

PART ONE

Strategic Direction



What we strive to achieve

We have a significant role in the collection and distribution of revenue on behalf of the government as we are responsible for:

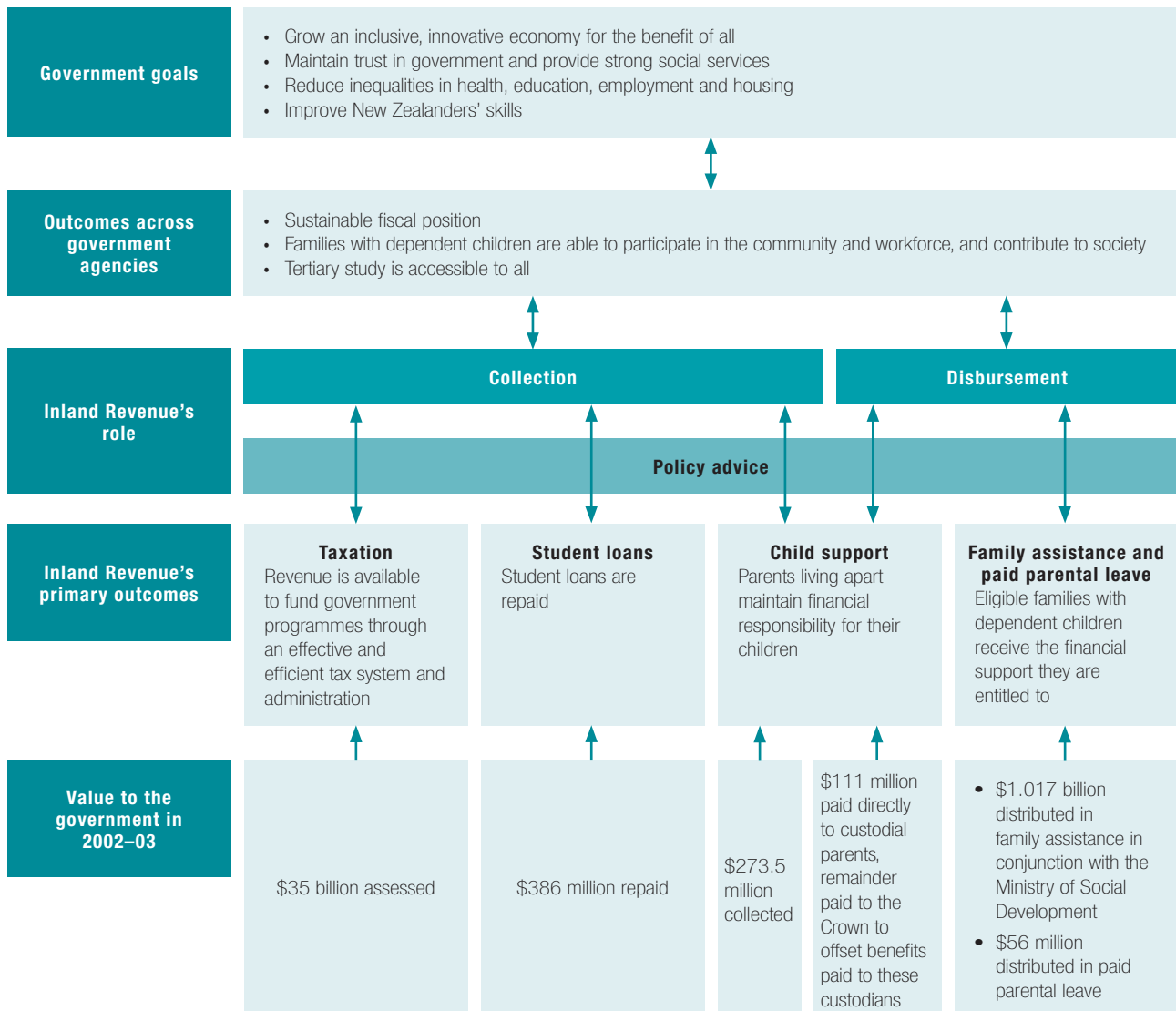
- the collection of the bulk of the government’s taxation revenue, student loan repayments and child support payments
- the disbursement of child support, family assistance and paid parental leave
- provision, with The Treasury, of advice on tax law and reform, and on social policy measures that interact with the tax system.

To assist us in carrying out these activities for government we have:

- considered how our work assists in delivering the Government’s goals
- considered how we contribute to outcomes that cross a number of government agencies
- clearly defined what we are striving to achieve for government—our primary outcomes.

How our outcomes contribute to the Government’s goals is shown in Figure 2.

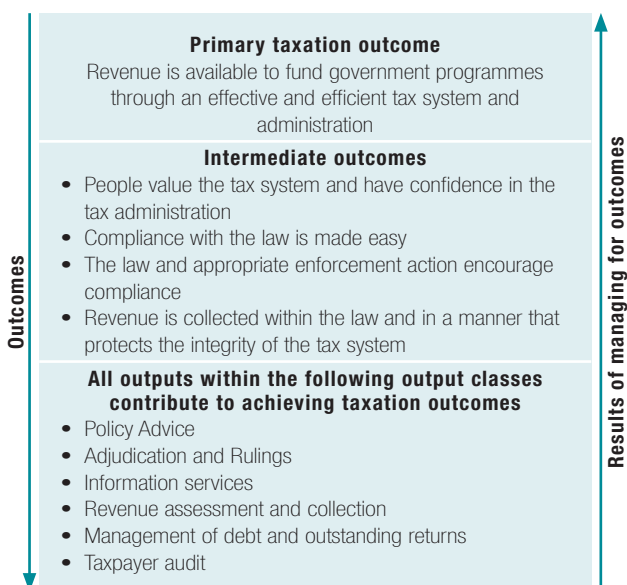
Figure 2 – The links between Government goals and our outcomes



For each outcome we have:

- stated intermediate outcomes
- developed clear rationale about how our broad activities help contribute to those outcomes.

**Figure 3 –
Taxation outcomes**



The primary legislation governing our outcomes is the Tax Administration Act 1994 and its associated Acts covering taxes and duties. Our taxation outcomes reflect our role as a tax administrator as prescribed under our legislation and as a policy advisor to government on the design of the tax system. Revenue is available to fund government programmes when the tax system and administration are operating efficiently and effectively for both government and the community.

Our four intermediate outcomes contribute to our primary outcome through:

- promoting taxpayers complying with their tax obligations of their own accord, but when this does not happen, appropriate action is taken to ensure compliance
- protecting the integrity of the tax system
- ensuring revenue is collected within the law.

An important contributor to compliance is the community perception of how we use our powers. Like other revenue authorities we have considerable powers. With these powers, quite rightly, there is community expectation of consistency in application, equity, professionalism and integrity. These expectations are acknowledged through:

- Our *Charter* which sets out our fundamental commitments concerning privacy and confidentiality, consistency and equity, and the right of all taxpayers to question Inland Revenue.
- Our *Code of Conduct* which sets out the high standards of integrity and behaviour expected of employees of Inland Revenue. It also explains the department's responsibilities as an employer and the responsibilities of being a public servant. The code builds on the requirements set out in the State Services Commission's *Public Service Code of Conduct*.

The Tax Administration Act 1994 not only requires that we collect revenue but that:

Every Minister and every officer of any government agency having responsibilities under this Act ...are at all times to use their best endeavours to protect the integrity of the tax system.

If there is a perception, rightly or wrongly, that the tax system is compromised through avoidance or evasion or inconsistency of treatment, there is a major risk to our ability to collect the right amount of revenue. This is because taxpayers may consider that they may take the risk of not meeting their tax obligations. To mitigate this risk we need to ensure that we:

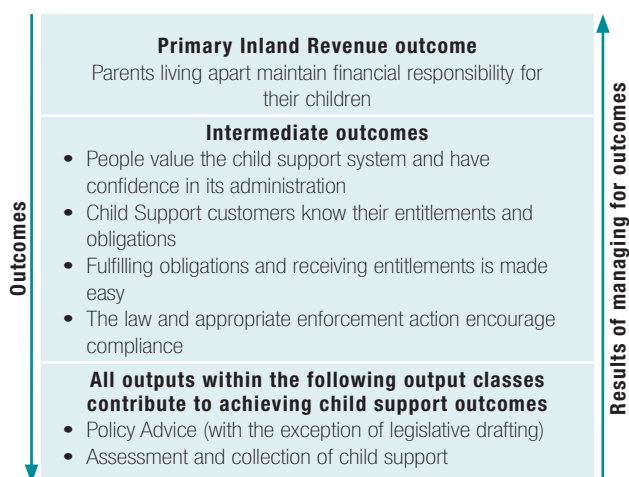
- have strong and effective leadership
- have sound management practices
- have efficient and effective work practices
- spend public (taxpayers') money sensibly and responsibly
- are willing to work openly and be judged on performance.

Our output classes reflect these principles and show the broad activities that contribute to our outcomes:

**Figure 4 –
How our services contribute to our taxation outcomes**

Output class	How it contributes to outcomes
Policy Advice	A successful tax administration requires a well-designed tax system and legislative framework. Our policy advice function contributes to this by providing the government with advice on the tax system that meets the government’s objectives and is easy to comply with (both through its compliance requirements and through clear legislative drafting). We also provide forecasting advice on future tax flows to assist the government in budgeting for what goods and services it wishes to deliver to the community.
Adjudication and Rulings	Adjudication and Rulings assist taxpayer confidence in the tax administration by specialising in applying the correct interpretation of the Inland Revenue Acts and other relevant laws while considering case law. The Adjudication Unit, as part of the Disputes Resolution Process, takes a fresh look at tax disputes in an impartial and independent manner. The Rulings Unit issues private, product, and public binding rulings. It also issues statutory determinations, interpretation statements and guidelines.
Information services	Through our information services functions we advise taxpayers on new and existing taxation law to help them pay their tax obligations in full and when they are due, as well as assisting them with enquiries on the tax system. Additionally, to foster confidence in our role as a tax administrator we need to receive feedback about when people feel we have not met expectations. This feedback from taxpayers is received through our Complaints Management Service.
Revenue assessment and collection	Once taxpayers have registered for an IRD number they want quick, efficient and effective methods of assessing and paying their tax and receiving rebates and tax refunds. Government also requires the processing of revenue to be timely, efficient and effective to maximise the availability of revenue to fund its programmes. The processing of returns and payments is undertaken by our revenue assessment and collection output class.
Management of debt and outstanding returns	To ensure that government receives the correct revenue and taxpayers pay the full amount of tax that has been assessed, where a tax return is expected but not filed, or where the amount of tax assessed is not paid in full and on time, the department takes follow-up action. This action occurs through our management of debt and outstanding returns output class.
Taxpayer audit	Fundamental to compliance is verifying whether taxpayers are complying with their obligations, and taking appropriate enforcement action if they are not. This is achieved through our auditing of taxpayers. However, disputes will arise about tax liabilities that need to be resolved to ensure that the correct amount of tax is paid. These issues are managed through our litigation management activities.

