levies	20,500	20,500
429,359	Total	479,654	488,123
<i>Capital expenditure</i>			
8,099	Capital expenditure	37,818	37,818
8,099	Total	37,818	37,818

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

Transfers under section 26(a) Public Finance Act 1989

	Supp Estimates 2006 \$000	Section 26(a) transfers 2006 \$000	Final voted 2006 \$000
Vote: Revenue			
<i>Appropriations for output expenses</i>			
Policy advice	10,036	0	10,036
Adjudication and Rulings	7,025	250	7,275
Information services	131,614	(4,000)	127,614
Revenue assessment and collection	65,860	(4,500)	61,360
Management of debt and outstanding returns	68,086	3,250	71,336
Taxpayer audit	118,761	2,000	120,761
Assessment and collection of child support	66,241	3,000	69,241
Collection of ACC levies	20,500	0	20,500
Net adjustment	488,123	0	488,123

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

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Inland Revenue is a government department as defined by the Public Finance Act 1989. These are the financial statements of Inland Revenue prepared pursuant to the Public Finance Act 1989.

MEASUREMENT SYSTEM

These financial statements have been prepared on a historical cost basis unless otherwise stated. In line with the Statement of Concepts, an asset is recognised in the *Statement of Financial Position* only when it is probable that the future economic benefits will flow to the entity and the asset has a value that can be measured reliably.

ACCOUNTING POLICIES

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

Budget figures

The budget figures are those presented in the Main Estimates and those amended by the Supplementary Estimates and transfers made by Order in Council under the Public Finance Act 1989.

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 year 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.

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 – developed	\$50,000 and over
► Software – purchased	\$5,000 and over
► Set-up of a 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 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/IT equipment

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	1 – 7 years
▶ Software	5 – 7 years

All fixed assets, other than motor vehicles, are assumed to have no residual value. Motor vehicles are assumed to have a 30% residual value.

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 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 currency forward exchange contract has been used to establish the price of a transaction, the forward rate specified in that foreign exchange contract 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, creditors and foreign currency forward exchange contracts. Inland Revenue enters into the foreign currency forward exchange contracts to hedge currency transactions. Apart from foreign currency forward exchange contracts, all financial instruments are recognised in the *Statement of Financial Position* and all revenues and expenses in relation to financial instruments are recognised in the *Statement of Financial Performance*. Except for those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair values.

Goods and services tax (GST)

The *Statement of Unappropriated Expenses and Capital Expenditure* and the *Statement of Appropriations* are GST-exclusive. The *Statement of Financial Position* is GST-exclusive, 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.

Contingent liabilities

Departmental contingent liabilities are recognised in the *Statement of Contingent Liabilities* at the point at which the contingency is evident.

Taxpayers' funds

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

Comparatives

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

CHANGES IN ACCOUNTING POLICIES

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

ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In August 2003, the Government announced that the Crown would apply New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the preparation of its financial statements from Budget 2007. To comply with this decision, Inland Revenue will apply NZ IFRS in the preparation of financial statements for the year ending 30 June 2008. Inland Revenue will be collecting NZ IFRS information throughout 2006–07 as part of the transition to NZ IFRS. This information will be used to provide the comparative NZ IFRS information to be reported in the 2007–08 financial statements.

In preparation for the adoption of NZ IFRS, Inland Revenue has formed a project team and sought independent external advice. The project is monitored by an internal project steering committee chaired by the Group Manager Finance and Planning in his capacity as Chief Financial Officer.

To date, the project team has completed a high-level assessment to identify key differences between present New Zealand Generally Accepted Accounting Practice (NZ GAAP) and NZ IFRS that will impact on Inland Revenue. The project team has commenced detailed technical evaluation of identified transition issues and identified potential system and procedural changes.

The key areas of NZ IFRS expected to impact Inland Revenue are summarised as follows. The actual impact of adopting NZ IFRS may vary from the information presented.

The key impacts will be in the following areas:

Revenue

NZ IAS 18 – Revenue requires Inland Revenue to reclassify certain revenue categories (eg court cost recoveries) from “Other income” to “Revenue” in the *Statement of Financial Performance* when they form part of the ordinary business activities of Inland Revenue.

Leases

Under NZ IAS 17 – *Leases* certain contractual arrangements may need to be reclassified as operating leases. NZ IFRIC 4 – *Determining Whether an Arrangement Contains a Lease* requires an entity to account for a lease depending on the substance of the arrangement. Inland Revenue may need to classify contractual arrangements which meet the lease criteria.

Intangible assets

NZ IAS 38 – *Intangible Assets* requires an entity to classify software as intangible assets. Inland Revenue will need to reclassify software as intangible assets and test these intangibles for impairment on an annual basis.

Financial instruments and hedge accounting

NZ IAS 39 – *Financial Instruments: Recognition and Measurement* requires all derivatives and hedging instruments to be recorded at fair value in the *Statement of Financial Position*, with the related changes in fair value recorded either to equity or income depending on whether the instruments meet the NZ IAS 39 hedging criteria.

Inland Revenue currently enters into foreign currency forward exchange contracts to hedge currency transactions but does not recognise such derivatives in the *Statement of Financial Position*. On transition to NZ IFRS, these derivatives will be recognised at fair value in the *Statement of Financial Position*.

Inland Revenue will not be adopting hedge accounting as the cost of adopting will outweigh the benefit. More importantly, transactions between entities within the Government reporting entity do not qualify for hedge accounting in the financial statements of the Government.

Employee benefits

NZ IAS 19 – *Employee Benefits* requires an entity to recognise accumulating compensated absences such as sick leave if it is material. Sick leave should be accrued on the expected level of unused sick leave entitlement carried forward that is expected to be taken in the future.

As Inland Revenue's sick leave policy is a long-term benefit (ie the absences are not all expected to occur within 12 months of the financial period), the amount recognised as a liability will be the net total of the following amounts:

- ▶ the present value of the defined benefit obligation at the balance sheet date
- ▶ less the fair value at the balance sheet date of plan assets (if there are any) out of which the obligations are to be settled directly.

Discounting will be considered where the effect is material.

Related party disclosures

NZ IAS 24 – *Related Party Disclosures* requires an entity to make disclosure of key management compensations. Inland Revenue does not currently make such disclosure but on transition to NZ IFRS will be required to do so.

