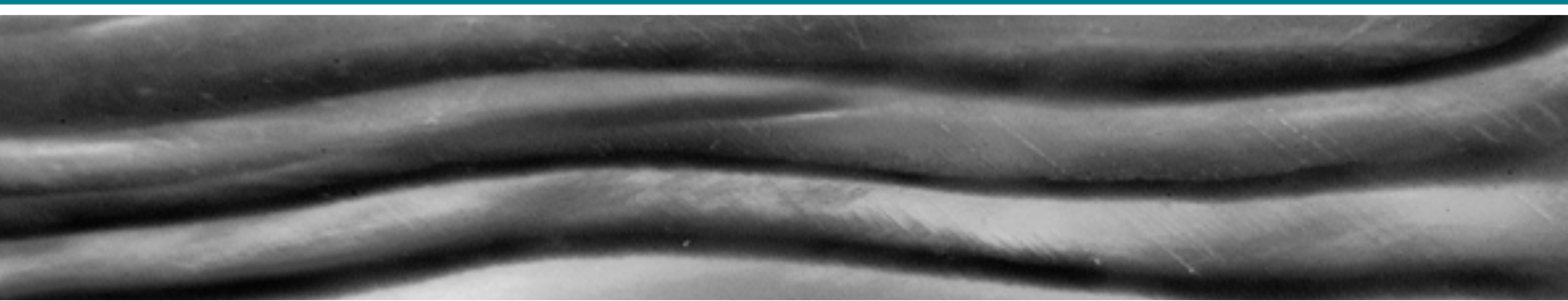


PART ONE

Delivering on our outcomes



- \$42.0 billion revenue assessed
- \$510.3 million student loan repayments received
- \$309.1 million child support collected and distributed
- \$520.1 million family assistance distributed
- \$76.1 million paid parental leave distributed



Delivering on our outcomes

We have a significant role to play in collecting revenue and distributing payments for government through our taxation and social support programme responsibilities. These are reflected in our outcomes.

Introduction

In 2002–03, we developed a set of outcomes that reflected the rationale for our tax and social support programme work.

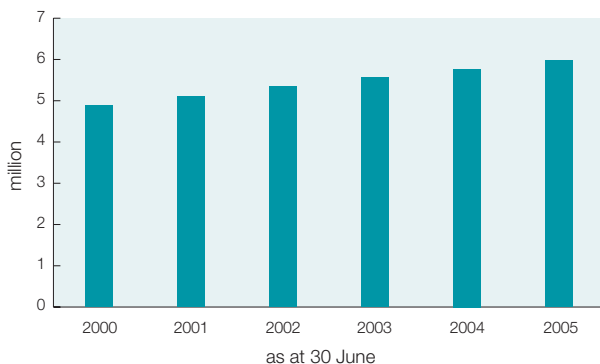
Figure 3 –
Our outcomes

Taxation	Revenue is available to fund government programmes through an effective and efficient tax system and administration.
Family assistance and paid parental leave	Eligible families with dependent children receive the financial support they are entitled to.
Student loans	Student loans are repaid.
Child support	Parents living apart maintain financial responsibility for their children.

Taxation outcome

We operate in a constantly changing environment. Strong performance of New Zealand’s economy over the past few years has resulted in an increase in the number of taxpayers in the tax system (see Figure 4) and the amount of tax paid. There has been especially strong growth among small businesses and salary and wage earners.

Figure 4 –
Taxpayers¹



¹ Active income tax registrations.

The key measure of our performance against this outcome is the amount of revenue we assess against our forecast. We present our forecasts in our *Statement of Intent (SOI)* which we prepare well before the start of each financial year. Actual revenue outcomes have been consistently above our forecasts, reflecting the strength of economic growth.

Figure 5 –
Total revenue assessed (forecast and actual)

	2003–04	2004–05
Forecast (SOI), \$ billion	\$35.8	\$39.6
Actual, \$ billion	\$38.0	\$42.0
Difference, \$ billion	\$2.2	\$2.4
% variance	6.1%	6.1%

The breakdown of the actual revenue assessed into direct and indirect taxation² is shown in Figure 6.