**Figure 5 –
Child support outcomes**



We have primary responsibility for child support administration and policy advice. The Child Support Act 1991 provides a process where child support and spousal maintenance payments can be collected and distributed by the Crown.

Our child support outcome reflects our direct relationship with parents who live apart and have dependent children. It recognises the concepts in the child support legislation that parents maintain a financial responsibility for their children whether or not they live with them. Our outcome is wider than Inland Revenue simply collecting and redistributing child support payments. It also recognises that we encourage parents, where they are able, to negotiate their own agreements, so removing the need for our involvement.

Our intermediate outcomes contribute to the primary outcome by:

- encouraging compliant behaviour by ensuring we have good laws, systems, processes, information and people to assist Child Support clients to receive and pay child support
- ensuring the law encourages compliance and taking appropriate enforcement action to encourage compliance.

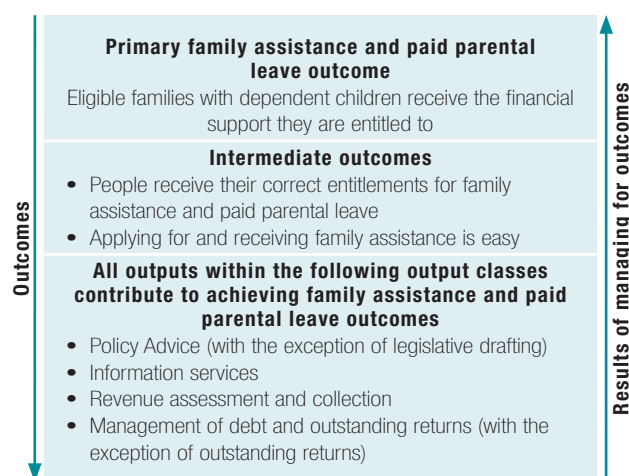
Public confidence in Inland Revenue and people valuing the child support system plays a significant role in the achievement of compliant behaviour. Although quite different concepts, they are closely linked to achieving

improved levels of compliance. Therefore, compliance will improve when:

- people believe that child support is an appropriate system, that is, parents should maintain financial responsibility for their children, if not voluntarily, then by enforcement of the law
- the system is well administered, that is, Child Support clients have confidence that we operate in a way that is professional, approachable, effective and efficient.

All of our child support administrative activities are carried out within one output class – Assessment and collection of child support.

**Figure 6 –
Family assistance outcomes**



The government has a range of programmes under the family assistance umbrella that provide financial support for families with dependent children. These programmes are administered jointly by the Ministry of Social Development and Inland Revenue. This is an increasing focus of work due to our involvement in the development and implementation of the family assistance component of the Government's *Working for Families* package of reforms, that will be implemented progressively over the next three years.

In addition, Inland Revenue pays paid parental leave on behalf of the Department of Labour.

Our outcomes reflect that all families who are eligible for assistance should receive the correct amount that they are entitled to, and that we aim for our systems,

processes and people to make this easy. For example, to achieve one of our intermediate outcomes—applying for and receiving family assistance is easy—we need to ensure not only that we are easy to reach, but also that our systems are straightforward and work well, and that our people are skilled, professional and courteous.

Our family assistance and paid parental leave activities are integrated within the same outputs as our taxation activities. The focus of our activity is on:

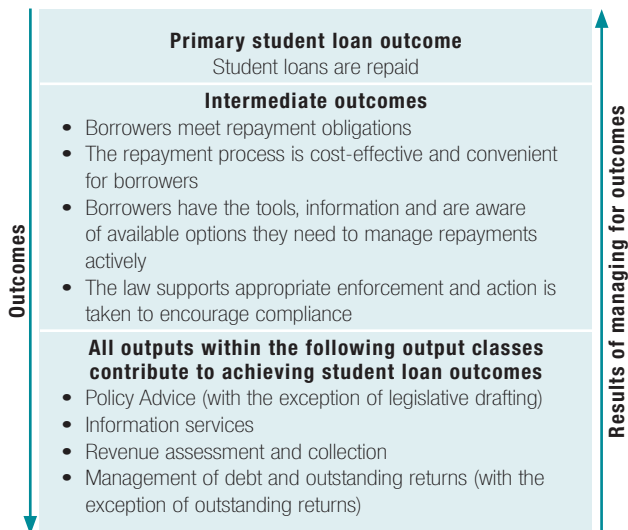
- providing policy advice
- providing information on obligations and entitlements
- disbursing payments
- preventing debt but actively managing it when it does occur.

Our primary student loan outcome reflects our focus on the loan being repaid. This may be done by borrowers simply meeting their repayment obligations or may include borrowers making voluntary repayments. Key to achieving our outcomes is ensuring borrowers understand their repayment obligations, and that our requirements do not create barriers to repaying the loan.

Our student loan activities are integrated within the same outputs as our taxation activities. The focus of our activity is on:

- providing policy advice
- providing information
- processing payments
- actively managing debt when it occurs.

**Figure 7 –
Student loan outcomes**



The student loan scheme is designed to enhance access to tertiary study. Inland Revenue supports this wider government outcome through the collection of student loan repayments and the management of overdue loan repayments.

Choosing the right activities to achieve our outcomes

Our outcomes set out what we need to achieve for government. Our desired future sets out the environment we must operate in to best achieve those outcomes.

**Figure 8 –
Desired future**

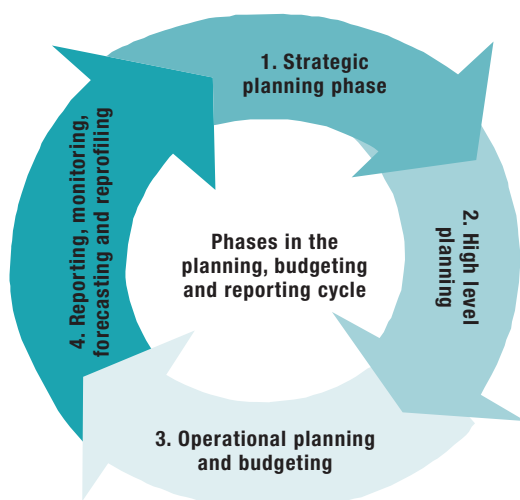
- Taxpayers and other customers meet obligations of their own accord—and Inland Revenue makes this easy
- Increasingly, the community regards paying tax as contributing to society
- Inland Revenue is visible in the community, getting alongside taxpayers
- The community regards Inland Revenue as professional,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

To help us deliver our desired future we need to assess emerging opportunities and risks and from that identify our priorities. To assist in this process we have developed a set of integrated planning and thinking tools.

Our planning process

Our analysis and planning process assists us to achieve our outcomes and our desired future in the most effective and efficient way.

**Figure 9 –
Our planning process**



Over the past 12 months we have strengthened our high level strategic planning process. This is allowing us to:

- improve monitoring of our progress on the steps we are taking to achieve our desired future
- improve our prioritisation and our understanding of what is important
- tighten the planning linkages between high level strategy and detailed delivery planning.

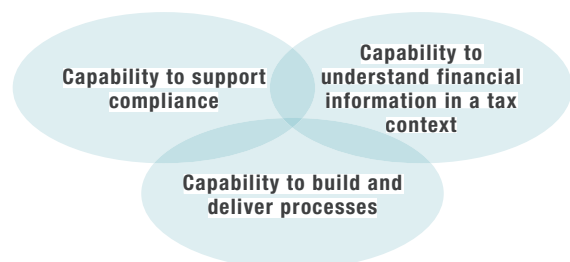
Our core capabilities

Our core capabilities are our current and future organisational strengths. They inform our thinking about the functions in which we have some inherent expertise. Identifying Inland Revenue's core capabilities helps us to both maximise and preserve our strengths and therefore enhances our understanding of how we can achieve our desired future. In deciding what were Inland Revenue's core capabilities we looked for the characteristics that:

- are sustainable—the capability persists over time
- provide points of leverage for the organisation (that we can still look to improve upon)
- align with external recognition of what we are good at
- are difficult for others to replicate.

Three distinct capabilities that are integral to Inland Revenue have been identified.

**Figure 10 –
Core capabilities**



Capability to understand financial information in a tax context

This is based on our role as a revenue collection agency, which requires us to understand financial information in a tax context, to enable us to assist and improve compliance levels.

Capability to build and deliver processes

We have, over a number of years, maintained and enhanced our ability to be innovative in the way we design and deliver high volume processes. We have strong process and project management ability with proven cost-effectiveness internationally in a range of business processes.

Capability to support compliance

This capability is based on our role, reputation and culture. The majority of taxpayers and other customers meet their obligations of their own accord. We facilitate and encourage this through:

- the systems, processes and deterrents we have in place
- the rules we as individuals operate under to ensure that the community regards us as professional, approachable, effective and efficient—these include our *Charter* and our *Code of Conduct*
- our organisational knowledge, practices and expertise that supports and, when needed, takes action to ensure compliance.

Our compliance model

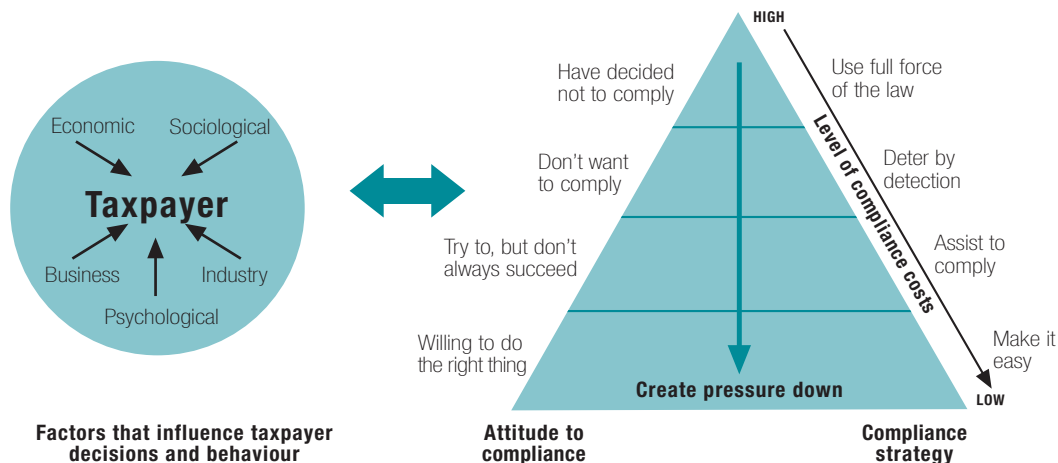
Helping us to understand how we maintain and encourage an environment where taxpayers and other customers meet obligations of their own accord is our compliance model (Figure 11).

