Inland Revenue
Te Tari Taake

Annual Report 2017

OUR MISSION

We contribute to the **economic and social wellbeing of New Zealand** by collecting and distributing money.

OUR VISION

A **world-class revenue organisation** recognised for service and excellence.

What we want to achieve

Our corporate strategy is our long-term strategy for creating value and better outcomes for New Zealanders.

It describes our vision—what we want to be. We want to make it easy for our customers to pay and receive the right amount. We also want to continue to meet the changing expectations of government and society.

CUSTOMER | Putting the customer at the centre of everything we do.

EXTERNAL COLLABORATION | We work with external parties to innovate, gain insight and achieve wider government economic and social outcomes.

INFORMATION AND INTELLIGENCE | Our decisions and actions, for delivering today and shaping our future, are intelligence-led.

DIGITAL | We fully embrace our place in the digitally connected world.

POLICY AGILITY | Policy change is faster, cheaper and better: fit for a changing world.

PEOPLE | Working as part of Inland Revenue is unique, exciting, fulfilling, and career enhancing.

Inland Revenue plays a critical role in improving the economic and social wellbeing of New Zealanders

We do this by collecting and distributing money—we collect over 80% of the Crown's revenue and collect and distribute social support payments.

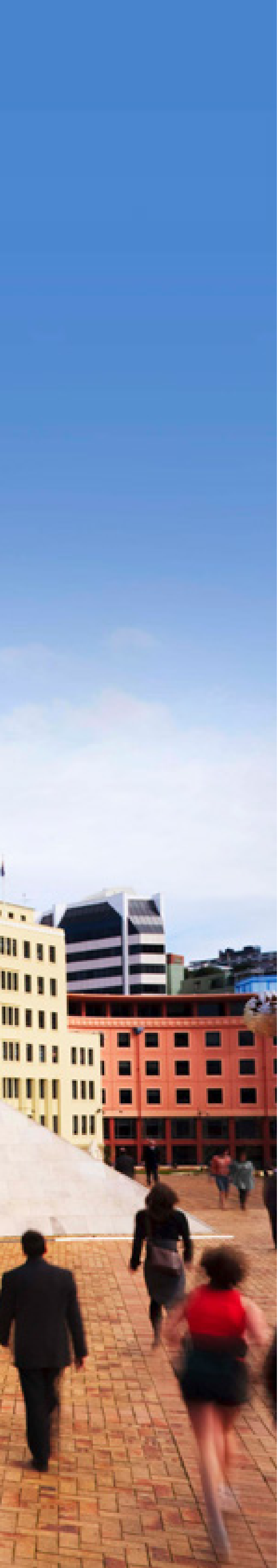
We provide advice to the Government on tax policy and all aspects of social and other policy that interact with the tax system. We make sure the tax system is clear, consistent and simple. We also advise the Government on international tax issues and are involved in developing and implementing New Zealand's international tax legislation.

We work with other government agencies to provide joined-up, Better Public Services. The current and future needs and wellbeing of New Zealanders are at the heart of this.

WE COLLECT OVER

80%

of the Crown's revenue



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Full report

QUICK PRINT
Our financial statements

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Our Executive Leadership Team lead and guide us

Naomi Ferguson

Commissioner and Chief Executive, Inland Revenue

Naomi has been Commissioner and Chief Executive of Inland Revenue since July 2012. She is leading the customer-centred business transformation across Inland Revenue. Naomi is an experienced public sector executive with more than 25 years' experience working in revenue agencies in the United Kingdom (UK) and New Zealand. She has successfully delivered major transformational change projects and built effective teams to deliver results. Before coming to New Zealand, Naomi was the Director, Business Customer and Strategy, at Her Majesty's Revenue and Customs in the UK.

Arlene White

Deputy Commissioner, Service Delivery

Arlene has been Deputy Commissioner, Service Delivery since March 2012. Arlene guides Inland Revenue's customer-facing groups and brings a strong customer focus and business skills. Arlene is originally from Canada, where she was Assistant Commissioner, Assessment and Benefit Services at the Canada Revenue Agency (CRA). In this role she was responsible for CRA's large service delivery operation and leading a key transformational strategy around e-services for customers.

Cath Atkins

Deputy Commissioner, Policy and Strategy

Cath joined Inland Revenue in January 2017. She has more than 25 years of policy experience in the public sector. Before joining Inland Revenue, Cath was Deputy Secretary, Macroeconomics and Growth at the New Zealand Treasury where she led the Treasury's work on settings to promote economic growth and a stable macroeconomic environment. She has held a range of senior leadership positions since joining the Treasury in 1999, including Deputy Secretary, Strategy, Change and Performance.

Gary Baird

Chief Technology Officer

Gary is the Chief Technology Officer for Inland Revenue. He joined us in April 2016. Gary leads the Information Technology and Change Group (IT&C), who are proud to deliver trusted and reliable technology services across the organisation. Gary has more than 20 years' experience managing large and complex technology environments in the banking and logistics sectors. He has significant experience in operations, strategy, architecture, investment planning and project governance.

Greg James

Deputy Commissioner, Transformation

Greg joined Inland Revenue in June 2013. Greg has a wealth of experience in transformation and change and has successfully led a number of large-scale and complex transformation programmes. Greg has previously held executive roles at Fonterra, as the Director Information Systems, Global Business Process and Global Procurement; and as the acting Chief Information Officer of Telecom Retail.

Lara Ariell

Chief Financial Officer

Lara joined Inland Revenue in April 2016, initially on a 12-month secondment, and brought wide-ranging business performance and financial experience. She was appointed Chief Financial Officer in May 2017. Before joining us, Lara was the Deputy Chief Executive—Finance at the Tertiary Education Commission. Lara has also held roles as the Chief Financial Officer and General Manager Performance and Improvement, Courts and Tribunals at the Ministry of Justice, and Chief Financial Officer at Te Papa Tongarewa, the Museum of New Zealand.

Mark Daldorf

Chief People Officer

Mark joined us in January 2016 after an extensive private sector career in senior human resources and change management. His previous roles include General Manager, Human Resources for Foodstuffs North Island, where he led the people workstream of the merger between Foodstuffs Wellington and Auckland. Mark has worked internationally in companies across Australia, the Middle East and Asia, including Emirates Airline, Westpac and Standard Chartered Bank. Mark's role at Inland Revenue includes leading the People and Culture team, chairing the Organisation Development Committee and leading people aspects of the transformation programme.

Martin Smith

Chief Tax Counsel

Martin joined Inland Revenue in 1995. He is admitted as a barrister and solicitor in Australia and New Zealand and is a member of the International Fiscal Association and a Fellow of the Taxation Institute of Australia. Before joining us, Martin practised as a tax lawyer in large law firms in Australia and New Zealand, was a tax consulting partner in an international accounting firm, and director of Taxation Research for Ernst and Young in New Zealand. Martin heads the Office of the Chief Tax Counsel, which provides binding rulings and interpretation statements on taxation matters, reviews and determines proposed tax assessments subject to dispute and determines technical-legal taxation matters that are escalated internally.

Mary Craig

Deputy Commissioner, Corporate Integrity and Assurance

Mary has had an extensive and varied career with Inland Revenue since she joined in the early 1990s. Before taking up the position of Deputy Commissioner, Corporate Integrity and Assurance, Mary held several senior roles and portfolios at Inland Revenue. These included Deputy Commissioner Corporate Services; acting Deputy Commissioner Business Development and Systems; Group Manager for the Office of the Chief Tax Counsel; National Manager Business Management Services and Senior Advisor in Child Support.

Mike Cunnington

Deputy Commissioner, Information, Intelligence and Communications

Mike joined Inland Revenue in July 2013. Since then he has led work to develop a more customer-focused approach to compliance, build supportive customer strategies and develop our digital, data analytics and marketing capabilities. Mike brings experience of leading customer-centred change in a range of organisations, here and internationally. Before joining Inland Revenue Mike was Chief Marketing Officer for ANZ Bank and he has held senior positions in marketing agencies in New Zealand and the UK.

Back / Mary Craig, Mark Daldorf, Lara Ariell, Martin Smith, Mike Cunnington, Greg James, Cath Atkins.
Front / Gary Baird, Naomi Ferguson, Arlene White.

We organise ourselves by business groups

We work collaboratively across business groups, sharing information with one another and combining our skills and knowledge to improve outcomes for our customers, government and ourselves.

Our current business groups are:

Service Delivery

Provides taxpayer information and education and carries out compliance activities. It is the main point of interaction for customers making payments and filing returns.

The Office of the Chief Tax Counsel

Provides technical advice about the interpretation and application of tax law for us and our customers.

Policy and Strategy

Provides tax and social policy advice to the Government, with the Treasury, and leads the development of our strategy.

Transformation

Leads the work to implement a modern, digital revenue system.

Information Technology and Change

Develops, delivers, improves and supports our information technology systems.

Information, Intelligence and Communications

Helps us keep customers' needs in mind as we transform and uses data and intelligence to help us understand and influence customer behaviour.

Corporate Integrity and Assurance

Provides independent advice, support and assurance, making sure we are doing the right things in the right way.

People and Culture

Enables us to lift organisational performance through our people.

Performance, Facilities and Finance

Provides facilities for our people, business performance analytics, financial and planning advice, and analysis.

We are changing our structure and the way we work in the coming year, organising ourselves by customer types rather than functions and bringing our people closer to customers. We are setting up three new groups: Customer and Compliance Services—Individuals, Customer and Compliance Services—Business, and Information and Intelligence Services.

These groups will be established in February 2018. At this time our Service Delivery and Information, Intelligence and Communications groups will be disestablished.

See pages 48 to 50 for more details.

We are located throughout New Zealand

WE CURRENTLY HAVE OVER

5,500 STAFF

BASED IN

17 TOWNS & CITIES

Our customers are a full cross section of New Zealanders

In the tax year ended March 2016:

INDIVIDUALS

Nearly 3.7 million people paid pay-as-you-earn or filed a personal tax return.

EMPLOYERS

203,000 employers filed more than 2 million employer monthly schedules with pay-as-you-earn deductions for employees.

COMPANIES

396,000 company tax returns were filed.

GST FILERS

633,000 registered customers filed more than 3 million goods and services tax returns.

In the 2016–17 financial year, we managed or shared the administration of:

WORKING FOR FAMILIES TAX CREDITS

With the Ministry of Social Development we distributed $2.4 billion in entitlements to support working families.

CHILD SUPPORT

We collected $468 million from more than 166,000 liable parents who pay child support. We distributed $279 million to carers. The balance is retained by the Government to help offset the cost of benefits paid.

KIWISAVER

We administer the scheme by collecting contributions and transferring them to scheme providers for investment. We transferred $5.6 billion to scheme providers. As at 30 June 2017 there were 2.8 million people enrolled in KiwiSaver.

STUDENT LOANS

We jointly administer this programme with the Ministries of Education and Social Development (StudyLink). We had nearly 733,000 student loan borrowers and collected almost $1.3 billion in repayments.

PAID PARENTAL LEAVE

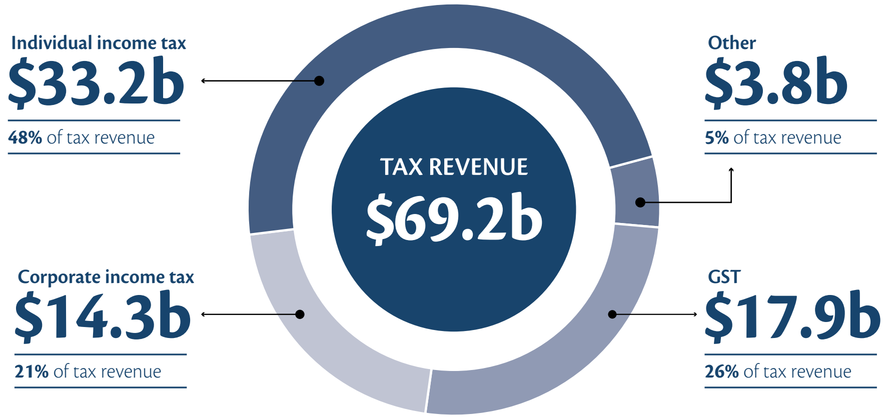
We make payments, for the Ministry of Business, Innovation and Employment, to parents who take leave from their jobs or businesses to care for a baby. We made $274 million in payments to 28,400 parents.

All New Zealanders benefit from tax

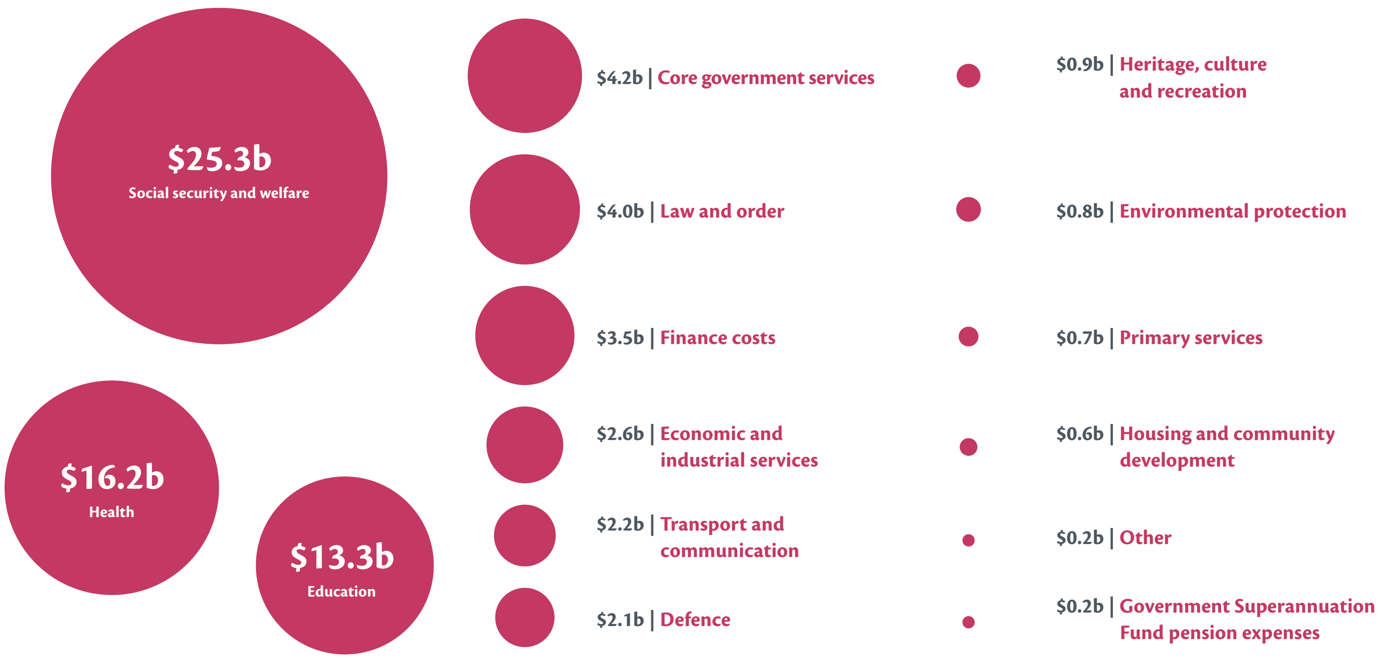
The money we collect helps pay for services that all New Zealanders benefit from, including healthcare, education, justice, housing and roads.

In 2016–17 we collected $70.1 billion of revenue to fund government programmes.

We collected $69.2 billion of tax revenue. Direct (or income) taxation, for example individuals' income tax or corporate income tax, accounts for 74% of tax revenue. GST accounts for 26%. For full details refer to pages 144 to 145.



In 2016–17 the Government expected to spend in the following areas:



For full details see http://www.treasury.govt.nz/budget/forecasts/befu2017.

A word from the Commissioner

As I reflect on the year, I am proud of what our people have achieved. From delivering a range of new services, to taking the first successful steps in our transformation, we have continually focused on our customers and performed strongly.

This report outlines the many steps we've taken over 2016–17 to make tax simpler, more certain and less time consuming for New Zealanders.

Our people

This year's result is a credit to our people. As an organisation we have continued to evolve our thinking and ways of working during a year of change and challenges. At times this has not been easy. We have been working through proposals for our new organisation design and considering what it means for us individually and collectively. Our people felt pressure in many areas as they learnt a new system, took on additional work and supported customers who were also experiencing disruptions.

Our people supported many individuals and businesses affected by a range of adverse events, including the Kaikoura earthquake. Our frontline teams were on the ground speaking with people and businesses about the assistance available to them after each event.

These events also caused significant disruption to many parts of our operations, with the loss of access to buildings in Wellington and Napier. Again, our people displayed their agility, collaboration and patience as they had to work remotely or relocate to other offices, and cover additional work. We showed great resilience during this period but at times felt unsettled and disconnected from our colleagues.

Despite these challenges and disruptions, our people continued to serve our customers, collect revenue, distribute social support payments, provide policy advice to the Government and successfully deliver the first stage of our transformation.

Our transformation

Our transformation took its first major step forward in February 2017 when we and our customers started to manage GST within our new system. It was a challenging time for our customers and our staff, learning and working in two systems, but our people did a great job of supporting our customers through the change.

Although the changes created challenges for some of our customers, overall it was a success. More than 75% of our customers are now filing and paying their GST electronically, either via myIR or their accounting software. I'm excited to see more efficiencies for customers managing their taxes online as we introduce other services into our new system.

To support our transformation we're becoming an agile, intelligence-led organisation that is focused on our customers' needs. Our new organisation design has three new business groups. Two business groups focus on our individual and business customers. The third group supports the organisation through stronger data and analytics so we become increasingly intelligence-led.

Better for customers

Our transformation also involves changing legislation and policy to make tax and social policy simpler to calculate and administer. We developed and consulted on government proposals to change a number of tax policies. If accepted, the proposals will reduce the number of individuals needing to provide information to Inland Revenue, enable us to give people their tax refunds or tax bills automatically, and change how we pay social support.

More people expect to be able to deal with government agencies online. This is a key driver of our transformation and the Government's Better Public Services programme. So we were proud to be part of a cross-agency team who created two online services that support people to access the right services or entitlements during key points in their lives. These services are SmartStart and Te Hokinga ā Wairua. We're also making a positive difference to reduce the effort and cost of doing business with government.

Working internationally

We continue to work closely with overseas agencies to reduce global tax evasion. This year the New Zealand Government joined a major initiative to combat global tax evasion. We are one of 100 countries that will share our data on foreign tax residents under the Organisation for Economic Co-operation and Development's Automatic Exchange of Financial Account Information. We are furthering the work to address base erosion and profit shifting to help close tax loops for large multinationals.

Seeing the first key steps of our transformation become a reality for our people and customers has made it an exciting year. I am proud of our people's ongoing focus on making tax simpler for taxpayers and transforming how we operate. I remain confident we'll continue to deliver good services to the people of New Zealand as we move into 2018.

Naomi Ferguson

Naomi Ferguson
Commissioner of Inland Revenue

Our highlights

We collected

$70.1 BILLION

in revenue to help fund government programmes. This is an increase from the $64.3 billion collected last year.

We paid

$3.3 BILLION

in Working for Families Tax Credits, KiwiSaver, paid parental leave payments and payroll subsidy.

We introduced new online GST services in our new

START

system on 7 February 2017, three months ahead of schedule and under budget.

We furthered our work to address base erosion and profit shifting by

multinational companies.

Child support debt is down

17.4%

—the first reduction in 20 years.

We reduced overdue tax debt by

36.1%

from last year.

More than

12,000

people have registered for IRD numbers through the new digital registration service for new immigrants.

We helped the Government's Better Public Services programme by helping customers use digital services. 97.4% of individual customers' tax returns were filed online in the quarter to June 2017, compared to 87.7% in the quarter to June 2016.

Achieved

45

of our 52 service performance targets.

Small and medium-sized businesses take

25%

less time to comply with their tax obligations than in 2013.

SmartStart—a cross-agency service for new parents that we contributed to—won the Institute of Public Administration of New Zealand Excellence Award for Collective Impact.

Our Commissioner Naomi Ferguson

WON

a Women of Influence award in the public policy section.

The Government Women's Network, which we played a big part in setting up, won a Highly Commended award in the 'Emerging Diversity and Inclusion' section of the Diversity Awards New Zealand.

The student loan digital advertising programme was named a

GOLD

Winner at the 2017 Beacon Awards in the category of Sustained Success.

HIGH UPTAKE FOR OUR NEW GST SERVICES

ALMOST

1.9

MILLION LOGINS

GST return

MORE THAN

865,000

GST RETURNS FILED

MORE THAN

136,000

CUSTOMERS HAVE SET UP DIRECT DEBITS

We are operating in a changing environment

We need to understand our operating environment and explore how it could change in the future. We continually evaluate our environment to identify existing and emerging trends, risks and opportunities. This allows us to be ready to respond, sustainably achieve our mission, vision and outcomes and deliver value for New Zealanders.

When developing our strategic direction, we take into account the wider environment and how it could evolve. In particular we consider our eight global drivers of change:

EMPOWERED INDIVIDUALS

Citizens connecting directly with each other instead of through institutions.

DISRUPTIVE TECHNOLOGY

Advances in technology that are changing business models and how whole sectors operate.

MATURING DIGITAL ECOSYSTEM

Cloud, social networks, mobile, big data.

POPULATION GROWTH

Global population growth and increasing competition for food, water, energy and land.

DEMOGRAPHIC TRANSITION

Ageing populations in many countries and the affordability challenge this poses.

POWER SHIFT

Global economic power shift from West to East.

CLIMATE CHANGE

Disruptions through drought, flood, and increases in pests and diseases.

URBANISATION

Cities driving economic growth and how urban centres are evolving.

We continue to consider how these forces interact together and what impact this might have on New Zealand and Inland Revenue. Understanding our operating environment and exploring the drivers of change help us in our planning and risk assessment processes and strategic decision-making.

2016–17 has been a year of change

The 2016–17 year was an important one for Inland Revenue. It was a year of setting the foundations for, and taking the first step in, our transformation. It was also a year of designing our future organisation, continuing to consult with the public on how we can make tax simpler, playing our part in international efforts to encourage multinationals to comply and continuing to work with other agencies to create better public services for New Zealanders.

We took the first step in our transformation

In February 2017 we achieved a significant milestone in our transformation by successfully moving GST to our new technology platform and introducing new online services. This milestone was achieved three months ahead of schedule and within budget.

We talked to our business customers and tax agents early about the changes we were making and provided resources and support to help them with the change. Customers with simple and straightforward GST transactions are working well with the new systems and processes, however, the changes created challenges for some of our customers, particularly tax agents. We are working closely with tax agents to improve their experiences of the new GST system.

Our people were challenged to learn a new system and work across two systems to support our customers. In some areas we experienced a loss in productivity and some work took longer to complete. We faced a larger than expected build-up of work on hand and had to ask more of our people to help out in customer-facing areas under pressure.

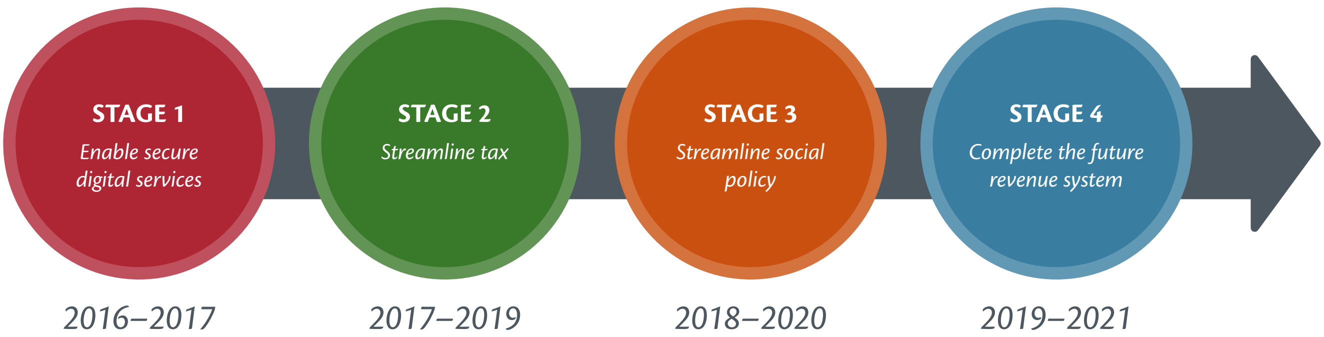
We learnt from these challenges and we have decided to implement the rest of our transformation progressively in a series of releases from 2018 to 2021. This will minimise the impact of working across two systems and reduce the amount of disruption for our customers and our people.

From April 2018 we will introduce the Accounting Income Method option for calculating provisional tax, move taxes, such as withholding taxes and fringe benefit tax, to new systems and processes and implement the Automatic Exchange of Information with other revenue agencies.

There is a close relationship between income tax and the Working for Families Tax Credits, so we explored the options for moving both of these to new systems and processes in April 2019. Doing so will mean delivering these changes for Working for Families Tax Credits earlier than originally planned. By taking the time to explore the options and assess the risk and impacts for our stakeholders, we did not meet our milestone target for completing the detailed design of stage 2 of transformation by 30 June 2017.

From 2019 we will progressively move the remaining social policies that we administer to new systems and processes, completing delivery of a modern, digital revenue system by 2021. This plan allows us to fulfil our obligations to the Government, delivering the future revenue system within the agreed timeframe and within budget, while reducing risk.

Figure 1: Business Transformation stages



As well as making changes to our systems and processes, we are making changes to the way we work. We are creating an agile, intelligence-led organisation built around the needs of our customers. In developing the new organisation design, we consulted our people on the proposal for three new business groups. We also trialled new, flexible ways of working and prepared our people for the capabilities they will need in the future.

We worked with the public, other agencies and other countries

We supported the Government's *Making Tax Simpler* consultation series with three more discussion documents—on investment income information, modernising the Tax Administration Act 1994 and better administration of individuals' income tax—released for public consultation. We also advised the Government on improvements to how we administer social policies.

We worked with other agencies and contributed to the Government's Better Public Services programme through the release of a service to help new parents get the information and support they need. We also continued to progress the New Zealand Business Number, a unique business identifier, and further developed our information sharing arrangements.

To deal with base erosion and profit shifting, we worked with other countries to update international tax rules and prepared to begin automatically exchanging information with other tax agencies from next year, as well as strengthening domestic rules.

We faced unexpected challenges

Our emergency response and business continuity processes were tested by the Kaikoura earthquake as we were getting ready to release our new online GST services. Our challenges continued in February 2017 with the closure of our Hawkestone Street site in Wellington after independent engineers raised safety concerns. Despite these challenges our people embraced new ways of working and we released our new GST services ahead of schedule and continued to deliver our core services.

Our performance results for 2016–17 reflect the hard work and effort our people put in for our customers while displaced and working with a new system from temporary sites.

Read on for more details on what we have done through the year, the difference this has made for our customers and government and how we have dealt with the challenges we faced.

We track our progress towards achieving our mission and vision

Our *Statement of Intent 2016–20* sets out our mission, vision and corporate strategy. It also shows how we track our progress towards achieving our mission and vision, through our outcomes, impact statements and performance measures.

Our success in achieving our mission is determined by achieving our outcomes

Our outcomes are:

- 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.
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment.

Our outcome measures help us understand our performance in delivering our outcomes. Overall in 2016–17 we improved our performance. The amount of revenue paid to us on time has continued to increase. For timeliness of payments we make to customers, two of our measures show improvement on last year, two remain the same and only one has decreased—GST refunds. Although we have a decrease in timeliness for this measure, it is a positive result as it is driven by more efficient processing in our new system allowing us to issue a number of aged refunds more easily.

We work closely with other agencies to provide better public services for New Zealanders. We helped with the development and release of two products this year that are designed to help people navigate certain life events —SmartStart and Te Hokinga ā Wairua. We also work with other agencies to reduce the cost to business of dealing with government. Our measures indicate that the effort required by businesses to deal with us was similar to last year but their satisfaction has increased.

Full details on our performance against each measure are given on pages 66 to 69.

Our vision is realised through the impacts we want to make

We have eight impact statements that outline the difference we want to make and what we intend to achieve with our resources:

- Customers have easy access to our services.
- Customer effort is reduced over time.
- Customers get it right from the start.
- We use information and insight to improve potential future revenue.
- We collaborate with other agencies and the private sector both domestically and internationally to create cost and/or productivity savings.
- The policy change process is of high quality, fast and cost-effective.
- Our workforce is highly skilled, motivated and diverse.
- Our business is run efficiently and effectively.

Our impact measures help us understand our performance in these areas. They show us that customer satisfaction with the accessibility and convenience of our systems, and how easy it is to comply, has decreased slightly. This may be due to our new GST system, which our customers are still getting used to. These measures also show an increased return on investment for targeted marketing campaigns and that our collaboration with other agencies through sharing information is benefiting these other agencies.

For our policy advice measures, one shows improvement while two are slightly down on last year. Our measures indicate that we continue to run our business efficiently and effectively, with an underspend against our appropriations, a strong Investor Confidence Rating and our systems availability being maintained.

We also have two integrity measures to help us understand the level of trust and confidence people have in us. These measures show a slight increase in our customers' trust and confidence in us and a larger increase in the Public Sector Reputation Index score.

Full details on our performance against our impact measures are on pages 70 to 77.

Our output measures show our performance in the areas we deliver services

Each year we receive funding from the Government to deliver specific services. We agree with the Government what we will spend the money on and how we will measure our performance. We measure our performance through output measures and we have targets for each measure.

The scores in Figure 2, on the next page, indicate the number of targets we have achieved in each area. This year we achieved 45 of our 52 targets, compared to 55 of 59 targets in 2015–16.

Overall, we performed well against our performance targets. We are making it easier for customers to get it right and more customers are filing returns electronically. We had significant success with our efforts to collect outstanding returns and we are making good progress in resolving new debt cases. We continue to perform well in our investigation, audit and litigation activities.

Of the seven targets not achieved two are customer satisfaction and perception measures. We know that some of our customers' experiences have been affected as they become familiar with our new GST systems and processes.

Many calls involved more complex tax issues, which meant calls took longer. We also received a lot more calls than planned for at certain times. Some of this was due to more people seeking tax refunds than in the previous year and more customers than expected seeking assistance with our new GST online system. These all contributed to fewer calls being answered within two minutes, although 77% of calls were answered within four minutes.

We added an extra step into our child support assessment process, which gave our customers a better service but increased the time it took us to issue assessments. We refined this step and our performance then improved.

As previously mentioned, our new system caused more aged refunds to be issued, resulting in us not meeting our target for GST disbursements being issued within four weeks. Although our target was not met, the efficiency of our new system in issuing these aged refunds is a positive outcome.

We achieved four out of six of our transformation milestones. We are now planning to implement RealMe, a secure way to prove who you are online, by 30 September 2017, not by 30 June 2017 as originally planned, because we needed to assess and confirm the future roadmap of RealMe across government. We explored the options for moving both income tax and the Working for Families Tax Credits to new systems and processes in April 2019. Doing so will mean delivering these changes for Working for Families Tax Credits earlier than originally planned. By taking the time to explore the options and assess the risk and impacts for our stakeholders, we did not meet our milestone target for completing the detailed design of stage 2 of transformation by 30 June 2017.

