

Commissioner's introduction



We are continuing to strengthen community confidence in our administration by:

- delivering on our outcomes
- advising on and implementing key government policies and initiatives
- focusing our services and approaches on improving compliance
- building capability





Our Senior Management Team

Standing: Robin Oliver, David Butler, Colin MacDonald. Sitting: Martin Smith, Cathy Magiannis, Naomi Ferguson

On behalf of all the people who work for Inland Revenue I am proud to acknowledge our achievements for the year ended 30 June 2004. How well we carry out our work impacts on the lives of most New Zealanders through our role in collecting tax, student loan repayments and child support and paying family assistance, paid parental leave, and child support.

Taxpayers and other customers tell us we carry out our functions to a high standard.

Surveyed customer satisfaction in 2003–04

- 86% overall satisfaction
- 87% for call centres
- 96% for our tax agents' 0800 line
- 97% for our advisory service, and
- improvements in our child support, outstanding returns and overdue debt customer satisfaction levels.

Achieving these levels of customer satisfaction requires us to successfully operate in a challenging environment where we strive to find the right balance between efficiency and effectiveness. Our operations are diverse with 4,700 staff based in 22 sites in 17 different towns and cities. We operate a very reliable information technology environment—our mainframe is available over 99% of the time. It is also one of the largest in New Zealand and in 2003–04 we invested \$18 million in improving our IT functions.

Integrating our services requires us to have a clear longer term view of what we are striving for as an organisation—our desired future—and what the strategies and initiatives are that we need to undertake to move us towards that future.

Our desired future:

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

Our strategic direction is based on:

- streamlining and simplifying tax processes
- creating an environment which promotes compliance
- enhancing our people capability
- enhancing the administration of social policy business.

Achieving our desired future is not just about Inland Revenue continuing to raise its performance. It also requires the community to increasingly regard paying tax as contributing to society. We believe this will happen if we continue to strengthen the confidence the community has in Inland Revenue being professional,

approachable, effective and efficient. This includes assisting taxpayers and customers who want to comply, through to ensuring that those who have chosen not to comply, are dealt with appropriately.

It is pleasing therefore that our customer satisfaction figures have remained high again this year and we also research the views of the wider community. Early indications show high community support for the proposition that by paying tax people are contributing to society. The research, which is a regular ongoing monitor, also shows that generally, impressions of Inland Revenue are positive, particularly from those people who have dealt with us recently.

Particularly pleasing this year are the positive comments from individuals and business groups about how we have responded to different situations. For example, following the February floods in central New Zealand, Federated Farmers publicly thanked Inland Revenue for being quick to respond with assistance and relief measures and for the pragmatic approach taken to deal with people's tax affairs.

Delivering on our outcomes

Together our people contributed in 2003–04 to delivering on our outcomes through:

- assessing nearly \$38 billion in taxation revenue
- distributing over \$296 million in child support
- distributing \$505 million in family assistance and \$63 million in paid parental leave
- collecting \$447 million in student loan repayments, with 18,002 borrowers finishing repaying their loan.

Advising on and implementing key government policies and initiatives

It is critical for all New Zealanders that we have a well-designed and soundly structured tax system. To achieve this, the government receives advice from our Policy Advice Division and The Treasury. This advice contributes towards the government's goals for growth and innovation and social cohesion as well as ensuring the revenue base is maintained and other initiatives are progressed.

A major milestone this year was the enactment in May of the three-volume Income Tax Act 2004. The aim of rewriting the Act is to make it easier for users to read and understand. The new Act comes into effect in the 2005–06 income tax year.

We continue to look at ways of working collaboratively with other government agencies to achieve the best outcomes for government and the community. A good example of this in 2003–04 is our work with the Ministry of Social Development on the Government's *Working for Families* package of reforms.

Focusing our services and approaches on improving compliance

In 2003–04 we:

- serviced a large and diverse customer base with nearly 5.8 million people and organisations registered for income tax
- answered over 6.7¹ million telephone and 1.6 million correspondence contacts
- processed over 14 million returns and payments
- collected over \$1 billion in overdue debt
- assessed over \$786 million in audit discrepancies, including \$30 million more in discrepancies from tax evasion and aggressive tax issues than last year.