The model promotes a more tailored, responsive approach to taxpayers and recognises the external factors that influence taxpayer compliance attitudes and behaviours. The model is a reflection of compliance generally and therefore can apply equally to the payment of child support and student loan repayments.

One of the key concepts behind the compliance model is ensuring that the tax system and administration is designed to facilitate compliance among the majority of taxpayers who do voluntarily comply or who aim to comply with the law, at the same time ensuring that appropriate sanctions apply for deliberate non-compliance.

However, these sanctions exist not just to manage non-compliance and to encourage future compliance by these taxpayers. They also encourage compliance from the taxpaying population generally, because knowing there are sanctions that are actively enforced encourages confidence in the tax system and is one of the reasons that people will choose to comply with the law.

Figure 11 – Our compliance model



Our environment

An important part of strengthening our planning process has been to reassess our operating environment and how it is forecast to change. When thinking about the impacts on our business, significant emphasis is placed on us needing to understand our environment. We need to be able to identify emerging opportunities and risks and be reflective and flexible in our approaches so we can continue to meet or exceed expectations.

New Zealand's business structures

Inland Revenue plays a role in the operation of the economy by delivering tax-based policy advice (jointly with The Treasury), administering the government's tax system, collecting revenue, student loan repayments and child support, and distributing income through family assistance, paid parental leave and child support.

There is a direct relationship between the application of the tax system and the relative performance of the economy. Any change in the performance of the economy impacts on our ability to collect the government's revenue. Generally speaking, in good economic times there is an increase in the revenue generated and collected, while in tighter times it is more difficult to generate and collect revenue.

New Zealand's business structure features a small number of large corporate businesses that generate a large percentage of the revenue. However, the majority of New Zealand's businesses are small and medium-sized enterprises; 96.8% of businesses in New Zealand employ 19 or fewer employees. These enterprises employ 42.7% of all full-time equivalents and account for 35.6% of the economy's output².

We know that businesses have different needs depending on their relative size and the various stages of their lifecycles. For us to achieve our outcomes, we need to respond to those needs. This means that we need to be thinking more about relationship management, reducing compliance costs, simplification and proactive intervention where there are signs of difficulty.

² *SMEs in New Zealand: Structure and Dynamics*, Industry and Regional Development Branch, Ministry of Economic Development, September 2003.

Infrastructure

The public sector continues to evolve and adopt new ways of public management. This means that there will be new influences that we will need to factor into the management of our organisation. These influences include:

- The ongoing evolution of the managing for outcomes framework. This was instituted in 2001–02 and provides the opportunity to think clearly about the goods and services we produce and how they contribute to achieving real outcomes for the community.
- An increased focus on cross-agency collaboration. This requires improving approaches to coordinating and aligning actions across particular sectors, for example, the administration of the services provided by the Ministry of Social Development and Inland Revenue to shared customers in areas such as family assistance and student loans.
- E-government—providing access to government services through electronic channels. Although online services represent a growing trend, we also need to provide alternative methods for those not connected to the electronic world.

The evolution of the public sector and the emergent expectations of the community are important for the way that we design our interactions with people and other agencies. We need to be able to interpret these influences and factor them into the development of our capability to deliver our services in the future.

New Zealand in the international context

There are many international trends that influence the way that New Zealand businesses view and manage their activities. The extent to which New Zealand's businesses embrace these trends also gives rise to a number of taxation issues.

A good example of this is the continued growth in the use of various electronic channels to engage with the

global community. Electronic channels provide many opportunities to convey information and reduce the costs of doing business. However, we also need to anticipate and respond to the tax risks associated with conducting business using these channels. Increasing access to the international market through the internet means that many New Zealand businesses now need to have an understanding of international taxation rules as they apply to sales and purchases.

To maintain our position in and effectively engage with the global economy, New Zealand needs to continue to strengthen its international linkages. We are doing this by:

- active participation in relevant international organisations, including the OECD, the Commonwealth Association of Tax Administrations and the Study Group on Asian Tax Administrations and Research
- keeping up-to-date with overseas tax developments, particularly Australia, given changes in their tax policy can directly affect New Zealand businesses
- expanding and maintaining our double tax agreement network, which reduce tax barriers to trade and international investment and enable us to work with other tax administrations.

New Zealand's changing population and increasing diversity

There is increasing diversity in New Zealand's population, including changes in the cultural profile, age structure, and geographic distribution of the population. Each of these factors will have a significant effect on how we think about the design and delivery of our services.

Although this is a national theme, it is more starkly evident in some regions. For example, current statistics for the Auckland region show that it contains:

- 30% of the New Zealand population, with forecasts showing 36% by 2021
- 33% of the labour force and 35% of all business enterprises, both of which are forecast to increase.

Changes in the demographic profile will impact significantly on how we relate to the community and develop our capabilities. Sometimes it will be appropriate to provide universal services; sometimes we need to address the specific needs of communities with targeted services. For example, our advisory services are tailored to different groups within the community, business and tax profession.

The changing composition of New Zealand's families will also raise issues for our social support programme functions. For example:

- In 2001, 31% of families with children were one-parent families, up from 26% in 1991
- 16% of children lived in households with an annual income of \$20,000 or less and 26% lived in households with an annual income of over \$70,000³.

The increase in one-parent families will impact on the demand for both our child support service provision and family assistance services.

Public perception of tax administration

People are more likely to voluntarily comply with their obligations if they have a good understanding of what they are and what they need to do to meet them. However, any change in public perception of our administration can also have an impact on the level of compliance and affect our ability to achieve our outcomes.

To maintain public confidence, we need to demonstrate that we are administering the law in an open and transparent manner. There are a number of checks and balances that ensure we are appropriately applying the law, including our *Code of Conduct* and *Charter*, our Complaints Management Service and parliamentary and public scrutiny.

Other issues associated with this factor include: the public's attitude towards how government agencies in general administer their particular functions; enhancing our understanding of the behavioural factors that

³2001 Census Snapshot 13: Children. Statistics New Zealand, August 2002.

influence taxpayer compliance and the barriers to people meeting their obligations of their own accord, and changes in the public's attitude to accumulating personal debt.

The latter issue is particularly pertinent for us in terms of people meeting their obligations in full and on time. Reserve Bank of New Zealand research on this issue

identified increasing household indebtedness over the last ten to fifteen years arising from increased access to credit. They also concluded that increased household indebtedness made households more susceptible to liquidity problems should they face an adverse income shock⁴.

Policy and legislation

The operation of the tax system is governed by legislation enacted by Parliament. Inland Revenue's Policy Advice Division plays a key role in helping to shape policy and legislation—not outcomes in themselves but means of achieving outcomes—through the advice that it and The Treasury give to the government and parliamentary select committees. This advice has a significant role in shaping the framework of how we operate the tax administration in the future.

To fulfil this role, Policy Advice needs to be a capable and well-respected division that provides the highest quality advice to government, at least matching that available elsewhere.

In managing the government's tax policy development process, our Policy Advice Division consults extensively with the private sector, professional associations, other government departments and other parts of Inland Revenue.

The work of our Policy Advice Division is determined largely by the priorities of the government, with the main emphases of the current work programme being growth and innovation, social cohesion and revenue base maintenance. But tax policy issues arise across a broad spectrum of activities as diverse as producer board reforms, student support, taxation of films, foreign affairs, local government, science and research, telecommunications, and economic policy.

⁴ Financial deregulation and household indebtedness DP2003/01. Reserve Bank of New Zealand, January 2003.

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

Figure 12 –
Inland Revenue's *Charter*



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

HOW WE WILL WORK WITH YOU

We will be prompt, courteous and professional.

We will follow through on what we say we will do.

We acknowledge your individual, cultural and special needs and will look for solutions to them.

The person you are dealing with will give you their name.

We will continually improve our service by collecting information about how we are doing and using it to raise our performance.

Reliable advice and information

We will provide you with reliable and correct advice and information about your entitlements and obligations.

We will assist you to get in touch with the right people for your needs.

We will be well-trained and competent.

We will keep looking for new and better ways to give you advice and information.

Confidentiality and privacy

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

Consistency and equity

We will apply the law consistently so everyone gets their entitlements and pays the right amount.

We will take your particular circumstances into account as far as the law allows us to.

Your right to question us

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

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

 Inland Revenue
Te Tari Taake


David Butler
Commissioner of Inland Revenue

For more information about this *Charter*
Phone: Business Taxpayers 0800-377 774 Personal Taxpayers 0800-227 774
Child Support Customers 0800-221 221
Write to: The Commissioner of Inland Revenue PO Box 2198 Wellington

Strengthening our customer focus

Our business plan *The Way Forward*, sets out our strategic direction.

**Figure 13 –
Our strategic direction**

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

We have greatly improved the way we operate since developing our strategic direction in 2001. These improvements have, and are being, achieved through a range of strategies and initiatives. The challenge for the next few years is to accelerate the rate of these improvements to ensure we increase compliance.

We need to better align our initiatives, focus on target setting and ensure appropriate resource allocation. One of the ways we are ensuring compliance is by developing a set of operational strategies and supporting initiatives to move us further forward. These operational strategies are based on communities of taxpayers and social support programme customers and how they think about their interactions with us. Initially, the strategies are based around six customer groups (see Figure 14 on page 22).

The strategies will provide a more focused way for us to think about our customers and how their needs influence

our priorities within our functional areas, and across the organisation as a whole. In this way they help us strengthen the links from our desired future and outcomes to our day-to-day activities.

These strategies are at an early developmental stage and are scheduled to be finalised during 2004.

For each customer group, we are looking at:

- where we are now, and where taxpayers and customers want us to be, including what outcomes do we want to achieve for these groups. To do this we need to listen to each group about their view about how we should interact with them
- what strategies are required to get there
- what actions and initiatives are needed
- how we measure our success.