This page does not form part of the Statement of Accounting Policies and has not been audited.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: OTHER REVENUE

Actual 2005 \$000		Actual 2006 \$000
20,500	Accident Compensation Corporation – agency fees	20,500
1,324	State Services Commission – State Sector Retirement Savings Scheme	3,783
1,393	Supply of information to other agencies	1,374
1,099	Court cost recovery	1,020
620	Rulings	810
327	Rental recovery	281
10	Other	14
25,273	Total other revenue	27,782

NOTE 2: PERSONNEL EXPENSES

Actual 2005 \$000		Actual 2006 \$000
238,145	Salaries and wages	264,573
12,256	Contractors and temporary staff	17,424
3,773	Superannuation	6,124
4,790	Retiring and long-service leave	2,034
720	ACC levies	1,194
735	Bonuses	822
4,488	Other	6,499
264,907	Total personnel expenses	298,670

NOTE 3: OPERATING EXPENSES

Actual 2005 \$000		Actual 2006 \$000
30,506	Information technology costs	28,160
21,189	Operating lease rentals	24,718
18,158	Communication	18,049
10,181	Office supplies	11,768
7,174	Travel and transport	9,086
9,353	Legal expenses	8,858
6,880	Training and employee-related	8,412
6,217	Premises costs	7,746
7,736	Services	7,387
3,899	Consultants	6,870
2,776	Advertising and publicity	4,102
1,121	Equipment maintenance	1,332
858	Audit fees for audit of the financial statements	923
0	Other audit fees	20
(403)	Increase/(decrease) in provision for restructuring	337
564	Bad debts written off	13
(239)	Increase/(decrease) in provision for doubtful debts	(334)
200	Other operating expenses	214
126,170	Total operating expenses	137,661

NOTE 4: DEPRECIATION

Actual 2005 \$000		Actual 2006 \$000
16,792	Software	19,546
7,668	IT equipment	8,026
4,172	Leasehold improvements	5,084
1,902	Office equipment	1,793
353	Furniture	544
299	Motor vehicles	444
31,186	Total depreciation expense	35,437

NOTE 5: CAPITAL CHARGE

Inland Revenue pays a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year. The capital charge rate for the year ended 30 June 2006 was 8% (2005: 8%).

NOTE 6: DEBTORS AND RECEIVABLES

Actual 2005 \$000		Actual 2006 \$000
3,585	Other receivables	5,073
(391)	Less provision for doubtful debts	(55)
3,194	Total debtors and receivables	5,018

NOTE 7: FIXED ASSETS

	At cost 2005 \$000	Accumulated depreciation 2005 \$000	Net book value 2005 \$000	At cost 2006 \$000	Accumulated depreciation 2006 \$000	Net book value 2006 \$000
Software	287,822	239,067	48,755	316,888	255,282	61,606
IT equipment	47,970	32,024	15,946	54,550	39,335	15,215
Leasehold improvements	53,459	41,726	11,733	57,489	44,821	12,668
Office equipment	19,591	14,647	4,944	20,120	16,287	3,833
Motor vehicles	5,707	2,921	2,786	4,626	1,281	3,345
Furniture	5,150	3,925	1,225	8,336	4,459	3,877
Assets under construction (software/IT equipment)	19,280	0	19,280	20,097	0	20,097
Assets under construction (leasehold improvements)	3,710	0	3,710	1,521	0	1,521
Total	442,689	334,310	108,379	483,627	361,465	122,162

NOTE 8: CREDITORS AND PAYABLES

Actual 2005 \$000		Actual 2006 \$000
6,366	Accounts payable	11,477
1,523	Accrued expenses – employees	2,682
9,672	Accrued expenses – other	17,516
3,730	GST payable	4,558
21,291	Total creditors and payables	36,233

NOTE 9: PROVISION FOR EMPLOYEE ENTITLEMENTS

Movements in provision

Actual 2005 \$000		Actual 2006 \$000
37,515	Opening balance	41,022
25,902	Additional provisions made during the year	26,883
(22,313)	Charged against provision for the year	(24,729)
(82)	Unused amounts reversed during the year	0
41,022	Closing balance	43,176

Employee entitlement provision

Actual 2005 \$000		Actual 2006 \$000
Current liabilities		
12,732	Annual leave provision	14,466
606	Retiring leave	976
659	Long-service leave provision	603
85	Time off in lieu	62
9	Other	0
14,091	Total current portion	16,107
Non-current liabilities		
22,084	Retiring leave	21,524
4,847	Long-service leave	5,545
26,931	Total non-current portion	27,069
41,022	Total employee entitlement provision	43,176

NOTE 10: PROVISION FOR RESTRUCTURING EXPENSES

Movements in provision

Actual 2005 \$000	Actual 2006 \$000
4,455 Opening balance	2,416
403 Additional provisions made during the year	336
(2,442) Charged against provision for the year	(1,043)
0 Unused amounts reversed during the year	(59)
2,416 Closing balance	1,650

Restructuring provision

Actual 2005 \$000	Actual 2006 \$000
Current liabilities	
523 Net expenses on surplus space leased under non-cancellable operating leases	650
530 Restructuring expenses	0
1,053 Total current portion	650
Non-current liabilities	
1,363 Net expenses on surplus space leased under non-cancellable operating leases	1,000
1,363 Total non-current portion	1,000
2,416 Total restructuring provision	1,650

NOTE 11: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

Actual 2005 \$000		Actual 2006 \$000
1,108	Net surplus/(deficit)	6,815
	Add non-cash items	
31,186	Depreciation	35,437
3,634	Increase/(decrease) in non-current employee entitlements	138
(835)	Increase/(decrease) in non-current restructuring expenses	(363)
33,985	Total non-cash items	35,212
	Add/(less) working capital movements	
2,364	(Increase)/decrease in debtors and receivables	(1,824)
5,824	(Increase)/decrease in prepayments	(742)
14,166	(Increase)/decrease in debtor Crown	(62,223)
(499)	Increase/(decrease) in creditors and payables	14,936
(127)	Increase/(decrease) in current employee entitlements	2,017
(1,204)	Increase/(decrease) in current restructuring expenses	(403)
20,524	Working capital movements – net	(48,239)
	Add/(less) investing activity items	
73	Net loss on sale of fixed assets	242
73	Total investing activity items	242
55,690	Net cash inflow/(outflow) from operating activities	(5,970)

NOTE 12: COMMITMENTS

Inland Revenue's commitments comprise both capital and operating commitments. The operating commitments consist of non-cancellable accommodation leases and cancellable contracts for the supply of goods and services.

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

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

NOTE 13: CONTINGENT LIABILITIES

Inland Revenue is involved in a large number of legal proceedings and disputes. The majority of these court cases relate to tax prosecutions, debt collection cases and insolvency matters. The expected value of the contingent liability is calculated using an outcome probability model that weighs the total potential liability against outcome probabilities. Independent confirmation on the liability has been ascertained on all legal proceedings and disputes.

The contingent liability does not include tax in dispute which is reported under the Crown Schedule.

NOTE 14: FINANCIAL INSTRUMENTS

Inland Revenue is party to financial instruments as part of its everyday operations. These include instruments such as bank balances, accounts receivable, accounts payable and foreign currency forward exchange contracts.

Credit risk

Credit risk is the risk that a third party will default on its obligations to Inland Revenue, causing the department to incur a loss. In the normal course of its business, Inland Revenue incurs credit risk from trade debtors.

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

Fair value

The fair value of all departmental financial instruments is equivalent to the carrying amount disclosed in the *Statement of Financial Position*.

Currency risk

Currency risk is the risk that debtor or creditor amounts due in foreign currency will fluctuate because of changes in foreign exchange rates. Inland Revenue uses foreign currency forward exchange contracts to manage foreign exchange exposures where single foreign exchange transactions exceed \$NZ100,000, or the transaction exposure for an individual currency exceeds \$NZ100,000.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investments or the cost of borrowing. Inland Revenue has no significant exposure to interest rate risk on its financial instruments.