Full details on our performance against our output measures and targets are on pages 78 to 98.

Figure 2: Output performance targets achieved

	Overall	**45/52**
01.	Services to Inform the Public About Entitlements and Meeting Obligations	9/12 ACHIEVED
02.	Services to Process Obligations and Entitlements	12/14 ACHIEVED
03.	Management of Debt and Outstanding Returns	11/11 ACHIEVED
04.	Investigations	4/4 ACHIEVED
05.	Policy Advice	3/3 ACHIEVED
06.	Services to Other Agencies	2/2 ACHIEVED
07.	Transformation	4/6 ACHIEVED

We bring our story and our performance together in this Annual Report

What we are here for:
OUR MISSION

To contribute to the economic and social wellbeing of New Zealand by collecting and distributing money

We achieve this by delivering:
OUR OUTCOMES (OUTCOME MEASURES ARE ON PAGES 66 TO 69)

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

New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment

What we want to be:
OUR VISION

A world-class revenue organisation recognised for service and excellence

What we are doing to achieve this:
As described in this

ANNUAL REPORT

We are making it easier for people

- We are improving our services
- We are working with other agencies and organisations

We are supporting compliance

- We help our customers comply
- We facilitate international tax compliance
- We manage debt and outstanding returns

How we track our progress:

OUR IMPACTS

Impact measures are on pages 70 to 77

We are making it easier for people

- Customers have easy access to our services
- Customer effort is reduced over time
- Customers get it right from the start
- The policy change process is of high quality, fast and cost-effective
- We collaborate with other agencies and the private sector both domestically and internationally to create cost and/ or productivity savings

We are supporting compliance

- We protect the integrity of the tax system, and our stakeholders and the public have trust and confidence in us
- We use information and insight to improve potential future revenue

How we deliver our services:

OUR OUTPUTS

Output measures are on pages 78 to 98

Services to customers

- Services to inform the public about entitlements and meeting obligations
- Services to process obligations and entitlements
- Management of debt and outstanding returns
- Investigations

Policy advice

Services to other agencies

Transformation

We are managing our changing organisation

We make sure Inland Revenue is a great place to work	We manage risks and emergencies and keep the business running	We manage our systems and assets well	Our governance system guides our organisation

Our workforce is highly skilled, motivated and diverse	Our business is run efficiently and effectively

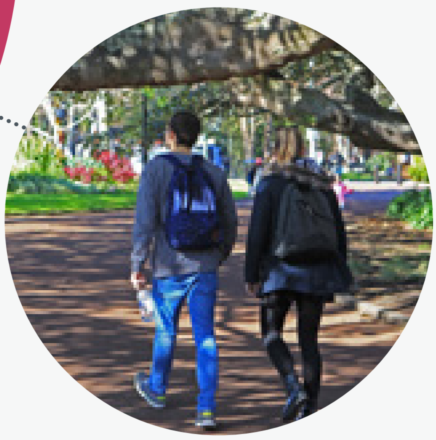
We also contribute to the Government's vision for Better Public Services

Better Public Services is a government programme to achieve results that make a difference to New Zealanders. As part of the Public Service, we are committed to working with other agencies to join up services for customers and make it simpler for people to deal with government.

The programme was introduced in 2012 with 10 priority results that had challenging targets to achieve in five years. We contribute directly to Results 9 and 10, and support Results 7 and 1 by sharing information.

More information on our contribution to Better Public Services is on pages 29 to 32.

The images throughout this report represent **our customers.** Our customers are the focus of all the work we do.

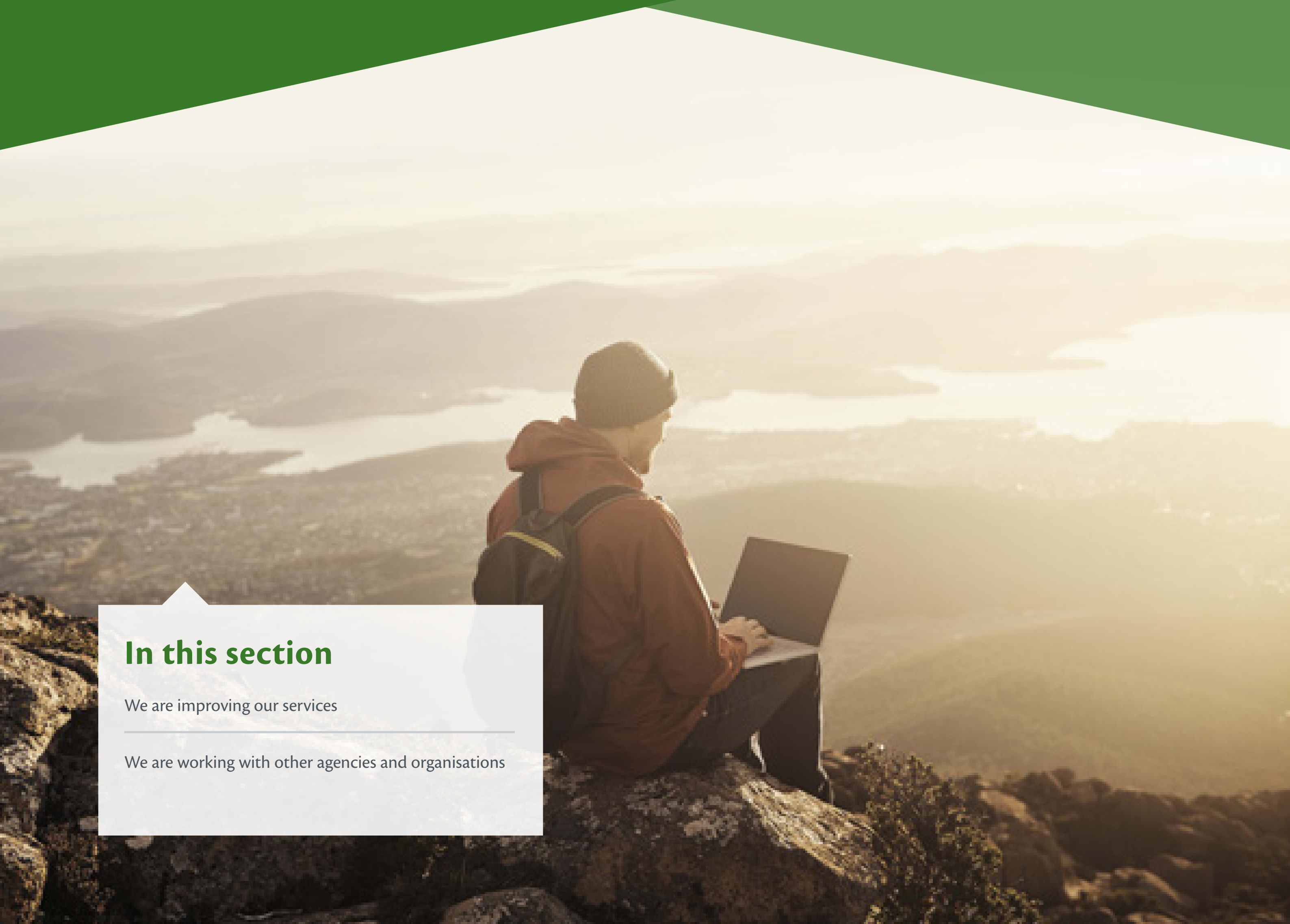


As an organisation we are transforming. We are building new systems and processes to meet the needs of our current and future customers. We are becoming more customer-centric, understanding what influences our customers and working with them to get the best outcomes for New Zealand.

We are **making it easier for people**

We want to achieve our outcomes while keeping our customers at the centre of everything we do. We are making tax simpler and easier to help our customers meet payment obligations of their own accord and to make sure they receive the payments they are entitled to. We also collaborate with other agencies across government to improve services to New Zealanders.

Transforming to a modern digital revenue system is one of the key ways we are working towards our outcomes. Over 90% of customers will be able to manage their own tax and social policy affairs through digital services in the future.



Making it easier for people...
at a glance...

We migrated GST to new systems and processes, which give customers more control so they can get things right from the start and have greater confidence that they have done the right thing. GST customers can choose from more filing and paying options, can set up reminders for due dates and change their previous returns, all without needing to contact us. If customers need to contact us, they can do it online, over the phone or face-to-face. We talk to customers and use their feedback to improve our systems and processes for the future.

We continued to support the Government's *Making Tax Simpler* consultation series with the release of a further three discussion documents.

We continued to make other improvements to our services, as well as system changes, such as letting customers call us for free from mobile phones and processing refunds faster.

We supported our customers during adverse events, such as earthquakes and floods, by meeting with them at local recovery hubs and sharing information.

We collaborate with other agencies across government to improve services to New Zealanders and work with private sector companies, such as software providers, to design services that fit customers' needs.

By making it easier for our customers, we will achieve our outcomes of revenue being available to fund government programmes and people receiving the payments they are entitled to.

We are improving our services

We are transforming our business

Business Transformation is a multiyear, multistage change programme that will modernise New Zealand's revenue system to make it simpler and faster for New Zealanders to pay their taxes and give more certainty around receiving their correct entitlements.

It is more than a change of technology. The changes will simplify and streamline how customers calculate, make and receive payments, simplify tax and social policy legislation and upgrade our technology platform. When transformation is complete it will be easier and quicker to implement changes in tax and social policies. We are using a commercial off-the-shelf software package from FAST Enterprises that we call START—Simplified Tax And Revenue Technology.

We introduced new online GST services

This year we took a significant step in modernising New Zealand's revenue system by migrating the first tax type—GST, which makes up 26% of the tax base—to our new systems and processes. Customers were able to use these new systems and processes for GST from 7 February 2017, three months ahead of schedule. It is now quicker and easier for customers with straightforward transactions to manage their GST online in our new START system.

We are now operating two systems—our heritage FIRST system and START. This is a challenge we are managing for our customers and our staff.

These changes are benefiting our customers

Customers can now:

- file and pay their GST at the same time
- make GST payments by direct debit, or credit or debit card
- set up email and text message reminders of when GST returns and payments are due to avoid penalties
- set up GST instalment payment plans and, in most cases, receive immediate confirmation and approval
- request a change to an already filed GST return.

Customers have embraced our new services

As at 30 June 2017:

- there have been almost 1.9 million logins to the My GST section in myIR, our secure online services portal
- more than 865,000 GST returns have been filed using the new web service
- more than 136,000 customers have set up direct debits, enabling them to file and pay their GST at the same time
- more than 6,500 GST returns have been amended online by customers, saving them from having to contact us to arrange this.

We supported our customers to work with our new GST services

Using marketing campaigns, we informed our business customers and tax agents early about the changes being made, including close-down periods. We provided additional support to those tax agents who needed it as our new GST processes were implemented. We also provided resources to help customers with the change, such as videos about the new GST section in myIR targeting tax agents and business customers. Our Twitter feed, LinkedIn and a Business Facebook page also supported customers using our new system. Since the Business Facebook page was launched in October 2016 for small and medium-sized businesses, the page has attracted close to 12,000 followers.

We are involving New Zealanders in our changes

Our 'Changing for You' marketing campaign helped small businesses understand how proposed changes to the revenue system could affect them and gave them a chance to provide feedback. The campaign involved press, radio and online advertising, with a link to our 'Changing for You' webpage with videos about the possible changes. Since the launch in July 2016, 52,000 people have visited the website and over 2,900 provided ratings, with 70% supporting the ideas presented.

We are listening to our customers and making improvements

Customers with simple and straightforward GST transactions are working well with the new systems and processes but there were some negative impacts for customers with more complex circumstances. Some customers, particularly tax agents, had challenges with initial set-up tasks, navigating the new system and working in a digital environment for the first time.

We have been working closely with tax agents since February 2017 to address their challenges. We published additional guidance material and offered additional support. We also set up a dedicated GST phone queue for tax agents. We made a large number of improvements in START based on feedback. Tax agents identified their top five issues with the new GST system as notifications, client maintenance, bank account maintenance, reports and printouts and transaction management. To address these, we made the following changes:

- adding client names to the notifications sent to tax agents, in addition to IRD numbers
- changing how often we send letters
- allowing tax agents to re-link to former clients
- fixing incorrect due dates for GST returns.

Further enhancements are being developed with tax agents and will be implemented over the coming months.

We are working with customers to prepare for the next changes

The next steps in our transformation journey are more complex and affect a wider range of customers over a more extended period. In particular, business customers, tax agents and service providers will need to adapt their systems and processes. We will support customers during the transition period and prioritise to meet customer demand.

We are engaging with stakeholders early, using a relationship management approach. We will increase our engagement with customers and industry groups over the remainder of 2017 and into 2018.

We will make sure tax agents, and our staff who support them, are kept informed of the changes being introduced. We will provide tax agents and their professional bodies monthly updates on changes ready to be implemented and what improvements are coming.

Through working with tax agents on their challenges with the new GST services, we have learnt more about how they operate and gained their input into future designs. We are taking a collaborative approach to design, including user experience labs and tax agents working directly with design and development teams, so we have a clear view of their priorities. We will use a similar approach for payroll professionals—involving payroll professionals will help to ensure that businesses and their representatives can interact smoothly with government to meet their PAYE filing obligations through their software.

We are applying lessons learnt from the migration of GST

We started our transformation programme with a single tax type—GST—expecting to learn from the experience.

As an organisation, we are managing to work across two systems—FIRST and START—but recognise it is more difficult for our customers to do so. To minimise the impact of working across two systems and the amount of change for our customers and our people, we will implement the rest of our transformation progressively in a series of releases from 2018 to 2021.

From April 2018 we will introduce the Accounting Income Method option for calculating provisional tax, move taxes, such as withholding taxes and fringe benefit tax, to new systems and processes and implement the Automatic Exchange of Information with other revenue agencies. There is a close relationship between income tax and the Working for Families Tax Credits, so we explored the options for moving both of these to START in April 2019. Doing so will mean delivering changes in systems and processes for Working for Families Tax Credits earlier than originally planned. By taking the time to explore the options and assess the risk and impacts for our stakeholders, we did not meet our milestone target for completing the detailed design of stage 2 of transformation by 30 June 2017.

From 2019 we will progressively move the remaining social policies that we administer to new systems and processes, completing delivery of a modern, digital revenue system by 2021. This plan allows us to fulfil our obligations to the Government, delivering the future revenue system within the agreed timeframe and within budget, while reducing risk.

We are sharing and learning from other organisations

We have been sharing what we have learned from our transformation with other government agencies in New Zealand and overseas. In May 2017 our Chief Technology Officer and other senior staff presented at a forum for technology leaders within government. They covered the background to our transformation, our technology solutions, case studies and our approach to the design and implementation of an intelligent workplace. They also discussed the capabilities that can be shared across government.

In April and May 2017, members of Inland Revenue's executive leadership team, along with senior business managers, visited other overseas organisations using FAST's technology. This provided opportunities to share experiences in introducing this technology. We will continue to exchange experiences and insights with these agencies in the future.

We have had positive independent reviews of our Business Transformation

We have an ongoing monitoring programme in place to provide assurance to our stakeholders. There were a number of reviews undertaken during the year.

In May 2017 we commissioned KPMG to conduct their sixth Independent Quality Assurance (IQA) and fifth Technical Quality Assurance (TQA) review of our transformation. The review assessed and rated 21 different areas. Eleven were rated as good practice, four as low issue and six medium issue. Most of the recommendations made were accepted and are completed or under way. KPMG noted that transformation "continues to be managed in accordance with good industry practice, and we also noted some welcome improvements since our prior reviews".

We received the results of an independent Gateway Review on Business Transformation undertaken by the Treasury in July 2017. They found that "much of Inland Revenue's approach is exemplary" and that "the quality and capability of its leadership and governance is first rate and provides a basis for confidence".

The review team made five recommendations, which we accepted. Four recommendations are for immediate action:

- Develop a roadmap for external stakeholders, showing which tax products will be available through which channels, and when this will happen.
- Clearly communicate what the new role descriptions mean for staff development opportunities and career management.
- Increase the focus on supporting the transition to a customer-centric organisation, and on the required culture and behaviour changes.
- Assess the impact of the release plan on the organisation change plan, to retain key knowledge and capabilities through the transition period.

The fifth recommendation is being considered further.

"Stage 1 has been delivered successfully, within budget, schedule and benefit realisation expectations. Its significance is greater than presented: whilst having delivered GST, it has also put in place the foundation processes for the remainder of the programme."

—GATEWAY REVIEW, THE TREASURY, JULY 2017

Policy changes will help customers get it right from the start

Policy changes, once fully implemented, will significantly reduce the effort required by businesses to keep on top of their tax obligations. There will be fewer errors and interactions with Inland Revenue, less chance of getting into debt and less need for compliance checks. Businesses will have greater certainty that they have done the right thing.

Accounting Income Method will make provisional tax easier

In February 2017 the Taxation (Business Tax, Exchange of Information and Remedial Matters) Act was passed. This introduced the Accounting Income Method (AIM) option for calculating provisional tax through approved accounting software from 1 April 2018.

The Accounting Income Method will make managing provisional tax easier so customers have more certainty about their tax and more time to focus on their businesses. It will enable small businesses, with a turnover of under $5 million per year, to calculate provisional tax based on actual activity—a 'pay as you go' approach. Payments will reflect the business' cash flow and will be more frequent but smaller. Businesses that use AIM can get refunds during the tax year if the business makes a loss in any period, without having to wait until the end of the tax year.

We have involved software providers and accounting professionals throughout the development of AIM and we are continuing to work closely with them on the detailed design.

More up-to-date PAYE information will let us respond faster

The Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Bill was introduced in April 2017. The Bill proposes changes to the collection and use of PAYE and investment income information. The proposed changes would mean that we will more quickly receive income information from employers and information about any interest people have earned on investments. With more up-to-date information, we will be able to react more quickly if people's circumstances change, to ensure they pay or receive the right amounts. We will continue to work with a wide range of stakeholders, including software providers and accounting professionals, on the design of these proposed changes.

We continued to consult with our customers on policy changes

We supported the release of a further three discussion documents in the Government's *Making Tax Simpler* consultation series. The documents set out proposals for investment income information, modernising the Tax Administration Act and better administration of individuals' income tax. The documents were accompanied by online forums that allowed the public to give feedback on the ideas and proposals.

We are working to improve our administration of social policies

We advised the Government on improvements to how we administer social policies so customers can get the payments they are entitled to at the start. These proposals include:

- using recent actual income instead of an estimate to get Working for Families Tax Credits payments right earlier
- basing child support payments on more recent information about both parents' income and taking all income into account, not just salary and wages
- helping student loan borrowers to stay on top of their student loans by making regular payments through the tax year rather than a big payment at the end of the year.

We also provide tax and social policy advice on other government initiatives, such as student loan repayments, disability payments and inflation adjustments of all social policy payments.

We support and provide policy advice to the Government and Ministers

Government depends on an efficient and effective tax system. This means our policy advice must be of a very high standard. It also means we need to maintain the legislation that supports the tax system as new situations, behaviours, related legislation and judicial rulings emerge. We support government and our customers by the repair and maintenance of existing tax law.

We deliver enhancements to tax settings that will give our stakeholders more clarity and certainty in the tax system and ensure we maintain expected government revenue. This includes dealing with important remedial issues as they arise, which ensures that current tax law is operating as intended.

As part of our work for Ministers and to support parliamentary processes, including drafting responses to Official Information Act 1992 requests, parliamentary questions and letters to the Minister, we provided 401 policy reports, briefing notes and short notice requests to the Minister this year.

The policy advice we provide is critical to ensuring that our tax and social policy systems operate as intended. We are making changes to ensure that our policy capability and processes are fit for purpose. These changes include:

- developing processes that include more diversity of thinking in the identification of issues and in the development and design of solutions
- adopting the frameworks developed by the 'policy project' led by the Department of the Prime Minister and Cabinet
- reconsidering how we consult on policy change
- further developing our prioritisation processes.

We are continuing to make other improvements to our services

As well as introducing our new system, we are always looking for other ways to improve our services for our customers. We have made a number of changes this year that have helped our customers communicate with us, receive their entitlements quickly and deal with challenging events.

Customers can call us free from mobile phones

In the last quarter of the year we enabled customers to call us free from mobile phones. This was particularly helpful for customers who required support to adapt to the changes to GST.

We improved how we process personal tax summaries

We have improved the way we process refunds this year. We have implemented legislative changes to reduce the time we take to process personal tax summaries and increase the threshold for automatically released refunds.

Our tax refund marketing campaign encouraged more customers to use myIR to complete the tax refund process themselves. The campaign ran from April to July 2016 and contributed to 189,000 customers using myIR, compared to 126,000 customers for the same period in 2015.

Customers can receive new IRD numbers by text or email

In September 2016 we began offering customers who had applied for IRD numbers the option to receive their number by text or email. By 30 June 2017, 82,000 customers had chosen to receive their IRD numbers through the new channels, which was 45% of all new IRD number applicants. This is another step in communicating with our customers in the ways they want, following on from enabling people to activate their myIR accounts by text.

Customers attending our seminars get free online access with portable Wi-Fi

Last year we trialled portable Wi-Fi devices in internal and external seminars and workshops in Takapuna and Dunedin. During the trial, customers were encouraged to bring their own devices to access our website during the seminars and workshops they attended. Following the presentations, customers could register for myIR and learn about our 'Tool for Business' page and how to manage their own tax and entitlements on our website.

Small and medium businesses find it easier to comply

The amount of time that small and medium businesses spend on meeting their tax obligations has decreased. Our survey in 2016 found that the median time these customers spend per year on tax is 27 hours, a 25% reduction since 2013. By providing more online services and clearer information to customers, we have reduced the median time spent on tax from 55 hours a year in 2004.

Making it easier for customers during adverse events

We work closely with other agencies to ensure we respond quickly during adverse events, such as the Kaikoura earthquake or Edgecumbe floods. This includes safely placing our people in the community to help out where needed. We knew that tax would not be front of mind for our customers who were affected by earthquakes and floods during the year and were able to take a realistic and flexible approach in these circumstances.

Following the Kaikoura earthquake we provided support at the local recovery hubs by setting up face-to-face meetings with customers. This support and assistance was positively received by customers.

We focused on working collaboratively across Inland Revenue to meet customer demand after the earthquake. This required increased training and support for our staff as they worked across a broader number of tasks. In November 2016 we also entered into an agreement to share information with the Ministry of Social Development, which has enabled it to provide financial assistance to small businesses affected by the Kaikoura earthquake.

We are working with other agencies and organisations

We collaborate to improve services for New Zealanders

We work with other agencies to deliver joined-up services and we contribute to the Government's Better Public Services programme. These are the ways that we work collaboratively across our external environment, as well as being part of our focus on making it easier for our customers.

Better Public Services is a government programme to achieve results that make a difference to New Zealanders. It was introduced in 2012 with 10 priority results that had challenging targets to achieve in five years.

We contributed to achieving Results 1, 7, 9 and 10.

- Result 1 | Reducing long-term welfare dependence
  - We share information with the Ministry of Social Development to help reduce welfare dependence.
- Result 7 | Reducing Serious Crime
  - We share information with New Zealand Police and contribute to the Gang Intelligence Centre.
- Result 9 | Better for Business—Delivering Better Public Services to Business Customers
  - We have recorded New Zealand Business Numbers for businesses in our new system and supported innovative ideas through the Result 9 Accelerator.
- Result 10 | New Zealanders can complete their transactions with government easily in a digital environment
  - We provide more of our services digitally, such as allowing new immigrants to register for IRD numbers, and we contribute to cross-agency services, such as SmartStart.

The Better Public Services programme was updated in May 2017 with a new set of 10 results, which we will continue to contribute to.

780,000 businesses have their New Zealand Business Numbers recorded in our systems

The New Zealand Business Number (NZBN) is a unique identifier assigned to businesses in New Zealand. We have stored and recognised 780,000 NZBNs in our systems. This has removed the need for us to undertake a matching exercise for hundreds of thousands of customers to identify their NZBNs or have customers contacting us to provide us with their numbers. We have also provided the Ministry of Business, Innovation and Employment with information to enable it to populate its business register of non-registered entities, such as sole traders.

We have been assessed by the NZBN programme in its reports to Ministers as "advanced" in our progress towards NZBN implementation and progress with assessing systems and processes. We are helping the Accident Compensation Corporation to meet its requirement to recognise NZBNs for its customers through our information sharing agreements.

We contributed to the successful launch of SmartStart

We work with other agencies to improve customer interactions with government. We design services around customers and work with the public and private sector to improve the delivery of services around customers' life events.

SmartStart, a digital service designed around the birth of a baby, was released in December 2016. SmartStart provides step-by-step information and support to help people access the right services for them and their baby. This is the first life-event-based service created by Inland Revenue, Ministry of Health, Department of Internal Affairs and Ministry of Social Development. The tool makes it easier for new and expectant parents to get the services and support they need to set up their child for the future. At 30 June 2017 SmartStart had been visited more than 98,000 times.

SmartStart won the award for Excellence in Achieving Collective Impact at the Institute of Public Administration New Zealand Public Sector Excellence Awards 2017.

We introduced digital registration for new immmigrants

Digital registration for new immigrants was launched in February 2017 as part of our transformation. This service makes it easier and quicker for immigrants and people coming to work in New Zealand to digitally apply for IRD numbers via Immigration New Zealand when they enter New Zealand. By 30 June 2017, over 12,000 people had registered for IRD numbers using this service.

We work innovatively with other organisations

We supported a number of teams in the Result 9 Accelerator 3+ process. This programme brings together teams of people from the public and private sectors to develop innovative products that make dealing with government easier. Our Commissioner was on the panel of advisors who provided feedback and thoughts on early demonstrations of product ideas, as teams moved to the next stage of product development.

Result 10 has introduced a Service Innovation Lab in partnership with private sector provider Assurity. This is used by cross-agency teams to work on achieving Result 10 targets. We participated in the Lab with the Department of Internal Affairs to consider what SmartStart could do in the future and had a team working with the Tertiary Education Commission and Ministry of Education to help customers understand their student loans.

In June 2017 we took a policy issue into the Lab—the first policy issue from across the public service. The issue was how a pay-as-you-go approach to provisional tax could be made available to medium-sized businesses, building on the Accounting Income Method. We used a multi-disciplinary team of people from across Inland Revenue to define the problem. We are evaluating this new way of developing policy to assess the effectiveness of the Lab and to identify lessons to apply to future policy development.

Businesses are more satisfied with their interactions with government

The Result 9 Business Reference Group survey is used to measure progress towards the target of overall effort required by businesses to interact with government. Recent contact is also tracked. Businesses' most recent contact with us showed similar effort levels from 2015 to 2016 with an increase in satisfaction—from 61% to 71% from year to year.

We help New Zealanders interact digitally with government

The original target for Result 10 was that an average of 70% of common transactions across government would be completed online by 2017. This is measured over a number of services people use regularly across eight agencies.

Three of our services are included as common transactions:

- file individual tax return
- pay individual tax
- apply for an individual IRD number.

For the quarter ending June 2017, 97.4% of customers' individual tax returns were filed online, compared to 87.7% to June 2016, and 87.8% of customers paid individual tax online, compared to 84.1% to June 2016.

This year we extended the ability to apply for an IRD number digitally to new immigrants. Between this and digital applications with birth registrations, 44.1% of applications for an individual IRD number were made digitally in the quarter to June 2017.

We collaborate to help other agencies and government

We share information with other agencies

During the year we introduced two new measures to share information to better protect the New Zealand business community.

- An agreement with the Companies Office—part of the Ministry of Business, Innovation and Employment—was signed on 31 March 2017. It enables us to share information with the Companies Office to improve its ability to enforce serious offences under the Companies Act 1993. This helps prevent harm to other businesses and individuals and promotes confidence in the integrity of New Zealand's business environment.
- In April and May 2017 we signed agreements to share information on people in serious default on tax debt with three approved credit reporting agencies. This will make information on serious debtors available to other businesses. An Order in Council enabling this information to be shared came into effect on 30 June 2017.

Our information sharing with the Ministry of Social Development (MSD) helps it to administer social benefit and superannuation programmes. A new Approved Information Sharing Agreement (AISA) with MSD, which consolidates and expands our existing information sharing, was ready to be signed at the end of 2016–17. Work was also completed to enable new information sharing under the agreement, so that income-related housing assistance and student allowances are targeted to those who need them.

Our information sharing arrangements already in operation with other government agencies continue to achieve good results. For example, in the year ending 30 June 2017:

- our proactive share with MSD to prevent benefit fraud identified an estimated $46.3 million in overpayments and arrears
- information we shared with the Ministry of Justice enabled it to collect more than $11.2 million in overdue fines
- we shared information 39 times in response to 45 valid requests for information from WorkSafe New Zealand and the Labour Inspectorate, which is part of the Ministry of Business, Innovation and Employment. This is helping them to investigate breaches in workplace legislation.

We support Better Public Services Result 7

We increased our ability to contribute to the investigation and prosecution of serious crime through a new AISA with New Zealand Police, signed in June 2017. This supplements our existing AISA with New Zealand Police by enabling us to share information on non-individuals and deceased customers.

We are also contributing to the Gangs Action Plan by providing expertise to the Gang Intelligence Centre (GIC). We are working towards full integration in the GIC by enabling ourselves to share information and intelligence within the GIC.

We support the Government ICT Strategy

The Government Information and Communications Technology (ICT) Strategy provides opportunities to support Better Public Services and agencies' transformations by putting people and businesses at the centre of the design and delivery of digital services. We are heavily involved in the Digital Government Framework—previously called the ICT Partnership Framework—with representatives on the four working groups, as well as the Strategic Leadership Group. The working groups are Investment, Technology, Service Innovation and Information. The Framework manages the Government ICT Strategy.

The Government Chief Information Officer team completed an ICT Maturity Assessment in April 2017 in relation to Inland Revenue's contribution to the Government ICT Strategy. The assessment showed that we continue to make a significant contribution.

We already use a number of all-of-government services to support our ICT systems. We have adopted common capabilities, including Infrastructure-as-a-Service, Telecommunications-as-a-Service and IT Managed Service. We will also look to use cloud services where they are fit for purpose, in accordance with the Government's Cloud First policy.

We are part of a community of practice that considers the stewardship of New Zealand's tax revenue

We worked with others, in New Zealand and overseas, to consider emerging risks and opportunities within our operating environment. We deepened our relationship with the Australian Taxation Office and Her Majesty's Revenue and Customs in the United Kingdom to consider the possible longer-term implications of disruptive technology, such as blockchain and distributed ledgers—a decentralised database, register or ledger containing a permanent record of assets that is updated and shared instantaneously—and artificial intelligence.

We made strong connections with government agencies to share information and insights on the changing environment, which helps to build capability for futures thinking within the State sector. This provided us with greater context for strategic decision-making.

The year to come

We will continue to work towards our outcomes while keeping our customers at the centre of everything we do. Our work to make tax simpler and easier will help our customers meet payment obligations of their own accord and make sure they receive the payments they are entitled to.

Our organisation, systems and processes will continue to change. This will be done in steps during 2018 and 2019. We will move a number of products to our new systems and processes, including all income tax products, Working for Families Tax Credits and gaming machine duty. We will also introduce legislative changes. The Accounting Income Method option for calculating provisional tax and the Automatic Exchange of Information with other tax authorities will be in place from 1 April 2018.