**Figure 14 –
Customer groups as a basis for operational strategies**

Customer group	Who are they?	Why are they important to Inland Revenue? What makes them unique?
Large enterprises	Primarily businesses with turnover greater than \$100 million, but also includes central and local government agencies	Large enterprises represent only 0.19% of taxpayers, but generate over 45% of all revenue assessed. In the 2002 tax year they generated \$13.6 billion of revenue out of a total of \$30 billion in the seven largest revenue streams. They are unique both in their turnover and the level of sophistication they bring to managing their tax obligations.
Small – medium enterprises	Taxpayers who receive income from business enterprises, with a turnover up to \$100 million	Eighty-six percent of businesses employ five or fewer staff. These businesses and self-employed individuals contribute around 40% of business income tax revenue. Complying with the tax system contributes to business compliance costs and they would like to minimise these costs.
Individuals	<ul style="list-style-type: none"> • Salary and wage earners • Student loan borrowers 	<p>Salary and wage earners represent 64% of taxpayers. Most, and in many cases all, of their tax is paid by their employer (through PAYE) or by their bank (tax on interest and investments). Therefore, there is minimal interaction with Inland Revenue other than to receive rebates, except when they have income from other sources.</p> <p>Student loan borrowers are a growing customer area, with \$387 million of loans being repaid in 2002–03. There is a high level of compliance with repayment obligations and most payments are made through salary deductions, although borrowers overseas are more difficult to assist.</p>
Families	<ul style="list-style-type: none"> • Child support • Family assistance and paid parental leave 	Families need to be able to participate in the community and workforce and are an important contributor to the wellbeing of society. Families have quite different needs as sometimes they are only customers for a short period of time (paid parental leave); their entitlement levels may change frequently (family assistance), or compliance requirements may come at a time when people are under a considerable amount of pressure as a result of the breakdown of a relationship (child support).
Not for profit organisations	Charities and non-governmental organisations	<p>These organisations are unique in a number of ways. For example:</p> <ul style="list-style-type: none"> • They are generally set up to generate community spirit and wellbeing, whereas businesses generate wealth for their owners and are taxed on this basis. • They can lack the business expertise of other “business” taxpayers and therefore are less certain about their tax obligations.
Intermediaries <ul style="list-style-type: none"> • tax intermediaries • systems intermediaries 	Groups that pay (for example, payroll companies) or assess tax on another taxpayer’s behalf (for example, accountants).	<p>Intermediaries are professionals who help taxpayers manage their tax obligations, so making the process easier for their clients, and reducing their need to contact Inland Revenue. Taxpayers choose their intermediary based on their requirements. They opt for either someone to manage:</p> <ul style="list-style-type: none"> • the relationship and deal with Inland Revenue on their behalf, or • data and information on their behalf to facilitate and simplify their dealings with Inland Revenue.

Our initial view is that much of what we already do for customers aligns with the preliminary views that we have developed. The strategies will, however, provide us with a higher level of assurance that all activities we undertake directly contribute to customer and government outcomes. They will also ensure that we engage the community earlier in our design process.

There are a number of current initiatives that will help deliver improved services to customers.

Large enterprises

Large enterprises are an important sector, generating nearly half the revenue assessed by Inland Revenue.

The enterprises often have their headquarters offshore, and manage their tax obligations from an international perspective. Their affairs are complex, very sophisticated, and tend to cross a number of different tax jurisdictions.

Approximately 100 of New Zealand's high wealth individuals and their associated entities are also included in this sector. These are people having assets over \$50 million, or having certain high risk attributes such as involvement in aggressive tax arrangements.

We are continuing to strengthen our people and organisational capability to deal with this sector. Since 1994 we have had a unit dedicated to large corporates, with high wealth individuals being added to it in 2003. The unit has two major roles: providing advice on tax matters, and verifying that obligations have been met.

In the 2003 Budget we received additional funding to address emerging tax risks associated with aggressive and international tax arrangements of large enterprises and high wealth individuals. We are now seeking to adopt international best practice in the management of this key sector. By ensuring we have people with highly specialised technical and legal skills, appropriate tools and techniques, and by using international expertise, we will ensure this sector is fully complying with its tax obligations. We are also making certain that our internal processes ensure that across the department coordinated and consistent responses occur to matters that arise.

We have also identified the need to focus on more timely review of the tax returns and payments made by large enterprises. A significant contributor to this process will be the identification of risk from the review of the returns, and the more focused use of the intelligence information available to us.

We will continue to expand and improve on the response time of the binding rulings service allocated to the unit in 2003. This service will provide greater certainty to those who choose to use it.

On international matters our compliance strategies will focus on:

- transfer pricing – this will result in improvements in our audit techniques and form a basis for ongoing training for our people.
- exchanging information – we will continue to work with our treaty partners on the free flow of information to assist in our verification of data.
- use of tax haven jurisdictions – we are monitoring work that is being undertaken in other jurisdictions to assist us in enhancing our capability in this area.

Small and medium-sized enterprises

Small and medium-sized enterprises are significant in terms of their number and their contribution to growth and innovation in the New Zealand economy. We recognise that tax can take up considerable time and effort, and that if we can make it easier for businesses to meet their obligations, compliance costs will go down. Our initiatives to date have focused on both tax policy and the way in which we administer the tax system.

In September 2003 the Government gave business people an opportunity to respond to four specific proposals designed to streamline tax payment processes:

- subsidies for people who employ payroll agents to handle PAYE
- alignment of provisional tax and GST so that they were paid together

- allowing GST turnover to be a basis for calculating provisional tax payments (linked to the proposal above)
- a discount for payment of tax in the first year of business.

People responded positively to the proposals and our next step is to work with businesses and their representatives to resolve the issues that were raised. The Government has already decided to implement the option for discounted voluntary provisional tax payments and expects to pass it into law in 2004.

Initiatives to improve administrative processes will also hold significant benefits for small and medium-sized businesses:

- further expansion of electronic services—all taxpayers will progressively be able to register to securely view their account information online. To encourage small businesses to use this service, support will be given by our advisory staff who will be approaching community groups and tax agents
- making it easier for businesses when they start and end their business.

Improving compliance through industry partnership

Industry Partnership is a long-term initiative to improve compliance in small and medium-sized industries that operate within the cash economy. Working with industry groups to develop and strengthen relationships, Inland Revenue is identifying common problems and reasons for non-compliance within an industry.

Strongly aligned to the compliance model, Industry Partnership uses relationships at both the national and local level with industry associations, and with individual small businesses, to encourage compliance among those who are willing to comply.

Although this is effective for some customers, it is unlikely to be effective for those who choose not to comply. To address this group our emphasis is on using our resources to influence them by, for example, taking prosecutions in key areas and by targeted enforcement

action through our investigation teams. Over time this combined approach is expected to deliver improved compliance.

Industry Partnership has established relationships with 10 industries working within a variety of sectors. A further five relationships are planned at this stage and these are under development. These relationships are supported by targeted communication and education programmes, including proactive initiatives in the community.

Industry Partnership is also developing and implementing an enforcement model that addresses high risk cash economy activities. The activities already in place, and those under development, target taxpayers who are deliberately not complying, while maintaining a strong presence in the community to deter further non-compliance.

Individuals and student loan borrowers

Our current focus includes delivery of:

- services to the community generally
- initiatives that cover a number of government agencies
- services to student loan borrowers.

Working in the community

Our *Charter* forms an essential part of defining our desired relationship with the community generally. It outlines the standards of service that taxpayers and social support programme clients can expect when interacting with Inland Revenue and provides an impartial complaints management service.

New Zealand's population is changing and becoming more diverse. Although we can deliver many of our services on a generic basis, we also recognise that communities may have specific needs that we have to address so that we improve compliance levels across all communities.

How we want to achieve this improvement is set out in our desired future where we want to be visible in the community delivering appropriate services. Two specific examples of how we want to work with different groups

within the community can be seen through our response to the effects of the flooding across central New Zealand in February 2004 and our face-to-face interaction with various communities.

The widespread effect of the flooding meant that many people were unable to meet their tax obligations. To mitigate the effects of this situation, we needed to be flexible in our administration of the tax laws, proactive in advising on legislative changes required to support this flexibility, and coordinated with other agencies working in this area.

Face-to-face interaction with various communities is an important way to interact with those people whose needs are not adequately met by our generic services. We currently have liaison officers working with businesses, tax professionals, Māori, Pacific peoples and Asian communities. Others provide proactive advice on our child support and other social support programme activities. These officers provide a direct and visible way of helping taxpayers and social support programme clients meet obligations and receive their entitlements. For example:

- Child Support builds partnerships with the community through the Community Liaison Officer role. These officers provide education about child support and how it works to groups within the community, such as Citizens Advice Bureaux, budget advisory services, and other agencies that have relationships with Child Support's customers. The provision of such information assists customers to meet their child support obligations and helps raise public awareness of parental responsibilities with regard to child support.

The roles of advisory officers continue to evolve to meet changing needs and expectations. For example:

- Assisting businesses and tax agents to comply—we offer a range of advisory services for businesses and tax agents. Our Business Tax Information Officers provide taxation advice to businesses, promote our products and services, deliver seminars and help businesses to seek specialist advice.

Our Agent Account Managers work closely with tax agents to improve voluntary compliance. Agent Account Managers provide education and support for relevant products and services, inform about obligations under new legislation, and help to resolve taxation issues. In the last two years we have also enhanced our Agent Account Manager function so they can better assist tax agents to improve the timely payment of the correct amount of taxation.

We receive both positive anecdotal and survey feedback about these services. For example, since December 2002, the customer satisfaction rating with our Agent Account Manager service has ranged between 91% and 97%.

Both Business Tax Information Officers and Agent Account Managers are working closely with customers to increase the uptake of our electronic services.

- Our Māori Community Officer service was established in 1989. They operate in the community and assist Māori to meet their tax obligations and receive their social support programme entitlements. However, our primary delivery of services to Māori, like all groups of taxpayers, is through answering telephone enquiries and correspondence.

As more Māori are being educated in Māori-medium schools there is likely to be an increase in fluency in te Reo Māori⁵ and therefore more people able, and wanting to interact in te Reo Māori in their dealings with government departments. We need to develop our capability to interact in te Reo Māori and also to design and deliver services that are appropriate to meet Māori needs. We are implementing our Māori language strategy through a targeted approach by developing our people, based on their need to interact with Māori in te Reo Māori. We are also ensuring that our Māori Community Officers are able to support the Māori community with the application of the new Māori authorities legislation, enacted in 2003.