Under the Public Finance Act 1989, Inland Revenue cannot raise a loan without ministerial approval and no such loans have been raised. Accordingly, there is no interest rate exposure for funds borrowed.

NOTE 15: RELATED PARTY INFORMATION

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

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

Apart from those transactions described above, Inland Revenue has not entered into any related party transactions.

NOTE 16: MAJOR BUDGET VARIATIONS

Statement of Financial Performance

There were no major budget variations between Actuals and the Main Estimates.

Statement of Financial Position

The following major budget variations occurred between Actuals and the Main Estimates in the *Statement of Financial Position*:

- ▶ *Cash* was lower than budget by \$5.572 million (53%). This was due to a large cash payment that occurred earlier than planned.
- ▶ *Debtor Crown* was higher than budget by \$57.223 million (212%). This was due to reduced operating expenditure, timing of fixed asset purchases, increases in creditors and payables, and the reduced cash balance.
- ▶ *Debtors and receivables* were higher than budget by \$2.131 million (74%). This was due to increases in receivables from other agencies.
- ▶ *Fixed assets* were lower than budget by \$10.370 million (8%). This was due to development expenditure on legislative projects that will now occur in 2006–07.
- ▶ *Creditors and payables* were higher than budget by \$17.020 million (89%). This was due to an increase in GST payable, an increase in accounts payable, an increase in accrued staff salaries, and an increase in other accruals.

Statement of Commitments

The following major budget variations occurred between Actuals and the Main Estimates in the *Statement of Commitments*:

- ▶ *Total accommodation commitments* were higher than budget by \$34.898 million (88%). This was due to Inland Revenue entering into two new accommodation leases.
- ▶ *Total other lease commitments* were lower than budget by \$125.156 million (100%). This variation was due to a reclassification of a contract from an operating lease to a supply of services during the year.
- ▶ *Total cancellable contracts for supply of goods and services* were higher than budget by \$54.973 million (790%). This variation was due to a reclassification of a contract from an operating lease to this category.

NOTE 17: EVENTS AFTER BALANCE DATE

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

SUMMARY OF DEPARTMENTAL FINANCIAL RESULTS

for the year ended 30 June

	Unit	Actual 2006	Actual 2005	Actual 2004
Operating results				
Revenue: Third parties	\$000	27,782	25,273	25,183
Output expenses	\$000	479,654	429,359	404,617
Operating surplus before capital charge	\$000	14,459	8,131	3,946
Net surplus/(deficit)	\$000	6,815	1,108	(3,705)
Working capital				
Liquid ratio		1.58	1.38	1.45
Current ratio		1.61	1.42	1.59
Resource utilisation				
<i>Physical assets</i>				
Physical assets as % of total assets		56%	67%	59%
Additions as % of physical assets		42%	47%	38%
<i>Taxpayers' funds</i>				
Level at year-end	\$000	130,831	95,892	87,793
Taxpayers' funds as % of total assets		60%	59%	58%
Forecast net cash flows				
Surplus/(deficit) from operating activities	\$000	(5,970)	55,690	36,002
Surplus/(deficit) from investing activities	\$000	(49,457)	(50,885)	(33,287)
Surplus/(deficit) from financing activities	\$000	33,831	8,099	(367)
Net increase/(decrease) in cash held	\$000	(21,596)	12,904	2,348

PART SIX
FINANCIAL SCHEDULES
FOR ADMINISTERED ACCOUNTS
– CROWN

SCHEDULE OF REVENUE – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Revenue				
32,782,901	Direct taxation 1	37,380,782	33,892,000	35,547,000
9,219,722	Indirect taxation 2	9,451,760	9,651,000	9,305,000
42,002,623	Total taxation revenue	46,832,542	43,543,000	44,852,000
272,245	Compulsory fees, fines, penalties and levies (child support)	276,013	314,200	292,800
434,788	Investment income (student loans)	293,681	496,180	293,681
707,033	Total other revenue	569,694	810,380	586,481
42,709,656	Total operating revenue	47,402,236	44,353,380	45,438,481

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF EXPENDITURE – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
1,077,056	Social assistance benefits 3	1,621,543	1,623,900	1,703,800
5,772	Finance costs (income equalisation interest scheme) 4	3,550	4,013	2,008
0	Initial fair value write-down and subsequent impairment 5	1,262,374	390,127	1,321,878
892,714	Change in doubtful debt and fair value write-down 5	76,320	0	210,681
1,975,542	Total expenditure	2,963,787	2,018,040	3,238,367

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF ASSETS – CROWN AS ADMINISTERED BY INLAND REVENUE

as at 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
		\$000	\$000	\$000
Assets				
Current assets				
2,050,064	Cash and bank balances	1,650,967	1,379,830	2,050,064
5,657,937	Receivables and advances (including student loans short-term)	8,425,369	5,756,323	5,651,621
7,708,001	Total current assets	10,076,336	7,136,153	7,701,685
Non-current assets				
5,258,494	Receivables and advances	4,608,711	5,871,065	4,467,584
5,258,494	Total non-current assets	4,608,711	5,871,065	4,467,584
12,966,495	Total assets	14,685,047	13,007,218	12,169,269

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF LIABILITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

as at 30 June 2006

Actual		Notes	Actual	Main	Supp
2005			2006	Estimates	Estimates
\$000			\$000	\$000	\$000
Liabilities					
Current liabilities					
7,215,678	Payables and provisions	8	3,497,433	7,829,775	2,665,047
166,889	Borrowings	11	143,035	249,823	127,503
7,382,567	Total current liabilities		3,640,468	8,079,598	2,792,550
7,382,567	Total liabilities		3,640,468	8,079,598	2,792,550

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

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

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
		\$000	\$000	\$000
40,734,114	Net result from Crown operating activities	44,451,629	42,337,771	42,200,114
5,854,900	Opening cash balance	5,583,928	5,349,765	5,583,928
0	Asset transfer between departments – Ministry of Social Development	5,196,232	0	5,233,624
(41,005,086)	Net payments to New Zealand Debt Management Office	(44,195,143)	(42,759,916)	(43,640,947)
5,583,928	Closing balance	11,036,646	4,927,620	9,376,719

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF CASH FLOWS FROM OPERATING ACTIVITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Cash flows from operating activities				
Direct taxation				
Individuals:				
17,834,327	Source deductions	19,186,916	18,653,000	19,180,000
4,639,964	Other persons	4,882,898	4,630,000	4,885,000
(1,364,576)	Other persons refunds	(1,503,299)	(1,452,000)	(1,550,000)
431,420	Fringe benefit tax	449,744	445,000	441,000
21,541,135	Sub-total individuals	23,016,259	22,276,000	22,956,000
Companies:				
8,861,256	Gross company tax – other	8,447,646	8,465,000	8,644,000
121,647	Gross company tax – state-owned enterprises	398,686	444,000	352,000
926	Gross company tax – Crown entities	64,244	52,000	67,000
50,441	Gross company tax – NZS fund	366,230	341,000	267,000
(735,220)	Company refunds	(832,575)	(826,000)	(740,000)
8,299,050	Sub-total companies	8,444,231	8,476,000	8,590,000
Withholding tax:				
1,497,733	Residents' interest	1,862,085	1,529,000	1,871,000
60,352	Residents' dividends	74,254	65,000	73,000
185,147	Foreign source dividends	157,268	182,000	210,000
949,069	Non-residents' income	1,093,140	813,000	1,007,000
545,852	Specified superannuation tax	709,808	577,000	660,000
3,238,153	Sub-total withholding tax	3,896,555	3,166,000	3,821,000
33,078,338	Total income tax	35,357,045	33,918,000	35,367,000