We will continue to work closely with tax agents to ensure the challenges they have identified with our new services are addressed and resolved and to ensure a smooth transition during the next stage of changes. We will also continue to prepare other customers and stakeholders for the changes.

We will continue to work with other agencies to join up services for customers and make it simpler for people to deal with government in line with the Government's Better Public Services targets. And we will continue to share information appropriately.

We are **supporting compliance**

Paying tax helps pay for the public services we all rely on, such as education, roads and healthcare. One of our responsibilities is to make sure government has funding for these essential services. We do this by helping our customers to get it right from the start and taking prompt and fair action when they do not meet their obligations by themselves, and managing overdue debt. These actions are central to one of our three outcomes—that revenue is available to fund government programmes through people meeting payment obligations of their own accord.

We take a proactive, intelligence-led approach and encourage customers to want to get it right themselves by providing easy access to information, assistance and tools.

In this section

Supporting compliance...

at a glance...

We know most people want to pay the right tax and receive the right entitlements. A lot of our activities and marketing campaigns focus on helping our customers to meet their tax and social policy obligations easily.

Sometimes people do not pay or receive the right entitlements, so we focus on areas where we know people are more likely to get it wrong. These include the hidden economy, where people operate outside of the tax system, property and complex technical issues, such as aggressive tax planning, where people use loopholes to avoid paying tax.

This year we worked with our customers in the hospitality industry. We visited businesses to help them understand the records they need to keep and what they need to do to meet their business tax requirements. We produced information factsheets in eight languages.

We are also influencing customers to do the right thing in the building industry through our advertising tag-line: "We're black and white about undeclared cash jobs. It's tax crime". Property compliance is another area we have continued to focus on.

Our public rulings and taxpayer rulings provide certainty for customers and help them get it right from the start. We clarify tax law where there are different interpretations, sometimes in court.

International tax compliance remains a focus for us. We continued to progress implementation of the Organisation for Economic Co-operation and Development (OECD) action plan on base erosion and profit shifting, where businesses use strategies to exploit tax loopholes. We signed up to the Automatic Exchange of Information initiative, where we share and receive information about foreign tax residents.

We are helping customers avoid debt and are reducing tax debt, child support debt and outstanding returns. Student loan repayments are also increasing.

We support our customers to get it right and take action when they do not. In doing so, we achieve our outcome of revenue being available to fund government programmes through people meeting payment obligations of their own accord.

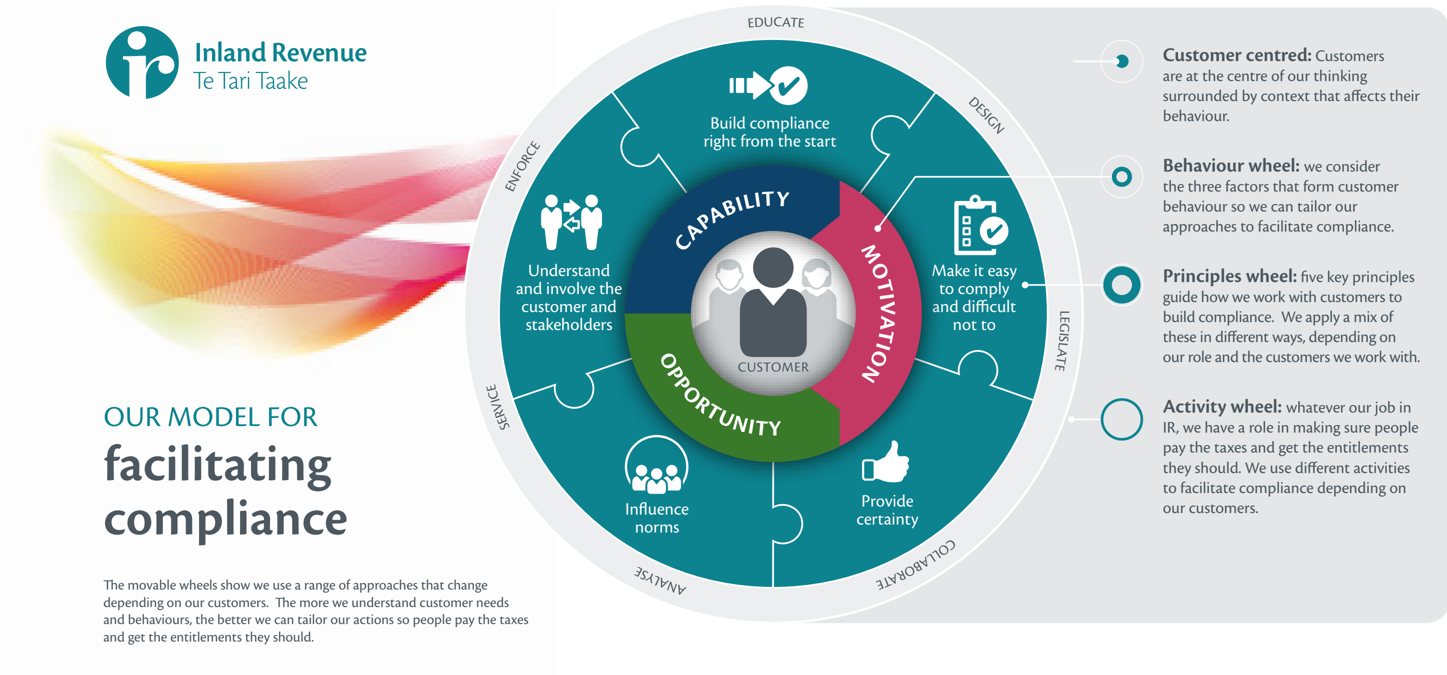
We help our customers comply and address non-compliant activities

Compliance means customers pay the taxes and get the entitlements they should. Our compliance model, shown here, helps us understand what makes up customer behaviour and provides a set of principles to help tailor the activities we undertake. The more we understand customer needs and behaviours, the better we can tailor our actions to the customer.

Figure 3: Our compliance model

OUR NEW COMPLIANCE MODEL >

A thinking tool to help us understand customers better so we can work pro-actively and tailor approaches to make compliance easier.



As we transform, we are changing how we work with our customers. We are becoming more proactive and making it simpler and more certain for customers. We want to help them get it right from the start, rather than correcting them when they get it wrong.

We know that New Zealanders value paying tax. Most customers file and pay on time and say they believe in paying tax. Our 2016–17 customer satisfaction survey showed:

- 89.3% of our customers think paying tax is the right thing to do
- 93.7% feel that they accept responsibility for paying their fair share of tax.

Because we know most people want to get it right, our activities and marketing campaigns focus on helping our customers to easily meet their tax and social policy obligations.

We also know that sometimes people do not pay or receive the right entitlements, so we focus our investigation effort on areas where we know people are more likely to get it wrong. These include the hidden economy, property and complex technical issues such as aggressive tax planning, including the tax planning arrangements of international and multinational organisations. Additional Budget 2015 funding allowed us to expand our investigations in these key areas.

When customers take a tax position, sometimes our investigations find that they did not get things right. When this happens, we issue a new assessment and may charge penalties and interest. Although investigations can be a challenging experience for customers, 75% were satisfied with their audits. More than half of our customers agreed that Inland Revenue and the investigator had handled the audit well.

This year through our investigations we identified $1.3 billion where customers did not get things right. Our overall return on investment for our investigation activity was $8.31:$1 against the target of $7:$1.

Our Budget-specific initiatives contributed $354 million to the total tax differences identified. These initiatives focus on additional investigations, education and marketing activity in the hidden economy, property compliance and complex technical issues areas. We are continuing to achieve positive results through our work in these areas. This year we have exceeded the annual target of $228.4 million and achieved a return on investment of $11.55:$1 against the target of $8:$1.

Our investigations also cover a range of tailored services that help our customers to get it right from the start. This is especially important for our significant enterprise and multinational company customers who are subject to specialist tax laws and who operate across different countries. This year we worked with our significant enterprise customers to ensure they were prepared with the changes to eServices from myIR. We also informed them of changes to withholding tax from Budget 2016.

We monitor New Zealand's hidden economy

People operate in the hidden economy by intentionally not declaring or accurately reporting all of their income. We are aware that a number of people operate totally or partially outside the tax system.

As already mentioned, we do a lot of work to help our customers to get it right from the start and assist them to report income and expenditure correctly. If customers do not declare all their income to ensure they are paying the taxes they should, we take appropriate action.

Our investigations into the hidden economy found tax position differences of $159 million. Of this, $37 million came from work funded through Budget-specific initiatives.

Overall, reactions from the media, industry and the public indicate there is widespread support for our approach to the hidden economy. This suggests a shift towards increasing compliance and a decrease in participation in the hidden economy.

We worked with our customers in the hospitality industry

One of the ways customers might get things wrong is by not keeping adequate records. To help with this, we produced information in eight languages to help customers in the hospitality industry with their record-keeping.

We also ran two educational campaigns, focusing on restaurants, cafés and bakeries. The first was nationwide, where we visited over 300 businesses, checked their records and talked about good cash-handling and record-keeping practices.

The second campaign was in the Gisborne and Rotorua regions, where we visited over 200 restaurants, cafés and bakeries. We talked with customers about:

- inadequate systems and practices that do not provide a reliable trail of income transactions
- cash sales that are not correctly or reliably recorded
- common misconceptions around what qualifies as sufficient records for tax purposes.

We followed these visits up with letters. At the end of the campaign, all of the businesses we visited were meeting their cash record-keeping obligations—up from 50% in Gisborne and 64% in Rotorua.

When a new restaurant, café or bakery starts up in Rotorua or Gisborne, we now visit them and help them understand their obligations right from the start.

In addition to our educational campaigns, we held a National Hospitality Visit Day on 3 February 2017. We talked with over 1,750 businesses across the country and promoted better business and tax record-keeping and the new myIR and GST online services.

We focused on the building industry

This year we ran marketing campaigns aimed at discouraging cash jobs by tradespeople in the building industry. The campaigns built on the success we achieved from similar campaigns in previous years aimed at influencing tradespeople and their customers to do the right thing.

We ran this campaign twice in 2016–17, advertising to tradespeople in Auckland and Christchurch on radio, outdoor displays, social media, and online. We also sent letters and emails to over 45,000 tradespeople nationwide. Our advertisements featured the tagline "We're black and white about undeclared cash jobs. It's tax crime". The campaign featured on national television news due to its strong stance and the interest it generated among tradespeople and the public.

Results showed tradespeople declared more GST-related income and calculated more GST owing. Of the customers we contacted, 26% increased their GST calculated by more than 3% following our September–November campaign. Survey results showed their attitudes towards doing cash jobs had also improved. From the April campaign, 78% of surveyed customers were aware of the campaign and 77% of Auckland customers agreed that "most businesses like mine declare all their earnings", up from 52% in 2012.

We drive tax compliance for property transactions

Funding allocated as part of Budget 2015 allowed us to continue our focus on property tax compliance. With this additional funding and the work we currently have under way, we have assessed $117 million of additional tax in the property area. This is 69% more than last year.

We capture data from Land Information New Zealand, including property tax statements and property transactional information. This information helps us to determine how to treat property sales for taxation purposes. Our emphasis remains on residential property speculation, particularly in Auckland. We also monitor other regions and suburbs where there is a high turnover of properties.

Land Information New Zealand data on property transactions allows us to contact property owners to ensure they understand the tax implications for their property sales. After we contacted one customer, their tax agent had this to say in a media article:

"So this was a top of the cliff initiative rather than a bottom of the cliff initiative. The IRD aren't waiting to see whether these taxpayers do in fact include the gains in their returns before following them up, they are contacting them even before the returns fall due!"

This reflects the proactive approach we are taking in helping customers to get it right from the start.

We are reviewing compliance with the bright-line test. This test requires customers to pay income tax on any gains from the sale of residential property bought and sold within two years, except for their main family home. We are analysing this further to determine the action we need to take.

During September to December 2016 and again in May to June 2017, we ran a marketing campaign to remind property speculators of their obligations. We showed our advertisements to customers over 40 million times through a selection of property-related websites and pages.

The online advertisements achieved a respectable click-through rate of 0.13%, compared to a national average of 0.07%. This meant we had over 53,000 visitors to our campaign page (ird.govt.nz/sold), where more information was available.

We monitor aggressive tax planning

A small number of customers try to avoid paying their fair share of tax. They attempt to reduce the amount of tax they should be paying or increase their entitlement to social benefits. They do this by structuring their tax inappropriately or by finding and exploiting loopholes in the law.

To counter this, we match information from different sources to identify potential aggressive tax planning structures and schemes. We use this information to recommend policy changes. We also make sure our customers know and understand their obligations and help them get it right. We make sure we keep up with judicial decisions and new ways of arranging finances.

Our investigations into aggressive tax planning and other complex technical issues resulted in tax position differences of $462 million. These included cross-border and domestic tax arrangements. Of this, $247.7 million came from work funded through Budget-specific initiatives.

We successfully closed several long-running aggressive tax planning litigation and disputes cases during 2016–17. These included an international financing case resulting in a tax position difference of $60 million, and finalising more of the ongoing Trinity Scheme cases resulting in tax position differences of $147 million.

We prosecute when necessary

Most people pay their fair share of tax. For the minority who do not pay, we intervene and encourage them to do the right thing. If this is not successful, we prosecute.

We completed 114 prosecutions for tax evasion, knowledge and Crimes Act 1961 offences. This compares with 79 in 2015–16. As at 30 June 2017, there were 115 live prosecution cases before the courts compared with 116 last year.

This year we focused on the hospitality industry and on cases where cash receipts were not returned for both income tax and goods and services tax. This has involved looking more at the behaviour of tax agents.

One example involved a tax advisor in the Wellington region who pleaded guilty to criminal tax offences for her own taxes. She was also convicted of aiding and abetting some of her clients to commit criminal tax offences, with two clients pleading guilty to their offences. The total amount of tax involved was about $768,000.

We provide certainty and clarify tax law

When interpretation of the law is not clear, we provide certainty by providing public rulings and also statements and disputes reviews.

As part of our work to provide certainty to customers, we review and update our published guidance. This year we updated our published statement on feasibility expenditure incurred by businesses, following a case heard in the Supreme Court. Feasibility expenditure is money spent on assessing the practicality of a new proposal, often used for things like research and seeking advice.

This area is of particular importance to our large enterprise customers as they often incur significant sums on researching and seeking advice on new projects.

We also give certainty to businesses through taxpayer rulings. These rulings provide our interpretation of how the law applies in specific circumstances. They enable our customers to enter into transactions with confidence about how we will apply the law to their arrangements.

This year we ruled on $13.4 billion worth of arrangements, where the associated tax at issue was more than $2.4 billion. Overall, 89% of customers were very satisfied with our rulings service, with the remaining 11% satisfied. Our survey responses showed customers were generally very happy with the service we are providing, in terms of both the timing and quality of our work.

We clarify tax law in court

Sometimes we need to clarify tax law by taking cases to court. We are always dealing with a number of cases in court—as at 30 June 2017, we had 104 active cases. Of the 73 judgments for the year, 59 were found fully in our favour.

Queenstown Airport Corporation Case

When assets depreciate, tax deductions can be claimed. Depreciation is when an asset falls in value due to things like age and wear and tear. This case was about whether Queenstown Airport Corporation could claim depreciation deductions for costs of constructing a Runway End Safety Area (RESA) at its airport. Including tax deductions that could have been claimed in future years, the tax in dispute was the cost of constructing the RESA—$8.7 million.

We believe the RESA was an improvement to the land and land is generally not depreciable. There are exceptions to this, and Queenstown Airport Corporation claimed the RESA was an exception for various reasons.

We disagreed and the High Court upheld our position to deny the deductions. In February 2017 the Court of Appeal agreed that we were correct to deny the deductions. This outcome shows the factors to consider when determining whether our customers can claim depreciation deductions on a RESA.

We facilitate international tax compliance

New Zealand is an attractive place for people to do business and invest. Tax from multinationals continues to be a large portion of our revenue base. This, coupled with the increasing complexities of globalisation, means we actively participate in international solutions to facilitate tax compliance.

We take a strategic, intelligence-led approach to encouraging compliance and improving our policy. Through this, we continue to make an important contribution to international tax compliance efforts.

We continue to address base erosion and profit shifting

A wide range of international tax planning techniques are used to avoid paying tax anywhere in the world. We collectively refer to these techniques as base erosion and profit shifting (BEPS) tax planning strategies.

We continue to progress our implementation of the OECD action plan on BEPS. This includes:

- working closely with significant enterprises and their representatives to tailor any future changes to New Zealand conditions
- developing a package of BEPS initiatives. This includes measures to:
  - » address hybrid mismatch arrangements by removing the tax advantages that multinationals could take from differences in how countries tax these arrangements
  - » strengthen our interest limitation rules and limit the ability for multinationals to shift their New Zealand profits offshore
  - » strengthen transfer pricing rules to counter permanent establishment avoidance and make it easier to deal with uncooperative multinationals.
- amending our network of tax treaties to insert a new anti-treaty abuse article, a new permanent establishment definition, anti-hybrid entity rules and dispute resolution articles.

Initiatives that have already become law include:

- the implementation of goods and services tax on imported services
- strengthening rules for non-resident withholding tax.

Collectively these initiatives are forecast to increase revenue by $287 million per year once fully implemented.

Our international compliance programme addressing BEPS focuses on international pricing and financing arrangements. We continue to see good compliance from most multinationals in respect of their international tax planning arrangements. However, risks remain that require our continued monitoring.

Significant enterprises are a priority for us

This year we expanded our coverage of significant enterprises to include all foreign-owned companies with turnover greater than $30 million. Significant enterprises make a major contribution to New Zealand's revenue, accounting for almost 55% of New Zealand's corporate tax base and 10% of overall tax revenue—over $6 billion of tax.

We monitor performance data from these groups closely, which includes tax payments, operating margins and interest expenditure.

We further enhanced our significant enterprises framework. This means we can provide these customers with certainty on their tax affairs earlier and ensure a large portion of New Zealand's tax base is collected.

Advance pricing agreements help ensure the compliance of multinational enterprises

An advance pricing agreement (APA) is an agreement between the taxpayer and us to confirm the basis for their international pricing. This is a cooperative, right-from-the-start approach to international tax compliance.

Multinational enterprises that complete an APA submit annual reports and supporting evidence to us, confirming they are keeping to the agreement. We completed 17 new APAs this year. As at 30 June 2017, we had completed 170 APAs in total.

We are creating greater transparency for multinational enterprises

In November 2016 we launched our new Multinational Enterprises' Compliance Focus document. This document details how we are increasing the scrutiny of multinational enterprises and gives an update on New Zealand's progress against the OECD's BEPS Action Plan.

As part of the launch of the document, we strongly encouraged companies to sign up to the Statement of Tax Principles for International Business. We are creating greater transparency by continuing to encourage boards of directors to:

- maintain tax strategy documents
- have systems in place to manage tax risks
- make sure annual reporting is sufficiently transparent so that the public can understand the information on taxes paid.

We gained greater insight into New Zealand's BEPS issues

We introduced the annual International Questionnaire three years ago. This improves our understanding of BEPS issues and their significance for New Zealand.

Due to an expanded population base, we sent the questionnaire to 595 foreign-owned groups, almost double the number we sent it to last year. A group is a collection of entities under common ownership or control. We are pleased with the cooperation of these groups, as we again received a resounding 100% response rate.

We are sharing information to combat global tax evasion

The New Zealand Government has signed up to the Automatic Exchange of Information (AEOI), which is an international initiative committed to by 100 countries to help combat global tax evasion. We have committed to share information about foreign tax residents with financial accounts in New Zealand. In return, we will receive information about New Zealanders with overseas financial accounts. This increased transparency helps deter and detect global tax evasion.

From 2018 we expect to receive a lot more data as part of the AEOI initiative. From 1 July 2017 financial institutions —like banks, some investment managers, managed trusts and certain brokers—will be required to identify customers who are foreign tax residents. They will need to submit their financial information to us, which we will then share internationally.

We are also assisting certain corporate groups that have their headquarters in New Zealand to meet their international obligations to exchange country-by-country reports. This information sharing will ensure that tax administrations have a complete understanding of how multinational enterprises structure their operations, while also safeguarding the confidentiality of such information.

A new international standard requires the exchange of information between tax treaty partners concerning certain rulings. During the year we successfully completed our first exchange of information under these rulings.

We implemented the new foreign trust regime

New legislation passed in February 2017 strengthened disclosure arrangements around foreign trusts. We worked closely with the key stakeholders in the industry to implement the new requirements. Trustees are required to register with all the relevant information, provide a copy of the trust deed and pay a registration fee. All existing trusts had until 30 June 2017 to decide if they wanted to register or exit by migrating out of New Zealand or terminating the trust.

By 30 June 2017 we had received just over 3,000 applications to register and almost 3,000 trusts notified us that they would exit. We are following up with trusts that were on our previous register but have not been in touch with us yet. This work will continue into the first quarter of 2017–18.

We are also working with the Department of Internal Affairs and New Zealand Police to set up the appropriate sharing mechanisms for foreign trust information.

We hosted SGATAR—Study Group on Asian Tax Administration and Research

New Zealand hosted the 46th SGATAR annual meeting in Wellington. We had representatives from 16 member jurisdictions and other international organisations, such as the Asian Development Bank and the OECD.

This was a very successful event, despite the challenges posed by the 7.8 magnitude earthquake that hit New Zealand just the week prior. We facilitated an agenda that involved good discussions and updates from jurisdictions on topical tax matters, including BEPS. Pascal Saint-Amans, Director of the Centre of Tax Policy and Administration, OECD also attended the SGATAR annual meeting and provided an update on BEPS from the OECD perspective.

New Zealand continues to provide leadership for SGATAR as the Chair of the 2017 SGATAR Taskforce.

We manage debt and outstanding returns

We help customers avoid debt

We want people to file their returns on time and pay on time. This stops them getting into debt and having penalties and interest added to what they owe. This year, 85% of people filed their returns on time, the same as last year, and 87% of people made their payments on time this year, also the same as last year.

As part of our efforts to make it easier for customers to get it right and prevent them from getting into debt, we send out reminders of key filing and payment due dates.

To prompt customers to file on time and pay on time, over the last year we sent reminders to:

- 137,583 people who had a 7 July 2016 income tax return due date
- customers who were due to make a payment on 7 February and 7 April 2017. This year, we sent 123,837 customers preventative messaging for their 7 February obligations, and 47% paid before the due date. We sent preventative messaging to 244,502 customers with 7 April obligations, and 71% paid all their obligations before the due date.

- more than 150,000 customers who were expected to file their GST returns by 7 May 2017. By early June 2017, approximately 20,000 customers had not filed their returns, and our new START system automatically applied a penalty and default assessment. This assessment creates a debt for the customer until they file their return. Creating this debt means we engage with the customer earlier about paying the GST they have collected.

We are reducing the number of outstanding returns

In the 2010–11 financial year, the Government gave us extra funding to assess and collect tax associated with the then 1.4 million outstanding returns. Outstanding returns are now down to 654,357. Over the last two years we have used the funding to collect $494 million against the June 2020 target of $421 million.

During the year we used some of this funding to:

- identify customers who had previously filed income tax returns but may no longer need to
- close down 62,184 of our tax records for companies that have been removed from the Companies Office Register
- deregister 10,658 GST customers who are no longer carrying out taxable activities.

In particular, we have reduced the number of outstanding GST returns. In October 2012 we had 276,604 outstanding returns. By October 2016 we had reduced this to 60,281—a decrease of 78%. We achieved this by using technology to gain customer insights and contacting customers through a variety of channels, including text, email, telephone and in person. As at 30 June 2017, there were 91,294 outstanding GST returns.

We focused on customers with outstanding GST returns who:

- were more likely to have higher-value returns
- filed GST returns for zero dollars
- did not need to pay. We updated their records and removed the requirement to file future returns.

In the coming year we will contact customers who have not filed returns on time even earlier. We will also be able to charge penalties earlier to discourage late filing. This is possible because of our new START system.

We are reducing overdue tax debt

Since June 2014 we have increased our focus on the prevention and recovery of debt. This is due to additional funding from the Government. Our goal is to have a smaller, more collectable debt book and deal appropriately with what we cannot collect.

As at 30 June 2017, the size of our overdue debt book, excluding overdue debt from student loans and child support, was $3 billion. This is a 36.1% decrease from the previous year and is the third consecutive year we have achieved a reduction.

We focus on resolving new debt quickly

This year we resolved more debt cases arising from the 2016 income tax due dates than in previous years. Cases are resolved through either full payment or a payment arrangement. By 30 August 2016 we had closed 80%, or more than 59,000 cases, of new debt cases opened as a result of not paying by the 7 February 2016 due date. This is our highest ever percentage of cases resolved from the 7 February due date. Of the 115,584 new debt cases opened for the

Table 1: Overdue tax debt

OVERDUE TAX DEBT AS AT 30 JUNE ($ MILLION)

Debt type	2013	2014	2015	2016	2017	Change since 2016 (%)
Working for Families Tax Credits	371.8	406.6	334.8	224.6	193.4	(13.9%) ↓
Goods and services tax (GST)	1,873.9	1,775.5	1,527.5	1,369.5	825.6	(39.7%) ↓
Income tax	2,365.7	2,519.6	2,653.0	2,562.4	1,556.1	(39.3%) ↓
KiwiSaver	22.5	33.3	29.4	24.9	26.5	6.4% ↑
Other tax	121.6	121.8	115.9	69.7	80.0	14.7% ↑
Pay-as-you-earn (PAYE)	586.8	613.9	492.4	428.9	309.7	(27.8%) ↓
Total	**5,342.3**	**5,470.7**	**5,153.1**	**4,680.0**	**2,991.3**	**(36.1%) ↓**

7 April 2016 due date, over 79% were resolved by the end of October 2016. We worked with 42,553 customers who got into debt and helped 68% of them to clear their debt.

From January to June 2017, we focused more on new debt. There were 218,102 new debt cases that resulted from customers not paying by the 7 February and 7 April 2017 due dates, 17,790 more than last year. By June 2017 we had resolved 144,068 (66%) of these cases.

One of our key performance measures is to resolve 80% of debt cases within six months. This year we resolved 85%, an improvement on last year's rate of 82.4%. This is our highest ever resolution rate, evidence of the continued effectiveness of our early intervention programmes. We have now achieved our target of $1.84 billion collected through early debt management, three years ahead of time.

In total we collected $7.3 billion in tax debt, an increase of 50.6% from last year. Of this, $4 billion was collected following actions that our people took with our customers, such as negotiating a payment with them over the phone.

We manage both early and aged debt more effectively, particularly irrecoverable debt. In line with our strategy to deal with what cannot be collected appropriately, this year we wrote off $1.8 billion of irrecoverable and aged debt.

Through our work to manage debt, we have been able to reduce the provision we hold for debt that cannot be collected. This means there is more money available to fund services that all New Zealanders will benefit from.

We are reducing child support debt

We focus on helping customers repay debt and helping them avoid getting into debt in the first place.

We are getting onto new debt faster and providing customers with advice on payment options to make it easier for them to comply. We are also becoming smarter in locating liable parents. This helps us to collect as much debt as we can and minimise new debt. By focusing on resolving debt early, we have reduced the value of new child support debt cases by 3%.

For the first time in over 20 years, we have seen a reduction in child support debt. As at 30 June 2017, child support debt was 17.4% less than in June 2016. Table 2 shows debt from overdue child support.

We collected 81.3% of assessment debt this year, compared to 80.4% the previous year. Assessment debt is the amount we have determined the liable parent needs to pay for their child support that they did not pay by the due date.

We help parents get on top of their debt

We encourage liable parents to pay a lump sum to clear their child support debt or set up regular payment arrangements to pay off their debt over time. If they do this, we can now waive the penalties. This allows liable parents to see an end to their debt and results in better outcomes for all parties. Using the new legislation and our existing penalty write-off provisions, we wrote off $666 million of penalty debt this year.

We work with the Australian government to collect child support

We have a child support reciprocal agreement with Australia. Through this agreement the Australian Department of Human Services collects child support on our behalf using information we provide to it on our customers living in Australia. Under this agreement $449.1 million has been collected since 2001, including $45.2 million this year.

We take legal enforcement action as a last resort

For a liable parent about to leave New Zealand who has failed to arrange payment of their debt with us, we can apply to the Family Court for a warrant for their arrest to prevent them leaving New Zealand until the debt is either paid or under a payment arrangement.

The courts issued 23 warrants for arrest in the last year for child support debt. Subsequent to the warrants being issued, 10 arrests were made and the other 13 arranged payment of their debts before departure. From these 23 cases we received lump sum payments totalling $191,844 and have arrangements in place for collecting over $4,000 per month. Child support debt has reduced by $1,475,494 because of these 23 warrants.

Table 2: Child support debt

CHILD SUPPORT DEBT AS AT 30 JUNE ($ BILLION)

	2012	2013	2014	2015	2016	2017
Debt value	2.452	2.781	3.047	3.276	3.311	2.736
Penalties included	1.818	2.109	2.372	2.605	2.661	2.119

In addition to the warrants for arrest, we filed 83 other proceedings for recovery of unpaid child support. The other legal enforcement actions we take include applications for charging orders, orders for sale of property, warrants to seize property and community work sentences. A charging order registered on a liable parent's property is a particularly effective way to clear their child support debt, as they must pay off that debt when they sell or refinance their property.

Student loan repayments are increasing

We jointly administer student loans with the Ministry of Education and the Ministry of Social Development. We are responsible for collecting student loan repayments and ensuring borrowers meet their repayment obligations.

Over 538,000 borrowers have now repaid their loans in full. Not including those still studying, around half of all students who have borrowed from the scheme since 1992 have paid off their loans.

As at 30 June 2017, overdue student loan debt was $1.2 billion. This is a 12.3% increase from the previous year, driven by defaulting overseas-based borrowers. However, the number of borrowers with overdue debt has reduced by 1.6%.

Borrowers make payments through PAYE or directly to us. During 2016–17 borrowers repaid $1.27 billion, up 5.3% from last year. Of this, $895 million was paid through PAYE, 6.2% higher than in the previous year. Borrowers who paid us directly repaid $377 million, which was 3.3% higher than in the previous year.

The increase in repayments is due to a greater awareness of student loan obligations by borrowers both in New Zealand and overseas.

We are focusing on borrowers living overseas

Borrowers who are living overseas make up 76% of those in default and owe 92% of the overdue student loan debt. The amount owed by overseas-based borrowers increased by $125 million from last year. This is due to the majority of overseas-based borrowers not meeting their repayment obligations and late payment interest being applied.

This year overseas-based borrowers repaid $214.8 million, down 0.6% from last year. We collected $107 million of this from our initiatives that focus on overseas-based borrowers who persistently do not pay or contact us. These initiatives include an information sharing arrangement with the Australian Taxation Office, legal action and arrests at the border when appropriate. We have achieved a return on investment of $18.11:$1 from these initiatives.