Figure 6 –
Composition of actual revenue assessed

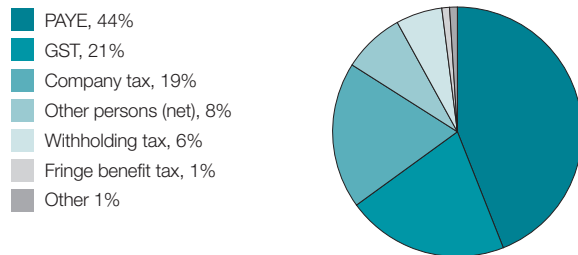
	2003–04 \$ billion	2004–05 \$ billion	Increase \$ billion	Increase %
Direct taxation	\$29.2	\$32.8	\$3.6	12.3%
Indirect taxation	\$8.8	\$9.2	\$0.4	4.5%
Total	\$38.0	\$42.0	\$4.0	10.5%

The level of net³ revenue assessed shows an increase in the volume of direct taxation, including significant increases in net company tax collected (24%) and PAYE collected (9%). Figure 7 shows the proportion of revenue assessed by tax type.

² Direct taxation relates to the economic action of the agents that bear it, the most common example being income tax. Indirect taxation does not relate to the economic action of the agent, eg GST.

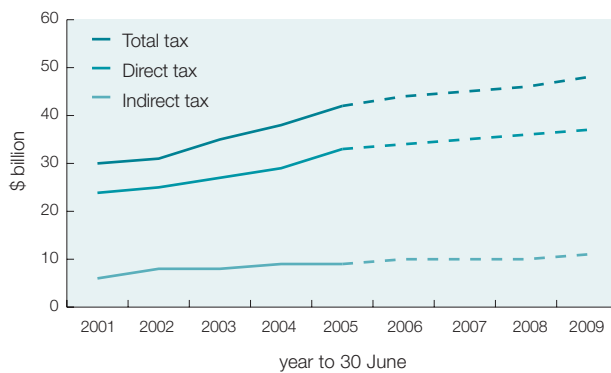
³ Tax revenue is shown net of refunds, most of which are for GST. In 2004–05 we assessed \$16.0 billion GST (gross) and made refunds of \$7.2 billion.

Figure 7 –
Tax revenue by tax type



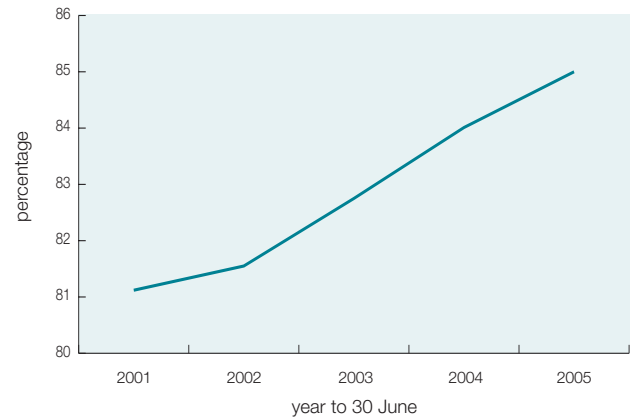
The long-term trend in actual and forecast revenue assessed is shown in Figure 8. It shows the actual revenue assessed from 2001 to 2005 and the forecast for 2006 to 2009.

Figure 8 –
Tax revenue (actual and forecast)⁴



Inland Revenue's contribution, through the collection of tax revenue, to core Crown revenue is shown in Figure 9. During 2004–05, we assessed 85% of the core Crown revenue⁵, one percentage point more than 2003–04. Our contribution has increased by 3.9 percentage points over the past five years, largely due to the growth in tax collected from companies and individuals. Other agencies, such as the New Zealand Customs Service, account for the balance of core Crown revenue.