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
	Other direct taxation			
2,310	Estate and gift duties	1,864	2,000	2,000
2,310	Sub-total other direct taxation	1,864	2,000	2,000
33,080,648	Total direct taxation	35,358,909	33,920,000	35,369,000
	Indirect taxation			
	Goods and services tax:			
15,358,541	Gross goods and services tax (Inland Revenue)	16,246,717	16,122,000	16,192,000
(6,717,819)	Goods and services tax (refunds)	(7,215,003)	(6,861,000)	(7,280,000)
8,640,722	Sub-total goods and services tax	9,031,714	9,261,000	8,912,000
	Other indirect taxation			
8,150	Stamp and cheque duties	7,679	8,000	8,000
58,046	Approved issuer levy	72,638	54,000	73,000
311,840	Gaming duties	284,721	328,000	312,000
10,379	Other indirect taxation	24,716	1,000	10,000
388,415	Sub-total other indirect taxation	389,754	391,000	403,000
9,029,137	Total indirect taxation	9,421,468	9,652,000	9,315,000
42,109,785	Total taxation receipts	44,780,377	43,572,000	44,684,000
	Other receipts:			
176,992	Compulsory fees, fines and penalties (child support)	194,870	191,200	191,800
258,820	Interest from investment (student loan)	179,854	252,806	260,274
(3)	Other operating receipts (ACC)	(106)	0	0
435,809	Total other receipts	374,618	444,006	452,074
42,545,594	Total cash inflow/(outflow) from operating activities	45,154,995	44,016,006	45,136,074
	Cash disbursed to:			
0	Finance cost	0	(4,013)	(2,008)
(1,069,374)	Family assistance tax credits	(1,638,065)	(1,624,900)	(1,703,800)
(1,069,374)	Total cash disbursed to operations	(1,638,065)	(1,628,913)	(1,705,808)
41,476,220	Net cash inflow/(outflow) from operating activities	43,516,930	42,387,093	43,430,266

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF CASH FLOWS FROM INVESTING ACTIVITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Cash flows from investing activities				
Cash was provided from:				
251,494	Repayment of advances (student loan capital)	306,519	335,113	250,067
251,494	Net cash inflow/(outflow) from investing activities	306,519	335,113	250,067

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF CASH FLOWS FROM FINANCING ACTIVITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
		\$000	\$000	\$000
Cash flows from financing activities				
Cash was provided from:				
50,404	Income equalisation scheme	53,207	155,658	69,614
50,404	Total cash provided	53,207	155,658	69,614
Cash was disbursed to:				
(102,798)	Repayment of income equalisation	(80,610)	(117,950)	(109,000)
(102,798)	Total cash disbursed	(80,610)	(117,950)	(109,000)
(52,394)	Net cash inflow/(outflow) from financing activities	(27,403)	37,708	(39,386)

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF THE COMBINED CASH FLOWS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
		\$000	\$000	\$000
41,476,220	Net cash inflow/(outflow) from operating activities	43,516,930	42,387,093	43,430,266
251,494	Net cash inflow/(outflow) from investing activities	306,519	335,113	250,067
(52,394)	Net cash inflow/(outflow) from financing activities	(27,403)	37,708	(39,386)
41,675,320	Closing balance	43,796,046	42,759,914	43,640,947

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF CASH FLOW MOVEMENTS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
		\$000	\$000	\$000
41,675,320	Net movement in cash	43,796,046	42,759,914	43,640,947
1,379,830	Opening cash balance	2,050,064	1,379,830	2,050,064
	Disbursements from New Zealand Debt			
11,261,499	Management Office	1,734,711	11,822,463	12,354,608
(52,266,585)	Disbursements to New Zealand Debt	(45,929,854)	(54,582,379)	(55,995,555)
	Management Office			
2,050,064	Closing balance	1,650,967	1,379,828	2,050,064

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF NET RESULT TO OPERATING CASH FLOWS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
40,734,114	Net result from Crown operations	44,451,629	42,337,771	42,200,114
	Movement in working capital			
(25,224)	(Increase)/decrease student loan short-term	32,587	(77,492)	(1)
489,073	(Increase)/decrease provision bad debts	182,304	55,934	275,317
(215,989)	(Increase)/decrease tax receivables (general tax)	(2,926,481)	28,000	(168,000)
(72,384)	(Increase)/decrease GST debtors	31,106	0	0
(95,637)	(Increase)/decrease receivables (child support)	(86,948)	(123,000)	(101,000)
1,010,308	Increase/(decrease) payables (student loans)	645,601	1,032,118	682,993
928	Increase/(decrease) payables (others)	9,484	0	0
403,266	Increase/(decrease) tax refundable	822,902	0	0
1,494,341	Total working capital movements	(1,289,445)	915,560	689,309
	Other non-cash items			
(245,722)	Other non-cash items (student loan capital)	(302,966)	(335,115)	(250,067)
(506,513)	Student loans long-term	657,712	(531,123)	790,910
(752,235)	Total other non-cash items	354,746	(866,238)	540,843
41,476,220	Net cash inflow/(outflow) from operating activities	43,516,930	42,387,093	43,430,266

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF CONTINGENT LIABILITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

as at 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
			\$000	\$000
Contingent liabilities				
381,902	Contingent liabilities	820,303	380,000	380,000
381,902	Total quantifiable contingent liabilities	820,303	380,000	380,000

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF ACCIDENT COMPENSATION COLLECTIONS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	2006	2006
			\$000	\$000
Accident compensation collection type				
(3)	Residual claims levy and earners' levy (self-employed)*	(10)	0	0
739,527	Earner premium (employees – provisional)	873,615	785,800	819,900
739,524	Total accident compensation collection	873,605	785,800	819,900

* For the 1999 return period, Inland Revenue started collecting residual claims and earners' levies, instead of the ACC premiums. From 1 April 2002, ACC took over the responsibility for collecting residual claims levies.