Tailoring and targeting our responses is vital to supporting an environment where taxpayers and social assistance customers meet their obligations, and receive their entitlements, of their own accord.

As well as our response to the floods mentioned earlier we have been:

- offering a range of new and enhanced electronic services that make it easier for people to comply or to seek information about how to comply
- working with industry groups to address non-compliance (including addressing the harder end of non-compliance where people deliberately flout the law) so that businesses can compete more fairly

- working with taxpayers, child support and other customers who have debts so that a manageable repayment plan is established.

These changes are occurring during a period of significant customer growth, for example:

- 13% increase in all income tax registrations, and
 - 12% increase in GST registrations
- over the past four years.

To meet these changing demands requires us to continually develop our services to ensure we strengthen community confidence in our administration. For example, we are currently piloting text messaging to a group of our child support customers to tell them when their payments are due. We also need to continue to adapt our capability, our people, processes, resources, knowledge, relationships and structure to meet these challenges.

Building capability

We are continuing to invest in our people by building their capability, including their leadership and management skills as well as their technical skills. This year we have particularly focused on leadership training, raising our technical expertise, and attracting and retaining people with the skills and expertise we need.

During the year we reviewed whether our current structure provided the most appropriate grouping of responsibilities and activities at the most senior management level. As part of this review we decided to increase our focus on people capabilities so we are better placed to continually improve our performance.

We are also implementing our Information Technology Strategic Plan, which ensures that we have the technology platform and are delivering the information and services to our customers when and how they are needed.

¹ Includes person-to-person calls and calls to our automated phone service.

Looking forward

We expect 2004–05 to be a demanding year with:

- further growth in the volume of calls, letters and registrations
- the implementation of *Working for Families*
- the need for ongoing improvements in our performance in the collection of child support and student loans while there are also pressures on our performance around debt collection.

These results have to be achieved in an environment where there is a need for us to have a clear focus on developments around the world regarding taxation policy and administration. Therefore, we need to ensure that New Zealand has a strong voice in these ongoing international developments.

Conclusion

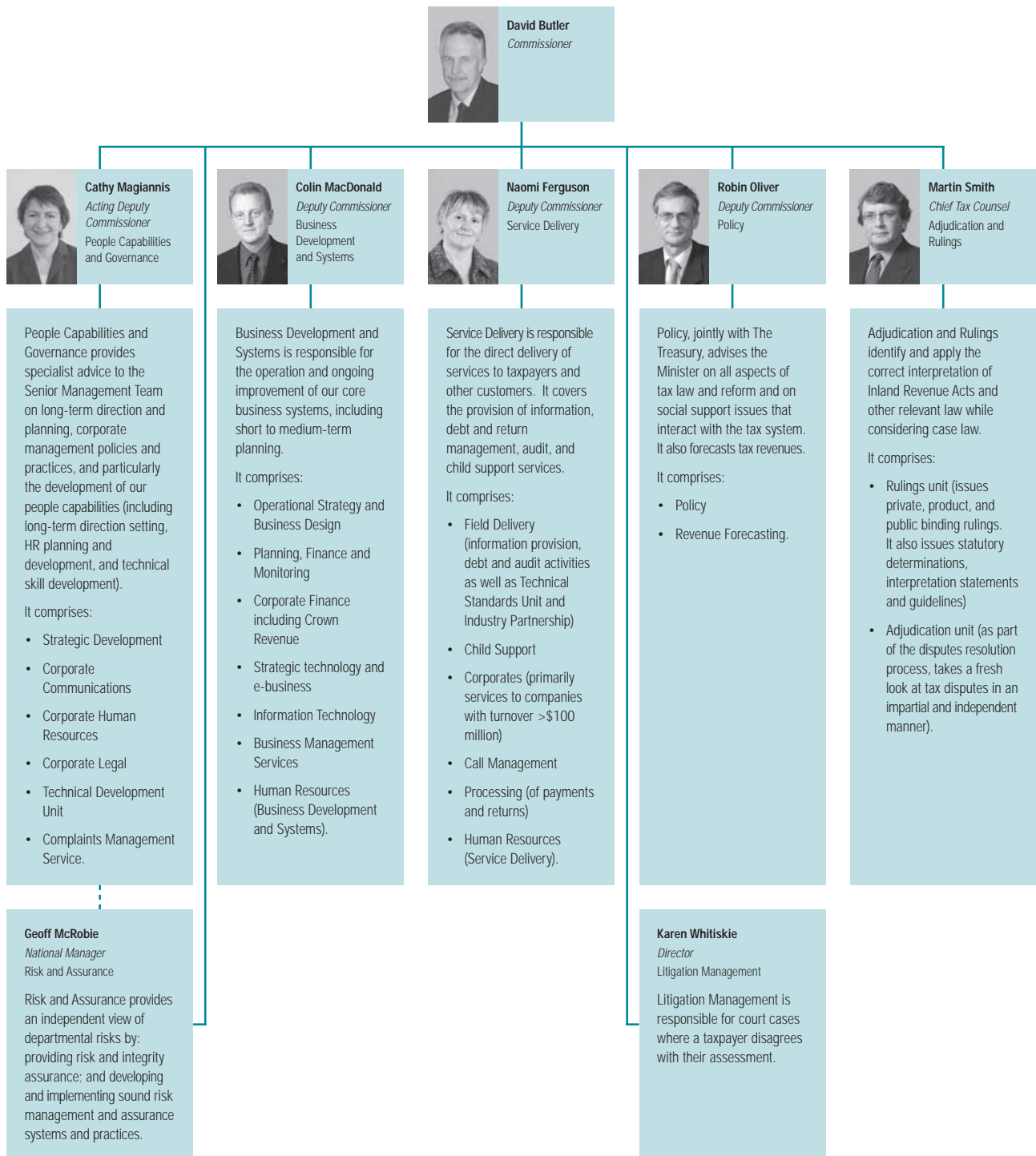
Again I want to acknowledge the excellent contribution of the people in Inland Revenue who have worked very hard over the last year to achieve our outcomes.