Figure 9 –
Tax revenue as a percentage of core Crown revenue



Rebates for donations, childcare and housekeeper costs

This year we processed 430,466 rebate claims for \$114.8 million for donations, childcare and housekeeper costs⁶. Rebates for charitable donations accounted for \$99.4 million, a 6.3% increase from last year. The average rebate was \$268, compared to the maximum available rebate of \$630 for donations of \$1,890 or more.

Rebates for childcare and housekeeper costs accounted for the remaining \$15.3 million. These rebates were claimed by 59,433 individuals, 2.0% more than last year. The average rebate was \$258, compared to the maximum available rebate of \$310 for costs of \$940 or more.

Unclaimed monies

Generally, money held in an account where there is no activity for six consecutive years becomes unclaimed money⁷. This year we repaid \$1.5 million of unclaimed money to its rightful owners. In the same period we received \$3.8 million from unclaimed money-holders for the Crown. Since we introduced a computer-based system in February 1992, we have received a total of \$29.3 million of unclaimed monies and paid out \$6.3 million.

⁴ The dashed lines represent forecast data.

⁵ Total revenue levied through the Crown's sovereign power. It comprises taxation, levies, fees, fines and penalties, but excludes investment income, sales of goods and services, and other sources of revenue.

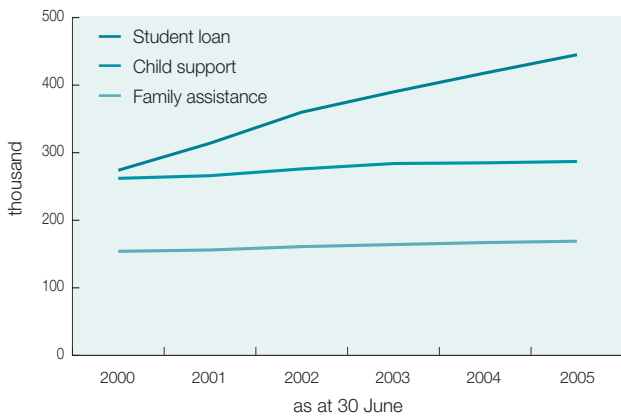
⁶ Figures in this section relate to rebates processed during the year to 30 June 2005. This includes rebates for the 2004–05 tax year and all other years. Note that taxpayers have up to eight years to file rebate claims.

⁷ Unclaimed money falls into three broad groups—deposits of money, life assurance proceeds, and certain types of trade debts (including wages and unrepresented cheques). A list of the names of people recently identified as being owed money under the Unclaimed Money Act 1971 is available on www.ird.govt.nz

Social support outcomes

As well as growth in the number of taxpayers, there has also been a continued growth in the number of people receiving social support entitlements and making student loan repayments (see Figure 10). With recent changes in the entitlement basis of *Working for Families* we expect to see a large increase in the number of family assistance customers.

Figure 10 – Social support customers⁸



Family assistance outcome

Inland Revenue administers a number of social support programmes that include family assistance and paid parental leave. We administer family assistance jointly with the Ministry of Social Development and make payments of paid parental leave on the advice of the Department of Labour. Our administration of these programmes makes sure that eligible families with dependent children receive the financial support they are entitled to.

Family assistance

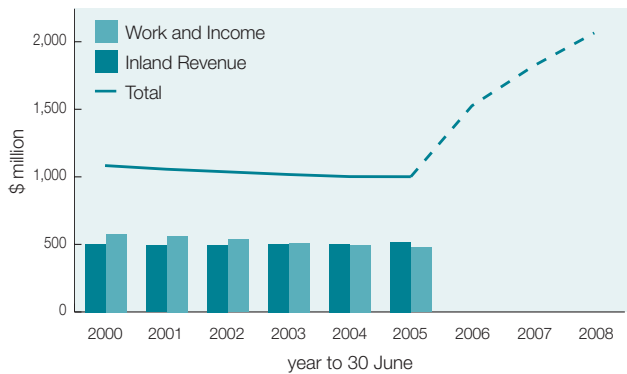
This year we distributed \$520.1 million (52%) of the total amount of family assistance. The balance was distributed by Work and Income⁹.