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

SCHEDULE OF STUDENT LOAN MOVEMENTS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Analysis of student loans portfolio:				
Nominal loan balance		7,472,711		7,351,611
Adjustment to fair value		(2,494,645)		(2,440,735)
Total student loans balance		4,978,066		4,910,876
Movement during the year:				
Opening balance		5,766,421		5,766,421
Initial fair value write-down and subsequent impairment		(1,249,551)		(1,303,796)
Loans transferred from MSD to Inland Revenue		966,468		962,000
Fair value write-down on new borrowings transferred		(320,867)		(279,007)
Capital repayment		(306,519)		(250,067)
Interest repayment		(179,854)		(260,274)
Other Impairments		(12,823)		(18,082)
Interest unwind		314,791		293,681
Closing student loans balance		4,978,066		4,910,876
Analysis of student loans				
Outstanding balances:				
6,674,574	Total outstanding loans (capital and interest)		7,333,556	
(908,153)	Total provisions (capital and interest)		(876,096)	
5,766,421	Total student loans		6,457,460	
5,246,880	Opening balance		5,856,235	
1,010,308	Amount advanced in current year		1,032,118	
434,788	Interest accrued on outstanding loan balances		496,180	
(251,494)	Repayment of base capital		(335,115)	
(258,820)	Repayment of accrued interest		(252,806)	
(226,459)	Small balances and interest written-off		(259,963)	
(189,379)	Movement in provision		(79,189)	
597	Other		0	
5,766,421	Closing balance		6,457,460	

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

For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Crown financial statements for the year ended 30 June 2006.

STUDENT LOANS

Student loans are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate, less any impairment loss. The effective interest rate discounts estimated future cash flows through the expected life of the loan to the net carrying amount of the loan, excluding future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the loan is impaired. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan, and that a “loss” event (or events) has an impact on the estimated future cash flows of the student loan book that can be reliably measured.

The student loans balance reflects the change in accounting policy which requires student loans to be initially recorded at fair value and subsequently reported at amortised cost (refer to “Changes in accounting policy” on page 122). Prior year comparatives and the Main Estimates have not been restated for the fair value change.

Student loans book value

Student loans are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less any impairment loss.

Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arms-length transaction. Fair value on initial recognition of student loans is determined by projecting forward the expected cash flows to a willing buyer and discounting them back at an appropriate discount rate.

Inland Revenue and the Ministry of Social Development have adapted the Ministry of Education’s valuation model to be compliant with International Accounting Standards and to reflect the recently introduced student loans interest-free, amnesty and voluntary repayments legislation.

As student loans are subsequently measured at amortised cost, the model projects all future cash flows to the Crown

associated with the loan and calculates the effective interest rate at initial recognition. This is used to spread the Crown’s interest income across the life of the loan and determines the loan’s book value at each reporting date. If the timing of future receipts is revised, the book amount at reporting date is adjusted to reflect the revised estimated cash flows at the loan’s original effective interest rate. The adjustment is recognised as income or expense in the *Statement of Financial Performance*.

The Model’s substantive information has remained consistent with previous years, incorporating educational, demographic, income and loan. As such, the fair value is sensitive to changes on a number of underlying assumptions, including future income levels, repayment behaviour and macro economic factors such as inflation and the discount rate.

The significant assumptions are as follows:

Assumptions	30 June 2006	30 June 2005
Weighted average effective interest rate	6.63%	Not applicable
Interest rate applied to loans for overseas borrowers	6.9% (6.7% out-years)	7.0% (6.8% out-years)
Cost of administration as a percentage of the average outstanding loan balance	0.15%	0.20%
CPI	3.2%	2.8%
Future salary inflation	3.6%	3.4%

Student loans fair value

Fair value is the amount for which the loan book value could be exchanged between knowledgeable, willing parties in an arm’s-length transaction as at 30 June 2006. The estimated fair value of the student loan debt at 30 June 2006 has been determined to be approximately \$4,992.5 million (\$5,342 million at 30 June 2005).

The fair value calculated is sensitive to underlying assumptions chosen. For example, a 1% increase in the discount rate would decrease fair value by approximately \$339 million, whereas a 1% decrease in the discount rate would increase fair value by approximately \$391 million.

Through the everyday operations of the student loan scheme the Crown is exposed to the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

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

The *2006 Student Loan Annual Report* contains more information on the student loan scheme.

Impairment

An amount is recognised at reporting date if there is objective evidence of impairment as a result of:

- ▶ one or more loss events that occurred after the initial recognition of the loan, and
- ▶ the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loans.

For the student loan scheme, this involves a comparison between the amortised cost of the loans to the present value of the estimated future cash flows of the loans discounted at original effective interest rate. The present value of estimated future cash flows excludes future credit losses that have not been incurred.

Amortised cost

The amortised cost of the financial asset is the amount at which the financial asset is measured at initial fair value, less principal repayments, plus the cumulative interest unwound using the effective interest rate, less any reductions for impairments or non-collectibles.

Loan repayments

For the year ended 30 June 2006, there was a total decline of 3.7%, the equivalent of \$20.9 million, in loan repayments. In 2006–07, repayments are expected to be slightly higher than 2005–06 repayments, regardless of the decrease in the interest component of loans.

SCHEDULE OF TRUST MONIES – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Contribution	Distribution
2005		2006	2006	2006
\$000		\$000	\$000	\$000
Child support monies:				
10,107	Child support	9,059	149,455	(150,503)
129	Child support – reciprocal agreements	178	6,397	(6,349)
10,236	Total	9,237	155,852	(156,852)

This trust account was established in accordance with sections 67, 68 and 139 of the Child Support Act 1991.

Inland Revenue administers this trust account for amounts collected for non-custodial parents and the subsequent child support payments that are paid to the custodial parents.

SCHEDULE OF APPROPRIATIONS – CROWN AS ADMINISTERED BY INLAND REVENUE

for the year ended 30 June 2006

Actual	Notes	Actual	Main	Supp
2005		2006	Estimates	Estimates
\$000		\$000	\$000	\$000
Benefits and other unrequited expenses				
136,121	Child support payments	150,927	150,000	149,000
832,859	Family support tax credit	1,280,349	1,298,000	1,350,000
12,771	Family tax credit	4,944	14,000	5,000
141,331	Child tax credit	153,998	141,000	154,000
13,909	Parental tax credit	15,895	16,000	16,000
0	In-work payment	70,003	57,000	80,000
76,186	Paid parental leave payments	96,354	97,900	98,800
1,213,177	Total benefits and other unrequited expenses	1,772,470	1,773,900	1,852,800
Borrowing expenses				
5,783	Income equalisation interest	3,551	4,000	2,000
(11)	Adverse event interest	(1)	13	1
0	Environmental restoration account interest	0	0	7
5,772	Total borrowing expenses	3,550	4,013	2,008
Other expenses to be incurred by the Crown				
232,287	Companies refunds	0	0	0
7,179,624	Goods and services tax refunds	0	0	0
876,284	Other persons refunds	0	0	0
739,527	ACC earner premium	0	0	0
630	Unclaimed monies	0	0	0
356,970	General tax doubtful debt provision	(12,229)	80,398	119,646
189,378	Student loan interest write-offs and student loans doubtful debt provision	0	339,152	0
119,907	Child support doubtful debt provision	88,549	(29,423)	91,035
0	Other impairments	12,823	0	18,082
0	Initial fair value write-down and subsequent impairment	12 1,414,686*	0	1,479,435*
9,694,607	Total other expenses	1,503,829	390,127	1,708,198
10,913,554	Total expenditure and appropriations	3,279,849	2,168,040	3,563,006

The accompanying accounting policies form part of these financial schedules.