Table 3: Overseas-based borrower net repayments

OVERSEAS-BASED BORROWER NET REPAYMENTS ($ MILLION)

2012–13	2013–14	2014–15	2015–16	2016–17
160.4	158.0	184.7	216.1	214.8

We exchanged information with the Australian Taxation Office

About 70% of all overseas-based borrowers with overdue payments are based in Australia. We signed an arrangement with the Australian Taxation Office (ATO) in October 2016 for the ATO to share contact information on student loan borrowers with us. This has enabled us to locate and make contact with more borrowers.

We sent information on 91,000 borrowers to the ATO in November 2016, successfully matching 60,000 against their database. We received over 45,000 new contact details, including addresses, email addresses and phone numbers. Using this information we sent 5,000 borrower records to our external provider in Australia to contact customers and address their loan defaults. Prompted by these contacts, so far we have received over 600 contacts by phone, email or letter. We have received over 190 payments totalling more than $1.7 million and eight borrowers have paid off their loans in full.

We continue to advertise to borrowers living or moving overseas

We have run the student loans marketing campaign for a number of years. The main goal is to increase the number of borrowers living overseas who make the required payments on time. We target overseas-based borrowers, New Zealand-based borrowers looking to move overseas and nominated persons with appropriate messages for each group. Nominated persons are people who can act on behalf of customers with a customer's authority. They can be their parents, family friends or a professional.

We did online advertising and social media posts throughout the year. During the months when repayments were due, we sent emails and texts with specific messages to customers based on their previous payment histories. We had good results from the March/April 2017 marketing campaign, including:

- 10.5% more customers than the previous year had met their full repayment obligations by 30 April 2017

- the total value of repayments from all overseas-based borrowers during the campaign period was $54.9 million—$1.5 million more than in 2016
- 46.1% of overseas-based borrowers are either making repayments or contacting us regarding payment plans—a 6.8% increase from last year.

Arrests at the border were well publicised

Although we initiate legal action only as a last resort, the media attention around arrests at the border had a positive effect in raising awareness of student loan obligations.

We only seek warrants for arrest of borrowers who continually refuse to work with us to repay their debts. Over the past year we sought five warrants to arrest borrowers through the New Zealand Court system. Two arrests were made. The other three were not arrested as they made satisfactory payments or entered into instalment arrangements.

Legal action against overseas-based borrowers

Of the total civil proceedings we have started against 108 Australia-based borrowers since 2013, we started 14 this year. We also resolved 13 cases, which included 3 lump sum payments totalling $90,885 to clear debt in full.

We also commenced civil proceedings against six United Kingdom-based borrowers in the last year. These cases are all still in progress.

We won gold for our student loan digital advertising programme

The student loan digital advertising programme, targeted at the hard-to-find borrowers living overseas, was named a Gold Winner at the 2017 Beacon Awards in the category of Sustained Success. The Beacon Awards recognise advertising industry and agency achievements. These are awarded by The Communications Council representing New Zealand marketing communications agencies.

The year to come

Our focus on helping our customers to meet their tax and social policy obligations easily will continue. Our goal is that revenue is available to fund government programmes through people meeting payment obligations of their own accord.

Where people do not meet obligations of their own accord, we will continue with our compliance activities in the hidden economy, property, and complex technical issues, such as aggressive tax planning.

Work on international tax compliance will also continue. This includes implementation of the Organisation for Economic Co-operation and Development (OECD) action plan on base erosion and profit shifting and work on the new foreign trust regime, which will continue into the first quarter of 2017–18. We will also continue to be involved in the OECD forum on tax administration.

In 2017–18 we expect to receive a lot more data and information through the Automatic Exchange of Information. From 1 July 2017 financial institutions will be required to identify their customers who are foreign tax residents.

We will continue to focus on helping our customers avoid getting into debt and helping them out of the debt they have incurred. This includes tax debt, child support debt and debt from student loans.

We are **managing our changing organisation well**

We are, and we will continue to be, a professional, well managed organisation. We are transforming and the way we deliver our services is changing.

As we change our organisation, systems and processes, it is essential that we manage ourselves well and continue to be a trusted, effective and efficient government department.

In this section

Managing our organisation…
at a glance…

We value diversity and inclusion in our workforce. We provide equal employment opportunities for everyone and we are addressing the gender pay gap.

Our organisation design is changing and we are supporting our people through this process. Through our People Transition Hub, we provide support to our leaders and staff during transition processes. We are investing in our people and providing opportunities to develop their capabilities, to support our organisation change.

We recognise and celebrate the success of our people and the work they do. Two of our people made it through to the finals of a prestigious tax policy scholarship. We also developed an award-winning Information Management training module.

We are committed to keeping our people healthy, safe and secure. We manage risks to the business, and minimise and manage the risk of fraud and corruption. We have effective emergency response and business continuity processes in place.

In preparing our systems for the first stage of our transformation, we established new datacentres, identity management and service management systems. We also improved our existing systems and assets.

Keeping information safe is important to us and we take the privacy of customers seriously.

We have a healthy governance system that leads and guides our organisation. We also have external people who provide independent input to our governance system and our transformation.

We make sure Inland Revenue is a great place to work

We value diversity and inclusion

We are committed to maintaining a diverse workforce that reflects New Zealand's population. In 2016–17 we had people with 108 different ethnicities working for us. We know that people with different perspectives and experiences can help us provide better outcomes for our customers and New Zealand. The diverse perspectives of our people give us a better appreciation of the challenges some of our customers have when working with us. In our transforming organisation there will be more opportunities for our people to provide their diverse perspectives.

We developed our diversity and inclusion work plan

In 2016 we appointed a Diversity and Inclusion Champion, emphasising the importance we place on diversity and inclusion.

During 2016–17 we developed our diversity and inclusion work plan, which will help us deliver better outcomes for our customers and New Zealand and attract people from diverse communities to work at Inland Revenue.

To achieve these results we are focusing on five areas:

- Understanding diversity and inclusion at Inland Revenue—we need to establish a clear picture of diversity and inclusion to give us a solid foundation for future work plan initiatives.
- Te Manu Korihi—the Diversity and Inclusion Advisory Group we established in early 2017 to give us a wide range of diverse perspectives on issues. The majority of Te Manu Korihi members come from outside of Inland Revenue and represent various community perspectives.
- Delivering on Better Public Services 2.0 Diversity and Inclusion commitments—the Commissioner co-leads this workstream with the Treasury Chief Executive. The broad work programme seeks to advance the public sector position on a range of diversity-related issues, such as gender pay gap, workforce representation and disability.
- Integrating diversity and inclusion focus into our culture and services—ensuring we have integrated diversity and inclusion principles and practices into our organisational culture and into the design and delivery of our services.
- Delivering our communications approach—to raise awareness of diversity and inclusion for our people, helping to open a wider dialogue about diversity and inclusion and what it means for us.

Our diversity networks continue to support and develop people

We recognise the value that people gain from feeling included and belonging in an organisation. One of the ways our people can achieve this is through networks. During the year our Women's Network brought in a number of guest speakers to talk about career development and leadership for women. Other groups helped us to celebrate cultural activities, such as Diwali and language weeks. These celebrations provide valuable insights into other cultures and give our people the opportunity to participate in them in a safe environment.

We are committed to our responsibilities under the Treaty of Waitangi

As a government agency, we recognise the responsibilities we have under the Treaty of Waitangi. Our main approach to meeting these responsibilities focuses on delivering appropriate services to Māori customers and ensuring we are building the capability we need to deliver those services. During the year we continued to build and practice our Māori capability through embedding tikanga cultural practices into organisational practices and promoting and developing cultural capability, particularly Te Reo Māori.

We are embedding tikanga cultural practices into organisational practice

We recognise that the proper application of tikanga cultural practices demonstrates our commitment to our Treaty of Waitangi responsibilities. We are increasingly seeing tikanga cultural practices becoming part of the way we do things. During the year we:

- blessed new buildings in Tauranga and Hamilton and new premises, particularly in Wellington. We worked with the local mana whenua groups to ensure the blessings were carried out in a culturally correct manner for the location. This also strengthened our relationship with the mana whenua groups.
- conducted pōwhiri to welcome new senior managers. We also hosted the Study Group on Asian Tax Administration and Research annual meeting, which was opened with a pōwhiri to welcome the international visitors.

We promote and develop cultural capability

To deliver appropriate services to Māori customers, our people need the appropriate cultural capabilities. During this year we helped develop cultural capabilities by:

- promoting Māori language week with a range of activities and events to help us celebrate Te Reo Māori. This gives our people an opportunity to participate in Te Reo Māori activities in a safe environment.
- continuing to maintain the integrity and quality of translations that our people have requested. This ensures our Te Reo Māori translations maintain their cultural and linguistic integrity.
- starting work on a Māori framework that will help us to move our focus from being Responsive to Māori to Working with Māori. The development of this framework will continue in 2017–18.
- continuing to work with iwi, hapū and whānau. Our Kaitakawaenga Māori are focusing on engaging early with our Māori customers to help them understand and get their obligations right from the start.

We provide Equal Employment Opportunities for everyone

We recognise that our workforce needs to reflect the values and composition of the communities we serve. This supports us to understand and meet our customers' needs better. We are committed to the fair and proper treatment of our people in all aspects of their employment, including valuing diversity and providing equal employment opportunities.

Equality is about treating people fairly and with respect. Our Equal Employment Opportunities (EEO) policy and practices ensure equality in the workplace for everyone. We want to remove barriers so all our people have opportunities to develop and progress in the workplace.

We apply our EEO policy in our people processes, including recruitment and development. This year we established new infrastructure from which we identify and address opportunities to improve the equity, access and representation that reflects our demographics.

We are addressing the gender pay gap

The average gender pay gap at Inland Revenue is 20%, meaning when all salaries are averaged, women earn 80 cents for every $1 earned by male staff. However, for employees in comparable roles, there is generally no pay gap—men and women are paid equally. The gender pay gap is almost entirely explained by women's under-representation in senior leadership and more complex roles and over-representation in less complex roles. While women make up the majority of staff across Inland Revenue, men make up the majority of staff on salaries above $100,000.

In general, we appoint all new recruits at similar positions on their salary band. One exception is that women people leaders are started lower on their salary bands than men, resulting in a gap that continues over time, despite women performing better in their first year.

Over the next year, our focus is to gain more understanding of our gender pay gap information, including additional factors, such as ethnicity, disability, age and number of dependants. This will allow us to understand our pay and employment equity position and identify and develop targeted, specific actions to reduce the overall gender pay gap. We will do this through data analysis, holding workshops to identify potential activity and developing a 3–5-year plan with clear measures and targets.

We consider our workforce profile

Our workforce profile is changing as we transform. Despite this we have a lower turnover and higher average length of service than the public sector overall. 50% of our managers are women, however we are still focused on reducing the gender pay gap and increasing opportunities for women. Our workforce profile is shown in Figure 4.

We are changing our organisation design

Business Transformation is not only about implementing new systems and technology, it is also about creating an organisation that works together better to improve outcomes for customers. We are changing the way we work, increasingly working more in partnerships across government and the private sector and becoming more knowledge based, supported by greater analytical capability.

We have taken the first steps towards putting our future organisation in place

We are creating an agile, intelligence-led organisation built around the needs of our customers. To do this we are investing in the skills and abilities of our people and making changes to our leadership, culture, decision-making framework, delegations and workflows. We are also changing our structure and roles.

The key shifts of our organisation design are shown in Figure 5.

Figure 4: Our workforce profile

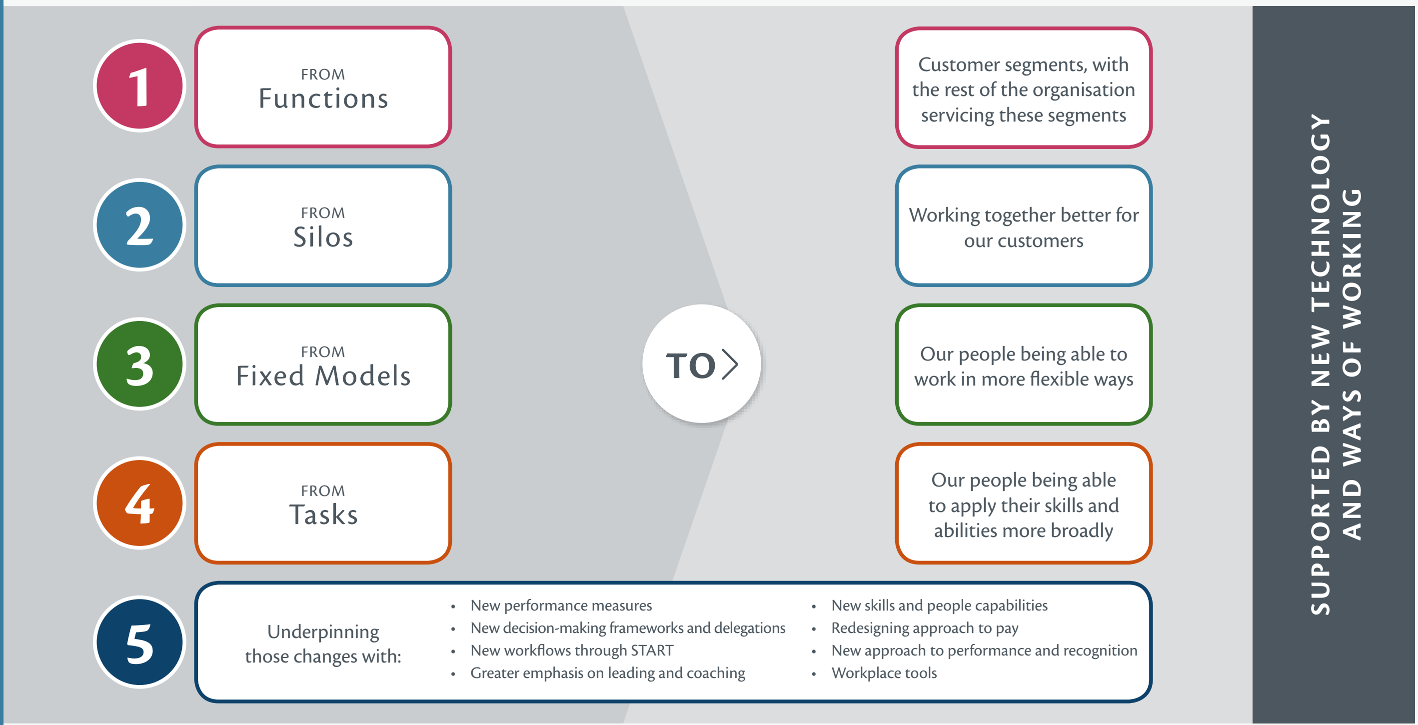
	Headcount	Full-time Equivalent	Average Age	Full Time	Part Time	Permanent
2014	5,788	5,640.89	42.9	91%	9%	98%
2015	5,820	5,679.37	43.0	91%	9%	98%
2016	5,789	5,661.82	43.3	91%	9%	97%
2017	**5,519**	**5,400.83**	**44.0**	**91%**	**9%**	**95%**

	Fixed Term	New Hires	Exits	Unplanned Turnover	Total Turnover	Average Length of Service
2014	2%	743	663	8.6%	10%	11.1
2015	2%	737	675	10%	10.6%	11.3
2016	3%	558	658	10%	10.5%	11.5
2017	**5%**	**400**	**670**	**10.7%**	**11.1%**	**12.8**

	Female Staff Overall	Female All People Leaders	Female Managers	Male Staff Overall	Male All People Leaders	Male Managers
2014	64%	54%	46%	36%	46%	54%
2015	64%	55%	46%	36%	45%	54%
2016	64%	57%	47%	36%	43%	53%
2017	**64%**	**57%**	**50%**	**36%**	**43%**	**50%**

All numbers are as at 30 June, except turnover, which is annualised.

Figure 5: Key shifts



Our new organisation design will enable people to:

- apply their skills more broadly to a range of work
- work together more closely
- provide better services to customers
- make the most of a new and evolving working environment, supported by technology.

We will put the customer-facing groups and some of the key capabilities that support them in place first. This affects approximately two-thirds of our total workforce.

We worked with the unions as we developed the new organisation design and appreciated their valuable contribution and input. Our engagement with the unions will continue.

During May 2017 we consulted our people on the proposed design for three new business groups and the proposed process for moving people into roles in them. More than 2,000 submissions were received from our people and the feedback was used to inform the final decisions in July 2017.

The new groups will be established in February 2018, replacing our Service Delivery and Information, Intelligence and Communications business groups. These new groups are:

- Customer and Compliance Services—Individuals, Families and Micro Businesses. This group is more commonly called Customer and Compliance Services—Individuals, or CCS-I.
- Customer and Compliance Services—Small, Medium and Significant Enterprises. This group is more commonly called Customer and Compliance Services—Business, or CCS-B.
- Information and Intelligence Services (IIS).

Further change is expected to take place in 2019–20 across the whole organisation. As much as possible we will manage any reductions in the numbers of people working in particular roles through attrition and flexible workforce arrangements.

There is no reduction in frontline services and we will maintain our presence in the communities we are working in today.

Three new executive leadership roles have been established to lead the new business groups

In July 2017 we held a pōwhiri to welcome two new Deputy Commissioners to Inland Revenue. Gaye Searancke is Deputy Commissioner, Customer and Compliance Services—Business, and Sharon Thompson is Deputy Commissioner, Customer and Compliance Services—Individuals.
Mike Cunnington, Deputy Commissioner, Information, Intelligence and Communications has taken up the role of Deputy Commissioner, Information and Intelligence Services.

Our new Deputy Commissioners Sharon Thompson (left) and Gaye Searancke (right) with Commissioner Naomi Ferguson.

We are supporting our people through the organisation design process

A key priority for us this year was to make sure our people leaders have the capability and confidence to lead their teams through transformation and into the future. We have a Change Leadership Development programme to train and support our leaders. This programme has a set of modules that can be assembled to meet the requirements of different teams and business units. All of our people leaders in the two business groups affected by the new organisation design—about 1,200 people—participated in four modules: preparing for change, engaging teams with change, telling the change story and difficult calls and conversations.

We established a People Transition Hub to provide support during the transition processes. An online portal is a key tool of the Hub, where we provide our people with customised information and documentation. People can ask questions, submit feedback and express interest in future roles through the portal too. It includes useful information for staff, such as links to external agencies that can provide interview, career or financial advice, and Employee Assistance Programme services. The site also provides leaders with guidance on how to lead their people through change.

All of us at Inland Revenue will go through one or more changes between now and 2021. We recognise that this type of large organisational change will not always be easy as we work to understand what change means for us individually as well as collectively and continue to put our customers at the centre of everything we do.

We continue to communicate and engage with leaders and the three unions representing our people. We hold Regional Leader Forums where leaders learn about and discuss the changes and we involve subject matter experts in specific areas to make sure we have the right input.

We continue to invest in our people and provide opportunities to develop their capabilities

As we reshape the way we work with our customers we are making sure that our people have the right skills for the future. We have 12 organisation-wide people capabilities that cover the mix of skills, knowledge, experience and attitudes that we need to help us work in more customer-centric, intelligence-led and agile ways.

Tools and resources are available to help our people understand and take ownership of their capability development. These include a dedicated intranet portal for staff, a People Capabilities Guide, which shows how a capability might look in action, and an initial set of People Capabilities Journeys to help our people uplift their capability on the job.

An online self-service development tool will be available during the coming year, which will provide our people with a summary of the capabilities they have, including strengths and opportunities for development. Capabilities will be mapped to job expectations, enabling all staff to engage with the capabilities and take ownership of their development.

We have invested in the Skills Framework for the Information Age (SFIA), an internationally recognised framework used to assess technical skills and provide a basis for capability development. Over 80% of our Information Technology and Change people have completed self-assessments that have been validated by independent external experts. We are using these to inform capability development activity.

We are also part of the inaugural GovTech Talent Graduate Programme, where graduates experience working in three of the seven participating agencies over two years, spending eight months in each. Two graduates started with us in February 2017 and we will have another two in February 2018.

We rolled out a Continuous Improvement training programme to the majority of our customer services staff this year, providing them essential skills that are required for the future. Our leaders are helping to develop and sustain Continuous Improvement capability in their teams. We updated our intranet and included new resources to help our staff to identify and make improvements. As an organisation, we are committed to continually improving our services and developing our people's capability so they can make things easier for our customers.

We have redesigned our performance and recognition approaches to support our new organisation design

Throughout 2016–17 we worked with our unions to redesign our performance and recognition approaches. Our people contributed to the design through a survey and workshops in 2016 and by providing feedback on the proposed approaches in June 2017. The new approaches were finalised in August 2017.

Our approach to performance increases the focus on enabling performance and developing capability. We have a new set of behavioural expectations, which apply to all of our people. They are a basis for regular conversations for people with their leaders and will help us achieve our desired culture and enable our new ways of working. Our new approach removes the annual measurement of performance and there are no annual ratings. However, monitoring performance is still important and our behaviours and ongoing conversations will be used to support this.

Along with our new performance approach, we have designed a new recognition approach. It will be phased in over 18–24 months, with the first phase starting in late 2017. We are making recognition a core part of how we operate by acknowledging contributions and behaviours that are aligned with our desired ways of working, culture and expectations.

This type of recognition does and will continue to happen naturally but our new recognition approach will make it easier for great contributions to be recognised. It will provide supporting tools and resources and a commitment to ongoing monitoring and measurement.

We are committed to keeping our people healthy, safe and secure

Table 4: Health and safety reports

Injury with ACC claim	62
Injury with no claim or superficial	162
Discomfort reports	492
Near misses	19
Incident—no injury	37
Total reports	**772**

During 2016–17 there were no incidents or near misses reported that were notifiable to WorkSafe New Zealand under the Health and Safety at Work Act 2015. A notifiable event is a death or an illness or injury that requires the person to be admitted to hospital for immediate treatment, as a result of work, or if a person is exposed to a serious or immediate risk to their health and safety because of an unplanned or uncontrolled work incident.

Over the year, 772 health and safety reports were recorded, as shown in Table 4. The reasons were varied with the main reports being for slips, trips or falls, being hit by a moving object such as lift doors, and musculoskeletal discomforts.

We worked closely with all employees and the Accident Compensation Corporation (ACC) to support our people with their recovery and a safe and timely return to the workplace. Workstation assessments were done for 233 of our staff to reduce discomfort.

Our people are more involved in health, safety and wellbeing

Participation of staff in health, safety and wellbeing has increased. We had a 30% increase in the number of health and safety representatives to support and advocate for the safety and health of our people.

All our health and safety representatives have received two days of formal health and safety representative training. This year 119 representatives were trained. We also provide ongoing education for all our staff through the annual mandatory health and safety refresher course.

We continue to increase our emphasis on employee wellbeing

We want to help our people through our transformation in a positive way. Participation with our Hauora Hub increased this year. Hauora Hub is the wellness portal that provides employees with resources on health and wellness. This year 1087 staff logged into this hub. We continue to make improvements to the hub to ensure we give our people information that helps with their changing health and wellness needs within our changing environment. We also produce monthly wellbeing initiatives, linked to national wellbeing programmes. These are communicated through posters and articles across all of our sites.

We promoted the Employee Assistance Programme internally to support our people during the November seismic activity and our transformation. More sessions were used this year than the previous year.

We improved our health and safety reporting

We improved how we report on health, safety and wellness to our National Health and Safety Governance Committee and Performance and Investment Committee. The reports include security and building issues and use of the Employee

Assistance Programme. We also improved the governance information we report to our health and safety officers.

The security and safety of our staff and customers is important to us

We regularly check our workplaces to minimise risk and make sure our staff and customers feel safe. We have protocols in place to ensure staff can remove themselves from a threatening situation:

- We have safe zones for our staff, customers and contractors to move into, from public areas, in the event of a threat.
- Staff will end a phone call if a customer threatens or abuses them.
- Staff are trained to be aware of potential risks and not to enter a situation outside the office environment that may pose a threat.
- Front of house staff are trained in what to do in the event of a threat.
- For our people who travel overseas, we provide detailed guidelines on how to keep safe.

We record and monitor all security incidents. Staff are continually refreshed on security awareness, through online learning modules and reminder information, such as posters. We also provide training for those identified as being in potentially risky situations.

We recognise our people's achievements and celebrate our successes

The Commissioner's Awards Scheme recognises our people who do a great job

Staff nominate colleagues and leaders for going the extra mile, delivering great customer service, innovating to make a difference in how we work or showing great leadership skills. Awards are given monthly, in five categories:

- Cross Government | This award recognises those people who work with other agencies to build better public services for New Zealanders.
- Tu Tangata | Tu Tangata means to stand up or stand tall. This category recognises people who consistently go the extra mile to make our working environment a better, happier and more welcoming place for their colleagues.
- Charter | This award is for people who demonstrate the values and expectations of our Customer Charter, through outstanding or consistently excellent customer service.
- Innovation | The Innovation award recognises people who have developed and role-modelled new ways of doing our work that reflects the type of organisation we need to be.
- Leadership | This recognises great leadership—people who truly go above and beyond in their role and demonstrate behaviours that align with our Leadership Dimensions.

Each recipient is also entered into the overall Stellar Achievement awards. One person from each category, who really stood out, is awarded the Stellar Achievement award.

Two of our people made it through to the finals of a prestigious tax policy scholarship

The Robin Oliver Tax Policy Scholarships are open to young tax professionals with an interest in tax policy. Candidates were asked to propose a significant reform of the New Zealand tax system. The four finalists selected will go on to develop their proposals and present at the finals in October 2017.

The Minister of Revenue presented the awards to the four finalists, who included two of our people—Talia Smart and Nicholas Coyle. Talia's proposal is to remove the business income exemption for charities and Nicholas proposed to reconsider the claw back of interest deductions.

Finalist Talia Smart is congratulated by Revenue Minister Hon Judith Collins.

Finalist Nicholas Coyle with Revenue Minister Hon Judith Collins.

We developed an award-winning Information Management training module

In January 2017 we introduced an e-learning module for staff called The Rooms.

It is an interactive module revolving around a customer problem that team members solve by finding the right information quickly. It shows the importance of managing our information properly.

Feedback from our people on the module has been positive and the training has helped change behaviours around saving, storing and sharing information.

We won a gold award for this module in the Best Behavioural Change Project category in the international LearnX Awards.

The Government Women's Network won an award for diversity

All the important work carried out by the Government Women's Network has been recognised at the 19th Annual Diversity Awards New Zealand. The Network received a Highly Commended award in the 'Emerging Diversity and Inclusion' section for their efforts in promoting diversity across government.

Inland Revenue played a big part in setting up the Network and continues to be a driving force for it. We are the host agency and a number of women from across our organisation play pivotal roles in the network, including the Chair of the Advisory Group and the Network Coordinator.

We are proud of the achievement of the Network and of all our people who help make it successful.

We are doing well in telling our performance story

Our 2016 Annual Report won bronze in the 2017 Australasian Reporting Awards (ARA) for the second year in a row. The Awards encourage effective communication of business and financial information and continually improve the standard of reporting. The bronze award is a great achievement and a reflection of the improvements we have made over the last few years to tell our performance story in a cohesive and easy-to-read way.

We manage risks and emergencies and keep the business running

Risk management is an important part of our governance and internal management

Our risk management approach relies on the support and participation of all our staff. Each business unit is responsible for the identification, monitoring and mitigation of the risks in their area.

This is supported by a centralised Risk Services team that provides risk support and advice at a business unit and governance level and develops, maintains and implements the ISO 31000-based Enterprise Risk Management Framework.

This approach reflects good practice and supports risk-based decision-making across all levels of Inland Revenue.

We have reviewed our enterprise risks

We recognise the need to continuously improve risk management practices to fit our changing environment. We have reviewed our enterprise risks in light of our mission and outcomes and our strategic environment. These are risks that may affect our ability to achieve our outcomes in the medium to long term. Our six risks are:

- Failure to balance all-of-government strategies effectively with the delivery of our core business.
- Our customer base chooses not to participate in the tax and social policy regime.
- Inability to ensure continuity of business services.
- Insufficient people capability and capacity to deliver outcomes.
- Mismanagement of information.
- The magnitude of changes as a result of our transformation leads to unforeseen changes for our customers.

These risks are governed by the Strategic Governance Board and the Performance and Investment Committee, to ensure the activities being taken to manage these risks are appropriate and effective. Independent oversight is provided by our Risk and Assurance Committee. More information about the Risk and Assurance Committee is on page 62.

Our internal assurance and advice experts help us manage our risks

Our internal assurance and advice experts have a thorough knowledge of our organisation and understand our implicit risks. They provide independent assurance to the Commissioner and the Risk and Assurance Committee that our risks are being effectively managed. They also provide an internal consultancy service to help our people manage their risks, achieve their goals and deliver their desired outcomes. They provide objective assurance and free and frank advice.

One way we provide assurance is by conducting reviews. These involve assessing business processes, evaluating key risks and controls and making recommendations to address any weaknesses. We also provide assurance through reviewing controls as new systems or processes are being designed and electronically monitoring some transactions within support services.

We completed the following reviews during the year:

Assurance Reviews:

- Information matching—Working for Families Tax Credits.
- Oracle Application Express (APEX) application control review.
- User access administration review.
- Privileged access control review.
- Social media administration review.
- Information sharing review, Inland Revenue and Police.
- IT business and service continuity management review.
- Management assurance—delivery sites.
- Revenue delegations.
- Legislative compliance survey.

Project Quality Assurance Reviews:

- Research and development tax losses.
- Hamilton future accommodation review.
- Property tax measures (Budget 2015).
- Budget 2016 targeted review.

Controls Assurance:

- Business Transformation programme—business process risks and controls for core, heritage, new services platform and enterprise support services workstreams.

We are aware of the need to constantly adapt to our changing business and keep pace with our changing needs. To achieve this we have implemented several new initiatives over the past year, which include:

- interviewing our people in the various areas of our organisation to better understand their problems and what they believe success looks like
- performing our assurance and advice work with the needs of our organisation foremost in mind
- redesigning our assurance and advice front end processes to make it easier for our people to engage with the assurance process
- writing in plain English and keeping reports short, so they are easier to understand and use as business tools.

We minimise and manage the risk of fraud and corruption

Our goal is to remain one of New Zealand's most trusted organisations. We are working together across the organisation to create and sustain a culture of integrity, honesty and professionalism. An important part of this work is to minimise and manage the risk of fraud and corruption occurring within Inland Revenue.

We have robust and carefully managed reporting tools and response practices for wrongdoing in place and we continue to enhance our understanding and management of our fraud and corruption risk profile. We work in three areas to manage this risk—prevention, detection and response. This year we have placed the greatest emphasis on educating key teams and people on what fraud is and what to look for.

Over the past year our prevention strategies included:

- the development of a comprehensive set of educational presentations for all staff
- providing 62 fraud and corruption sessions to 1,118 staff, including team leaders and managers
- developing a template and educational presentation to help business groups and managers to identify, assess and manage their fraud and corruption risk profiles and remain focused on the prevention and detection of fraud and corruption.

We have effective emergency response and business continuity processes in place

We have a three-tier response management model. A response may be triggered within any one of these tiers:

- Strategic response—The Crisis Management Team maintains overall control and manages the response to a disruption with significant impacts to our corporate priorities.
- Tactical response—Our business continuity response teams implement strategies to maintain or resume critical business activities.
- Operational response—The response to on-site disruption is facilitated by Site Emergency Teams.