We introduced the first phase of *Working for Families* from 1 April 2005. Family assistance distributions (and recipients) are forecast to increase over the next few years as *Working for Families* is progressively implemented.

⁸ Social support customers are counted in each category they are represented in (so an individual may be counted in more than one category). Child support customers are those with a current entitlement or liability. Family assistance customers are those who received at least one payment from Inland Revenue during the year.

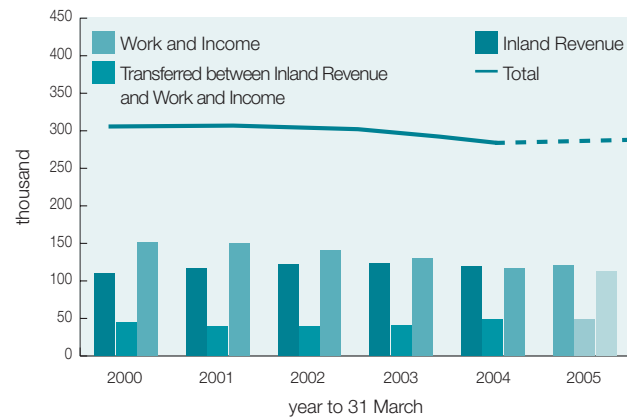
⁹ A service of the Ministry of Social Development.

Figure 11 – Family assistance distributed¹⁰



The number of people who received family assistance payments from Inland Revenue and/or Work and Income is shown in Figure 12.

Figure 12 – Family assistance recipients¹¹



Family assistance is made up of four components. Family support is paid by Inland Revenue and Work and Income and this year we jointly distributed \$833 million, compared to \$819 million last year. Child, family, and parental tax credits are distributed by Inland Revenue. Figure 13 shows the amounts paid by component since 2000.

¹⁰ The dashed line represents forecast data.

¹¹ Paid population, as at 17 July 2005. This includes all customers who received at least one family assistance payment from Work and Income, Inland Revenue or both. 2005 is forecast.

Figure 13 –
Family assistance components¹²

	2000 \$ million	2001 \$ million	2002 \$ million	2003 \$ million	2004 \$ million	2005 \$ million
Family Support	899	861	848	847	819	833
Child tax credit	167	161	157	143	155	141
Family tax credit	11	17	14	16	14	13
Parental tax credit	7	17	18	12	14	14
Total family assistance	1,084	1,056	1,037	1,018	1,002	1,001

Paid parental leave

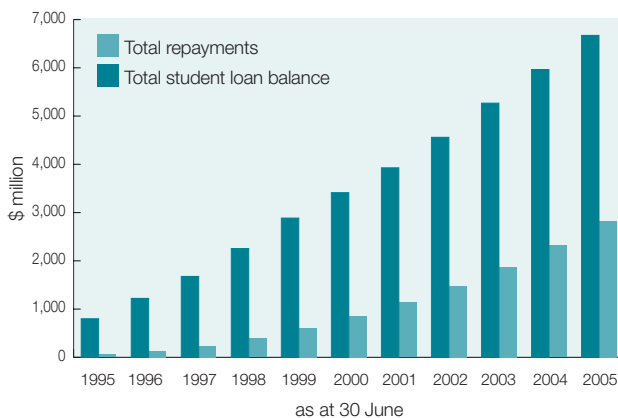
This year we distributed \$76.1 million in paid parental leave to 19,193 parents, compared to \$63.6 million to 16,457 parents last year. This increase was influenced by changes in legislation effective from 1 December 2004¹³.

The maximum amount of paid parental leave is inflation-indexed each year. It was paid out at a weekly rate of \$334.75 in 2004, and \$346.63 in 2005.