⁵ The current statistics for te Reo Māori usage is that 25% (130,000 people) of the Māori population speak Māori – Te Puni Kōkiri, 2003. Te Rautaki Reo Māori The Māori Language Strategy, p 15.

As part of our human resources strategy we are assessing our current capabilities and ensuring that they are linked into our ongoing planning cycles to determine future capability. This work will assist with our focus on the community in general and our service delivery adaptability.

Supporting cross-government strategies

As we have relationships both directly and indirectly with most New Zealanders, we are an important contributor to a number of cross-government strategies that aim to improve the outcomes for specific groups within the community. For example:

- New Zealand Disability Strategy: our initiatives include removing physical barriers to people with disabilities, and enhancing access to our information through the internet. We are also assessing the implications of the New Zealand Sign Language Bill for our services.
- Positive Ageing Strategy: our initiatives include reviewing policies around superannuation contributions and services to ensure that they are appropriate for older taxpayers.
- Relationships with community, voluntary and tangata whenua organisations: Government wants to strengthen the links between itself and the different communities within New Zealand. We are currently assessing our relationships in terms of the *Statement of Government Intentions* for an improved community-government relationship.

Our progress in implementing these various initiatives are reported to the Ministry of Social Development for inclusion in their annual strategy reports to Parliament.

We are also working alongside other agencies in delivering services to the community. For example, through our participation in the *Heartlands* programme, a cross-government initiative for delivering services in rural communities.

Student loans

We provide student loan services to approximately 390,000 student loan borrowers, who collectively owe \$5.27 billion, as at 30 June 2003. We have introduced

a number of initiatives over the past year to assist these borrowers to understand their repayment obligations. We introduced the *owezero* website, providing borrowers with online calculators and a range of other information, and upgraded the information available on our website. We continue to provide, in conjunction with StudyLink, student loan information seminars, and our Social Policy Liaison Officers attend relevant events to provide information for borrowers.

During the year, we processed approximately 1.7 million student loan repayments. The number of student loans paid in full during the 2002–03 year was 21,770, in line with our expectations of the student loan scheme, and the percentage of overdue student loan debt remains small at 1.92% of the total balance.

However, to ensure borrowers find it easy to meet their repayment obligations, we are introducing credit card payments in 2004. This initiative is targeted at non-resident borrowers, who find other means of payment difficult and time-consuming, and constitute a disproportionate number of borrowers with an overdue obligation.

Child support

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

- customer independence
- highly capable Child Support team
- adding value to the community.

Customer independence supports our child support outcome of *Parents living apart maintain financial responsibility for their children*. This outcome is wider than Inland Revenue simply collecting and redistributing child support payments. It also recognises that we enable parents, where they are able, to negotiate their own agreements, so removing the need for our involvement. We will further develop customer independence by enhancing our relationships with the community, developing appropriate services and easy to use delivery channels that meet customers' needs, and removing the barriers to self-management.

To deliver the right outcomes for customers and government we need to have the right people who contribute to a highly capable Child Support team. Our people need to be customer-focused, knowledgeable and professional. They need to acquire, apply and reinforce their learning, demonstrating understanding of impacts and consequences. We will ensure this by focusing on our customer relationships, continuing to develop our capability for now and the future, and recognising and rewarding our people and our achievements.

We add value to the community through our contribution to supporting families. We do this through:

- encouraging payment of child support in full and on time and actively managing debt when it does occur so custodial parents receive their entitlements
- effectively and efficiently applying our resources to get the best possible overall results
- influencing public perception about child support so the community regards paying child support as contributing to families
- contributing to wider government outcomes for families.

Addressing child support non-compliance and debt

We are investing in our Child Support function to further address child support non-compliance and debt. This investment will allow us to address a number of compliance issues including: responding to case numbers that are growing at 3% per year; reducing the child support assessment debt growth rate to 12% for 2004–05, and raising the percentages of payments made in full and on time to at least 70% by 2006–07.

We expect to achieve these improvements in compliant behaviour through the earlier collection of debts and improved education about the scheme to new liable parents.

We are also striving to decrease the amount of child support owed by parents now living in Australia. We have agreed with the Australian Child Support Agency that we will immediately exchange approximately 1,500 reciprocal

agreement cases where we have confirmed that the paying parent lives in Australia. We have also agreed that our joint long-term aim is to ensure that regardless of whether parents live in New Zealand or Australia, moving between countries will not become a reason to default on their child support obligations. Both agencies will ensure that similar ongoing enforcement action is taken on non-compliers.

In addition, legislative changes proposed as part of the Child Support Amendment Bill will focus on improving compliance and seek to address child support avoidance.

Family assistance

Family assistance is the main means by which the government assists with the costs of raising children and increases the disposable incomes of low- and middle-income families. We are working in partnership with the Ministry of Social Development on the development and implementation of the family assistance component of the Government's *Working for Families* package of reforms, that will be implemented progressively over the next three years.

The goal of *Working for Families* is to provide adequate social assistance to those who are not able to work, and to actively support working-age people to take up and stay in employment, by ensuring that they are better off being in work.

We are primarily responsible for delivering family assistance to working families, whereas the Ministry of Social Development is responsible for the delivery of family assistance to those needing a benefit and for a range of other supplementary assistance to all eligible families.

To enhance the implementation of the *Working for Families* budget initiatives, we are establishing the new position of National Manager, Social Assistance Programme. This position will provide focused management attention to the progressive enhancement of our existing systems and delivery platforms to ensure that we provide a seamless service between ourselves and the Ministry of Social Development for customers moving between work and the benefit system. We will also look

to support our customers to increase their uptake of the supplementary social benefits available to working families delivered by the Ministry of Social Development. These benefits include childcare and accommodation assistance.

Communicating information about the family assistance system is an important role for us. We are developing a comprehensive joint communications strategy with the Ministry of Social Development to inform eligible recipients of the changes to family assistance available from both agencies. This approach will encourage eligible recipients to apply for family assistance and supplementary social benefits, and make it easier for them to access the full range of financial assistance to which they are entitled.

Tax professionals

Tax professionals play an important role in making sure the tax system works effectively by helping taxpayers to understand and meet their tax obligations. Our tax system will work to the community's best advantage when all parties work together. We can help achieve this by developing quality relationships with both tax professionals and taxpayers. Quality relationships will help us to better understand how we can ensure taxpayer compliance. We will then be able to design products and services tailored to their needs.

We already have a longstanding, valuable relationship with the tax profession through the Institute of Chartered Accountants. With them, we discuss issues of mutual interest and take part in their presentations to members around the country. This allows us to pass on useful information to members, and to listen to what is happening within the tax profession.

Working closely together contributes to the development of good tax policy advice through the Generic Tax Policy Process, and robust administrative systems that reflect an understanding of how the industry operates, its concerns and the requirement to collect tax. Joint initiatives such as developing best practice guides will continue to strengthen this valuable partnership.

In an ever-changing environment we are starting to see a fundamental change in the relationship between

taxpayers, their tax professional and Inland Revenue. Due in part to the advances in technology and our commitment to ensure compliance, it is vital that Inland Revenue and tax professionals work even more closely together to ensure the integrity of the tax system.

Currently, we are developing a tax agents' strategy to take us into the future. This strategy will provide an indication of the type of relationship we desire with tax agents over the next five years, and the role they will play in administering the tax system. It will also show how this relationship can be enhanced to the benefit of tax agents, their clients, and ourselves.

Enhancing our services

Our new customer-based strategies will work in tandem with the strategies and initiatives that are improving the general services that we deliver to taxpayers and social support programme customers. This combination will give us a clearer view of how we will achieve outcomes and ensure compliance with obligations.

Providing information and online services

Getting the right information to the right people at the right time is critical to achieving compliance. Our key mechanisms for doing this are:

- responding to calls, correspondence, emails, and to people who visit any of our offices
- distributing information through our website to business and community groups, and directly to taxpayers and social support programme customers
- making visits, including going to businesses, accountants, and social policy groups, to assist with meeting obligations and receiving entitlements (previously covered under *Working with the community*).

In addition, our communications strategy aims to enhance the community's understanding of Inland Revenue and our role in the community.

Our current areas of focus for enhancing our provision of information include:

Enhancing our services to customers

We are enhancing our understanding of customer expectations, and how we influence their behaviour. By understanding the motivations and drivers of customer contact, we can better manage those contacts that are regarded both by customers and the organisation as unnecessary.

We also need to be responsive to customer demands by ensuring:

- we seek and listen to customer feedback on our products and services so that we meet customer expectations
- we have the flexibility to respond to customer pressures, such as the peak calling periods within our call centres

- we develop an appropriate strategy for meeting the needs of people with English as a second language
- we develop a long-term sustained ability to offer a more tailored and wider range of services to customers; in many cases these services are, or will be, available online.

Enhancing our technology and online services

Our e-enablement initiatives have been designed to provide alternative methods of communicating with us as well as aligning our electronic service delivery with the government's e-government strategy. We want to enable taxpayers and social support programme clients to interact with us whenever they wish, as well as making it easy for them to receive information and meet their obligations.

To meet these aims, we already have a range of electronic filing products and secure email services that we are continuing to enhance. For example:

- We are looking at how people access information when they are online so we can ensure we provide our information to customers in an easy to understand and intuitive manner.
- We are providing additional features to our secure email correspondence service.
- Our e-payments service, where banks offer customers the option to make their tax payments online, has now been introduced by all the major banks.

We are also providing new services to assist customers to comply. For example:

- We are progressively making available a secure account lookup service that enables customers to securely access their taxation and other account details online.

- We have introduced a natural voice recognition option to our automated phone service so callers do not have to key in numbers on their telephone, and are exploring new opportunities for self-service that would not have been possible using traditional automated phone services.

Providing improved coaching for our people

We need to provide regular, high quality feedback to assist our people to deliver the best service to our customers. This feedback is supported throughout Inland Revenue in a number of ways including, 360° feedback for managers and team leaders, performance expectations and appraisals.

We also need to look at tailoring this feedback for specific groups. For example, in our call centres we are enhancing our measurement of the quality of our call responses so we can provide better feedback to our people and an improved service to our callers.