* Student loan fair value write-down represents both Inland Revenue and Ministry of Social Development appropriations.

STATEMENT OF ACCOUNTING POLICIES

for the year ended 30 June 2006

REPORTING ENTITY

The Crown Financial Schedules have been prepared and administered by Inland Revenue in accordance with the requirements of the Public Finance Act 1989.

The schedules represent extracts of Crown activities. The activities include elements of income, expenditure, assets, liabilities and cash flows. These form part of the consolidated Crown financial statements of the New Zealand Government.

MEASUREMENT SYSTEM

The schedules have been prepared on an accrual and modified historical cost basis of accounting unless otherwise stated. In line with the Statement of Concepts, an asset is recognised in the *Statement of Financial Position* only when it is probable that the future economic benefits will flow to the entity and the asset has a value that can be measured reliably.

ACCOUNTING POLICIES

These Financial Schedules comply with the New Zealand Generally Accepted Accounting Practice (NZ GAAP). The following accounting policies that materially affect the measurement of financial results and financial position have been applied.

Budget figures

The budget figures for revenue, assets, liabilities and cash flows are those prepared by Inland Revenue's independent forecast, as presented in the *Statement of Intent 2006–09* (SOI). The SOI is prepared as part of the preparation for the 2005–06 Main and Supplementary Estimates.

Revenue

The Crown provides many services and benefits that do not give rise to revenue. Payment of tax does not 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**	Provisional tax is recognised in the period which it is earned
Terminal tax**	Assessment filed date
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

* Corresponds to withholding taxes on residents' interest and dividends.

** Provisional and terminal taxes are paid by "other persons" and companies.

Change in revenue recognition point

A change in revenue recognition estimation for provisional tax means that revenue is recognised in the period in which it is earned. In previous years, the estimation was on the payment due date. An adjustment of \$1,755 million has been made in the *Schedule of Revenue* to reflect the methodology impact of the change in estimation process with an equivalent increase to tax receivables in the *Statement of Financial Position*. This change has no impact on the underlying cash flows of the Crown.

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.

Student loans

Student loans are recorded at amortised cost. Student loan disclosures are recorded on page 117.

Liabilities

All liabilities are recorded at the estimated obligation to pay.

Contingent liabilities

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

CHANGES IN ACCOUNTING POLICIES

In November 2005 the Government agreed that interest will not be charged on student loans where certain criteria, largely related to being domiciled in New Zealand, are met. To better reflect the value of student loans under this interest-free policy, the accounting policy for reporting loans has also been updated. The policy is to initially recognise student loans at their fair value and to subsequently report them at amortised cost. It is to apply from 2005–06 and is consistent with the “loans and receivables” designation under *International Accounting Standard 39 (IAS 39)* for financial instruments. The Crown will be adopting the New Zealand equivalent to IAS 39 for all financial instruments from 1 July 2007.

The key changes resulting from the interest-free student loan policy and adoption of a new accounting policy are:

- ▶ There is a one-off write-down of \$1,414.7 million in 2005–06 of the existing loan book to fair value
- ▶ The difference between the fair value of new loans and the amount lent is recognised as an expense in the year the loan is provided
- ▶ The initial fair value write-down will be unwound (ie recognised as income) over the maturity of the loans. The value will be adjusted for any impairment (eg non-repayments caused by death or bankruptcy of the borrowers).

For an analysis of the annual movement in student loans refer to *Schedule of Student Loan Movements in the Financial Schedules for Administered Accounts – Crown* on page 116.

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

ADOPTION OF NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In August 2003 the Government announced that the Crown would apply New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) in the preparation of its financial statements from Budget 2007. To comply with this decision Inland Revenue will apply NZ IFRS in the preparation of financial statements for the year ended 30 June 2008. However, as comparative figures must be presented on the same basis of accounting, the comparative figures for the year ending 30 June 2007, and an opening *Statement of Forecast Financial Position* at 1 July 2006, will need to be restated in accordance with NZ IFRS.

Inland Revenue has formed a project team to manage the transition to NZ IFRS. Independent external advice is sought where necessary. The project is monitored by an internal project steering committee chaired by the Group Manager Finance and Planning, in his capacity as Chief Financial Officer.

To date the project team has completed a high level assessment to identify key differences between current New Zealand Generally Accepted Accounting Practice (NZ GAAP) and NZ IFRS that have an impact on Inland Revenue. The project team is working towards the conversion timetable.

Key impacts will be in the following areas:

Loans and receivables

Under NZ IAS 39 – *Financial Instruments: Recognition and Measurement*, financial assets (including loans and receivables) are required to be recognised initially at fair value and subsequently at amortised cost.

Inland Revenue has significant debtor portfolios which are designated as “Loans and Receivables”. These include tax debt, child support debt and family support debt. On transition to NZ IFRS, these debtor portfolios will be recognised at fair value in the Financial Schedules for Administered Accounts.

The student loan debt has been recognised at fair value in the current financial year.

Revenue recognition for taxes

There are currently no standards in place that deal comprehensively with accounting for revenues from non-exchange transactions by Inland Revenue. The International Public Sector Accounting Standards Board (IPSAS) has issued an *Exposure Draft (ED 29) Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*. Inland Revenue has reviewed ED 29 and made a submission to the IPSAS for consideration and awaits the outcome of the consultation.

This page does not form part of the Statement of Accounting Policies and has not been audited.

NOTES TO THE CROWN FINANCIAL SCHEDULES

for the year ended 30 June 2006

NOTE 1: DIRECT TAXATION

Actual 2005 \$000		Actual 2006 \$000
	Income tax	
	Individuals:	
17,781,481	Source deductions	19,225,149
4,103,286	Other persons	4,324,518
0	Change in provisional tax estimation (other persons)	615,000
(876,284)	Other persons refunds	(952,933)
440,800	Fringe benefit tax	449,829
21,449,283	Sub-total individuals	23,661,563
	Companies:	
7,821,903	Gross company tax – other	8,050,038
311,120	Gross company tax – state-owned enterprises	399,420
2,080	Gross company tax – Crown entities	61,688
211,200	Gross company tax – NZS fund	362,312
0	Change in provisional tax estimation	1,194,000
(232,287)	Company refunds	(269,967)
8,114,016	Sub-total companies	9,797,491
	Withholding tax:	
1,500,792	Residents' interest	1,878,508
58,897	Residents' dividends	73,517
188,438	Foreign source dividends	160,132
926,728	Non-residents' income	1,095,641
542,422	Specified superannuation tax	710,970
3,217,277	Sub-total withholding tax	3,918,768
32,780,576	Total income tax	37,377,822
	Other direct taxation:	
2,325	Estate and gift duties	2,960
2,325	Sub-total other direct taxation	2,960
32,782,901	Total direct taxation	37,380,782

NOTE 2: INDIRECT TAXATION

Actual 2005 \$000		Actual 2006 \$000
	Goods and services tax:	
16,018,263	Gross goods and services tax (Inland Revenue)	16,718,246
(7,179,624)	Goods and services tax (refunds)	(7,663,864)
8,838,639	Sub-total goods and services tax	9,054,382
	Other indirect taxation:	
9,234	Stamp and cheque duties	7,678
55,947	Approved issuer levy	74,824
315,902	Gaming duties	300,598
0	Other indirect taxation	14,278
381,083	Sub-total other indirect taxation	397,378
9,219,722	Total indirect taxation	9,451,760