Student loan outcome

Inland Revenue's role in administering the student loan scheme is to collect repayments from student loan borrowers. This is reflected in the outcome of student loans being repaid. This year we received \$510.3 million in loan repayments, compared to \$447.2 million last year, while the total loan balance increased from \$6.0 billion to \$6.7 billion. Total repayments now represent 42% of the total amount borrowed.

Figure 14 –
Total student loan and total amount repaid



¹² Year to 30 June.

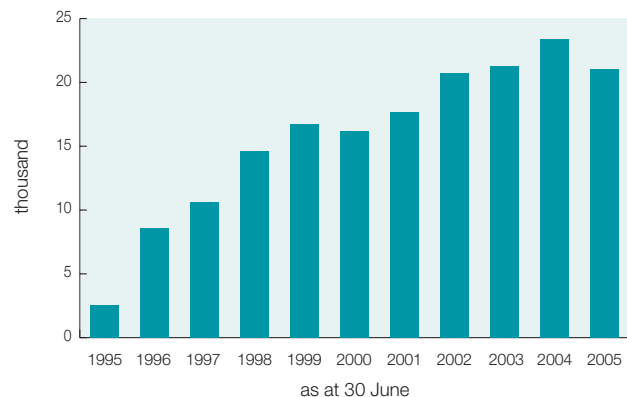
¹³ From 1 December 2004, parents became eligible for payments if they had worked for the same employer for six months (previously 12 months) before the expected date of delivery or adoption of a child, and the payment period increased from 12 to 13 weeks.

These increases largely reflect the growth in the number of student loan borrowers and the amount each student is borrowing. There are currently 445,074 student loan borrowers, compared to 418,761 last year. 419,983 borrowers are resident in New Zealand whereas 25,091 (6%) are registered as living overseas. In the 2004 academic year 157,032 students had a student loan (35% of all domestic tertiary students). The median value of a student loan was \$10,404, compared to \$10,017 last year.

Student loan balances represent about 5% of all debt held by New Zealanders. In comparison mortgages make up 80%, bank debt 10% and credit card debt 3%¹⁴.

87% of resident borrowers met their total repayment obligations, a similar level to last year. 21,079 borrowers finished repaying their loan, compared to 18,002 in the previous year¹⁵.

Figure 15 –
Student loans repaid



¹⁴ Statistics New Zealand and the Retirement Commission, *The Net Worth of New Zealanders – a Report on their Assets and Debts, 2002* www.stats.govt.nz

¹⁵ As at the end of each year. Student loan accounts can be finalised after the end of the fiscal year, so the number of loans repaid each year will increase after 30 June. The number of loans repaid for 2003–04 was 18,002 as at 30 June 2004 and 23,355 as at 30 June 2005. Figure 15 provides the number of loans repaid for each year, as at 30 June 2005. We expect the number of loans repaid for 2004–05 to ultimately match or exceed that of 2003–04.

Child support outcome

Child support is money paid by parents not living with their children to help financially support those children. Many separated parents make their own financial arrangements. However where the custodian receives a sole-parent benefit or where a parent applies to Inland Revenue to assist them, we assess, collect and disburse child support.

Our child support scheme serves as an intermediary for approximately 175,000 paying parents and 185,000 custodians¹⁶, and child support is currently paid, or owed, for the financial support of an estimated 340,000 children. Although the total number of child support cases has stabilised over the past few years, there is a significant amount of turnover within the total. This represents a considerable administrative workload¹⁷.

61% of the 144,678 custodians with a current-year entitlement and approximately 20% of the 142,707 paying parents with a current-year liability receive a benefit.

The average child support assessment this year was \$2,544, an increase of 48% since 2000. We attribute this to a 34% increase in the average annual income of paying parents and to changes to legislation¹⁸. Of the paying parents with a current liability, 48% were assessed to pay the minimum (\$688 per annum) and less than 1% were assessed at the maximum income (\$93,522 per annum).