David Butler
Chief Executive and Commissioner of Inland Revenue

Our structure and governance

Figure 1 –
Our structure



Our structure and Senior Management Team

Figure 1 shows our structure, reporting lines and senior management team as announced on 29 July 2004.

Following Liz Sinclair's (General Manager, Strategic Design) resignation in February 2004, we undertook a review of the roles and responsibilities for the positions of General Manager, and our governance arrangements (discussed below).

The review recommended changes to the allocation of responsibilities to the general manager positions as follows:

- establishing People Capabilities and Governance, comprising Strategic Design and other relevant areas (see below). This new area will specifically focus on developing our people capability and overseeing our governance arrangements. The changes to reporting lines included:
 - responsibility for the Technical Development Unit and Complaints Management Service moving to People Capabilities and Governance
 - responsibility for Risk and Assurance moving to People Capabilities and Governance while continuing with "direct line" reporting to the Commissioner on integrity and internal audit issues
 - responsibility for Corporate Finance moving to Business Development and Systems.
- responsibility for processing centres moving to Service Delivery, while the design capability remains within Business Development and Systems
- renaming the general manager positions to deputy commissioner and Chief Tax Counsel, aligning their position titles with New Zealand's public sector and international revenue agencies.

Appointments and resignations

There have been four significant appointments and resignations since our last annual report:

- Robin Oliver, Deputy Commissioner, Policy, has been appointed Vice-Chairman of the Bureau of the OECD Committee on Fiscal Affairs. This is an additional role to his Deputy Commissioner position. The Committee brings together tax experts and officials from all 30 OECD countries to discuss tax policy and administration issues. Recent subjects of discussion include taxation of multinationals, double taxation, fiscal fraud and tax evasion.
- Liz Sinclair, General Manager Strategic Design, resigned in February after 16 years' service with Inland Revenue. She has taken up the role of Chief Operating Officer at the Ministry of Justice.
- Mike Lennard, Director Litigation Management, resigned in June after eight years' service with Inland Revenue to practise full-time as a barrister. Karen Whitiskie has recently been appointed to the position of Director, Litigation Management.

