

PART TWO

Strategies and plans to improve compliance



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

To do this we will:

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

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

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

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

Streamline and simplify tax processes

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

We are focusing on:

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

Our initiatives link into wider government strategies including:

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

Improving online services

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

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

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

We are continuing to improve these services.

For example:

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

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

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

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

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

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

Simplification proposals

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

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

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

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

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

Future challenges

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

In working with SMEs we are:

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

Working closely with tax agents

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

Institute of Chartered Accountants of New Zealand (ICANZ)

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

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

Streamline services to tax agents

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

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

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

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

¹⁴ Excludes salary and wage earners.

Create an environment which promotes compliance

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

To encourage compliance we are:

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

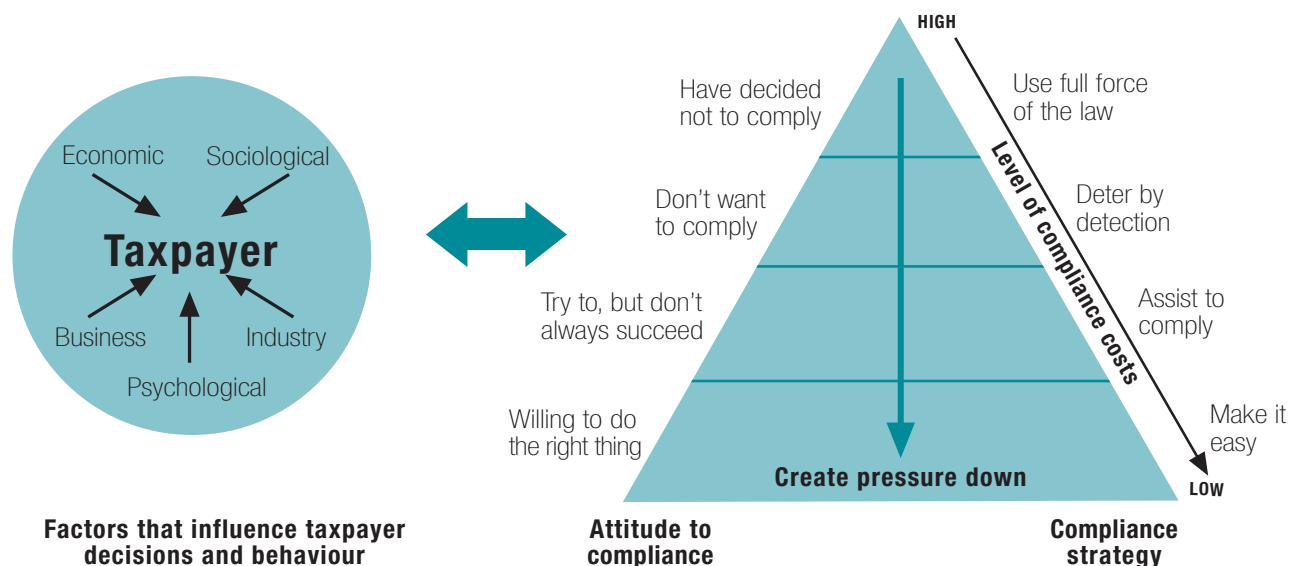
In this section we talk about what we are doing to encourage compliance under the following headings:

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

Our compliance model

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

Figure 17 – Our compliance model



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

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

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

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

Example: Industry Partnership experience

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

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

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

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

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



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

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

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

Providing information

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

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

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

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

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

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

Working in the community

We have developed positive relationships with a variety of public and private sector organisations¹⁵ and communities. These relationships reflect the Government's commitment to strengthen community-government relationships¹⁶ and directly help us achieve our outcomes.

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

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

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

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

Being visible in the community

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

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



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

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

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

Supporting cross-government strategies

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

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

Carbon tax

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

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

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

Process improvements

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

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

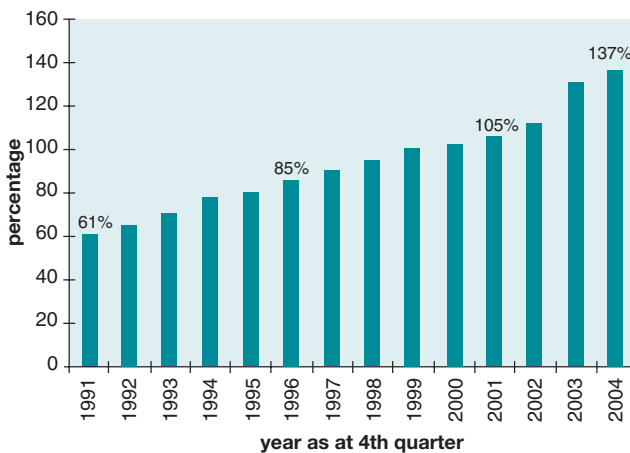
We are also making sure that our publications and forms are free of jargon, focus on what the customer requires, and use plain language. Recently, a number of our Child Support publications received a quality award for the use of plain English.