NOTE 3: BENEFITS AND OTHER UNREQUITED EXPENSES

Actual 2005 \$000		Actual 2006 \$000
	Benefits and other unrequited expenses	
832,859	Family support tax credit	1,280,349
12,771	Family tax credit	4,944
141,331	Child tax credit	153,998
13,909	Parental tax credit	15,895
0	In-work payment	70,003
76,186	Paid parental leave	96,354
1,077,056	Total benefits and other unrequited expenses	1,621,543

NOTE 4: BORROWING EXPENSES

Actual 2005 \$000		Actual 2006 \$000
	Borrowing expenses	
5,783	Income equalisation reserve interest	3,551
(11)	Adverse event income equalisation interest	(1)
5,772	Total borrowing expenses	3,550

NOTE 5: CHANGE IN DEBT PROVISION AND FAIR VALUE WRITE-DOWN

Actual 2005 \$000		Actual 2006 \$000
356,970	General tax provision	(12,229)
189,378	Student loan impairment	0
119,907	Child support provision	88,549
666,255	Change in debt provision	76,320
226,459	Interest write-offs	0
0	Initial fair value write-down and subsequent impairment	1,249,551
0	Other impairment	12,823
226,459	Change in fair value write-down	1,262,374
892,714	Total change in debt provision and fair value write-down	1,338,694

NOTE 6: RECEIVABLES AND ADVANCES – CURRENT

Actual 2005 \$000		Actual 2006 \$000
587,920	Student loans short-term	369,355
5,898,241	Tax receivables (general)*	8,824,722
557,957	Receivables child support	644,905
133,812	GST debtors (intra-Crown)**	102,706
7,177,930	Gross receivables and advances	9,941,688
(911,615)	Provisions for doubtful debts (general)	(899,385)
(79,993)	Student loan provision for doubtful debts	0
(528,385)	Provision for doubtful debts child support	(616,934)
(1,519,993)	Total provisions for doubtful debts	(1,516,319)
5,657,937	Total current receivables and advances	8,425,369

* Tax receivables have increased by \$2,767 million due to a change in estimation methodology for provisional tax where revenue is recognised in the period in which it is earned.

** This balance is eliminated upon consolidation of the Crown accounts.

NOTE 7: RECEIVABLES AND ADVANCES – NON-CURRENT

Actual 2005 \$000		Actual 2006 \$000
6,086,654	Student loans long-term	4,608,711
(828,160)	Student loans provisions for doubtful debts	0
5,258,494	Total non-current receivables and advances	4,608,711

NOTE 8: PAYABLES AND PROVISIONS

Actual 2005 \$000		Actual 2006 \$000
4,550,631	Student loan capital*	0
8,658	Payables child support	18,142
2,656,389	Taxes refundable**	3,479,291
7,215,678	Total payables and provisions	3,497,433

* This balance is eliminated upon consolidation of the Crown accounts.

** Taxes refundable have increased by \$823 million since June 2005 as a result of the impact of structured finance cases.

NOTE 9: PROVISION FOR DOUBTFUL DEBTS

Actual 2005 \$000		Actual 2006 \$000
911,615	General tax provision*	899,385
908,153	Student loan provision**	0
528,385	Child support provision***	616,934
2,348,153	Total provision for doubtful debts	1,516,319

* Refer to note 6 current receivables and advances – provisions for doubtful debts.

** The student loan doubtful provision has been replaced by the fair value methodology to better reflect the value of student loans under the interest-free policy.

*** Unpaid child support contributions attract penalties which accrue to the Crown. A provision for the non-recovery of penalties owing is calculated, based on the age of outstanding penalty debts.

NOTE 10: CONTINGENT LIABILITIES

Actual 2005 \$000		Actual 2006 \$000
344,740	Tax in dispute	784,313
37,162	Unclaimed monies	35,990
381,902	Total quantifiable contingent liabilities	820,303

When a taxpayer disagrees with an assessment issued following the disputes process, the taxpayer may challenge that decision by filing proceedings with the Taxation Review Authority or the High Court. Contingent liabilities have increased by \$438 million since June 2005 as a result of the increase in cases currently under dispute.

NOTE 11: INCOME EQUALISATION AND ADVERSE EVENT SCHEMES

Actual 2005 \$000		Actual 2006 \$000
166,805	Income equalisation reserve account	143,027
84	Adverse event income equalisation reserve account	8
166,889	Total value of the reserve accounts	143,035

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

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

NOTE 12: FAIR VALUE WRITE-DOWN AND SUBSEQUENT IMPAIRMENT

Actual 2005 \$000		Actual 2006 \$000
0	Inland Revenue	1,249,551
0	Ministry of Social Development	165,135
0	Total fair value write-down and subsequent impairment	1,414,686

AUDIT REPORT

AUDIT REPORT

TO THE READERS OF THE INLAND REVENUE DEPARTMENT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The Auditor-General is the auditor of the Inland Revenue Department (the Department). The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Department, on his behalf, for the year ended 30 June 2006.

Unqualified opinion

In our opinion the financial statements of the Department on pages 50 to 128:

- ▶ comply with generally accepted accounting practice in New Zealand; and
- ▶ fairly reflect:
 - the Department's financial position as at 30 June 2006;
 - the results of its operations and cash flows for the year ended on that date;
 - its standards of delivery performance achieved including its Charter reporting, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year and its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - the schedules of non-departmental activities on pages 104 to 128 fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2006.

The audit was completed on 29 September 2006 and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- ▶ determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- ▶ verifying samples of transactions and account balances;
- ▶ performing analyses to identify anomalies in the reported data;
- ▶ reviewing significant estimates and judgements made by the Chief Executive;
- ▶ confirming year-end balances;
- ▶ determining whether accounting policies are appropriate and consistently applied; and
- ▶ determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements or statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Chief Executive and the Auditor

The Chief Executive is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Department as at 30 June 2006 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must fairly reflect, for each class of outputs, the Department's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. In addition, the schedules of non-departmental activities must fairly reflect the assets, liabilities, revenues, expenses, contingencies, commitments and trust monies managed by the Department on behalf of the Crown for the year ended 30 June 2006. The Chief Executive's responsibilities arise from sections 45A, 45B and 45(1)(f) of the Public Finance Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45D(2) of the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit, we have carried out the audit of the Student Loan Scheme Annual Report, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Department.