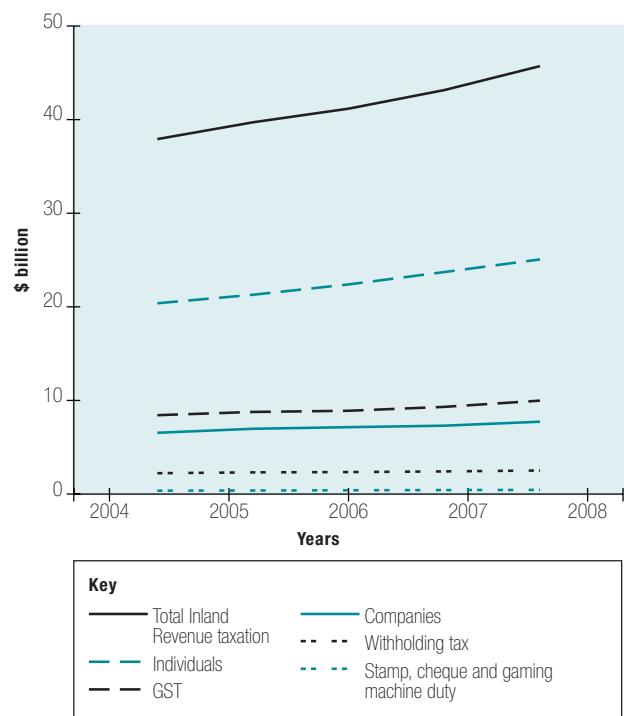
Receiving returns and payments

Our revenue collection activities are carried out at our three processing centres. The processing centres manage large volumes of returns, payments and correspondence. New technologies provide the opportunity for us to streamline our existing systems and introduce additional means of interaction with taxpayers and social support programme clients.

Our imaging project is one such example. The introduction of imaging technology will enable us to electronically process and retrieve many of our paper-based returns, correspondence, statements and notices. This technology will lead to increased efficiency, improved archiving and retrieval, and better response times for customer enquiries.

This financial year we forecast to assess \$39.614 billion in direct and indirect taxation. Figure 15 shows the forecast revenue by major revenue streams.

Figure 15 – Inland Revenue – revenue forecast



Managing outstanding returns and debt

Management of overdue debt and returns is an important component of Inland Revenue's approach to compliance. We encourage compliance through collecting overdue payments and by providing proactive support to those taxpayers and other customers wanting to comply and whose financial circumstances make it difficult for them.

We do this in an environment where the community appears to be changing its perception of debt. Surveys conducted by the Reserve Bank of New Zealand have demonstrated trends towards rising personal indebtedness. In 1991 total household debt and servicing was 61% of disposable income, but has since climbed steadily to 123% in December 2002.

Overdue debt⁶ levels to Inland Revenue have also been increasing due to:

- growth in revenue from a buoyant economy
- an increase in debt from audit activity which has had a greater emphasis on tax avoidance and evasion schemes.

Figure 16 shows this growth.

This environment makes our performance targets for debt particularly challenging.

We are addressing debt at two levels:

- Developing a long-term approach that focuses on providing systematic solutions to improve on time filing and payment compliance. This will include a greater targeting of our debt activities over time and improved training and development of our people.
- Providing an increased focus on the more complex areas of debt collection, including greater proactive debt collection as part of our tax evasion activity. Following on from our Industry Partnership work, we also recognise the importance of addressing small debt early.

Immediate activities include:

- employing a more targeted approach to debt compliance
- reducing the occurrence of debt from taxpayers who use tax agents, through our Agent Account Managers working with tax agents
- further developing our people's skills to effectively case manage the growing complexity of business arrangements used to avoid paying tax
- further promoting online services as a way of reducing the level of debt by making it easier for taxpayers to meet their obligations, make payments and reduce compliance costs.

**Figure 16 –
Debt levels**

	1998–99	1999–00	2000–01	2001–02	2002–03
Total outstanding debt (\$ million)	1,506	1,695	1,781	1,893	2,324
Total collectable debt (\$ million)	802	887	1,108	1,219	1,360
Total collectable debt as a % of taxation revenue	3.0%	3.2%	3.7%	3.8%	3.9%

⁶ Overdue debt includes tax, student loan and family assistance debt. It excludes child support.

Improving compliance—verifying that the right amount of tax has been paid

We verify that the right amount of tax has been paid by auditing selected taxpayers. The expected outcome of this activity is maintaining and improving compliance among all taxpayers, not just the detection of tax which ought to have been paid.

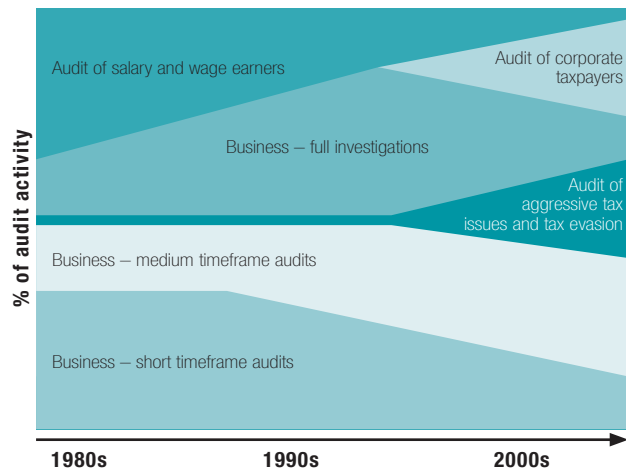
Our audit strategy was seen as a priority in the performance review undertaken by the Office of the Controller and Auditor-General⁷. Based on our compliance model, the strategy aims to improve taxpayer compliance over time.

The primary focus of our audit activity is on those taxpayers who have decided not to comply, or do not want to comply, while still maintaining a visible presence amongst low compliance risk taxpayers. The outcome we are seeking from placing more audit focus on the most non-compliant taxpayers is more taxpayers meeting their obligations voluntarily.

Over the last decade, increasing emphasis has been placed on the investigation of the areas seen as posing the greatest risk to revenue, particularly:

- large enterprises—mainly companies with a turnover exceeding \$100 million—and taxpayers covered by special arrangements
- aggressive tax issues (schemes designed to avoid tax), tax evasion (cash transactions kept outside recording systems—the cash economy—employers who deliberately do not keep accurate PAYE records, and fraud that is based on attempting to claim false GST credits)
- business activities that require audits with a medium timeframe (mainly checking GST and PAYE).

Figure 17 – Audit activity over time



Over the next three to five years we will be further developing and implementing the principles within our audit strategy including ensuring:

- Audit is strongly focused on the identification of compliance risk, based on credible intelligence.

Key to improving the way that compliance risk is identified is through better collection and analysis of information about the industries we cover and topical tax issues. This will enhance our priority setting for audit activities and provide a better basis for a more efficient case selection process.

- Audit staff are highly-skilled, motivated and equipped to achieve quality outcomes.

We maintain an audit workforce that has a high level of competence and capability to deliver a highly effective programme of audit activities. We focus on maintaining and improving their technical excellence, business analysis, evasion and electronic auditing skills. Our people must also show professionalism and commercial awareness, display good relationship management skills and operate with high levels of personal integrity.

- Technology supports and enhances all aspects of audit.

We are applying recent advances in communication and computer technology to our audit environment

⁷ *Inland Revenue Department: Performance of Taxpayer Audit*, Report of the Controller and Auditor-General, July 2003.

to give auditors greater mobility and promote a more efficient and sophisticated approach to audit work.

- Develop new audit performance measures.

To ensure we are doing the right activities in the right way we need to establish measures for the impact of our audit work on long-term compliance. However, we recognise that it will take time to establish this new measurement framework and to ensure that it encourages the right behaviours.

Adjudication and Rulings

The role of our Adjudication and Rulings Unit is to identify and apply the correct interpretation of the Inland Revenue Acts and other relevant laws while considering case law. Our Adjudication Unit, as part of the disputes resolution process, takes a fresh look at tax disputes in an impartial and independent manner. Our Rulings function issues private, product and public binding rulings. It also issues statutory determinations, interpretation statements and guidelines.

Issues may be escalated to Adjudication and Rulings as part of Inland Revenue's escalation process. This will occur where there is doubt or different views about how the law should apply to particular arrangements or matters. Once a decision has been made in Adjudication and Rulings, this will become the Commissioner's view on that matter or issue.

Over the next three to five years, key issues for our Adjudication and Rulings function include:

- continuing to work on our efficiency and timeliness in relation to adjudications and rulings

- developing our capability to effectively handle issues escalated from other areas of Inland Revenue
- the continued streamlining of business processes, and
- continuing to improve communications with other areas of Inland Revenue and external agents.

Central to working on the efficiency and timeliness of adjudications and rulings is the continued development of our staff capability. We will continue to recruit adequate numbers of staff with the necessary skills and experience to handle our work, and have introduced a number of initiatives to enhance retention of existing staff, such as our remuneration policy and our career development matrix. We ensure that existing staff have access to ongoing training and development opportunities, and are continuing to work with our Corporates function on the delivery of particular rulings.

Over the next few years, we are intending to specifically target experienced technical staff, which will assist with our timeliness and our ability to provide high quality analysis and decisions.

Finally, we will continue to enhance our internal and external communications. Effective two-way liaison with other areas of Inland Revenue (except during the adjudication process) is important, and an ongoing focus. We will also ensure that we continue to work closely with representative groups, such as the Institute of Chartered Accountants, the Law Society and the International Fiscal Association. These discussions are important as part of the routine consultation process on public rulings and statements, and as specific issues of importance arise.

Ensuring we have the right capability

Our organisational capability is what we need now and in the future to deliver our planned outputs and achieve our outcomes. There are several dimensions to our organisational capability. Figure 18 lists the six most important, as well as indicating where we intend to focus our capability development efforts over the next few years.

Figure 18 – Capability focus over the next few years

Most emphasis	People and culture Processes and technology External relationships
Some emphasis	Knowledge
Limited emphasis	Resources Structure

Critical to our capability enhancement are:

- the continued development of our people’s skills and the provision of a supportive working environment
- the continued simplification of our technology and processes to ensure efficiency gains
- the provision of targeted funding for capability maintenance and development
- the ongoing development of positive relationships with our people, the community, other tax administrations and the wider public sector
- the systematic capture and dissemination of organisational knowledge
- the need for an adaptable organisational structure.

People and culture

The capability of our people is the single most important dimension of organisational capability. Only through the skills, knowledge and commitment of our people can we expect to achieve our desired future. Through benchmarking, we know that by international standards we operate a highly efficient tax administration⁸.

However, to maintain and continually improve our services, we need to ensure that we provide our people with the opportunity to update and enhance their skills.