In the case of an emergency, the Commissioner decides if the Crisis Management Team (CMT) is activated and:

- appoints a Recovery Director, to lead the CMT through the response and recovery phases of a crisis event
- appoints an organisation spokesperson
- notifies the Executive Leadership Team of the CMT activation and appointments.

The Kaikoura earthquake caused disruption but we continued to deliver our services

Our Crisis Management Team was not immediately triggered after the Kaikoura earthquake on 14 November 2016. Instead, events were initially monitored by the Executive Leadership Team and a business continuity emergency management representative. Our Wellington and Nelson buildings were closed. Our Christchurch sites were checked and were safe to occupy.

On 16 November 2016 our biggest Wellington site, Asteron Centre, was open to all staff and our offices in Hawkestone Street opened two days later. The Brandon Street site remained closed and we have not occupied it since. The Commissioner activated the Crisis Management Team on 17 November 2016 to manage the potential for escalating health and safety and performance impacts, particularly in relation to our transformation programme.

The Crisis Management Team commissioned independent engineering evaluations of Asteron Centre and the Hawkestone Street building on 18 November 2016. When the engineer's assessment identified issues with Asteron Centre's stairwells, we promptly closed and evacuated the building and activated our business continuity plans.

With many of our staff displaced, our priorities were to make sure we continued to deliver our services to customers and that our staff were safe and well and kept informed.

To continue to provide our services and progress our transformation, we moved critical task work to other Inland Revenue sites, relocated some staff to alternate sites, encouraged remote working, including working from home, and implemented hot-desking and shift-working in some instances. We increased our remote service so up to 1,000 staff could access it at the same time from anywhere and we distributed 150 new laptops to our people who needed them the most. Mobile technology rollouts were escalated, including Wi-Fi capability at our Upper Hutt and Hawkestone Street sites and providing Outlook Web Access for all staff.

To keep staff informed we used multiple communication channels, including our Staff Emergency Information Hotline, web and intranet updates, Facebook, and leaders cascading information to their teams. We held meetings at Te Papa to gather our displaced staff and communicate important information. We also provided staff with information on working from home.

Our people showed great resilience during this period but at times felt unsettled and disconnected from their colleagues. To support staff wellbeing, we made sure they knew how to access the Employee Assistance Programme and our Hauora Hub. We encouraged leaders to keep in contact with their teams and check how they were doing.

Strengthening work on the stairwells in Asteron Centre was completed and it was reopened on 19 December 2016.

Closing our Hawkestone Street site in February meant more disruption for our staff

Following further invasive testing of buildings in Wellington by an independent engineer, our building in Hawkestone Street was found to have some safety concerns. Upon receiving our report on 8 February 2017, we closed the building immediately.

Our initial priority was to relocate the contact centre and child support staff from Hawkestone Street to Asteron Centre. This required moving other staff out to free up the 226 desks required.

In total we relocated around 630 staff. We did this by:

- filling 180 empty desks scattered throughout Asteron Centre

- setting up temporary workstations in meeting rooms
- relocating 50 staff to temporary seats in Upper Hutt
- putting in place a hot-desking process in Asteron Centre that has allowed us to place up to 50 staff a day
- asking teams to work differently, such as working split shifts and desk sharing, to free up desks for others to move into
- providing people with laptops, mobile phones and other tools to work remotely
- setting up new Wi-Fi capability at our Hawkestone and Upper Hutt sites.

As we asked business groups to provide us with groups of desks for reallocation, our Crisis Management Team stayed connected with these groups to ensure they were still able to meet their functions and deliverables. This included assisting groups with implementing flexible ways of working, providing hot-desking support and providing tools and support for working remotely.

Throughout this time we worked hard to keep connected to ensure we were aware of the challenges our people were facing. We surveyed our staff working remotely, checked in with leaders and provided regular internet updates that included health and safety tips, such as hot-desking and setting up workstations.

We found longer-term accommodation solutions in Wellington

We needed to find longer-term solutions to allow people who had been working remotely to move back to Asteron Centre, bring back together displaced teams, move people out of meeting rooms and into proper desks, provide fixed desks for staff who had been hot desking and desk sharing, and allow for controlled recruitment in Wellington which had been temporarily placed on hold.

We obtained space in No. 3 The Terrace, Eagle Technology House (Victoria Street) and Sovereign House (Manners Street). Sovereign House in Manners Street is open to our customers. It has a reception area, interview rooms, a drop box, a kiosk and a back office area. This site opened to the public on 8 August 2017. We will be there until we can return to our Hawkestone Street site.

We evacuated our Napier office

The Napier City Council voluntarily conducted a review of their buildings following the release of the findings of the Ministry of Business, Innovation and Employment report into the partial collapse of Statistics House during the Kaikoura earthquake. The review of the building we lease in Napier returned an indicative rating of 15% of the New Building Standard (NBS). We have adopted 67% NBS as a minimum acceptable rating to ensure our staff are safe. On learning of the rating for the Napier building, we promptly evacuated our staff, along with vital records and equipment, on 21 June 2017. Staff worked from home, until we began using a small amount of space made available to us by the Ministry of Social Development in August 2017.

We learnt from these events and refined our response processes

We did a debrief in December 2016 on what could be learnt from the impact of the Kaikoura earthquake event and one in June 2017 to consider lessons from the Hawkestone Street evacuation.

We identified a number of lessons and although none were considered significant, they will help us refine our response processes in future. Some of the lessons identified in the first debrief were successfully implemented in the management of the Hawkestone Street evacuation.

We shared our lessons learnt through presentations to a range of cross-government industry groups. This included a combined presentation facilitated by the Government Sector Business Continuity Group, which around 25 agencies attended.

We manage our systems and assets well

We prepared our systems for the first stage of transformation

We decommissioned FIRST for GST, put START in place, migrated data, prepared our systems for co-existence and thoroughly tested everything.

We used an innovative project approach to moving to the new system

Our existing taxpayer system, FIRST, connects to over 40 other internal systems. These had to be moved to the new Oracle Fusion Middleware technology platform. This system processes over three million system-to-system messages each day and a total of 450 individual interfaces needed to be moved.

We used an accelerated development approach to this project, which used agile and iterative ways of working and automated continuous testing. This approach let us deliver milestones progressively, identify and deal with issues early on and learn and improve as we went. As a result we saved effort and money, caused minimal disruption to business and completed a high-quality migration.

We established new datacentres, identity management and service management systems

We have invested in two new datacentres to support our transformation. The primary centre in Takanini, Auckland, hosts essential systems, such as the new revenue system and the identity management system. The secondary centre in Trentham, Wellington, replicates the primary centre and gives us continuity in the case of a significant event. The current datacentres that support FIRST will continue to operate alongside the new centres until 2021.

Along with our new datacentres, we implemented a leading-edge Security and Identity Management system that provides secure access to applications and online services for customers and staff. It helps us authenticate the identity of users and allow appropriate access and modification of information.

Our new cloud-based service management tool, ServiceNow, along with a new Service Catalogue, enables us to provide simplified, standardised and integrated services for customers. This has increased our business agility, innovation and operational excellence.

We also improved our existing systems and assets

To mitigate key technology risks while we transform, we updated and upgraded parts of our existing technology systems and infrastructure that are important to our everyday operation. This included upgrading software and replacing underlying hardware components in our contact centre and upgrading the technology that supports a number of our key applications.

These investments, combined with improved service management processes and tools, enabled us to maintain a high level of system availability and support an increase in digital activity. The improvements we made resulted in a 29% reduction in significant incidents during the 2016 peak processing season.

We are improving our enterprise support services

During 2016–17 we introduced new budgeting and forecasting tools and made improvements to some of our finance, human resources and payroll processes. These improvements give us better quality information for decision-making and tools to support our transformation.

We are preparing to make larger changes to our support services and have begun by introducing a target business process model that will provide a reference point for making our processes more efficient and effective. The model will be based on the New South Wales Government Standard Business Process Model. We are currently adapting this model for use across the New Zealand public sector.

We manage our property portfolio to make the best use of office space

With possible changes to our future property requirements, all our new leases have the flexibility to give up space at regular intervals. This allows us to have the space we need when we need it as our organisation transforms. We also continue to look for opportunities to share space with other government agencies where this makes sense.

During the year we relocated the Tauranga office and were joined by Housing New Zealand as a co-location partner. We have also entered into a development agreement for new premises in Hamilton.

As already mentioned, the 2016 Kaikoura earthquakes meant we had to make changes to our Wellington locations and find temporary and short-term accommodation.

Our procurement practices support government goals

Our procurement processes continue to be consistent with Government Rules of Sourcing. We continue to use government collaborative contracts where they exist, meet our business needs and are cost-effective.

Our procurement goals include maintaining competitive supply markets, realising value for money and driving improvement from our partners. We also focus on leading best procurement practice.

In March 2017 we established an open panel for providers of advanced analytics products and services. This has helped to ensure that we attract a range of businesses to transformation. More than 40 organisations are included on the panel, and smaller businesses are well represented. An open panel gives us a range of perspectives and future thinking in this evolving and developing area.

Keeping information safe is important to us

We recognise that we hold a large amount of information and that this is an important asset that can help improve the delivery of services to New Zealanders. We also recognise the importance of keeping information safe.

As well as implementing our new Security and Identity Management System, mentioned previously, we put in place technology to block websites that pose information security and reputational risks and technology to protect the confidentiality of information being sent from Inland Revenue email addresses.

We continually educate and refresh staff on information security awareness through online learning modules, posters and security awareness programmes.

We take the privacy of customers seriously

Taxpayers have the right to have their affairs and their tax information treated confidentially. We are committed to ensuring our customers' information is protected. However, occasionally mistakes occur and when they do, staff are required to report any incident that may put personal information at risk.

The main cause of privacy breaches is staff error. Each incident is investigated and we look at how to reduce staff errors, with a continuous improvement focus that includes reviewing handling processes and educating staff.

In 2016–17, 129 privacy breaches were reported, compared to 131 in 2015–16. These affected 242 customers. Instances of privacy breaches included correspondence being sent to the wrong address and bulk emails sent with recipient details being visible. None of these breaches resulted in harm or adverse consequences to any individual.

Our governance system guides our organisation

Our governance system sets the direction needed to achieve our overall strategic vision. It defines roles and responsibilities to ensure separation of governance and management accountabilities.

We made some changes to our governance structure to support our changing organisation

As we prepare for the next phase of transformation it is important our governance is providing the optimum oversight and support for our organisation. That means focusing on:

- the overall direction, including our role within the wider public sector and the role we play in the wider society
- governing and leading our transformation
- continuing to build our capability in the areas of customer centricity and intelligence-led
- our organisational performance and investment activity
- our people development and organisation design
- delivery and completion of our transformation.

We reviewed our governance structure and made some changes. From 1 July 2017 we have one Board—the Strategic Governance Board—and five Committees. The Board and Committees meet monthly, except for the Customer-centric Committee, which meets every second month.

Figure 6: Our governance structure

The **Strategic Governance Board** governs the future of Inland Revenue as defined by our strategic direction

The Board provides the overall strategic direction for our organisation, including ensuring all elements of our transformation come together and making decisions on where we may need to speed up or slow down investment in our transformation journey. It sets the framework for how resources across the governance system will be managed. It focuses on strategic governance in the areas of customer, people, process, policy, data and technology, while taking into consideration the cross agency agenda and machinery of government.

The **Performance and Investment Committee** governs our organisational performance and investment decisions

This includes risk to performance, investment decisions to achieve our strategic direction, oversight of the Business Transformation programme deliverables as they are implemented into business-as-usual activity, and governing benefits realisation.

The **Portfolio Governance Committee** provides governance over projects and programmes that sit within our single investment portfolio

This Committee ensures projects and programmes are managed well and remain healthy from a cost/benefit, timeline, quality and risk/issue perspective. It raises project implementation issues by reporting to the Performance and Investment Committee when projects fall out of specification.

The **Customer-centric Committee** governs the areas of customer centricity and intelligence-led

This Committee focuses on developing capability relating to customer understanding, including how intelligence can be used to better understand our customers and enhance our decision-making. It provides governance over current customer and intelligence-led initiatives.

The **Technical Governance Committee** governs the legal and technical side of our business

The overall objective of the Committee is to facilitate and ensure the effective coordination and management of Inland Revenue's legal/technical business and significant tax technical issues.

The **Organisation Development Committee** governs the development of our organisation and workforce

This committee ensures that the development of our organisation and workforce align with our overall strategic direction. This includes people change and transition processes, the development of our people's capabilities and our new ways of working.

Table 5: Board and Committee members

	Strategic Governance Board	Performance and Investment Committee	Portfolio Governance Committee	Customer-centric Committee	Technical Governance Committee	Organisation Development Committee
Commissioner	Chair					
Chief Financial Officer	✓	Chair	✓			
Chief People Officer	✓			✓		Chair
Chief Technology Officer	✓	✓	✓			
Chief Tax Counsel	✓				Chair	
DC Corporate Integrity and Assurance	✓	✓				✓
DC Service Delivery	✓	✓	Chair			✓
DC Information, Intelligence and Communications	✓	✓	✓	Chair		✓
DC Policy and Strategy	✓	✓	✓		✓	
DC Customer and Compliance Services—Individuals	✓	✓		✓		✓
DC Customer and Compliance Services—Business	✓			✓	✓	✓
DC Transformation	✓			✓		
Manager, Business Partnerships, People and Culture		✓				
Group Manager, Office of the Chief Tax Counsel		✓				
Chief Advisor to DC Corporate Integrity and Assurance				✓		
Director, ICT Solutions				✓		
Director, Digital Change				✓		
Director, Public Rulings					✓	
Director, Escalations and Advising					✓	
Policy Director External					✓	
GM Investigations and Advice					✓	
Group Tax Counsel					✓	
Director, Litigation					✓	
Investigations Manager—Large Enterprises					✓	
Legal and Technical Services Manager, Technical Standards					✓	
Organisational Change and Training Lead, Business Transformation						✓
Business Partnership Manager, People and Culture						✓
Independent advisors			✓			

We review Board and Committee performance regularly

The Deputy Commissioner Corporate Integrity and Assurance regularly reviews the performance of the Board and Committees to ensure they are fit for purpose, including:

- fulfilling their purposes
- meeting the objectives in their charters
- adding value—supporting delivery and managing risk.

The Commissioner appoints members and approves any changes to membership or Board and Committee structures.

External people provide input to our governance and our transformation

We have external people who provide advice to our Committees to enrich the discussions with their experience and governance insights and enhance our decision-making.

We have incorporated independent advice from stakeholders in reference groups to support decision-making on transformation. The groups are:

- Taxpayers' Simplification Advisory Board—gives individuals and small businesses a voice that will challenge our thinking on how to make tax simpler and faster.
- Transformation Reference Group—provides insights and perspectives from businesses, individuals and the tax community to inform our transformation. Members have extensive experience in a broad range of sectors and represent diverse communities.
- Information and Communications Technology (ICT) Reference Group—an independent voice and sounding board on our transformation. It is an opportunity for ICT professionals to contribute perspectives and experience on the impact of our transformation on business and the community.

The Risk and Assurance Committee is an external body that provides independent advice

The Risk and Assurance Committee assists the Commissioner in effectively meeting statutory and governance responsibilities. All five members are independent external experts, with a mixture of skills in assurance, financial management, risk management and organisational change. The Committee meets a minimum of four times per year and at other times as necessary.

The current members are:

Steven Fyfe (Chair) • Michael Ahie • Sandi Beatie • Fiona Oliver • Melanie Templeton.

The year to come

We will continue to manage our changing organisation as we work towards being a world-class revenue organisation recognised for service and excellence.

Through our involvement in the Better Public Services Diversity and Inclusion commitments we will help advance the Public Service on issues such as gender pay gap, workforce representation and disability. We will also continue to integrate our diversity and inclusion focus into our culture and services. The development of our Māori framework in 2017–18 will help us to move our focus from being Responsive to Māori to Working with Māori.

Our organisation, systems and processes will continue to change and become more customer-centric, intelligence-led and agile. During 2018 and 2019 we will move a number of products to our new systems and processes.

We will implement the first stage of our new organisation design in February 2018. We will continue to support our people throughout the transition and within the new environment. Our focus on helping our people develop their capabilities will continue. We will also be working on the design of the next stages of our organisational change.

We are preparing to make changes to our enterprise support services. Once we have finished adapting the New South Wales Government Standard Business Process Model for use across the New Zealand public sector, we will use it to help standardise and optimise our processes. We will also make it available to other agencies.

We will continue our good management and governance practices, maintaining our commitments to health and safety, security, risk management, privacy and fraud prevention.

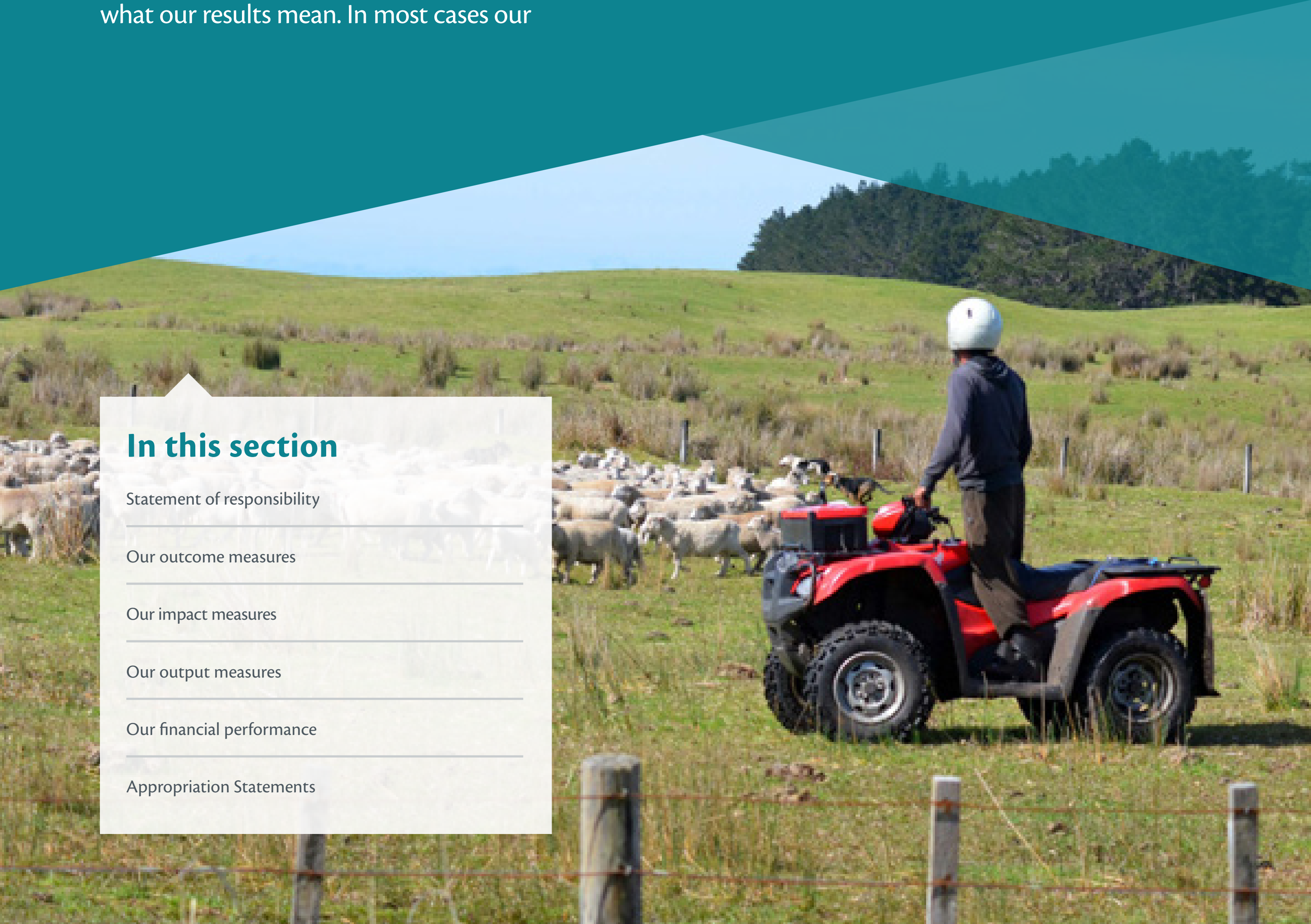
How we performed

We track our progress towards achieving our mission and vision through our performance measures. Our diagram on pages 20 to 21 shows the connection between what we are here for, what we want to be, how we achieve this, and how we measure it. We use outcome, impact and output measures to tell our performance story.

Our output measures have performance targets, which we either achieve or do not achieve. Our outcome and impact measures do not have targets. We include commentary on most of these measures to help explain what our results mean. In most cases our performance in 2016–17 is measured by comparing our actual achievements against the results from previous years.

Some measures are a mix of percentages or values, while others are presented as case studies. Our case studies allow us to provide background and further context around a result. We evaluate our case study measures by comparing results from previous years, where available, and by highlighting the improvements and the difference we have made.

We also consider our financial performance. We show how we managed our finances to deliver our services.



In this section

How we performed
at a glance...

We achieved 45 out of 52 of our performance targets, compared with 55 out of 59 in 2015–16.

We introduced new outcome and impact measures this year. Some differ from the impact measures we had last year, but many are measures we already used. Where comparisons can be made with previous years, our overall performance generally improved or stayed the same. However, for a few measures our performance has decreased, including our customer satisfaction and perception results.

Our performance results for 2016–17 reflect the hard work and effort our people put in for our customers, while displaced and working with a new system and from temporary sites.

Our emergency response and business continuity processes were tested by the Kaikoura earthquake as we were getting ready to release our new online GST services and continued with the closure of our Hawkestone Street site in Wellington. Despite these challenges we released our new GST services on time and continued to deliver our core services.

We managed our finances well during 2016–17, finishing the year within budget.

Statement of responsibility

I am responsible, as Chief Executive of Inland Revenue, for the preparation of the department's financial statements, appropriation statements and end-of-year performance information and for the judgements made in them. The end-of-year performance information on each appropriation administered by the department is provided in accordance with sections 19A to 19C of the Public Finance Act 1989. I am responsible for the accuracy of any end-of-year performance information prepared by the department whether or not this information is included in this Annual Report.

I am also responsible for the preparation of the department's forecast financial statements, including the appropriateness of the underlying assumptions and all other required disclosures.

I have the responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting and the accuracy of our end-of-year performance information.

In my opinion, these financial statements fairly reflect the financial position and operations of the department for the year ended 30 June 2017 and the forecast financial statements reflect the financial position and operations of the department for the year ending 30 June 2018.

C M. Atkins

Cath Atkins
Acting Chief Executive and Commissioner of Inland Revenue
28 September 2017

Countersigned by:

L Mariell

Lara Ariell
Chief Financial Officer
28 September 2017

Our outcome measures show what we have achieved

Our outcome measures help us understand our performance in delivering our outcomes. Delivering our outcomes enables us to achieve our mission.

Our three outcomes and the measures for each are discussed below.

Revenue is available to fund government programmes through people meeting payment obligations of their own accord

The tax revenue we collect is used by government to pay for services that all New Zealanders benefit from, including healthcare, education, justice, housing and roads.

We have two measures for this outcome. The first measure relates to timely and cooperative behaviour of our customers, resulting in tax obligations being paid, which contributes to revenue being collected to fund government programmes. The other measure is being developed and will be reported in 2017–18.

Percentage of tax payments made by customers on time

In 2016–17, 87.9% of tax payments, including income tax, PAYE and GST, were paid on time and in full by our customers.

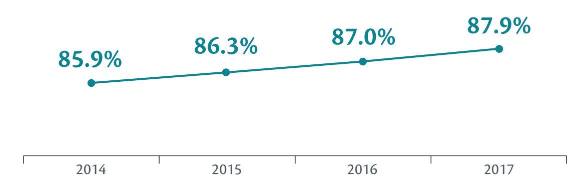
In terms of the value of tax payments paid on time, 97.7% were paid on time by our customers in 2016–17. This result includes payment obligations that were paid in part and in full.

This year we have changed the methodology for this measure. The new methodology measures more recent GST and PAYE payments obligations, providing a better view of current year performance. Due to the differences, care should be taken when comparing this year's result with previous years'.

This measure differs from the one listed in our *Statement of Intent 2016–20* on assessed revenue. We will look to refine this measure in 2017–18.

87.9%

of tax payments made by customers on time



Distribution of total system revenue

We are developing this measure by considering how much of our revenue is collected through intervention activities, such as debt collection, audit and litigation, and how much did not require intervention. We are not reporting on this measure for 2016–17 as it is still under development.

People receive payments they are entitled to, enabling them to participate in society

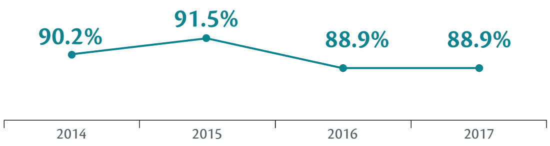
We are responsible for making sure people receive payments in a timely manner, to enable them to participate in society. Under this outcome we have five measures on the timeliness of payments and refunds made to customers. This year we achieved similar results to 2015–16. The area that decreased—GST refunds paid to customers on time—is mainly due to the ability to issue aged refunds more easily with more efficient processing in START. We are comfortable with the result as the majority of our GST refunds continue to be issued in a timely manner and the new system enables us to issue aged refunds more efficiently.

These measures differ slightly from those listed in our *Statement of Intent 2016–20*. We are working on developing accuracy measures over 2017–18. We will publish our new measures when the methodology is finalised and the results are reliable.

Tax refunds paid to customers on time

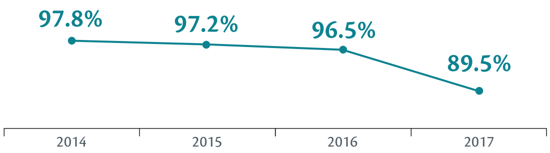
88.9%

of income tax refunds were paid to customers on time



89.5%

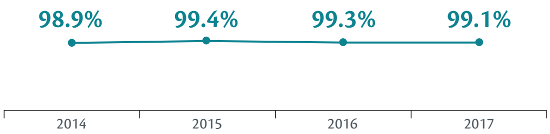
of GST refunds were paid to customers on time



Social policy payments made to customers on time

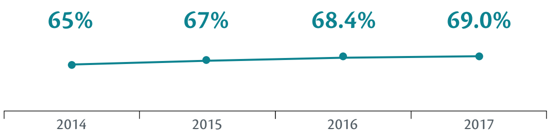
99.1%

of Working for Families Tax Credits payments were made to customers on time



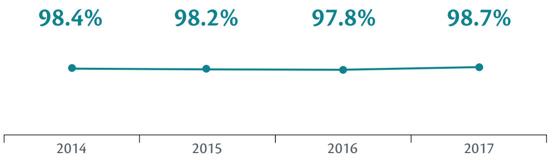
69%

of child support assessments were paid on time



98.7%

of paid parental leave payments were made to customers on time



New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment

This outcome has two measures that are presented as case studies. The first is for services around life events and the other is for making it easier for businesses to deal with government. These case studies provide more information on how we contribute to the Government's vision for better public services. More information on our involvement with the Better Public Services programme is on pages 29 to 32.

Inland Revenue services integrated around life events

We helped with the development and release of two services this year that are designed to help people navigate certain life events. These are SmartStart and Te Hokinga ā Wairua.

SmartStart is a digital service designed around the birth of a baby. It was released in December 2016 and is the first life-event-based service to be launched. SmartStart makes it much easier for new and expectant parents to get the services and support they need to set up their child for the future. One of our main contributions to SmartStart is informing new parents that they can apply for an IRD number for their child at the same time they register the birth with the Department of Internal Affairs. We worked with the Ministry of Health, Department of Internal Affairs and Ministry of Social Development to deliver this information service.

SmartStart has been very successful. As at 30 June 2017, it had been visited over 98,000 times.

Te Hokinga ā Wairua—end of life services—was launched at the end of June 2017. This service is a tool to support people who are putting their affairs in order, or have recently suffered a loss, and is similar to SmartStart.

We also tested a service called myTrove that allows users to record and update their personal information and preferences and share this with those who need to know in the case of their death, including loved ones and organisations. In 2017–18 we expect to formalise a business proposal with myTrove service providers that will allow us to collect information from this service.

Looking ahead, other life events to be explored include Turning 65, Victim of Crime and Entering Tertiary Study.

Better Public Services Result 9—Reduced cost to business in dealing with government

We continue to contribute to initiatives such as the New Zealand Business Number (NZBN), and work closely with the Ministry of Business, Innovation and Employment (MBIE) and other agencies. We now recognise New Zealand businesses by their NZBN, a unique business identifier assigned to businesses in New Zealand. We have stored and recognised 780,000 NZBNs in our systems. We have also provided MBIE with information to enable them to populate their business register of non-registered entities, such as sole traders. We are working with MBIE to complete the last steps required to recognise any type of business by their NZBN and have plans to do this in the next part of our transformation.

During the year we automated the nominated persons process for bookkeepers and their clients with a company called 2Shakes. The service offered by 2Shakes allows bookkeepers to focus on adding value and avoid repetitive administrative tasks by being recognised as nominated persons for their clients in a more timely way.

We worked with other agencies to develop, test and validate the Government Customer Experience Index—a supplementary measure under development. The Customer Experience Index will provide a customer-focused quality assessment of the customer experience across government.

The 2016 Result 9 (R9) Business Reference Group Survey results were released in 2017. This survey measures progress against the R9 targets to reduce cost to business in dealing with government. Our results showed that while the level of effort required by businesses in 2016, based on their most recent dealing with us, remained similar to 2015, the satisfaction results improved from 61% to 71%.

Measure	2015 results	2016 results
Average effort rating (0-10)	3.81	3.71
Proportion of high effort customers (%)	20%	18%
Satisfaction (%)	61%	71%

Our impact measures show the difference we have made

Our impact measures help us to understand our performance against the impacts we want to make. Making a difference in these areas helps us realise our vision.

We have impact statements that describe the difference we want to make, with measures for each. Our performance in these measures is discussed below.

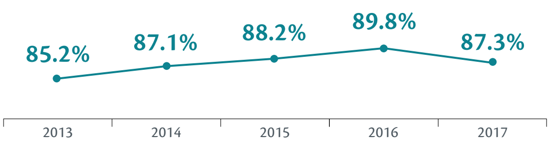
Customers have easy access to our services

The measure for this impact is derived from our Customer Satisfaction and Perceptions survey.

Customer satisfaction with Inland Revenue’s overall accessibility and convenience

87.3%

of customers are satisfied with Inland Revenue’s overall accessibility and convenience



While our customers get used to using our new GST online services, their level of satisfaction with the accessibility and convenience of our services has declined from last year. Since the introduction of the new GST online services we have worked closely with our customers to understand the challenges they have experienced and have made a large number of improvements based on their feedback.

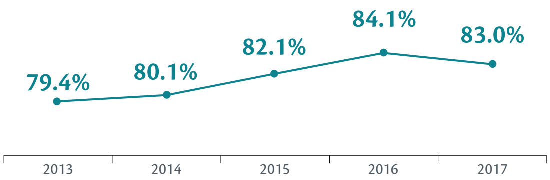
Customer effort is reduced over time

We report on two measures for this impact. Both are survey based. The first measure is from our Customer Satisfaction and Perceptions survey and the second is from a survey of small and medium-sized businesses.