H C Lim
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

ADDITIONAL INFORMATION

TABLE 1 –
Analysis of overdue debt

Debt type	2002 \$ million	2003 \$ million	2004 \$ million	2005 \$ million	2006 \$ million
Collectable debt					
Debt under instalment	359	450	570	639	766
Debt for collection	861	910	726	914	1,114
Total collectable debt	1,220	1,360	1,296	1,553	1,880
Non-collectable debt					
Default assessments	439	476	506	564	670
Debt deferred or under dispute	202	336	436	570	739
Bankruptcies/liquidations/receiverships	19	37	7	63	92
Pending write-off	15	115	99	132	134
Total non-collectable debt	675	964	1,047	1,329	1,635
Total overdue debt	1,894	2,324	2,343	2,883	3,515

TABLE 2 –
Shortfall penalties imposed

Shortfall category	2001–02		2002–03		2003–04		2004–05		2005–06	
	Number	\$000	Number	\$000	Number	\$000	Number	\$000	Number	\$000
Lack of reasonable care	2,935	8,548	1,422	4,229	1,385	3,721	1,002	2,624	1,011	2,339
Gross carelessness	927	9,328	148	1,192	471	3,089	691	4,645	744	4,474
Unacceptable interpretation	232	1,208	438	4,380	311	1,607	410	3,930	428	3,554
Abusive tax position	155	8,757	45	4,909	73	2,515	86	7,200	64	3,814
Evasion	402	19,297	222	14,136	282	18,061	304	10,480	269	143,144
Total	4,651	47,138	2,275	28,846	2,522	28,993	2,493	28,879	2,516	157,325

TABLE 3 –
Offences against Inland Revenue Acts

	2001–02	2002–03	2003–04	2004–05	2005–06
Income tax					
Wilfully or negligently furnishing false income tax returns	3	6	8	3	8
Failure to furnish income tax returns	459	587	553	512	584
Aiding, abetting or inciting the making of false income tax returns	0	0	2	0	4
GST					
Furnishing false GST returns	6	4	5	7	11
Failure to furnish GST returns	307	383	380	316	331
Aiding, abetting or inciting the making of false GST returns	0	0	0	2	0
GST fraud (prosecution action taken under the Crimes Act)	0	6	3	5	7
Knowingly not providing information with the intent to evade tax	1	0	2	2	1
PAYE					
Failure to deduct or account for PAYE deductions	9	26	42	37	63
Aiding or abetting failure to deduct or account for PAYE deductions	14	1	3	2	7
Penal tax imposed (shortfall penalties not included)					
Cases in which penal tax was imposed	27	42	12	4	4
Value of penal tax imposed	\$762,186	\$889,528	\$3,765,953	\$425,791	\$19,711,750

TABLE 4 –
Legal responsibilities

The Inland Revenue Department administers the following main Acts:

- ▶ Child Support Act 1991
- ▶ Estate and Gift Duties Act 1968
- ▶ Gaming Duties Act 1971
- ▶ Goods and Services Tax Act 1985
- ▶ Income Tax Act 1994
- ▶ Income Tax Act 2004
- ▶ Stamp and Cheque Duties Act 1971
- ▶ Student Loan Scheme Act 1992
- ▶ Tax Administration Act 1994
- ▶ Taxation Review Authorities Act 1994

Aspects of the Parental Leave and Employment Protection (Paid Parental Leave) Act 2002 are administered by Inland Revenue under authority delegated (under section 71ZA of that Act) by the Chief Executive of the Department of Labour.

TABLE 5 –
Property information

	2002	2003	2004	2005	2006
Accommodation area (m ²)	102,940	104,125	104,793	105,222	111,263
Other area (m ²)	8,619	8,507	7,823	7,896	6,864
Total area leases (m ²)	111,559	112,632	112,616	113,118	118,127
Vacant accommodation (m ²)	4,714	4,439	3,805	84	84
Vacant as a % of total	4.6%	4.3%	3.6%	0.0%	0.0%
Average space per person (m ²)	20.6	20.5	19.6	20.7	19.4
Total rental per year per person (\$)	4,262	4,177	4,366	4,279	4,370
Utility costs per person (\$)	830	804	772	836	862
Total occupancy cost per person (\$)	5,206	5,229	5,138	5,116	5,232
Fitout costs per person (\$)	4,066	3,232	2,961	3,030	2,472

TABLE 6 –
Expenditure on consultants and contractors

	2001–02	2002–03	2003–04	2004–05	2005–06
	\$000	\$000	\$000	\$000	\$000
Projects (including information technology)	4,512	6,401	5,969	7,033	15,250
Tax issues	534	774	1,808	1,863	3,437
Research	552	957	720	1,088	1,107
Human resources	136	167	402	605	1,008
Other	1,100	1,595	1,760	1,875	7,033
Total	6,834	9,894	10,659	12,464	27,835
Consultants and contractors as a % of total operating expenses	1.9%	2.6%	2.6%	2.9%	5.8%

DIRECTORY

Website www.ird.govt.nz

Online services, including forms and calculators

INFOexpress automated services

Available 6am to 12 midnight—7 days

Request a taxpack	0800 257 772
Request forms and guides	0800 257 773
Request a summary of earnings	0800 257 778
Request a personal tax summary	0800 257 444
Student loan interest write-off	0800 257 999
All other services	0800 257 777
Estimate family assistance	0800 257 477
Request family assistance	0800 257 477
registration pack	

Freephone numbers

*Numbers are available 8am to 8pm Monday to Friday, and
9am to 1pm Saturday (Child Support numbers are available
8am to 6pm Monday to Friday only)*

Individuals and families

Income tax and general enquiries	0800 227 774
Overdue tax and returns	0800 227 771
Child support enquiries	0800 221 221
Child support overseas enquiries	+64 9 984 2536
Family assistance	0800 227 773

Student loan borrowers

General student loan enquiries	0800 377 778
Student loan account enquiries	0800 337 778
Overdue tax and returns	0800 377 771
Non-resident borrowers	+64 3 951 2020

Businesses

Income tax and general enquiries	0800 377 774
General employer enquiries	0800 377 772
Corporate employer enquiries	0800 443 553
Employer child support enquiries	0800 220 222
GST enquiries	0800 377 776
Overdue tax and returns	0800 377 771
File an employer schedule (ir-File)	0800 473 829

Anonymous information line **0800 377 774**

Postal addresses

Tax returns and correspondence

Post to: PO Box 1454, Hamilton 3240
or PO Box 39090, Wellington 5045
or PO Box 3752, Christchurch 8140

Payments

Post to: PO Box 1535, Hamilton 3240
or PO Box 39050, Wellington 5045
or PO Box 3754, Christchurch 8140

Child Support correspondence

Post to: Child Support, Inland Revenue, Private Bag (then
the name of the city or town of your local office)

Complaints Management Service

Phone: 0800 274 138 (8am to 5pm Monday to Friday)
Fax: 04 890 4561
Post: PO Box 1072, Wellington 6140
Online: use the “make a complaint” form on our
website www.ird.govt.nz

Inland Revenue National Office

Phone: 04 890 1500 (8am to 5pm Monday to Friday)
Post: PO Box 2198, Wellington 6140

DESIRED FUTURE

- ▶ Inland Revenue is responsive in meeting the changing and increasing expectations of government and society
- ▶ We make it easy for customers to get it right and hard to get it wrong
- ▶ Society has confidence that appropriate action will be taken against customers who do not comply
- ▶ Increasingly, paying tax is seen as contributing to society
- ▶ We are professional, approachable, effective and efficient