Our human resources strategy is fundamental to the ongoing improvement of our people capability. The strategy describes our people priorities over the next three years to achieve our outcomes, support our business plan and meet the expectations of government, the community and our customers. We have identified three areas of focus—leadership, capability, and relationships.

⁸ As indicated by the results from the 2003 International Technology Benchmarking Study Report that measures 31 international tax administrations. In New Zealand it costs \$73 per taxpayer to operate the tax administration against a tax administration average of \$118 and New Zealand spends \$0.87 for every \$100 collected, against an average of \$1.08. In addition, New Zealand costings include social support programme activities which most other administrations do not carry out.

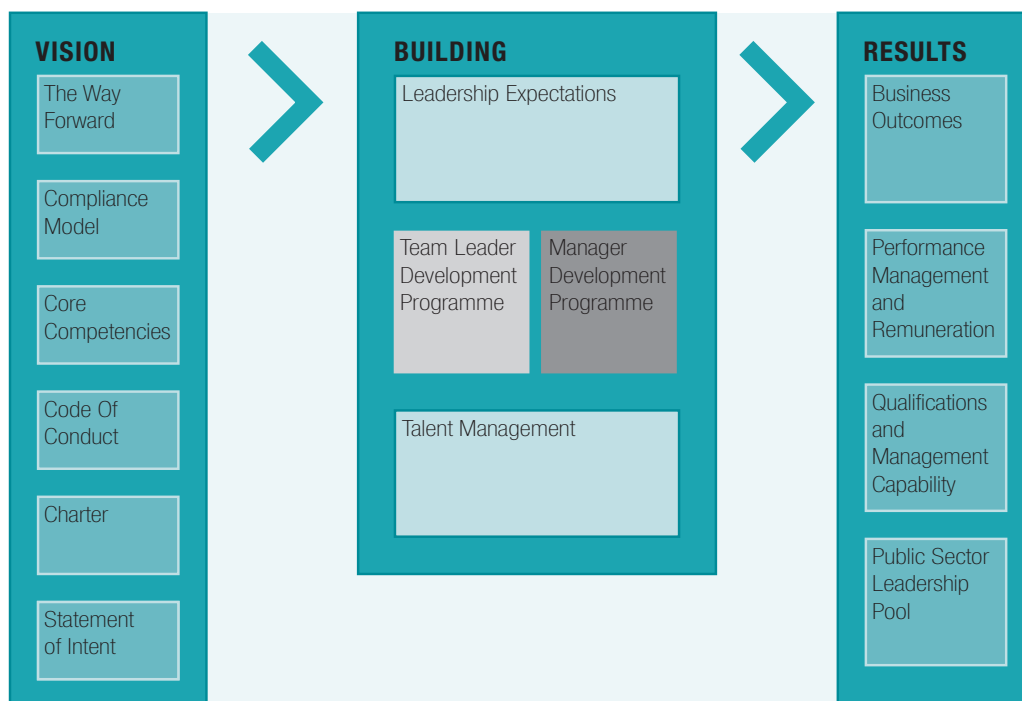
Leadership

Our leaders need to:

- clearly communicate Inland Revenue’s strategic direction to our people
- understand what is necessary for maintaining and building a successful organisation
- demonstrate how the work of our people contributes to our outcomes
- illustrate the importance of our relationship with the community.

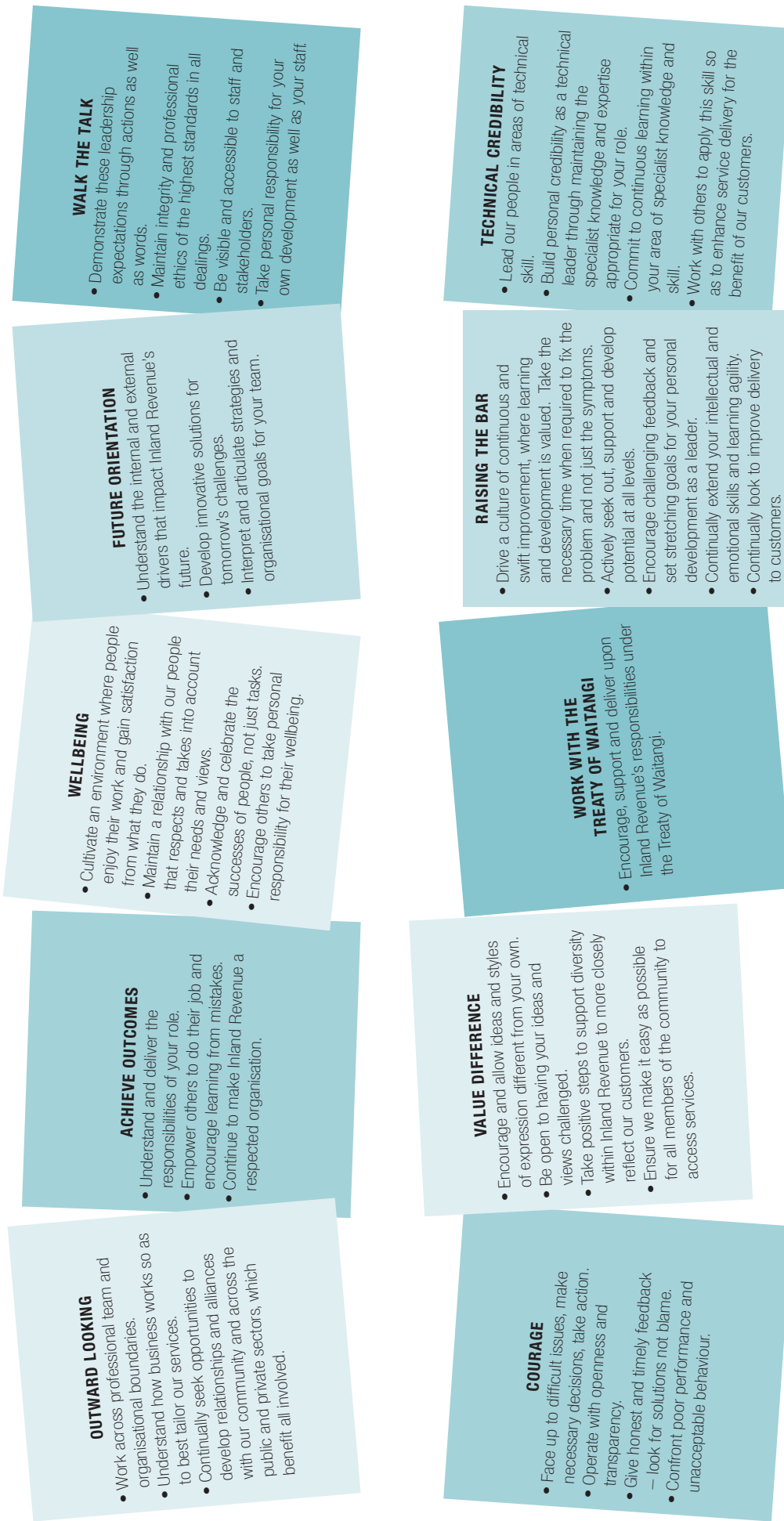
Our leaders are a vital link in ensuring we achieve outstanding results from our people.

**Figure 19 –
Our leadership framework**



Our leadership expectations set what behaviours we expect our leaders to demonstrate. These are incorporated into job expectations and our performance management system (see Figure 20 on page 36).

**Figure 20 –
Our leadership expectations**



Our team leader development programme was introduced during 2002–03. We anticipate that 83% of team leaders will have attended by June 2004. The aim of the programme is to create a common understanding of our leadership expectations as well as consistent use of management practices and language across Inland Revenue.

Our management development programme will begin shortly. It will provide a range of developmental opportunities that we believe are critical to the growth of capable leaders. During 2004–05 we anticipate that the majority of managers will attend the core module within this programme.

Capability

We need to have a thorough understanding of our current capability. In 2004–05, we are reviewing our human resource management information needs. Following this we will be assessing the technology options to enable us to more accurately assess our current people capability. This information will be integral to our future people capability planning.

Many of our business areas will require greater numbers of qualified and technically-skilled staff to manage our increasingly complex and technical work. To achieve this we need to both develop and recruit highly-trained and technically-competent people.

We encourage ongoing learning for our people. We introduced our qualifications strategy in October 2003 to help address our need for more qualified staff, either through the recruitment of qualified staff or through assisting existing staff to attain new qualifications.

This strategy will be delivered through:

- A parallel qualifications framework with the New Zealand Qualifications Authority that provides the opportunity for our people to take both technical and non-technical qualifications across a range of areas.
- Working with a number of universities to explore flexible ways of delivering selected components of standard courses. This would allow our people to structure both technical and non-technical

qualifications that would more closely align with our business objectives.

- Our internal training framework. We are an approved training organisation with both the Institute of Chartered Accountants and the College of Accounting Technicians. This means we are able to offer the type of work that fulfils the practical requirements for admission to both the Chartered Accountants College and the College of Accounting Technicians.

Our diversity strategy describes our commitment to valuing the differences among our people. Through enhancing our analytical capability and improving our understanding of the needs of the various groups in the community, our diversity strategy contributes to our ability to achieve our outcomes.

Relationships

The nature of our relationship with our people is very important. Honest, open and supportive relationships contribute to positive relationships between our people and the wider community. A positive working environment also enables us to attract and retain staff, as well as improving productivity, ownership and commitment to our strategic direction.

The best indication of the nature of our relationship with our people comes from our annual climate survey. The 2003 survey indicated our people continue to demonstrate strong support for our strategic direction (16% above the public and private sector benchmark). Confidence in Inland Revenue as an employer has steadily increased from our 2001 climate survey, and is also above the benchmark. We have also experienced significant improvements in our results relating to recognition, pay and benefits, and learning culture.

We have a number of initiatives to maintain and enhance positive relationships with our people:

- Our communications are designed to provide a strategic approach to building an environment that encourages open and effective communication between our people. This will allow us to further develop an organisational awareness of the

importance of two-way communications and how effective communication benefits our people and our organisation by improving our ability to identify opportunities and mitigate risks.