Managing outstanding returns and overdue debt

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

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

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



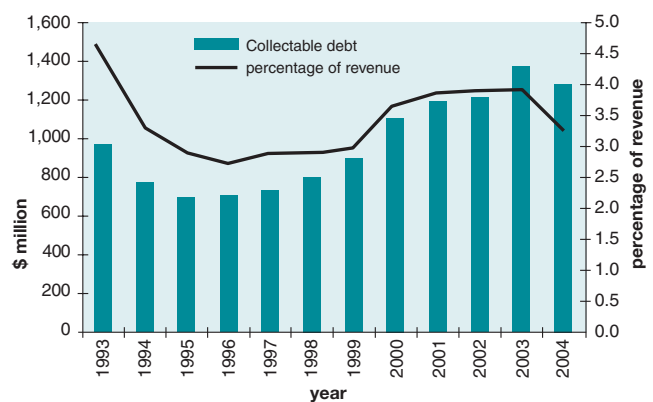
Source: Reserve Bank of New Zealand

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

Inland Revenue's collectable overdue debt¹⁷ levels have followed a slightly different pattern to household debt over the past 10 years. This results from a variety of factors:

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

Figure 19 – Collectable debt



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

We have more complex debt cases as a result of:

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

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

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

Strategies to reduce debt

We are addressing debt at three levels.

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

Secondly, we are focusing on:

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

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

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

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

Improving compliance through our audit function

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

Audit strategy

The compliance model has influenced our approach to audit work and how it may improve taxpayer compliance. We aim to assess risks more accurately and raise overall compliance levels with new approaches. Our audit strategy includes the recommendations from the 2003 report of the Office of the Auditor-General¹⁸. This report focused on ways of improving audit systems and practices as well as improving the skills of audit staff.

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

Our audit strategy objectives are to:

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

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

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

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

Focus areas for audit work in the future

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

- **large enterprises**—these are mainly companies with turnover of more than \$100 million and other taxpayers covered by special arrangements. They are handled by our Corporates group. In this area we are focusing on:
 - improving risk identification tools and methodologies to allow more targeted responses. This will allow us to improve the focus and allocation of resources on significant areas of

risk including: allocation of purchase price to underlying assets, cross-border issues and structuring of intellectual property.

- developing “real-time” auditing methods, that is auditing the taxpayer's current position, rather than the existing retrospective process.
 - high wealth individuals, where there are often complex legal structures with international links. Consequently, we have been focusing on getting a better understanding of their arrangements and have commenced full audits in a number of cases.
 - transfer pricing mechanisms. Although these are mainly an issue for large multinational enterprises, we are also addressing the significant number of such transactions carried out by small- and medium-sized enterprises.
 - gaining a greater understanding of tax arrangements in trading partners' jurisdictions such as Australia, as these arrangements are likely to affect the pattern of investment in New Zealand.
 - structured financing arrangements where we continue to review such arrangements.
- **avoidance schemes**—tax avoidance schemes are frequently marketed to investors with offers of a disproportionate tax benefit compared to their investment. Their purpose is to reduce or even completely eliminate tax obligations. We will continue to build on our success in this area and challenge these schemes as they may arise.
 - **tax evasion**—these are cash transactions kept outside recording systems (the cash economy), employers who deliberately understate their income, do not keep PAYE records, and fraud that is based on attempting to claim false GST credits. Identifying and taking action in the cash economy is a particular focus of our Industry Partnership work.
 - **medium-timeframe audits**—these audits are mainly to verify GST and PAYE payments.

Example: Tax evasion in the fruitpicking industry

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

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

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

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



Adjudication and rulings

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

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

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

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

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

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

Enhance our people capability

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

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

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

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

Leadership

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

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

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

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

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

**Figure 20 –
Our leadership expectations**



Developing capable team leaders

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



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

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

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

Internal relationships

Inland Revenue is a large employer with 4,759¹⁹ staff located in 17 cities and towns. We spend 61.6% of the department's budget on personnel. We have a significant investment in investigators, call centre operators and information technology specialists. This investment reflects our roles in processing high volumes of transactions, providing information, and making sure people comply.