Customers find it easy to comply

83%

of customers find it easy to comply



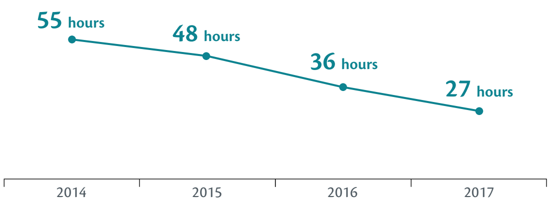
While our new systems and processes aim to reduce customer effort, we acknowledge that they may result in increased effort in the short term as customers get used to working with them.

Customer time spent on tax compliance

The median time small and medium-sized businesses spent on tax compliance activities was

27 hours

in 2016



The 2016 result was released in 2017 and reflects the median time small and medium-sized businesses spent on tax compliance activities. This was a 25% reduction from the 36 hours for 2013. In 2013 over half this time was spent on recording information and the most time-consuming tax type was GST. Significant developments related to GST have contributed to the improved result for 2016. More details of these improvements can be found on page 72 . The next survey will be held in 2018, with results available in 2018–19.

The average customer time spent on tax compliance for large enterprises

We will research the cost of compliance for large enterprises in 2017–18. This result is not reported in 2016–17 due to some recent major increases in international tax reporting obligations for large enterprises. These have been primarily driven by international authorities, including Automatic Exchange of Information and the Foreign Account Tax Compliance Act 2010. We expect to report on this measure in 2017–18.

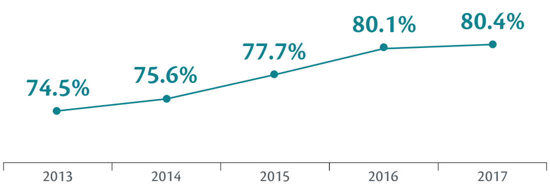
Customers get it right from the start

We report on two measures for this impact. One is sourced from our Customer Satisfaction and Perceptions survey and the other is a case study.

Inland Revenue makes it easy to get it right

80.4%

of customers perceive that Inland Revenue makes it easy to get it right



Up until 2016 we saw an increasing trend for this measure. In 2016–17 we achieved similar results to 2015–16. The introduction of new GST online services may have influenced our customers' perception that we make it easy to get it right as they get used to using the new system.

Customers filing GST directly through their software packages

We are designing and delivering services in partnership with others inside and outside government. A first step towards greater integration with private business partners was working with software providers MYOB and Xero to enable customers to file GST through their accounting software. A pilot ran in December 2015 and by July 2016 both software providers had released their GST filing services to all their GST-registered customers.

Customer uptake has been strong. As at June 2017, more than 55,000 customers have filed GST returns using the service. Around 166,000 GST returns were filed during 2016–17 through accounting software, representing approximately 5.7% of total GST returns filed over the same period.

Our 2016 survey of compliance costs for small and medium-sized businesses shows that for GST the need for recording information, calculating, filing and paying tax and dealing with Inland Revenue was significantly less compared to the 2013 results. In the 2016 survey, the median time small and medium-sized businesses spent meeting their GST obligations was 14 hours a year. This was down from a median of 24 hours a year in the previous survey.

Implementing the GST digital filing service has shown us that there is customer demand for these types of services, and software developers are willing to work with us to deliver these services for customers. We continue to work closely with third parties to help customers get it right from the start.

We use information and insight to improve potential future revenue

The measure for this impact is a case study. This year we present a short performance story related to our work on student loans.

Return on investment of targeted interventions

We are becoming more intelligence-led, understanding our customers to determine the most effective messages and ways of communicating with them to improve compliance. This is reflected in the success of our student loans marketing campaigns, which have been running since 2012. We aim to increase compliance of borrowers living in New Zealand and overseas through online advertising and social media messaging. We also send personalised emails and texts with specific messages to customers, based on their payment histories.

As a result of this tailored approach, performance continues to improve. The 2017 campaign result shows 10.5% more customers made repayments as at 30 April 2017 than the same period last year. The value of repayments also increased by $1.5 million to $54.9 million.

Through our information sharing arrangement with the Australian Taxation Office (ATO) we can now contact more borrowers based in Australia who were previously hard to reach due to a lack of contact details. More details on the outcomes of this arrangement are on page 43.

Both these initiatives demonstrate how we have applied information and insight to our work with our student loan customers.

Our business is run efficiently and effectively

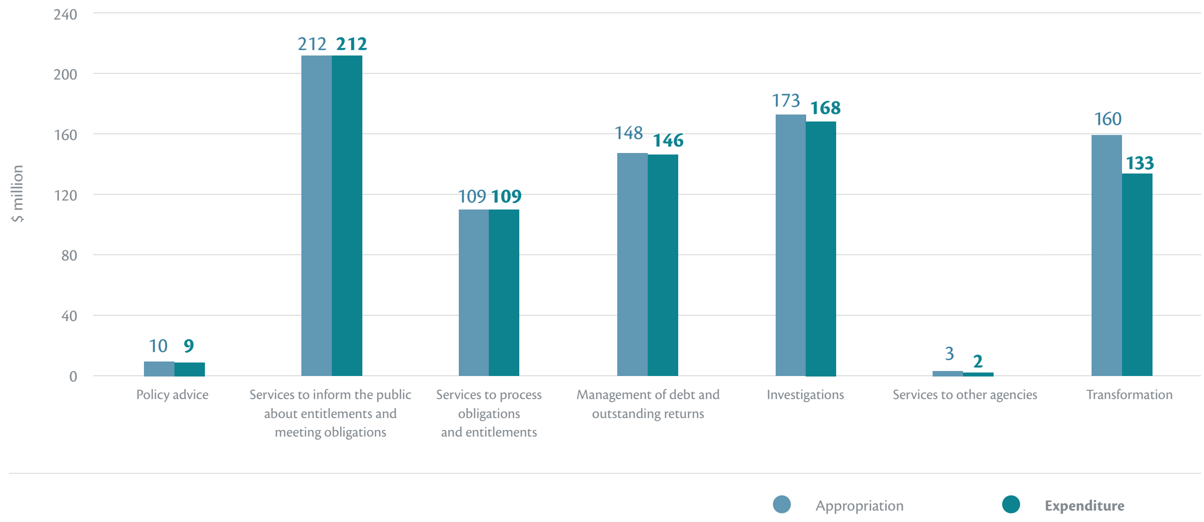
We have three measures for this impact.

Despite the changes to our GST services and the effects of the Kaikoura earthquake, the 2016–17 results related to the effective and efficient running of our business have not changed significantly from last year's results.

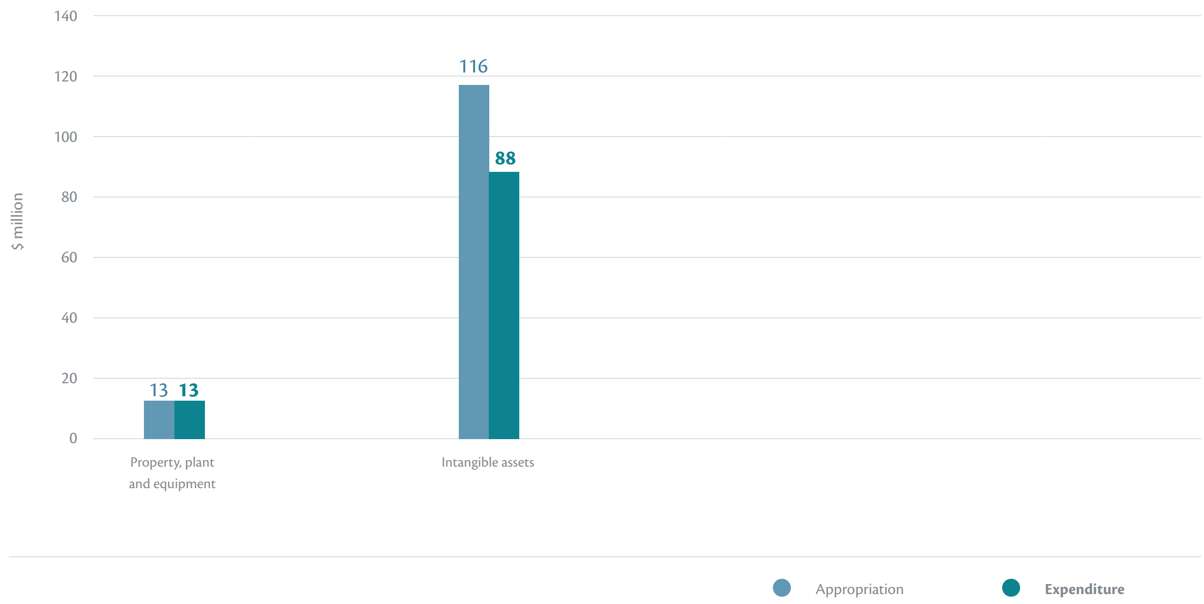
Expenditure incurred against departmental appropriations

Our work is funded by appropriations. We finished the 2016–17 year within all appropriations.

BREAK DOWN OF 2016–17 EXPENDITURE AGAINST APPROPRIATIONS



BREAK DOWN OF 2016–17 CAPITAL EXPENDITURE AGAINST APPROPRIATIONS



Overall Investor Confidence Rating

2016 rating:

A

The Investor Confidence Rating (ICR) is a two-yearly assessment of the performance of investment-intensive agencies managing investments and assets that are critical to the delivery of government services. The ICR process is led by Treasury. We received a rating of 'A', signalling a high level of performance. This result was released in July 2016 and is the first time the rating was given, so no comparison can be made to previous years.

We were the only agency to receive an 'A' rating in 2016.

We are improving our investment management and asset performance, and the value we are contributing to the wider government system. We have made good progress since our last Investor Confidence Rating in improving our capability. This is reflected in the 'positive' Outlook Indicator we received from a recent assessment of our progress.

System availability

	2016 average	2017 average
Back office | *Our internal applications, databases, software and desktops*	99.7%	99.9%
eChannel | *Our electronic services*	99.2%	99.9%
FIRST | *Our mainframe infrastructure*	100.0%	100.0%
Voice channel | *Our telephone systems*	99.7%	99.6%

To deliver our services, our systems need to be available. Our 2016–17 results show that we have maintained system availability over the year.

The policy change process is of high quality, fast and cost-effective

The three measures we report on for this impact cover quality, cost and ministerial satisfaction.

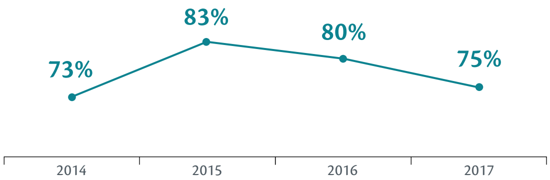
In our *Statement of Intent 2016–20* we say measures will be developed for this impact that will cover quality, cost, timeliness and ministerial satisfaction. Timeliness was not measured in 2016–17. We measure quality, cost and ministerial satisfaction through our output measures for policy advice—see page 92. We use the same three measures here. Although two of the measures are shown here with a decline compared to last year, they still meet our output performance targets and are shown as achieved on page 92.

We will refresh the impact statement and measures in 2017–18 so that they do not overlap with our policy advice output measures. We are exploring measures related to improving policy capability based on the Department of the Prime Minister and Cabinet Policy Capability Framework. We expect to report on these new measures when the methodology is finalised and the results are reliable.

Quality of policy advice papers

75%

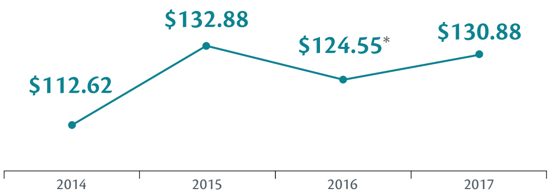
of policy advice papers meet quality standards



Cost of producing policy advice

The cost per hour of producing policy advice outputs was

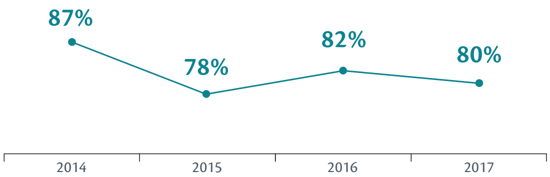
$130.88



Ministerial satisfaction for policy advice

Ministerial satisfaction for policy advice was

80%



* The 2015–16 result was reported as $151.70 per hour but has been restated to $124.55 to be consistent with the assumptions used for the 2016–17 result.

We collaborate with other agencies and the private sector both domestically and internationally to create cost and/or productivity savings

The measure for this impact is to show outcomes of information sharing. We provide commentary on this below. We are reviewing the intent of this impact and how to best measure it and will identify and develop new measures in 2017–18.

Outcomes of information sharing

We collaborate and share information with other agencies to make a difference to New Zealanders. Sometimes our collaboration will not result in a direct benefit to us but will make a difference to customers of other agencies and to the performance of the public sector as a whole.

In 2016–17 we proactively shared information with the Ministry of Social Development (MSD). This helped MSD with the prevention of benefit fraud by identifying an estimated $46.3 million in overpayments and arrears.

Information we shared with the Ministry of Justice enabled it to collect more than $11.2 million in overdue fines.

We shared information 39 times in response to 45 valid requests for information from WorkSafe New Zealand and the Labour Inspectorate, which is part of the Ministry of Business, Innovation and Employment. This is helping it to investigate breaches in workplace legislation.

As mentioned on page 30, through the R9 Accelerator programme we are increasingly working with the private sector on developing and implementing new systems and tools to help customers with their interactions with government.

Information sharing with the Australian Taxation Office has also helped our work on collecting overdue student loans by updating contact details for those located in Australia. For more details on this, see page 43.

Details on information sharing with the Department of Internal Affairs and New Zealand Police can be found on pages 170 to 171.

Our workforce is highly skilled, motivated and diverse

We have two measures for this impact. One measure is of staff engagement and the other, related to our workforce capability, remains under development.

Motivation and resilience was tested this year as we prepared for, and introduced, our new online GST services, while being displaced due to building repairs required on several of our sites. We also went through consultation on the design of our new organisation. Our people have maintained their performance and continued to deliver excellent services to our customers and key stakeholders.

Staff engagement

Staff engagement is

44%

Compared to the Australasian Government benchmark of 51%

This result was from our culture and engagement survey last conducted in 2015.

The result was below the Australasian Government benchmark. We want to make Inland Revenue a great place to work, so we are monitoring how our people feel through our survey and taking action to support our people through transformation.

Our most recent survey was held over July and August 2017 and the results will be reported in our next Annual Report.

Workforce capability

The workforce capability measure outlined in our *Statement of Intent 2016–20* is still under development.

During the year we progressed with building our My Capabilities online tool. This tool will support our people to reflect on and understand their capability strengths and potential development areas.

We also redesigned our performance and recognition approach, as discussed on page 52. Our approach to performance increases the focus on developing capabilities. We are considering appropriate ways to measure this.

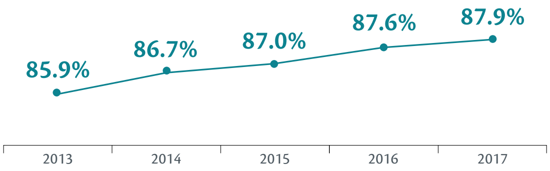
We protect the integrity of the tax system, and our stakeholders and the public have trust and confidence in us

We have two measures for integrity. One is from our Customer Satisfaction and Perceptions survey and the other is from a survey run by Colmar Brunton on the reputation of the public sector.

Customers have trust and confidence in Inland Revenue

87.9%

of customers have trust and confidence in Inland Revenue



The percentage of customers who have trust and confidence in us continues to trend upwards. Our 2016–17 results remain similar to 2015–16.

Public Sector Reputation Index (RepZ)

Our RepZ score is

96

The Index measures perception of a public sector organisation across leadership/success, fairness, social responsibility and trust. Our latest result of 96 was released in April 2017 and is based on field work conducted in 2016. We scored 93 in the results released in March 2016, the first time the Index was published.

A score of 100 is average. A score of 95 and below is considered weak, while a score of 105 or higher is considered strong.

Our output measures show how well we performed against the services we deliver

This section provides detailed reporting on our performance against our targets, as included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017**. Full details can be found on the Treasury's website.

Where appropriate, we have included comparative performance information against the performance measures and results for 2015–16. Our performance targets for 2017–18 are also included to provide context to the 2016–17 results. We have provided explanations for measures that have not met target or have achieved a result that was 15% greater than target.

Some performance measures are calculated using a sample of the customer population. We have marked these performance measures with a hash mark (#).

All target and forecast figures in pages 79 to 100 are not subject to audit.

Review of 2016–17 output performance measures and targets

As in previous years we reviewed our output measures before the start of the new financial year. The purpose was to update or create new measures to reflect changes in our business.

We introduced two categories of performance measures: primary measures and supporting measures. The primary measures reflect our outcomes and are more representative of what we want to achieve with the funding in each appropriation rather than what we are doing with the funding. The supporting measures are more operational in nature and measure our efficiency and effectiveness.

We reduced the overall number of output measures from 59 in 2015–16 to 52 for 2016–17, by replacing 16 of our old measures with nine new primary measures. We also updated our six milestone measures for our Transformation appropriation to reflect the agreed key programme milestones in 2016–17.

* This link leads to information not covered by the audit opinion on page 166.

Our services to customers

The services we offer customers are covered in four appropriations:

- Services to inform the public about entitlements and meeting obligations.
- Services to process obligations and entitlements.
- Management of debt and outstanding returns.
- Investigations.

01. Services to Inform the Public About Entitlements and Meeting Obligations

9/12 ACHIEVED

This appropriation is limited to providing information and assistance to the public to make them aware of their obligations and entitlements. This also includes the provision of services to help Ministers fulfil their responsibilities to Parliament and the New Zealand public, other than policy decision-making responsibilities.

What is intended to be achieved

This appropriation is intended to provide services and information to help taxpayers and other customers meet their payment obligations and receive payments they are entitled to, and help Ministers fulfil their responsibilities to Parliament and the New Zealand public.

What we do

Our activities within this appropriation involve responding to customer enquiries on tax and social support programmes, including child support and KiwiSaver. Enquiries may be through electronic channels, correspondence, telephone or personal appointments. We actively provide advice through a range of communication approaches delivered in the community and through our complaints management service.

We also provide adjudication, taxpayer rulings and public rulings.

Adjudication includes:

- providing a technical review of existing taxation disputes referred to the Disputes Review Unit
- issuing an adjudication report, or other formal communication of conclusions, to the parties concerned
- directing the issuing of an assessment consistent with the conclusions of the technical review where required.

Taxpayer rulings includes considering applications for and providing binding private and product rulings, and financial arrangement determinations.

Public rulings includes:

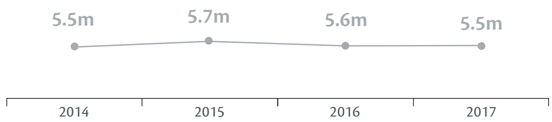
- preparing and issuing binding public rulings
- developing and publishing non-binding statements on the Commissioner's view of the law administered by us, such as interpretation statements and guidelines
- considering applications for and providing taxpayer-specific depreciation determinations
- preparing and publishing depreciation and other determinations
- considering and responding to technical correspondence.

These activities contribute to us achieving our outcomes of revenue being available to fund government programmes through people meeting payment obligations of their own accord and people receiving payments they are entitled to, enabling them to participate in society.

The numbers we work with

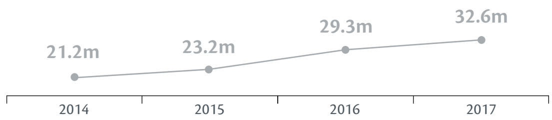
5.5 million

customer service contacts



32.6 million

self-help service contacts



How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Primary measures			
81.8%	Minimum percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations #	80%	82.6%	80%
80.2%	Minimum percentage of customers who perceive that resolving issues with Inland Revenue requires low effort #	80%	77.7%	80%
	Not achieved—Our customers' perception that resolving issues requires low effort has been affected by our change to new online systems and processes in February 2017. Our third quarter result of 74.9% was below the first two quarters of this year and below our result of 80.0% for the third quarter last year. Our performance improved in the fourth quarter to 76.4%. We worked closely with customers to understand their challenges in the new systems and made improvements based on their feedback and we will continue to do this.			
90.3%	Minimum percentage of overall customer satisfaction with the quality of Inland Revenue services to inform #	90%	87.8%	90%
	Not achieved—Our customers' satisfaction with the quality of our services has also been affected by our change to new online systems and processes. Our third and fourth quarter results of 87.2% and 86.2% compare to 89.0% and 90.0% respectively for the same quarters last year.			
75.5%	Minimum percentage of telephone calls answered within two minutes	75%	67.0%	75%
	Not achieved—Several factors have affected our ability to answer calls within two minutes. These include a 14%—1 minute 38 second—increase in the average call handling time of more than 12 minutes compared with last year, with many calls involving complex tax issues. We have also had some unforeseen surges in call demand. For example, in February, greater than expected use of our online services led to more calls, as customers phoned to register and to make sure they had done the right thing. There was also an increase in the number of people seeking tax refunds this year, which led to more calls this tax return season. For the year we answered 73% of calls within three minutes and 77% within four minutes.			

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Supporting measures			
$31.19	Maximum average cost of a customer-initiated contact	$35.00	$32.52	$35.00
100%	Percentage of all rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards	100%	100%	100%
28	Minimum number of published or finalised public items that give the Commissioner's interpretation of the law	25	32	25
	As part of our commitment to help customers get it right from the start we produce a number of public items each year. The technical areas covered reflect consultation with our customers about what is most important to them and there are always more topics than we can cover over any given year. This year we improved our planning and processes and this helped us to produce 32 finished items. This was significantly more than our target and reflects our work putting the customer at the centre of everything we do.			
100%	Minimum percentage of adjudication cases completed within three months of receipt	90%	100%	90%
100%	Minimum percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt	90%	100%	90%
100%	Minimum percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt	90%	100%	90%
92.6%	Minimum percentage of public items (including relevant public consultation) completed within 18 months of allocation	90%	90%	85%
96.9%	Minimum percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	100%	90%

Actual performance measured using a sample of the customer population.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
230,367	Revenue Crown	225,771	210,297	210,297	214,572
1,519	Other revenue	1,461	1,848	1,442	1,882
231,886	**Total revenue**	**227,232**	**212,145**	**211,739**	**216,454**
226,885	**Total expenses**	**227,232**	**212,145**	**212,093**	**216,454**
5,001	**Net surplus/(deficit)**	**–**	**–**	**(354)**	**–**

02. Services to Process Obligations and Entitlements

12/14 ACHIEVED

This appropriation is limited to both the registration, assessment and processing of tax obligations and other entitlements, including associated review and Crown accounting activities, and the collection and sharing of related information with other agencies.

What is intended to be achieved

This appropriation is intended to deliver efficient and effective processing of tax payments, tax credit claims, and refunds and other entitlements. This contributes to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to.

What we do

We process all registrations, applications and assessments for the tax and social policy programmes we administer. This involves:

- issuing statements, notices, rebates and refunds
- receiving and banking payments.

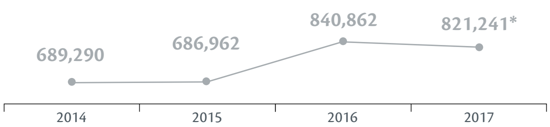
We also process child support assessments and provide an administrative process for reviewing child support assessments, which is intended to be inexpensive and readily accessible to custodians and liable parents.

These activities contribute to us achieving our outcomes of revenue being available to fund government programmes through people meeting payment obligations of their own accord and people receiving payments they are entitled to, enabling them to participate in society.

The numbers we work with

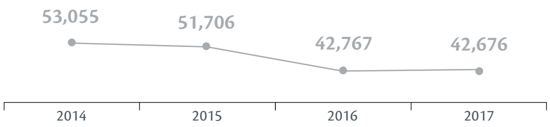
821,241*

tax and social policy registrations (excluding child support) received



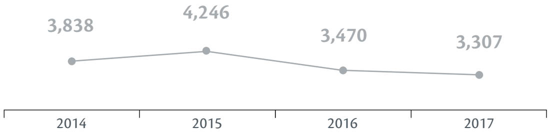
42,676

child support applications received



3,307

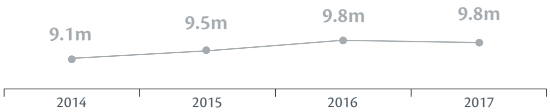
applications for administrative review of child support assessments received



* Due to system limitations this result excludes GST-related registrations from February 2017 to June 2017.

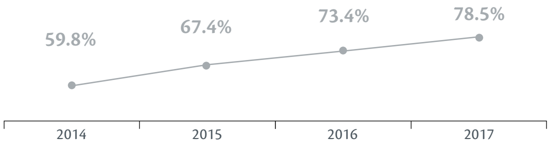
9.8 million

returns received



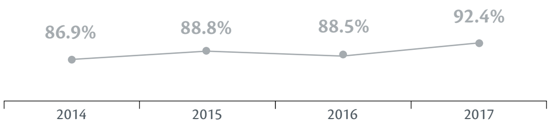
78.5%

of returns filed electronically



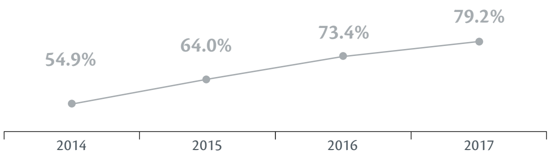
92.4%

of income tax returns filed electronically



79.2%

of GST returns filed electronically



How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Primary measures			
80.1%	Minimum percentage of customers who perceive that Inland Revenue makes it easy for people to get it right #	75%	80.4%	75%
88.8%	Minimum percentage of social policy and tax registrations processed within five working days	85%	88.3%	85%
80.2%	Minimum percentage of child support assessments issued within two weeks	80%	78.4%	80%
•••	*Not achieved—At the start of the year we trialled a new step in our child support assessment process. Although this extra step was shown to give our customers an improved experience with earlier assistance and support, it affected our performance during July and August. We refined this step and our performance has been above target each month from September 2016 to May 2017.*			
88.9%	Minimum percentage of income tax disbursements issued within six weeks	85%	88.9%	85%
96.5%	Minimum percentage of GST disbursements issued within four weeks*	95%	89.5%	95%
•••	*Not achieved—At the end of January 2017, 97% of GST refunds were issued within four weeks. Since February 2017 we have been able to issue a number of aged refunds more easily due to more efficient processing in our new START system. This has affected our overall performance in this area. However, in the five-month period from February to June, we still issued 81% of our GST refunds within four weeks while a large number of customers with aged refunds received their refunds as START processed them more efficiently.*			

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Supporting measures			
93.8%	Minimum percentage of income tax returns finalised within four weeks	90%	93.4%	90%
99.0%	Minimum percentage of GST returns finalised within three weeks	95%	97.8%	95%
99.7%	Minimum percentage of employer monthly schedule employee deductions finalised within four weeks	95%	99.8%	95%
$2.33	Maximum average cost of processing income tax returns, GST returns and employer monthly schedules	$5.00	$2.16	$4.00
	The cost of processing each return continues to fall as more of our customers file their returns online. In 2016–17, 78% of returns were filed electronically, up from 73% in 2015–16.			
99.0%	Minimum percentage of notices and statements produced without error #	98.5%	99.5%	98.5%
92.7%	Minimum percentage of tax credit claim payments made within three weeks	90%	93.0%	90%
99.3%	Minimum percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	99.1%	95%
97.8%	Minimum percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	98.7%	97%
94.1% within 10 weeks	Minimum percentage of child support administrative review decisions issued within seven weeks	85%	90.8%	85%

Actual performance measured using a sample of the customer population.

* Section 46 of the Goods and Services Tax Act 1985 stipulates refunds are to be issued within 15 working days unless selected for a screening or investigation. The four weeks issuing timeframe allows additional time to include those selected for screening or investigation in our performance.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
94,239	Revenue Crown	88,971	87,736	87,736	93,368
20,875	Other revenue	20,997	21,123	21,608	21,134
115,114	**Total revenue**	**109,968**	**108,859**	**109,344**	**114,502**
111,455	**Total expenses**	**109,968**	**108,859**	**108,731**	**114,502**
3,659	**Net surplus/(deficit)**	**–**	**–**	**613**	**–**

03. Management of Debt and Outstanding Returns

11/11
ACHIEVED

This appropriation is limited to activities to prevent returns becoming outstanding and debt becoming overdue, and to collect outstanding returns and overdue payments, whether for the Crown, other agencies or external parties.

What is intended to be achieved

This appropriation is intended to achieve the timely and efficient collection of revenue owed.

What we do

This appropriation covers all activities associated with collecting outstanding returns, overdue debt and overdue child support payments. We take both a preventative focus and appropriate follow-up action when customers do not file returns or do not pay on time. This includes providing customers with assistance on how they can get back on track with their payment obligations or taking appropriate enforcement action against parents who are less inclined to pay for the support of their children.

These activities contribute to us achieving our outcome of revenue being available to fund government programmes through people meeting payment obligations.

More information on debt and outstanding returns is presented on pages 40 to 44.

Additional funding received from government for initiatives

We used funds allocated in Budget 2012 and Budget 2015 to carry out additional work in specific areas. Some of our work on Budget-specific initiatives focused on ageing debt, outstanding returns and child support debt. The table below shows our return on investment (ROI) in these three areas.

2015–16 Unaudited ROI Actual		2016–17 Unaudited ROI Actual
$14.44	Ageing debt	$17.39
$14.11	Unfiled returns	$10.83
$2.73	Child support debt	$2.65

Additional funding for child support aims to progressively increase the amount of debt repaid over a five-year period. The total cash target for this period is $174 million. Work to date has resulted in an extra $73.1 million recovered from liable parents.

How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Primary measures			
84.6%	Minimum percentage of returns filed on time	80%	85.0%	80%
87.0%	Minimum percentage of tax payments made by customers on time	85%	87.9%	85%
	We reviewed and changed the methodology for the two measures above when they became output measures in 2016–17. The new methodology measures more recent GST and PAYE obligations, providing a better view of current year performance. Due to the differences care should be taken when comparing this year's results with previous years'.			
(17.2%)	Maximum percentage growth in outstanding returns	(2.0%)	(7.6%)	0%
	By the end of June 2017 we had reduced outstanding returns by nearly 54,000 from the same time last year. We identified customers who may no longer need to file income tax returns and deregistered GST customers who are no longer carrying out taxable activities. We also used predictive modelling, which allowed us to focus on customers who are likely to have higher-value returns and to provide tailored and targeted treatment to them.			
$51.60	Minimum cash collected for every debt dollar spent	$40.00	$79.23	$40.00
	This measure demonstrates the cost-effectiveness of our debt collection activities. While the increase in cash collected has contributed to this result, it has also been helped by a 2% reduction in the costs of collecting overdue debt. *The amount of cash collected has been strongly influenced by large business customers using extension-of-time and tax pooling services, which were 79% higher than last year. Our customers who choose to use these services get an extension to their tax payment dates. The degree of use of these services can lead to a variable result, which is not indicative of our overall debt collection activities.*			
82.4%	Minimum percentage of debt cases resolved within six months	80%	85.0%	80%
68.4%	Minimum percentage of child support assessments paid on time	65%	69.0%	65%
$121.19	Minimum value of assessed revenue for every outstanding return dollar spent	$45.00	$113.23	$45.00
	This measure demonstrates the cost-effectiveness of our outstanding returns work. The positive outcome we have achieved is driven in part by our intelligence-led efforts and use of a predictive model, which enables us to focus on higher-value returns. We also give priority to returns that have social policy components so that we can accurately assess customers' social policy entitlements.			