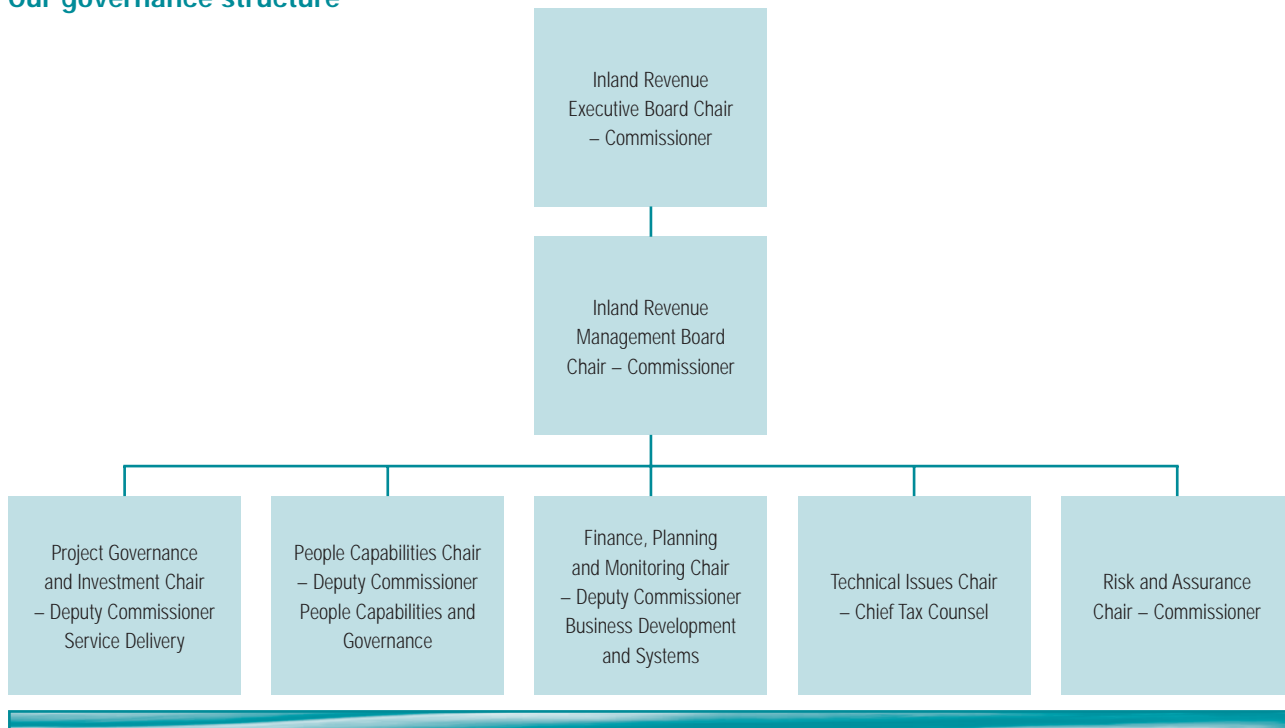
We are currently recruiting for the Deputy Commissioner, People Capabilities and Governance position.

Improved governance arrangements

In reviewing our governance arrangements, established in 2002, we wanted to ensure that they met our strategic and operational needs while making the most effective and efficient use of the time of those involved. The recommendations for our governance arrangements will allow:

- the Senior Management Team to focus on setting the direction, identifying strategic risks and monitoring performance (including risk management strategies)
- the establishment of a new governance structure (Figure 2), comprising two boards and five committees, which will deal with specific areas of management focus.

Figure 2 –
Our governance structure



The roles of the two new governance boards are:

- **Executive Board** To examine longer term strategy, ethics and strategic risks to ensure that we are able to achieve our strategic objectives, and undertake regular reviews of strategic progress
- **Management Board** To focus on major operational issues that are needed to manage Inland Revenue on a day-to-day basis (for example, high-level business outcomes and outputs, department risks and considering climate survey results).

The new boards are supported by five committees that will focus on specific areas by taking an oversight role, providing broad strategic overview, and monitoring outcomes and performance.

The new governance arrangements will be progressively implemented during 2004–05.