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

**Figure 21 –
Climate survey results**

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

¹⁹ Full-time equivalents as at March 2005.

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

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

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

Health and wellbeing

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

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

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

We must also make sure that existing practices such as the *Workplace Safety Management Programme* are working effectively and comply with relevant health and safety legislation²⁰.

Relationships with unions

Nearly 70%²¹ of our staff are represented by unions.

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

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

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

²⁰ *Health and Safety in Employment Act 1992.*

²¹ As at December 2004.

People capability

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

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

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

Technical capability

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

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

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

Capability strategies

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

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

Our qualifications strategy will be delivered through:

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

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

In addition, our audit capability work and our investment in our investigators training framework will mean our competence levels in audit will be markedly increased over previous years and this will place us well for the future. For example, in the 2003–04 year, over 80% of external recruits to investigator, advisor and senior positions in the Corporates group, had one or more undergraduate degrees. We continue to promote further training with over 150²² of our investigation staff studying towards gaining a qualification or professional membership.

External relationships

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

Public sector

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

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

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

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

International organisations

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

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

²² As at June 2004.

Enhance the administration of our social policy business

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

Over the next three years we will be working on:

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

Work-based savings scheme

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

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

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

Family assistance and *Working for Families*

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

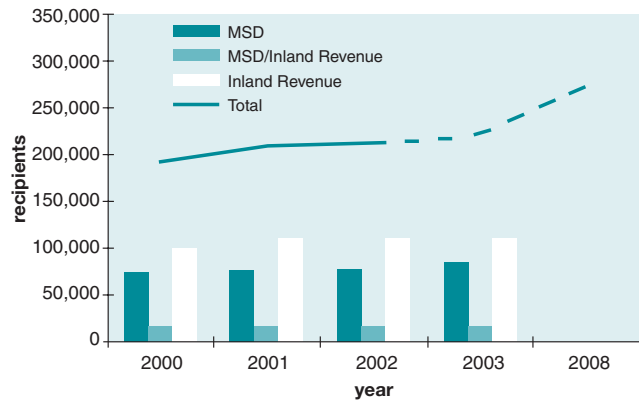
We are working in partnership with MSD to develop and implement the *Working for Families* package over the next three years. *Working for Families* contributes to the Government's goal of *Reducing inequalities* in health, education, employment and housing by making sure people are better off being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

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

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



Figure 22 – Family assistance recipients



By implementing *Working for Families*, we are:

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

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

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

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

Child support

The Child Support Scheme was implemented in 1992. Child support is money paid by parents not living with their children to help financially support those children. The payments received from paying parents are either passed on to the person caring for the child(ren) or directly to the Crown if the custodian receives a benefit. Since the Child Support Scheme began, we have collected 86.4% of the child support assessed. This performance is at a similar level to Australia²³ and compares very well to the 40.7% collection rate achieved before the 1992 scheme. It is also among the highest collection rates achieved by any similar scheme used in other countries.

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

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

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

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

Addressing child support non-compliance and debt

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

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

We expect to achieve these improvements in compliance by:

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

²³ Excludes private collections.

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

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

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

Paid parental leave

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

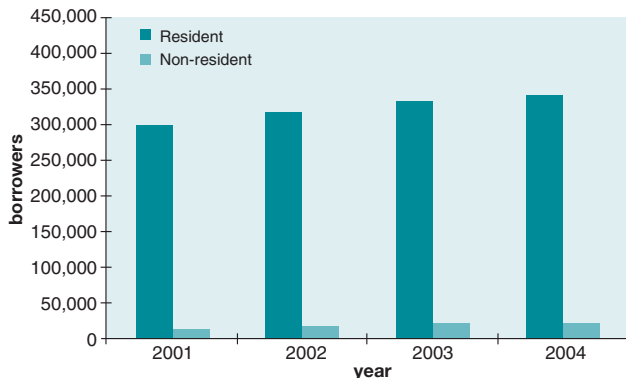
- an increase in the payment period from 13 to 14 weeks
- the extension of paid parental leave to include self-employed people.

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

Student loans

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

Figure 23 – Student loan borrowers



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

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

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

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

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