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Supporting measures			
$12.63	Maximum average cost of finalising an outstanding return	$16.00–$18.00	$15.15	$16.00– $18.00
47.1%	Maximum percentage of collectable debt value over two years old	60%	46.4%	60%
	The amount of collectable debt over two years old continues to decrease. We carry out a range of activities to prevent customers getting into debt, such as text and email reminders leading up to key filing and payment due dates. For those who do get into debt, we use a tailored approach for different customer groups. The strong result for this measure is in line with the aim of our Debt Strategy to have a newer, more collectable debt book.			
66.9%	Minimum percentage of debt value resolved for those who did not have a debt at the start of the year	65%	75.6%	65%
	The result has been strongly influenced by large businesses using extension-of-time and tax pooling services, which were 79% higher than last year. These services provide an extension to tax payment due dates for eligible customers. *In addition, our focus on engaging with customers as soon as they get into debt has continued, with the use of text messaging and electronic alerts through myIR. We have also been more agile in the way that we focus our people on early and more aged debt work.* *Due to system limitations this result excludes GST-related debt from February 2017 to June 2017.*			
78.9%	Minimum percentage of New Zealand paying parent child support debt cases resolved within 12 months	75%	77.5%	75%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
153,153	Revenue Crown	150,315	145,689	145,689	145,680
1,839	Other revenue	2,962	2,597	2,150	2,621
154,992	**Total revenue**	**153,277**	**148,286**	**147,839**	**148,301**
149,593	**Total expenses**	**153,277**	**148,286**	**146,315**	**148,301**
5,399	**Net surplus/(deficit)**	**–**	**–**	**1,524**	**–**

04. Investigations

4/4
ACHIEVED

This appropriation is limited to undertaking investigation, audit and litigation activities administered by Inland Revenue.

What is intended to be achieved

This appropriation is intended to protect the revenue base.

What we do

The activities we do within this appropriation are the auditing of taxpayers, including individuals, small to medium businesses and larger businesses, as well as audits of duties and non-residents. We also manage litigation of disputed tax cases, including the requirement to state the case through to resolution by the courts.

We also use our compliance activities to educate customers who are unaware of their obligations and help them get it right. We only use enforcement action where necessary. This ensures that the behaviour of non-compliant customers improves. Consequently, more customers pay and file information on time in the future.

These activities contribute to us achieving our outcome of revenue being available to fund government programmes through people meeting payment obligations of their own accord.

More information on investigations is presented on pages 35 to 40.

Additional funding received from government for initiatives

We used funds allocated in Budget 2012 and Budget 2015 to carry out additional investigations in specific areas. Our investigations work on Budget-specific initiatives focused on the hidden economy, property compliance and complex technical issues, including aggressive tax planning. Details on overall Budget-specific initiatives are on pages 35 to 37.

2015–16 Unaudited ROI Actual		2016–17 Unaudited ROI Actual
$4.89	Hidden economy	$6.00
$24.43	Complex technical issues (including aggressive tax planning)	$19.05
$3.92	Fraud	$2.76
$6.70	Property compliance	$8.28
$10.14	**Investigations total from Budget-specific initiatives**	**$11.55**

How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Primary measures			
89.8%	Minimum percentage of customers whose compliance behaviour improves after receiving an audit intervention	80%	87.6%	80%
$7.91	Minimum discrepancy identified for every output dollar spent	$7.00	$8.31	$7.00
	Additional funding from Budget 2015 has helped us identify more tax position differences, ie discrepancies, in our Budget-specific initiatives. Our increased focus on property compliance has identified $116.9 million of discrepancies, up by 69% from last year. Our work in the area of complex technical issues, including aggressive tax planning, identified $462.2 million. This was an increase of 56% from last year. We successfully closed several long-running aggressive tax planning litigation and disputes cases during 2016–17, which contributed to this result. More details can be found on page 37.			
81.4%	Minimum percentage of litigation judgments found in favour of the Commissioner	66%	80.8%	66%
	This achievement reflects a total of 73 judgments for the year, 59 of which were found fully in the Commissioner's favour. We are confident our interpretation of the law is correct before we take any case to court and the number of judgments in our favour reflects this. With the small number of cases, any slight variation in judgments found in the Commissioner's favour can alter the percentage achieved significantly.			
	Supporting measures			
78.0%	Minimum percentage of audited customers who are satisfied with their experience #	70%	74.6%	70%

Actual performance measured using a sample of audit cases.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
169,141	Revenue Crown	175,480	172,517	172,517	173,089
627	Other revenue	265	543	1,584	568
169,768	**Total revenue**	**175,745**	**173,060**	**174,101**	**173,657**
164,249	**Total expenses**	**175,745**	**173,060**	**168,338**	**173,657**
5,519	**Net surplus/(deficit)**	**–**	**–**	**5,763**	**–**

Our services to the Government

05. Policy Advice

3/3
ACHIEVED

This appropriation is limited to the provision of advice, including second opinion advice and contributions to policy advice led by other agencies, to support decision-making by Ministers on government policy matters.

What is intended to be achieved

This appropriation is intended to provide policy advice to support decision-making by Ministers on tax and social policy matters, to protect and maintain the integrity of the tax system, while ensuring that our tax system is as simple as possible and is internationally competitive.

What we do

The activities covered by this appropriation include:

- advising on all aspects of tax policy and social policy measures that interact with the tax system
- developing tax and social policy in line with the Generic Tax Policy Process
- drafting tax legislation for introduction in the House of Representatives and assisting its passage through the House of Representatives
- negotiating and maintaining New Zealand's network of double tax agreements with other countries
- forecasting future tax and non-tax Crown revenue receipts and disbursements for the Government
- analysing revenue implications of changes in tax and social policy.

More information on our policy work is presented on pages 27 to 28.

How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
	Primary measures			
81.7%	Minimum percentage of ministerial satisfaction for policy advice	80%	80.0%	80%
80%	Minimum percentage of policy advice papers that meet quality standards	75%	75.0%	75%
$124.55	Maximum average cost per hour of producing policy advice outputs	$150.00	$130.88	$150.00

The 2015–16 result was reported as $151.70 per hour but has been adjusted to $124.55 to be consistent with the assumptions used for the 2016–17 result.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
9,250	Revenue Crown	9,250	9,483	9,483	9,537
22	Other revenue	2	21	33	23
9,272	**Total revenue**	**9,252**	**9,504**	**9,516**	**9,560**
8,666	**Total expenses**	**9,252**	**9,504**	**9,006**	**9,560**
606	**Net surplus/(deficit)**	**–**	**–**	**510**	**–**

Our services to other agencies

06. Services to Other Agencies

2/2
ACHIEVED

This appropriation is limited to the provision of services by Inland Revenue to other agencies, where those services are not within the scope of another departmental output expense appropriation in Vote Revenue.

What is intended to be achieved

This appropriation is intended to provide support services to other government agencies, such as the provision of a hosted financial management information system and shared financial transactions services.

What we do

We provide a hosted financial management information system and shared financial transactions services to the Department of Internal Affairs (DIA) and the New Zealand Productivity Commission (NZPC).

We provide the NZPC with the following support services:

- operating bank accounts, jointly with the NZPC, to make payments
- maintaining financial systems, including accounts payable, accounts receivable and fixed assets
- preparation and payment of taxes
- preparation of monthly reporting and financial statements
- finance advice and support
- human resources general support and advice
- payroll maintenance, processing and support, including associated reporting and leave reporting.

Some of the services we provide DIA are:

- accounts payable and accounts receivable transactional services
- bank reconciliation services.

How we performed

2015–16 Actual		2016–17 Target	2016–17 Actual	2017–18 Target
63%	Minimum percentage of satisfaction of the Department of Internal Affairs for services provided	70%	85.8%	70%
	We have worked closely with the Department of Internal Affairs. This resulted in a significantly improved satisfaction score of 86% compared with 63% last year.			
96%	Minimum percentage of satisfaction of the New Zealand Productivity Commission for services provided	70%	98.0%	70%
	We maintained a strong and successful relationship with the New Zealand Productivity Commission.			

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
2,403	Other revenue	3,060	3,060	2,360	3,060
2,403	**Total revenue**	**3,060**	**3,060**	**2,360**	**3,060**
2,384	**Total expenses**	**3,060**	**3,060**	**2,380**	**3,060**
19	**Net surplus/(deficit)**	**–**	**–**	**(20)**	**–**

Our transformation

07. Transformation

4/6
ACHIEVED

This appropriation is limited to the design and implementation of a modern system for tax revenue and social policy administered by Inland Revenue.

What is intended to be achieved

This appropriation is intended to design and implement a modern system for tax revenue and social policy administered by Inland Revenue that meets government priorities and responds to customers' changing expectations. This will lead to the more efficient collection of taxes and distribution of entitlements. It will also have wider benefits for New Zealand, including reduced compliance and operating costs, as well as the more agile delivery of policy changes in the future.

What we do

Business Transformation* is a multiyear, multistage change programme that involves our people, processes, policy and technology. The activities within this appropriation will enable a modern, digital revenue system by:

- simplifying policy and legislative settings
- making more intelligent use of information to proactively ensure customers get it right from the start
- fitting revenue processes seamlessly into people's lives
- transforming our organisational capabilities
- implementing a modern technology platform (START) that is digitally based and highly automated.

More information is also available on our Business Transformation website, http://www.ird.govt.nz/transformation*.

* This link leads to information not covered by the audit opinion on page 166.

How we performed

	2016–17 Milestone	2016–17 Actual
GST end to end processes implemented in the new computer system (START)	30/04/2017	Achieved
Deliver new functionality to allow customers (or their agents) to self-manage their GST obligations	30/04/2017	Achieved
Enable immigrants to digitally register for an IRD number when they apply for a visa	30/04/2017	Achieved
Customers will be able to use their RealMe logon to access Inland Revenue online services	30/06/2017	Not achieved

Because we needed to assess and confirm the future roadmap of RealMe across government, we will now meet this milestone by 30 September 2017.

	2016–17 Milestone	2016–17 Actual
Customers will be able to identify themselves to Inland Revenue using a New Zealand Business Number	30/04/2017	Achieved
Complete the detailed design for Stage 2 of the Business Transformation programme	30/06/2017	Not achieved

We explored the options for moving both income tax and Working for Families Tax Credits to new systems and processes in April 2019. Doing so will mean delivering Working for Families Tax Credits earlier than originally planned. By taking the time to explore the options and assess the risk and impacts for our stakeholders, we did not meet our milestone target for completing the detailed design of the stage 2 of transformation by 30 June 2017.

All targets are unaudited.

What it cost

Other expenses statement

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
92,900	Revenue Crown	237,000	159,730	159,730	382,372
92,900	**Total revenue**	**237,000**	**159,730**	**159,730**	**382,372**
74,361	**Total expenses**	**237,000**	**159,730**	**133,476**	**382,372**
18,539	**Net surplus/(deficit)**	**–**	**–**	**26,254**	**–**

The increase in this appropriation from 2015–16 to 2016–17 is in line with our forecast and the approved funding for this multiyear programme.

Our capital expenditure

Departmental capital expenditure and capital injections

This appropriation is limited to the purchase or development of assets by and for the use of the Inland Revenue Department, as authorised by section 24(1) of the Public Finance Act 1989.

What is intended to be achieved

This appropriation is intended to invest in the renewal, upgrade and redesign of assets that support the delivery of the department's services. This includes the capital investment required for the implementation phase for the Business Transformation programme.

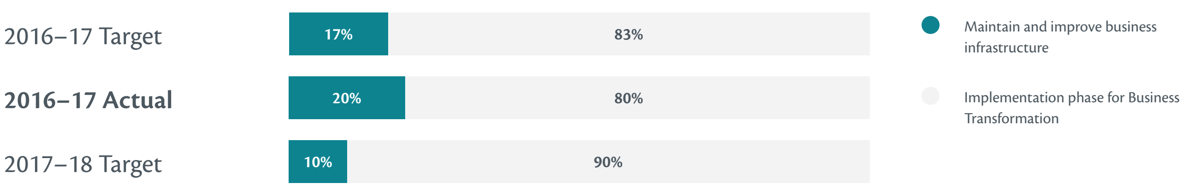
What we do

Our capital asset management priorities for 2016–17 are:

- *Maintain and improve business infrastructure.*
  Our investment profile for maintaining and improving business infrastructure includes technology replacements and accommodation fit outs.
- *Implement Business Transformation.*
  Our investment profile for Business Transformation includes implementing core and supporting capabilities, including technology, for a modern digital revenue system for New Zealand.

How we performed

Expenditure supports the delivery of our output performance measures in accordance with our priorities.



All targets are unaudited.

What it cost

For details of departmental capital expenditure incurred against appropriations please refer to the *Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations* on page 101.

For details of departmental capital injections please refer to page 102.

Our financial performance

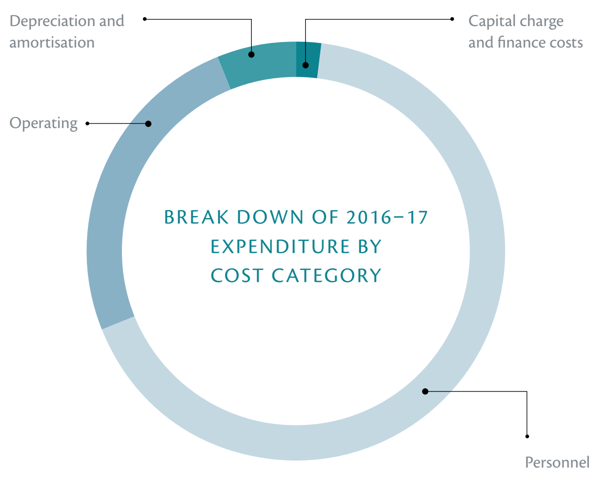
We achieved our plans, met the challenges that arose from the Kaikoura earthquake and managed our finances during 2016–17 to finish the year within budget.

Expenditure

We spent $782.6 million in 2016–17 to operate our organisation. This was $32 million lower than our revised budget of $814.6 million.

The majority of the underspend was due to shifts in timing of Business Transformation activity that is now expected to be incurred in 2017–18. We will seek approval from our Ministers to carry forward $26.3 million to 2017–18.

The remaining underspend was mainly in personnel costs and driven by the timing of attrition and the application of workforce management principles. Some positions were not backfilled across the organisation in preparation for transformation.



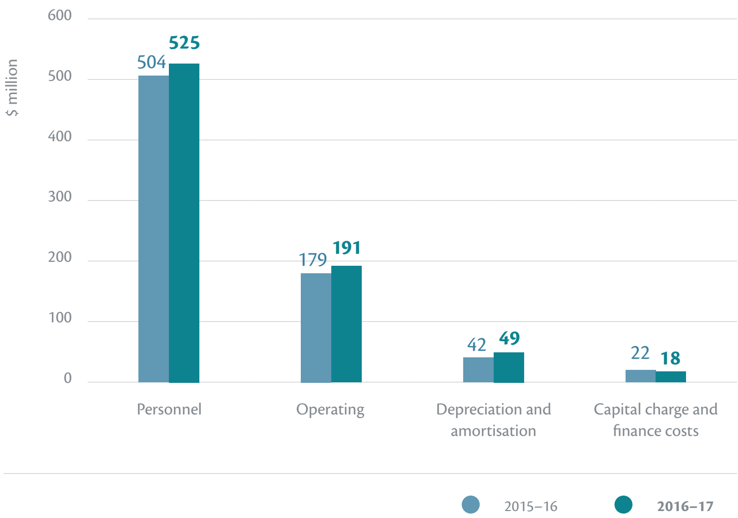
Expenditure by cost category

Our expenditure includes personnel, operating, depreciation and amortisation and capital charge and finance costs.

Our total personnel costs for 2016–17 were $524.8 million, which accounted for 67% of our total expenses. Approximately 80% of our personnel costs were salaries and wages for our employees.

Operating costs for 2016–17 were $190.7 million. Approximately 80% of these operating costs relate to information technology, rental, communications, print and post, consultants, travel and transport and staff development.

BREAK DOWN OF EXPENDITURE BY COST CATEGORY



Comparing 2016–17 to 2015–16

Personnel and operating costs were $21 million and $11.5 million higher than 2015–16, respectively. These were driven by the increase in contractors and temporary staff and higher information technology and communications spend to deliver our transformation work programme.

Expenditure by output classes

We finished 2016–17 within all appropriations. The underspend in *Management of debt and outstanding returns* and *Investigations* appropriations reflects the refocus of our resources to support frontline services. This is reflected in the increased spend against our *Services to inform the public about entitlements and meeting obligations* appropriation.

Capital expenditure

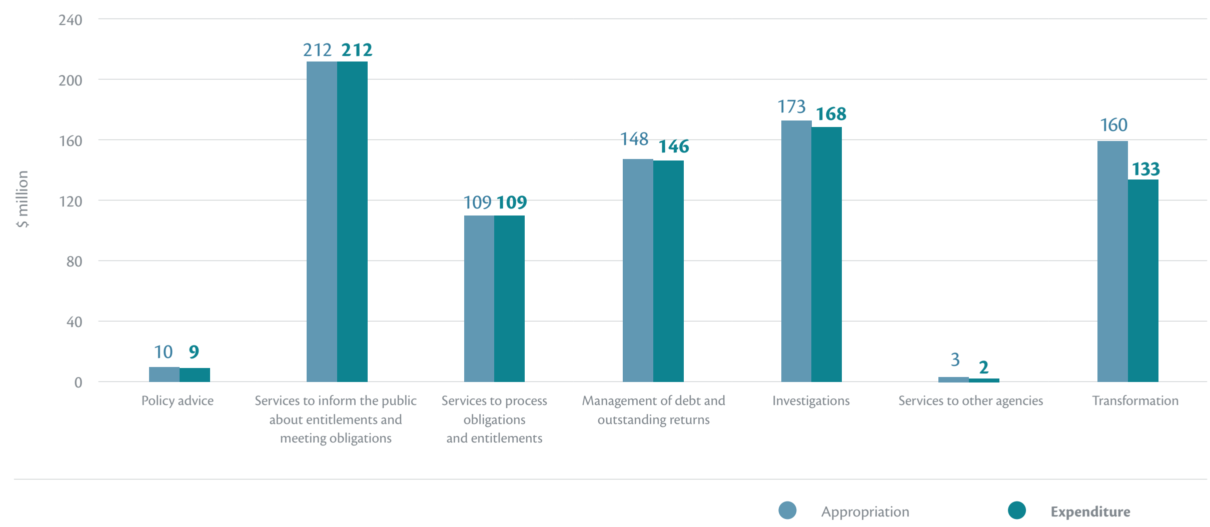
We spent $100.7 million in capital investment in 2016–17. This was $28.6 million lower than the revised capital budget of $129.3 million. The underspend mainly relates to the changes in timing of the Business Transformation capital work programme.

Future outlook

In line with our forecast, our operating and capital expenditure is increasing in 2017–18 as we implement releases of Stage 2 of Business Transformation. Operating expenditure for 2017–18 is forecast to be $1,047.9 million, an increase of $265.3 million from 2016–17.

Capital expenditure for 2017–18 is forecast to be $221.6 million, which will more than double our current capital spend. The increase in capital expenditure will result in major growth in our net assets to $437.1 million from $253.6 million in 2016–17.

BREAK DOWN OF 2016–17 EXPENDITURE AGAINST APPROPRIATIONS



Appropriation Statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by Inland Revenue for the year ended 30 June 2017.

Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations

For the year ended 30 June 2017

2015–16 Actual[1] $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget[2] $000	2016–17 Actual[1] $000	2017–18 Unaudited forecast $000
	Vote: Revenue				
	Output expenses				
226,885	Services to inform the public about entitlements and meeting obligations	227,232	212,145	212,093	216,454
111,455	Services to process obligations and entitlements	109,968	108,859	108,731	114,502
149,593	Management of debt and outstanding returns	153,277	148,286	146,315	148,301
164,249	Investigations	175,745	173,060	168,338	173,657
8,666	Policy advice	9,252	9,504	9,006	9,560
660,848	**Total departmental output expenses**	**675,474**	**651,854**	**644,483**	**662,474**
2,384	Services to other agencies RDA[3]	3,060	3,060	2,380	3,060
663,232	**Total output expenses**	**678,534**	**654,914**	**646,863**	**665,534**
	Other expenses				
74,361	Transformation[4]	237,000	159,730	133,476	382,372
74,361	**Total other expenses**	**237,000**	**159,730**	**133,476**	**382,372**
737,593	**Total expenses**	**915,534**	**814,644**	**780,339**	**1,047,906**
	Departmental capital expenditure				
8,522	Property, plant and equipment	22,000	13,000	12,833	8,000
52,593	Intangible assets	152,000	116,263	87,828	213,600
61,115	**Total departmental capital expenditure**	**174,000**	**129,263**	**100,661**	**221,600**

[1] Excludes remeasurement of $2,282,000 (2015–16: $9,881,000). The remeasurement consists of foreign exchange losses mainly on forward foreign exchange contracts and macroeconomic changes in the actuarial valuations of retiring and long-service leave.

[2] The revised budget figures for 2016–17 are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017.*

[3] Revenue-dependent appropriation (RDA). The amount of an RDA is limited to the amount of revenue earned.

[4] The 2017–18 Transformation appropriation increase is in line with forecast to support the next stage of Inland Revenue's Business Transformation programme.

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing the departmental financial statements.

Explanations of significant variances against budget are detailed in note 22 of the departmental financial statements.

All of the 2016–17 performance information for each appropriation administered by Inland Revenue has been reported within the *How we performed* section.

Statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority

For the year ended 30 June 2017

In the 2016–17 financial year there were no instances of:

- expenses and capital expenditure incurred in excess of appropriation (2015–16: $nil)
- expenses and capital expenditure incurred without appropriation or other authority or outside the scope or period of appropriation (2015–16: $nil).

Statement of departmental capital injections

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited revised budget $000	2016–17 Actual $000
	Vote: Revenue		
2,480	Capital injections	58,110	58,110

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2015–16: $nil).

Statement of non-departmental budgeted and actual expenditure incurred against appropriations

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Unaudited revised budget[1] $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
279,501	Child support payments PLA[2]	300,000	279,000	279,610	291,000
1,082	Child tax credit PLA	900	900	879	900
1,793,410	Family tax credit PLA	1,797,000	1,763,000	1,722,732	1,823,000
513,245	In-work tax credit PLA	600,000	566,000	553,072	561,000
11,928	KiwiSaver: Interest	10,000	15,000	11,818	12,000
685,618	KiwiSaver: Tax credit	728,000	793,000	731,000	798,000
13,765	Minimum family tax credit PLA	15,000	13,000	12,703	12,000
216,824	Paid parental leave payments	277,000	287,000	274,496	338,000
30,480	Parental tax credit PLA	29,000	30,000	29,315	29,000
4,624	Payroll subsidy PLA	5,900	5,900	5,514	5,900
3,550,477	**Total benefits and other unrequited expenses**	**3,762,800**	**3,752,800**	**3,621,139**	**3,870,800**
	Borrowing expenses				
25	Adverse event interest PLA	10	40	33	10
1,637	Environmental restoration account interest PLA	2,000	2,000	1,636	2,000
6,245	Income equalisation interest PLA	10,000	8,000	5,114	10,000
7,907	**Total borrowing expenses**	**12,010**	**10,040**	**6,783**	**12,010**
	Other expenses				
680,343	Impairment of debt and debt write offs[3]	1,093,307	950,000	493,017	800,000
–	Impairment of debt relating to child support	5,000	5,000	–	–
–	Impairment of debt relating to student loans	100,000	143,000	–	100,000
659,383	Initial fair value write down—student loans	689,000	689,000	661,715	676,000
1,339,726	**Total other expenses**	**1,887,307**	**1,787,000**	**1,154,732**	**1,576,000**
4,898,110	**Total appropriations**	**5,662,117**	**5,549,840**	**4,782,654**	**5,458,810**

[1] The revised budget figures for 2016–17 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2017*.

[2] PLA refers to appropriations established under a permanent legislative authority.

[3] Impairment of debt and debt write offs relates to general tax, Working for Families Tax Credits and KiwiSaver debt.

All of the non-departmental appropriations administered by the department are exempt from the requirements to report end-of-year performance information, under section 15D of the Public Finance Act 1989.

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing the non-departmental financial schedules.

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Statement of non-departmental unappropriated expenditure

In the 2016–17 financial year there were no instances of:

- expenditure incurred outside of appropriation (2015–16: $nil)
- expenditure incurred in excess of appropriation (2015–16: $nil).

Financial Statements
Departmental

In this section

Statement of comprehensive revenue and expense

For the year ended 30 June 2017

2015–16 Actual $000		Notes	2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Revenue				
749,050	Revenue Crown	1	886,787	785,452	1,018,618
27,285	Other revenue	1	28,747	29,177	29,288
776,335	**Total revenue**		**915,534**	**814,629**	**1,047,906**
	Expenses				
503,814	Personnel	2	617,346	524,779	632,307
179,256	Operating	3	214,799	190,748	319,271
11,525	Depreciation and impairment	4	11,122	11,753	10,392
30,631	Amortisation and impairment	5	49,879	37,612	70,608
22,167	Capital charge	6	22,363	17,694	15,328
81	Finance costs	7	25	35	–
747,474	**Total expenses**		**915,534**	**782,621**	**1,047,906**
28,861	**Net surplus/(deficit) and total comprehensive revenue and expense**		**–**	**32,008**	**–**

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

Explanations of significant variances against budget are detailed in note 22.

Statement of financial position

As at 30 June 2017

2015–16 Actual $000		Notes	2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Taxpayers' funds				
273,133	Taxpayers' funds	16	333,539	253,605	437,061
273,133	**Total taxpayers' funds**		**333,539**	**253,605**	**437,061**
	Represented by:				
	Current assets				
29,709	Cash and cash equivalents		18,000	34,831	18,000
235,912	Debtor Crown		119,186	178,452	173,762
17,104	Debtors and prepayments	9	11,922	12,585	14,822
977	Inventories held for distribution	10	800	560	650
283,702	**Total current assets**		**149,908**	**226,428**	**207,234**
	Non-current assets				
174	Prepayments	9	–	105	–
41,995	Property, plant and equipment	4	52,236	41,611	39,421
127,101	Intangible assets	5	243,491	177,260	327,641
169,270	**Total non-current assets**		**295,727**	**218,976**	**367,062**
452,972	**Total assets**		**445,635**	**445,404**	**574,296**
	Current liabilities				
54,049	Creditors and other payables	11	33,200	63,126	50,600
35,266	Surplus payable to the Crown	8	–	33,863	–
39,424	Employee entitlements	12	41,000	41,852	41,300
111	Provision for other liabilities	13	217	1,818	111
1,589	Derivative financial instruments	19	–	2,917	–
487	Finance leases	14	–	53	–
271	Other financial liabilities	15	153	288	247
131,197	**Total current liabilities**		**74,570**	**143,917**	**92,258**
	Non-current liabilities				
42,628	Employee entitlements	12	36,400	41,313	44,138
334	Provision for other liabilities	13	766	389	222
4,816	Derivative financial instruments	19	–	5,343	–
–	Finance leases	14	–	57	–
864	Other financial liabilities	15	360	780	617
48,642	**Total non-current liabilities**		**37,526**	**47,882**	**44,977**
179,839	**Total liabilities**		**112,096**	**191,799**	**137,235**
273,133	**Net assets**		**333,539**	**253,605**	**437,061**

The accompanying accounting policies and notes form part of these financial statements.
Explanations of significant variances against budget are detailed in note 22.

Statement of changes in taxpayers' funds

For the year ended 30 June 2017

2015–16 Actual $000		Note	2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
277,092	Balance at 1 July		279,539	273,133	255,461
28,861	Total comprehensive revenue and expense		–	32,008	–
(35,266)	Repayment of surplus to the Crown	8	–	(33,863)	–
2,480	Capital injections		54,000	58,110	181,600
(34)	Capital withdrawals[1]		–	(75,783)	–
273,133	**Balance at 30 June**		**333,539**	**253,605**	**437,061**

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

[1]Explanation of this variance is detailed in note 22.

Statement of cash flows

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Cash flows—operating activities			
758,695	Receipts from the Crown	979,012	842,912	1,023,308
28,800	Receipts from other revenue	29,321	28,575	29,680
(518,915)	Payments to employees	(571,042)	(523,667)	(628,093)
(174,754)	Payments to suppliers	(259,223)	(174,939)	(340,271)
(22,167)	Payments for capital charge	(22,363)	(17,694)	(15,328)
1,691	Goods and services tax (net)	(8,628)	(285)	1,707
73,350	**Net cash flow from operating activities**	**147,077**	**154,902**	**71,003**
	Cash flows—investing activities			
121	Receipts from sale of property, plant and equipment	–	–	–
(6,844)	Purchase of property, plant and equipment	(21,500)	(13,246)	(8,000)
(39,979)	Purchase of intangible assets	(152,500)	(83,217)	(213,600)
(46,702)	**Net cash flow from investing activities**	**(174,000)**	**(96,463)**	**(221,600)**
	Cash flows—financing activities			
2,480	Capital injections	54,000	58,110	181,600
(19,357)	Repayment of surplus to the Crown	(23,590)	(35,266)	(38,840)
(34)	Capital withdrawals	–	(75,783)	–
(707)	Payments of finance leases	(487)	(378)	–
(17,618)	**Net cash flow from financing activities**	**29,923**	**(53,317)**	**142,760**
9,030	Net increase/(decrease) in cash and cash equivalents	3,000	5,122	(7,837)
20,679	Cash and cash equivalents at 1 July	15,000	29,709	25,837
29,709	**Cash and cash equivalents at 30 June**	**18,000**	**34,831**	**18,000**

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

The net goods and services tax (GST) component of operating activities reflects the net GST paid or received during the year. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

Statement of cash flows (continued)

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
28,861	Net surplus/(deficit)	–	32,008	–
	Add/(less) non-cash items			
11,525	Depreciation and impairment	11,122	11,753	10,392
30,631	Amortisation and impairment	49,879	37,612	70,608
6,405	Net unrealised foreign exchange losses	–	1,855	–
48,561	**Total non-cash items**	**61,001**	**51,220**	**81,000**
	Add items classified as investing or financing activities			
570	Net loss/(gain) on disposal of property, plant and equipment	–	1,497	–
47	Net loss/(gain) on disposal of intangible assets	–	58	–
617	**Total items classified as investing or financing activities**	**–**	**1,555**	**–**
	Add/(less) working capital movements			
9,645	(Inc)/Dec in debtor Crown	92,225	57,460	4,690
(1,479)	(Inc)/Dec in debtors and prepayments	4,711	4,588	(4,526)
(104)	(Inc)/Dec in inventories held for distribution	151	417	50
2,667	Inc/(Dec) in creditors and other payables	(11,421)	4,846	(14,392)
(15,100)	Inc/(Dec) in employee entitlements	448	1,113	4,214
(42)	Inc/(Dec) in provision for other liabilities	585	1,762	(32)
(276)	Inc/(Dec) in other financial liabilities	(623)	(67)	(1)
(4,689)	**Net movements in working capital items**	**86,076**	**70,119**	**(9,997)**
73,350	**Net cash flow from operating activities**	**147,077**	**154,902**	**71,003**

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

Statement of commitments

As at 30 June 2017

2015–16 Actual $000		2016–17 Actual $000
	Capital commitments	
241	IT equipment	261
2,642	Leasehold improvements	930
6,901	Intangible assets	7,281
9,784	**Total capital commitments**	**8,472**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
34,481	Not later than one year	40,231
120,290	Later than one year and not later than five years	111,818
51,388	Later than five years	25,085
206,159	**Total non-cancellable operating commitments**	**177,134**
215,943	**Total commitments**	**185,606**

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that has not been paid for or recognised as a liability at balance date.