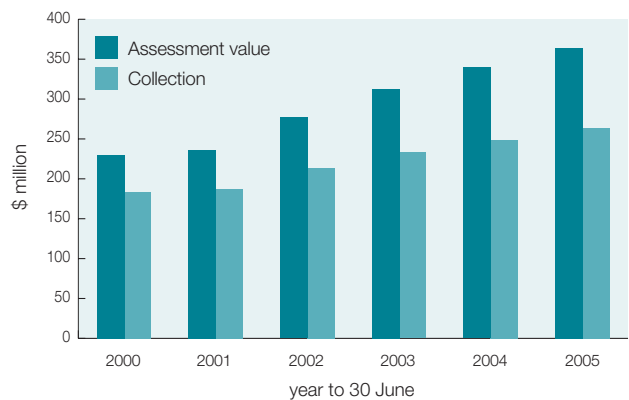
This year we collected \$309.1 million (net) child support, compared to \$287.8 million for 2003–04. This figure includes assessments and penalties collected for both this year and any previous years, less any refunds. 15% of the amount collected was for assessment arrears and penalties.

In the current year, we collected \$263.4 million (72.4%) of the \$364.0 million child support assessed, \$14.8 million more than last year. Of the amount collected, 61.2% was paid in full and on time, a similar level to last year.

Since the scheme began in 1992, we have collected 86.3% of the child support assessed (\$2.5 billion collected of the \$2.9 billion assessed), compared to the 40.7% collection rate achieved before the 1992 scheme.

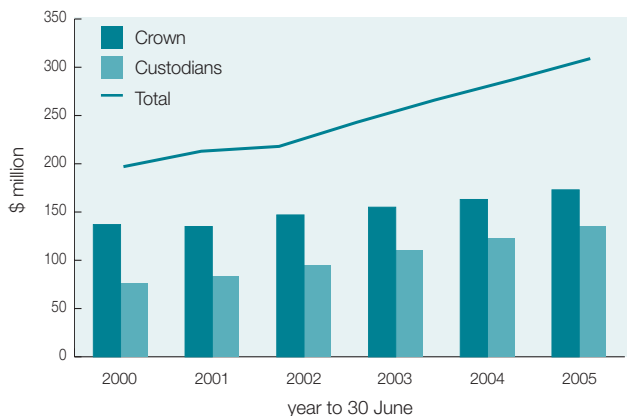
Both our current-year and overall collection rates compare very favourably with schemes in other countries¹⁹.

Figure 16 – Child support collected versus assessed (current year)



This year we distributed \$309.1 million. We paid \$135.8 million to custodians and \$173.3 million to the Crown to offset benefits paid to custodians. Payments to the Crown include penalties as well as assessments paid.

Figure 17 – Child support distributed



¹⁶ Paying parents with a current liability or debt (including cases we administer under the reciprocal agreement) and custodians with a current or outstanding entitlement. There are more custodians than paying parents because some paying parents are linked to several custodians (the reverse also applies).

¹⁷ A case consists of a custodian and the respective paying parent. This year, we opened 26,500 new cases and closed 25,500 existing cases.

¹⁸ Legislation effective from 1 April 2000 redefined how assessments are calculated for paying parents who live in Australia and where their actual income is not known. Changes to the Child Support Act effective from 1 April 2001 resulted in inflation-indexing of the minimum assessment and an increase in the maximum income used for assessment calculation (from 2 to 2.5 times the average wage).

¹⁹ Australia – overall collection rate of 89.2% for 2003–04 (excluding private collections). Source: *Child Support Scheme 2003–04* www.csa.gov.au
US states – average current-year collection rate of 59% for 2004. Source: *Child Support Enforcement, FY 2004 – Preliminary report* www.acf.hhs.gov

UK – current-year collection rate of 70% for 2004–05. Source: Annual Report 2004–05 www.childsupportagency.gov.uk

Revised outcomes

In 2004–05, we revised our outcomes as part of the ongoing development of our strategic framework.

These new outcomes reflect our tax and social support programme responsibilities and cover all the activities we do as a department (see Figure 18). These outcomes will apply from 2005–06.

Figure 18 –
Inland Revenue's new outcomes

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