- Ensuring performance management systems are applied consistently across the organisation, and are simple to use. This includes clearly articulating what is expected of our people and rewarding appropriately to attract, motivate and retain good people.
- Ensuring that not only Inland Revenue but the community feels our people act with integrity and professionalism. Our commitments and expectations are set out in our *Charter* and our *Code of Conduct*.
- Ensuring a common understanding and awareness of the importance of ethics, integrity and honesty among our people through training of both new and existing staff. We are also developing our integrity assurance strategy, designed to both take a comprehensive view of integrity within Inland Revenue and determine the linkages with other appropriate strategies and initiatives.
- Revising our health and safety strategy as part of our commitment to providing a healthy working environment.
- Continuing to work closely with the three unions that represent our people—the Public Service Association (PSA), Taxpro, and the National Union of Public Employees (NUPE).

Processes and technology

Our business environment is characterised by high volumes of complex transactions. We need to process these swiftly and with a high degree of accuracy. In addition, the community expects the introduction of seamless and personalised services and we are aiming to tailor many of our business processes accordingly.

Our technology strategy will ensure we have a sophisticated and reliable information technology environment that can develop to meet our future requirements. To date, this environment has been

characterised by a number of different technologies to meet our diverse business needs. Our focus is to reduce the overall complexity, wherever possible, of our technology environment by adopting a smaller number of industry standard and proven products. As these types of products are easier to support, this shift will:

- enable us to provide greater functionality to our business units
- reduce the overall cost of support
- improve our response times for the development and implementation of new products.

A key next step following on from the technology strategy has been the development of our Information Systems Strategic Plan (ISSP). The ISSP provides a more detailed roadmap of the products and services to be introduced over the next five years. One of the principal streams of the ISSP is our e-enablement initiative, discussed earlier in the section *Enhancing our services*.

External relationships

The strength of our relationships with the community, business, tax professionals, wider public sector and other tax administrations directly contributes to our capability to achieve our outcomes.

The community, tax professionals and businesses

We need to maintain community confidence to achieve our outcomes. How we are doing this is outlined in *Strengthening our customer focus*.

Public sector

We deliver a wide range of taxation and social policy services to the community, and it is important that we work closely with other agencies to ensure that these services are delivered in the best possible manner. Therefore, we need to coordinate our operational and strategic functions, not only within our organisation, but also with other government agencies. This is illustrated by our work on the upcoming family assistance reforms, where we have worked closely with the Ministry of Social Development and The Treasury.

A practical example of our operational and policy linkages was seen in our response to the flooding in central New Zealand in February 2004. To deliver a timely solution to affected taxpayers we needed to cooperate with a number of government agencies and community groups to implement operational strategies and provide advice leading to a change in tax legislation. The result was a positive outcome for taxpayers affected by the flooding.

We work with the central agencies, such as the State Services Commission, The Treasury, and Te Puni Kōkiri on cross-public sector and emerging initiatives. These relationships ensure that our priorities align with those of government, and that we play our part in addressing cross-sector issues.

Because tax affects so many areas, our policy division works with most other government departments in the development of tax policy.

Other tax administrations

We are continuing to develop our cooperative relationships with other tax administrations and the OECD in order to benefit from the use of collective expertise from other tax administrations and to help develop best practice policy and processes. In addition, closer relations between Inland Revenue, other tax administrations and the OECD will allow us to minimise the risks and maximise the opportunities stemming from e-commerce and globalisation.

We are also continuing to benchmark our performance against other tax administrations. This benchmarking is important to assist us in determining areas of possible risk or where performance improvements are required.

Other capability areas

Knowledge

Our ability to systematically capture and use our organisational knowledge contributes to our overall capability. The more successful we are at disseminating the learning we have gained, the more we are able to achieve our outcomes. To enhance our ability to manage organisational knowledge, our technology strategy includes a number of initiatives, including our data warehouse and organisation performance management.

Our FIRST information technology system will continue to be the foundation of our approach to knowledge management. It maintains data on all our transactions with our customers. Through our data warehouse, we are able to turn this data into knowledge for analytical purposes. This enhances our ability to develop strategies, business processes and interventions that increase compliance and protect the integrity of the tax system. For example, this knowledge is used to assist our audit function in carrying out risk analysis so we can prioritise our case selection.

Several other business initiatives will also contribute to enhancing organisational knowledge. One example is our Industry Partnership initiative. This aims to understand the reasons for non-compliance within different industries. By disseminating this knowledge we will be able to provide more effective services to taxpayers across all of our functions.

Resources

One aim of government is that the capability of the public sector should be strengthened to ensure that departments are able to deliver their outputs and manage towards achieving outcomes for the community. Our personnel costs comprise approximately 58% of our total expenditure, and it is important that we ensure that sufficient resource funding is available to meet our capability requirements in a sustainable manner.

We are targeting resources towards attracting and retaining people who possess the skills that we require to deliver our outputs, particularly in the more complex and specialist areas of our business. We are also dedicating significant resources towards strengthening our existing capability, particularly in the areas of leadership development, management training, and project management skills.

A key element of our strengthened planning process is also looking at where we can improve productivity to release resources for re-investment in other areas to improve the delivery of services that contribute to achieving our outcomes.

We are also targeting resources towards increasing compliance, with additional funding for child support and audit initiatives over the coming year.

Structure

Our environment is characterised by changing legislative responsibilities, technologies, and business processes. Our ability to respond to a changing environment forms an important part of our capability and we need to ensure we have the best structure for delivering our services. Although no major structural changes are planned, we anticipate ongoing incremental reviews of our structure.



Mitigating risk by strengthening governance

Our governance structures are designed to ensure that activities and processes:

- align to our strategic direction and outcomes
- consider risks and opportunities and ensure appropriate mitigation strategies are developed and implemented
- are appropriately prioritised within our resources
- are appropriately planned and approved—this is a key control point
- are appropriately controlled.
- Human Resources Strategy Group—governance over human resource strategy and the implementation of project and initiatives within that strategy.
- Strategic Property Planning Group—governance over accommodation needs both now and in the future.

Our Senior Management Team is the primary governance board through which strategic direction is set, accountabilities for translating that direction into operational initiatives assigned and results are monitored to ensure that objectives, outcomes and outputs are achieved. Supporting the Senior Management Team in that role are our:

- Business Initiatives Governance Board (BIGB)—this is a major recent addition to our governance structure. It provides effective governance over business initiatives and projects that were previously reported through line management. Significant effort has gone into the development of this Board and the resulting improved disciplines will see improvement in the delivery of initiatives and general functioning of the organisation.
- Information Technology Governance Board (ITGB)—governance over our technology strategy and associated projects.
- Risk and Assurance Committee—assurance to the Commissioner on aspects of the effective and efficient discharge of his statutory responsibilities and accountabilities through a committee that includes independent members.

Risk and assurance

During 2003–04 we refocused our Internal Audit group onto risk and assurance matters. A significant output of this new group is a revised risk management policy. It reinforces senior management expectations for actively using risk management as a business improvement tool.

A framework for risk management is also being finalised that provides greater context to the application of risk management within the department. The framework incorporates a strategic importance ranking process to direct the level of risk and assurance effort necessary to provide assurance over any strategic or operational initiative, activity or project.

The Risk and Assurance group is also contributing to the development of our governance structures through:

- Reviewing our Risk and Assurance Committee Charter to ensure that it meets best practice, particularly within the New Zealand public service, and that the appropriate information is being provided to ensure that the Committee has the opportunity to discharge their responsibilities.
- Supporting the governance boards through improved systems of risk management and project quality assurance.

Further areas of development will include:

- the further integration of risk management concepts into daily management activity
- formally reviewing and integrating risk management into our planning process.

Mitigating risks to our outcomes

Each outcome that Inland Revenue contributes to has one or more associated risks that are mitigated through a range of departmental initiatives outlined in earlier sections of this *Statement of Intent*. For example, without adequate capability Inland Revenue cannot deliver against its outcomes. Therefore the risks regarding sufficient capability are mitigated by initiatives such as leadership enhancement, e-enablement, enhanced technical capability and enhanced performance management and remuneration initiatives.



Measuring and evaluating our performance

What we are striving to achieve is set out in our outcomes and how we are going to achieve it in our strategies. The outcomes for taxpayers and social support programme clients are delivered through our services.

We therefore need to measure the effectiveness of these services in contributing to the achievement of our outcomes and desired future.

Developing a robust performance measurement framework that enables us at a high level to measure outcomes, but is also sharp enough to assist in the day-to-day running of the tax administration takes time.

We already have a strong reporting culture, with a good understanding of our productivity levels. We need to refine our performance measures to assist us to better measure the impact of our outputs and initiatives.

We already have a number of high-level indicators that link directly to our outcomes.

**Figure 21 –
Measuring our performance**

Outcomes	Indicator
Revenue is available to fund government programmes through an efficient and effective tax system and administration	<ul style="list-style-type: none"> • Revenue collected versus forecast – forecasting provides signals to the government on what revenue may be available given the indicators at the time of the forecast • Percentage of taxpayers who file a return on time or within six months of the due date • Benchmarking our organisational efficiency against other tax authorities • Surveying all our people’s views on our progress in relation to the values supporting our <i>Charter</i>, our business plan, and work environment issues
Parents living apart maintain financial responsibility for their children	<ul style="list-style-type: none"> • Percentage of paying parents who pay in full and on time – a measure of paying parents completely complying with their obligations • Percentage of custodial parents who receive their payment in full and on time – a measure of paying parents paying on or close enough to the due date that the custodial parent receives child support on the day expected
People value the system and have confidence in the administration (tax and social support programmes)	<ul style="list-style-type: none"> • Customer satisfaction survey measures the level of satisfaction with our services for those customers who have recently contacted us • Research, including surveys of taxpayers, social support programme clients and the community, seeking their comments on our products and services
Compliance with the law is made easy (tax and social support programmes)	<ul style="list-style-type: none"> • Timeliness measures within output classes 3 and 7 • Research, including surveys of taxpayers, social support programme clients and the community, seeking their comments on our products and services.

During 2004–05 we are undertaking a complete review of our performance measures. This review will assist us to strengthen our performance measures so that they can better inform both managers and stakeholders about our performance.

Evaluating

We have a strong history of evaluation through project reviews and our Evaluation Services Unit.

Following the completion of all projects there is a requirement for a “post-implementation” review. This not only reviews the project management but also whether the goals of the project were adhered to and achieved.

Evaluation is one of a range of assurance processes used by Inland Revenue. Our Evaluation Services Unit was established in 1991 and has helped us shape both our ongoing activities as well as new initiatives. It carries out independent evaluations that:

- are focused on what outcomes have been or will be achieved
- go across functions or areas of responsibility
- can demonstrate a strong link to our strategic direction.

Current work being undertaken by the unit includes evaluating the impact of audit on taxpayer compliance.