Cancellable capital commitments that have early exit or penalty costs explicit in the agreement are reported at the lower of the remaining contractual commitment and the value of those penalty or exit costs (ie the minimum future payments).

Operating lease commitments

Inland Revenue leases property, plant and equipment in the normal course of business. The majority of these commitments are long-term non-cancellable accommodation leases for Inland Revenue's premises at many locations throughout New Zealand. The annual lease payments are reviewed regularly, and the amounts disclosed as future commitments are based on current rental rates.

The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is $9,463,000 (2015–16: $9,408,000).

Inland Revenue's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on Inland Revenue by any of its leasing arrangements.

Statement of contingent liabilities and contingent assets

As at 30 June 2017

2015–16 Actual $000		2016–17 Actual $000
	Contingent liabilities	
625	Legal proceedings and disputes—taxpayer	585
625	**Total contingent liabilities**	**585**
	Contingent assets	
3,398	Legal proceedings and disputes—taxpayer	2,294
3,398	**Total contingent assets**	**2,294**

Contingent liabilities and assets are recorded at the point at which the contingency is evident. Contingent liabilities are disclosed if it is possible that they will crystallise. Contingent assets are disclosed if it is probable that the benefits will be realised.

Contingent liabilities

Legal proceedings and disputes—taxpayer

These contingent liabilities relate to potential claims against Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. They only relate to court costs. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the *Schedule of non-departmental contingent liabilities and contingent assets*).

The expected value of the contingent liabilities are calculated using an outcome probability model that weighs the total potential liability against the probability of that outcome.

Contingent assets

Legal proceedings and disputes—taxpayer

These contingent assets relate to potential amounts recoverable by Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. They only relate to court costs. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the *Schedule of non-departmental contingent liabilities and contingent assets*).

The expected value of the contingent assets are calculated using an outcome probability model that weighs the total potential court costs recoverable against the probability of that outcome.

Statement of accounting policies

These financial statements are for the year ended 30 June 2017 and include forecast financial statements for the year ending 30 June 2018.

The statements have been combined to provide a single view of budget, actual and forecast information.

References to the financial statements incorporate the actual, budget and forecast financial statements, unless otherwise stated.

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand. The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989. It is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2017. The forecast financial statements are for the year ending 30 June 2018.

The financial statements were authorised for issue by the Acting Chief Executive/Commissioner of Inland Revenue on 28 September 2017.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and the Treasury instructions.

Inland Revenue has applied the suite of Tier 1 *Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS)* in preparing the 30 June 2017 financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies set out below and in the notes to the financial statements have been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared on a historical cost basis, unless otherwise stated. The accrual basis of accounting has been used.

These financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000). The functional currency of Inland Revenue is New Zealand dollars.

Standards issued and not adopted early

Standards and amendments issued but not adopted early by Inland Revenue are:

Financial instruments

In January 2017 the External Reporting Board issued *PBE IFRS 9: Financial Instruments*. This replaces *PBE IPSAS 29: Financial Instruments: Recognition and Measurement*. *PBE IFRS 9* is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard that are relevant to Inland Revenue are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

Inland Revenue will adopt *PBE IFRS 9* in 2018–19. This is consistent with the Treasury's decision to adopt *PBE IFRS 9* for the *Financial Statements of the Government of New Zealand* in 2018–19. Inland Revenue has not yet assessed the effects of the new standard on the Departmental financial statements.

Inland Revenue has not adopted early any other new standards or amendments to standards.

Estimations and judgements

In preparing these financial statements, judgements, estimates and assumptions have been made concerning the future.

These judgements, estimates and their associated assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

The main estimations and judgements that are relevant to Inland Revenue's financial statements are disclosed in notes 4 and 5 (property, plant and equipment, and intangible assets), note 12 (employee entitlements—retiring and long-service leave liabilities) and note 14 (finance leases).

Accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note and which materially affect the measurement of financial results, the financial position and output statements within the *How we performed* section are outlined below.

Goods and services tax

All items in the financial statements and appropriation and output statements are stated exclusive of goods and services tax (GST), except for debtor Crown, net debtors and accounts payable, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST owing or due at balance date, being the difference between output GST and input GST, is included in creditors and other payables or debtors and prepayments in the *Statement of financial position.*

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the *Statement of cash flows.*

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities. No charge for income tax has been provided for.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in the bank accounts. All cash held in bank accounts is held in on demand accounts and no interest is payable to Inland Revenue.

Inland Revenue is only permitted to spend its cash and cash equivalents within the scope and limits of its appropriations.

Foreign currency transactions

Inland Revenue's activities expose it to the risks of changes in foreign exchange rates. Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the spot exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Cost allocations

Inland Revenue uses an integrated cost allocation process to derive the cost of its outputs. This process involves the initial costing of business processes followed by the full costing of outputs.

Business processes represent Inland Revenue's key functional activities. These business processes are used to capture direct costs.

Direct personnel costs are charged to business processes based on actual hours and standard activity rates. Other related direct costs, including depreciation, are allocated to business processes based on planned hours or relevant activity drivers.

Accommodation lease costs are charged to business processes based on headcount or relevant activities.

Other indirect costs and corporate overheads that cannot be attributed directly to a business process are apportioned to outputs based on the weighted planned hours per relevant business process, with different drivers in place where appropriate.

There have been no material changes in cost allocation policies since the date of the last audited financial statements.

Comparatives

When presentation or classification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impractical to do so.

Changes in accounting policies

There have been no changes in accounting policies since the date of the last audited financial statements.

Budget and forecast figures

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial statements. The budget, revised budget and forecast figures are not subject to audit.

The budget figures for 2016–17 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017*, with the exception of a $46,000,000 re-categorisation from operating to personnel costs to reflect a change in our assumptions.

The revised budget figures for 2016–17 (refer to the *Statement of budgeted and actual expenses and capital expenditure incurred against appropriations*) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017.*

The forecast figures for 2017–18 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018.*

The forecast financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. They are compliant with *PBE Financial Reporting Standard 42: Prospective Financial Statements.*

Forecast policies

The forecasts have been compiled on the basis of existing government policies and ministerial expectations at the time the statements were finalised and reflect all government decisions up to 27 April 2017. While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2018 will not be published.

The main assumptions are as follows:

- other than the work to progress the Business Transformation programme, Inland Revenue's main activities will remain substantially the same as for the previous year
- operating costs are based on historical experience and Inland Revenue's best estimates of future costs to be incurred on the Business Transformation programme
- estimated year-end information for 2016–17 is used as the opening position for the 2017–18 forecasts.

Any changes to budgets during 2017–18 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018*.

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these forecast financial statements and the actual reported results include:

- changes to the budget through initiatives approved by Cabinet
- technical adjustments to the budget, including transfers between financial years
- the timing of expenditure relating to significant programmes and projects.

Notes to the financial statements

Note 1: Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue is recognised as follows:

Revenue Crown

Revenue Crown transactions are considered to be non-exchange transactions.

Revenue Crown is measured based on Inland Revenue's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

There are no conditions attached to the funding from the Crown. However, Inland Revenue can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown has been determined to be equivalent to the funding entitlement.

Other revenue

Other revenue transactions as outlined below are considered to be exchange transactions.

Revenue from recoveries

Revenue from recoveries is recognised as revenue when earned.

Sale of services

The sale of services is recognised in the accounting period in which the services are provided.

Rental revenue from sub-leases

Rental revenue from sub-leased property is recognised as revenue on a straight-line basis over the term of the lease.

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000
20,500	Accident Compensation Corporation (ACC)—agency fees	20,500	20,500
1,411	Court costs recovery	2,828	2,616
2,403	Support services to other government agencies	3,060	2,360
2,181	Rental revenue from sub-leases	1,257	2,255
–	Foreign trust administration fees	–	730
771	Revenue from rulings	1,088	703
13	Supply of information to other agencies	13	13
6	Net gains on disposal of property, plant and equipment	–	–
–	Other	1	–
27,285	**Total other revenue**	**28,747**	**29,177**

Note 2: Personnel

Salaries and wages

Personnel costs are recognised in the period to which they relate.

Superannuation schemes

Obligations for contributions to the Inland Revenue Superannuation Scheme, State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution schemes. These obligations are recognised as an expense in the surplus or deficit as they are incurred.

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000
399,833	Salaries and wages	440,564	399,073
77,182	Contractors and temporary staff	150,888	106,501
12,502	Employer contributions to defined contribution schemes	12,312	12,334
6,707	Retiring, long-service and sick leave	4,000	2,158
864	ACC levies	1,472	1,058
2,739	Termination benefits	5,035	919
1,439	Annual leave	1,500	553
223	Bonuses	198	308
2,325	Other	1,377	1,875
503,814	**Total personnel**	**617,346**	**524,779**

Note 3: Operating

Operating expenses are recognised in the period to which they relate.

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to the ownership of an asset. Accommodation lease rentals payable under operating leases are recognised as an expense on a straight-line basis over the term of the relevant lease. Lease incentives received as an incentive to enter into an operating lease are also recognised evenly over the term of the lease as a reduction in the rental expense.

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000
54,265	Information technology costs	85,045	63,595
34,123	Accommodation lease rentals	36,047	34,944
13,831	Communication	13,413	16,587
12,275	Printing and postage	12,378	11,837
10,033	Consultants	11,308	9,250
8,018	Travel and transport	7,618	8,200
6,539	Staff development	11,058	7,303
7,604	Office operating costs	10,298	6,228
6,516	Legal expenses	6,613	5,891
3,078	Advertising and publicity	4,516	5,063
3,936	Office supplies	3,913	3,322
2,464	Bank fees	2,634	2,292
1,414	Equipment maintenance	1,381	1,373
1,033	Audit fees for audit of the financial statements	1,100	1,058
62	Disbursements for audit of the financial statements	–	50
492	Net realised foreign exchange losses	–	1,921
6,748	Net unrealised foreign exchange losses	–	1,855
(74)	Onerous leases	–	1,845
576	Net loss on disposal of property, plant and equipment	–	1,497
47	Net loss on disposal of intangible assets	–	58
7	Debt impairment	–	3
3	Bad debts written off	–	1
6,266	Other operating expenses	7,477	6,575
179,256	**Total operating**	**214,799**	**190,748**

Note 4: Property, plant and equipment by category

Inland Revenue has operational assets that include IT equipment, furniture and office equipment, motor vehicles and leasehold improvements. From 1 July 2016 new capitalisation thresholds and useful lives are in place for each asset class.

The capitalisation thresholds are:

• IT equipment	$500 and over (excluding pooled assets)
• Furniture	No threshold
• Office equipment	$500 and over (excluding pooled assets)
• Motor vehicles	$500 and over
• Leasehold improvements	No threshold

Pooled assets: Certain items of IT equipment, furniture and office equipment, which are low value and high quantity, such as chairs and IT monitors, are pooled together. All pooled assets are capitalised.

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset and includes any directly attributable costs of bringing the asset to working condition for its intended use.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. In most instances an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably.

All repairs and maintenance are recognised in the surplus or deficit during the financial period in which they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than assets under construction. The rate of depreciation will write off the cost of the asset to the estimated residual value over the useful life of the asset.

The useful lives of major classes of assets have been estimated as:

• IT equipment	3 to 5 years
• Furniture	3 to 10 years
• Office equipment	5 to 10 years
• Motor vehicles	5 to 10 years
• Leasehold improvements	3 to 10 years

All property, plant and equipment other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 20% residual value.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease or the estimated remaining useful life of the improvements, whichever is shorter, up to a maximum of 10 years.

Assets under construction are recognised at cost less impairment and are not depreciated. The total cost of a capital project is transferred to the appropriate asset class on its completion and then depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised on a net basis in the surplus or deficit.

Impairment

Inland Revenue does not hold any cash-generating assets. Assets are considered cash generating where their primary objective is to generate a commercial return.

Property, plant and equipment that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property, plant and equipment are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell, and value in use.

Value in use is the present value of the asset's remaining service potential. Value in use is determined based on either the depreciated replacement cost or the restoration cost, depending on the nature of the impairment and the availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is considered to be impaired and is written down to the recoverable service amount. The impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is also recognised in the surplus or deficit.

	IT equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Assets under construction —leasehold	Total
	$000	$000	$000	$000	$000	$000
Cost						
Balance as at 1 July 2016	46,622	22,860	3,440	57,334	2,470	132,726
Additions by purchase	6,579	2,070	–	483	3,770	12,902
Transfers between category	7	22	–	1,731	(1,793)	(33)
Disposals	(9,544)	(1,857)	–	(5,027)	–	(16,428)
Balance as at 30 June 2017	**43,664**	**23,095**	**3,440**	**54,521**	**4,447**	**129,167**
Accumulated depreciation and impairment losses						
Balance as at 1 July 2016	41,569	17,187	1,470	30,485	20	90,731
Depreciation charge—expensed	3,350	2,189	385	5,829	–	11,753
Depreciation charge—capitalised[1]	3	–	–	–	–	3
Disposals	(9,527)	(1,835)	–	(3,569)	–	(14,931)
Balance as at 30 June 2017	**35,395**	**17,541**	**1,855**	**32,745**	**20**	**87,556**
Carrying amount as at 30 June 2017	**8,269**	**5,554**	**1,585**	**21,776**	**4,427**	**41,611**
Cost						
Balance as at 1 July 2015	53,463	31,316	3,711	60,054	107	148,651
Additions by purchase	2,241	2,113	–	1,825	2,407	8,586
Transfers between category	(6)	6	–	44	(44)	–
Disposals	(9,076)	(10,575)	(271)	(4,589)	–	(24,511)
Balance as at 30 June 2016	**46,622**	**22,860**	**3,440**	**57,334**	**2,470**	**132,726**
Accumulated depreciation and impairment losses						
Balance as at 1 July 2015	46,820	25,706	1,250	29,166	20	102,962
Depreciation charge—expensed	3,733	1,920	404	5,468	–	11,525
Depreciation charge—capitalised[1]	52	1	–	–	–	53
Transfers between category	(6)	6	–	–	–	–
Disposals	(9,030)	(10,446)	(184)	(4,149)	–	(23,809)
Balance as at 30 June 2016	**41,569**	**17,187**	**1,470**	**30,485**	**20**	**90,731**
Carrying amount as at 30 June 2016	**5,053**	**5,673**	**1,970**	**26,849**	**2,450**	**41,995**

[1] The depreciation charge for existing assets that are used in the development of intangible assets.

There is no restriction over the title of Inland Revenue's property, plant and equipment nor is any property, plant and equipment pledged as security for liabilities.

Finance leases—Inland Revenue has entered into an agreement for the provision of telecommunications services that includes embedded finance leases. The net carrying amount of these finance leases within the IT equipment category is $106,000 (2015–16: $441,000).

Note 5: Intangible assets by category

Inland Revenue has intangible assets in the form of internally generated intangible assets and software licences. All intangible assets have finite useful lives.

Internally generated intangible assets

There are two types of internally generated intangible assets: computer software and processes.

The cost of internally developed computer software and processes comprises direct labour, materials purchased and an appropriate portion of relevant overheads. These costs are directly associated with the development of identifiable and unique software controlled by Inland Revenue, which will generate future economic benefits.

Expenditure on development activities where research findings are applied to a plan or design for new or substantially improved processes is capitalised if the processes are technically and commercially feasible. Other development expenditure as part of new or improved processes is recognised in the surplus or deficit as an expense as it is incurred.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the total expenditure is expensed when it is incurred.

Costs associated with maintaining internally generated computer software are recognised as an expense when incurred. Costs of configuring and customising commercial off-the-shelf (COTS) software are capitalised.

Costs associated with the ongoing development and maintenance of Inland Revenue's existing websites are recognised as expenses in the surplus or deficit when incurred.

Staff training costs are recognised as an expense in the surplus or deficit when incurred.

Software licences

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software licences are recognised as an expense when incurred.

From 1 July 2016 new capitalisation thresholds and useful lives are in place for each asset class.

The capitalisation thresholds for intangible assets are:

- Internally generated intangible assets $50,000 and over
- Software licences $5,000 and over

Additions

Intangible assets are initially recorded at cost and subsequently recorded at historical cost less amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives of major classes of intangible assets have been estimated as:

- Internally generated intangible assets 3 to 15 years
- Software licences 3 to 15 years

Assets under construction are recognised at cost less impairment and are not amortised. The total cost of a capital project is transferred to the appropriate asset class on its completion and then amortised.

The assets' useful lives are reviewed and adjusted if appropriate at each balance date.

The gain or loss arising from the de-recognition of an intangible asset is recognised in the surplus or deficit when the asset is de-recognised.

Impairment

Intangibles assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

For further details refer to the policy for impairment of property, plant and equipment in note 4. The same approach applies to the impairment of intangible assets.

Estimating the useful lives of intangible assets

The useful lives of intangible assets are based on:

- management's view of the expected period over which Inland Revenue will receive benefits
- historical experience with similar systems
- anticipation of future events, which may impact their useful lives, such as changes in technology.

	Internally generated intangible assets $000	Software licences $000	Assets under construction —intangibles $000	Total $000
Cost				
Balance as at 1 July 2016	539,261	104,753	30,615	674,629
Additions by purchase	–	10,368	–	10,368
Additions internally developed	52,902	–	24,789	77,691
Transfers between category	19,312	13	(19,292)	33
Disposals	(26,836)	(6,825)	–	(33,661)
Balance as at 30 June 2017	**584,639**	**108,309**	**36,112**	**729,060**
Accumulated amortisation and impairment losses				
Balance as at 1 July 2016	457,040	86,871	3,617	547,528
Amortisation charge—expensed	31,782	5,830	–	37,612
Amortisation charge—capitalised[1]	263	–	–	263
Disposals	(26,782)	(6,821)	–	(33,603)
Balance as at 30 June 2017	**462,303**	**85,880**	**3,617**	**551,800**
Carrying amount as at 30 June 2017	**122,336**	**22,429**	**32,495**	**177,260**
Cost				
Balance as at 1 July 2015	510,540	114,565	19,855	644,960
Additions by purchase	–	6,829	–	6,829
Additions internally developed	19,577	–	26,478	46,055
Transfers between category	15,563	–	(15,563)	–
Disposals	(6,419)	(16,641)	(155)	(23,215)
Balance as at 30 June 2016	**539,261**	**104,753**	**30,615**	**674,629**
Accumulated amortisation and impairment losses				
Balance as at 1 July 2015	436,814	97,853	5,107	539,774
Amortisation charge—expensed	24,937	5,612	–	30,549
Amortisation charge—capitalised[1]	136	–	–	136
Impairment losses	–	–	82	82
Transfers between category	1,572	–	(1,572)	–
Disposals	(6,419)	(16,594)	–	(23,013)
Balance as at 30 June 2016	**457,040**	**86,871**	**3,617**	**547,528**
Carrying amount as at 30 June 2016	**82,221**	**17,882**	**26,998**	**127,101**

[1] Refers to the amortisation charge for existing assets that are utilised in the development of intangible assets.

There is no restriction over the title of Inland Revenue's intangible assets nor are any intangible assets pledged as security for liabilities.

Internally generated intangible assets include the following items and carrying amounts:

Child Support Reform $18,452,000, FIRST technology environment $19,068,000, student loans $9,701,000, START technology environment $75,115,000 (2015–16: Child Support Reform $25,021,000, FIRST technology environment $41,444,000, student loans $14,863,000, START technology environment $892,000).

Software licences include the following items and carrying amounts: Child Support Reform $64,000, FIRST technology environment $7,503,000, KiwiSaver $754,000, START technology environment $14,108,000. (2015–16: Child Support Reform $111,000, FIRST technology environment $11,887,000, KiwiSaver $738,000, START technology environment $5,146,000).

The total amount of research and development expenditure recognised as an expense during 2016–17 is $3,475,000 (2015–16: $25,368,000).

Note 6: Capital charge

Inland Revenue pays a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year. This is recognised as an expense in the period to which the charge relates.

The capital charge rate for the period 1 July 2016 to 31 December 2016 was 7.0% per annum and for the period 1 January 2017 to 30 June 2017 was 6.0% per annum (2015–16: 8.0%).

Note 7: Finance costs

Borrowing costs are recognised as an expense in the financial year to which they relate.

2015–16 Actual $000		2016–17 Actual $000
81	Interest on finance leases	35
81	**Total finance costs**	**35**

Note 8: Surplus payable to the Crown

2015–16 Actual $000		2016–17 Actual $000
28,861	Net surplus/(deficit)	32,008
6,405	Add unrealised losses in relation to forward foreign exchange contracts	1,855
35,266	**Total surplus payable to the Crown**	**33,863**

The surplus is required to be paid by 31 October of each year.

Note 9: Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions. Debtor Crown transactions are considered to be non-exchange transactions.

Impairment of receivables

Short-term debtors and receivables are recorded at their face value, less any provision for impairment.

A receivable is considered impaired when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between each debtor's carrying amount and the estimated amount expected to be collected. The amount of the impairment loss is recognised in the surplus or deficit.

2015–16 Actual $000		2016–17 Actual $000
	Current assets—exchange transactions	
	Debtors	
2,927	Accounts receivable	3,473
(21)	Less provision for impairment	(6)
159	Other debtors	200
3,065	*Net debtors*	3,667
14,039	Prepayments	8,918
17,104	**Total current assets**	**12,585**
	Non-current assets—exchange transactions	
174	Prepayments	105
174	**Total non-current assets**	**105**
17,278	**Total debtors and prepayments—exchange transactions**	**12,690**

	Gross debtors Actual $000	Impairment Actual $000	Net debtors Actual $000
2016–17			
Not past due	3,404	–	3,404
Past due 1 to 30 days	167	–	167
Past due 31 to 60 days	42	–	42
Past due 61 to 90 days	1	–	1
Past due > 90 days	59	(6)	53
Total	**3,673**	**(6)**	**3,667**
2015–16			
Not past due	2,819	–	2,819
Past due 1 to 30 days	189	–	189
Past due 31 to 60 days	7	–	7
Past due 61 to 90 days	–	–	–
Past due > 90 days	71	(21)	50
Total	**3,086**	**(21)**	**3,065**

Movements in the provision for impairment are as follows:

2015–16 Actual $000		2016–17 Actual $000
(14)	Balance 1 July	(21)
(7)	Additional provisions made during the year	(3)
–	Receivables written off during the year	18
(21)	**Balance at 30 June**	**(6)**

Note 10: Inventories held for external distribution

Inventories held for distribution comprise forms, booklets and returns held for external distribution to the public at no or nominal consideration in the ordinary course of operations.

Inventories held for distribution for public benefit purposes are carried at cost, calculated using the first-in, first-out (FIFO) cost method, adjusted where applicable for any loss of service potential. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired through a non-exchange transaction, the cost is deemed to be the fair value at the date of acquisition.

The carrying amount of inventories held for distribution as at 30 June 2017 amounted to $560,000 (2015–16: $977,000). The carrying amount is recognised as an expense in the period in which the goods are distributed.

The write down of inventories held for distribution amounted to $175,000 (2015–16: $259,000). There have been no reversals of write downs. The amount of any write down for the loss of service potential is recognised in the surplus or deficit in the period the write down occurs.

No inventories are pledged as security for liabilities.

Note 11: Creditors and other payables

Creditors and other payables entered into with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Creditors and other payables greater than 12 months are subsequently measured at amortised cost using the effective interest rate method.

2015–16 Actual $000		2016–17 Actual $000
	Creditors and other payables—exchange transactions	
12,730	Accounts payable	8,803
30,522	Accrued expenses—other	43,810
43,252	**Total creditors and other payables—exchange transactions**	**52,613**
	Creditors and other payables—non-exchange transactions	
10,797	GST payable	10,513
10,797	**Total creditors and other payables—non-exchange transactions**	**10,513**
54,049	**Total creditors and other payables**	**63,126**

Creditors and other payables are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

Note 12: Employee entitlements

Short-term entitlements

Employee entitlements that Inland Revenue expects to be settled within 12 months of balance date are measured at nominal value based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned up to but not yet taken at balance date, and retiring, long-service leave and sick leave entitlements expected to be settled within 12 months.

Inland Revenue recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Inland Revenue anticipates it will be used by staff to cover those future absences.

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them or where a past practice has created a constructive obligation and a reliable estimate of the obligation can be made.

Long-term entitlements

Employee entitlements that are payable beyond 12 months, such as long-service leave and retiring leave, have been calculated on an actuarial basis.

The actuarial calculations for long-service leave and retiring leave liabilities are based on:

- employee contractual entitlements
- years of service accrued to balance date and years remaining to entitlement
- the present value of the estimated future cash outflows using an applicable discount rate and salary inflation rate.

Sick leave, annual leave and vested long-service leave are classified as a current liability. Non-vested long-service leave and retiring leave liabilities expected to be settled within 12 months of balance date are classified as a current liability. All other long-service leave and retiring leave is classified as a non-current liability.

Termination benefits

Termination benefits are payable when an employee's employment contract is terminated before their normal retirement or when an employee accepts voluntary redundancy in exchange for these benefits. Inland Revenue recognises the expenditure in the surplus or deficit when it is demonstrably committed to either terminate the employment of current employees, according to a detailed formal plan without the possibility of withdrawal, or as a result of an offer for voluntary redundancy.

Termination benefits to be settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

Inland Revenue expects to fully utilise the 2016–17 termination benefits provision in the 2017–18 year.

2015–16 Actual $000		2016–17 Actual $000
	Current liabilities—exchange transactions	
27,281	Annual leave	27,413
2,421	Accrued salaries and wages	5,284
2,064	Retiring leave	2,083
1,170	Long-service leave	1,260
1,092	Sick leave	1,197
936	Termination benefits	119
9	Time off in lieu	3
34,973	**Total current liabilities—exchange transactions**	**37,359**
	Current liabilities—non-exchange transactions	
4,451	PAYE payable	4,493
4,451	**Total current liabilities—non-exchange transactions**	**4,493**
39,424	**Total current liabilities**	**41,852**
	Non-current liabilities—exchange transactions	
33,698	Retiring leave	32,689
8,930	Long-service leave	8,624
42,628	**Total non-current liabilities—exchange transactions**	**41,313**
42,628	**Total non-current liabilities**	**41,313**
82,052	**Total employee entitlements**	**83,165**

Measuring retiring and long-service leave liabilities

The present value of retiring and long-service leave obligations depend on a number of factors that are determined on an actuarial basis by an independent actuary using a number of assumptions. Two key assumptions used in calculating these liabilities are the discount rate and salary inflation. Any changes in these assumptions will impact the carrying amount of the liabilities.

The discount rates used by the independent actuary for the retiring and long-service leave valuations are based on the Treasury published forward rates at 30 June 2017. The forward rates are derived from New Zealand government bonds. The long-term salary inflation assumption is based on the Treasury published rates at 30 June 2017 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 3.0% (2015–16: 3.0%).

In 2016–17 there was a general increase in the Treasury published forward discount rates. The impact of the forward discount rate movement was to decrease the carrying amounts of the retiring leave liability by $1,154,000 and the long-service leave liability by $365,000.

The following table provides a sensitivity analysis for the key assumptions:

	Discount rate		Salary inflation	
	– 1.0%	+ 1.0%	– 1.0%	+ 1.0%
	$000	$000	$000	$000
Retiring leave	1,652	(1,490)	(1,616)	1,763
Long-service leave	539	(475)	(517)	577

Movements in the provision for termination benefits are as follows:

2015–16 Actual $000		2016–17 Actual $000
	Termination benefits	
941	Balance at 1 July	936
2,739	Additional provisions made	894
(2,744)	Amounts used	(1,609)
–	Unused amounts reversed	(102)
936	**Balance at 30 June**	**119**

Note 13: Provision for other liabilities

Inland Revenue recognises a provision for future expenditure of uncertain amounts or timing where there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for net deficits from future operating activities.

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value and are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash flows. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance costs.

2015–16 Actual $000		2016–17 Actual $000
	Current liabilities	
111	Onerous contracts	1,818
111	**Total current liabilities**	**1,818**
	Non-current liabilities	
302	Onerous contracts	329
32	Lease make-good	60
334	**Total non-current liabilities**	**389**
445	**Total provision for other liabilities**	**2,207**

Movements for each class of provision are as follows:

	Onerous contracts $000	Lease make-good $000	Total $000
Balance at 1 July 2016	413	32	445
Additional provisions made	1,803	18	1,821
Amounts used	(111)	–	(111)
Discount unwind	42	10	52
Balance at 30 June 2017	**2,147**	**60**	**2,207**
Balance at 1 July 2015	487	–	487
Additional provisions made	–	32	32
Amounts used	(111)	–	(111)
Discount unwind	37	–	37
Balance at 30 June 2016	**413**	**32**	**445**

Onerous contracts

The provision for onerous contracts arises from non-cancellable accommodation leases where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. The leases are onerous because of vacant space. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract. The leases are due to expire between 2018 and 2024.

Lease make-good

As a condition of some of its co-location leasing arrangements, Inland Revenue is required at the expiry of the lease term to make-good any damage caused to the premises and remove any fixtures and fittings it has installed. Inland Revenue has the option to renew these leases, which affects the timing of the expected cash outflows to make-good the premises.

Note 14: Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of an asset to Inland Revenue, even if actual ownership is not transferred.

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the *Statement of financial position* at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether Inland Revenue will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Judgement used to classify leases

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to Inland Revenue. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the *Statement of financial position* as property, plant and equipment, whereas with an operating lease no such asset is recognised.

Inland Revenue has exercised its judgement on the appropriate classification of equipment leases and has determined that one of these arrangements for the provision of telecommunications services includes an embedded finance lease. The leased items are included within the net carrying amount of IT equipment (refer to note 4).

Inland Revenue has no rights of renewal and no option to purchase the assets at the end of the lease term.

There are no restrictions placed on Inland Revenue by any of the finance leasing arrangements.

Finance lease liabilities are effectively secured, as the rights to the leased assets revert to the lessor in the event of default in payment.

2015–16 Actual $000		2016–17 Actual $000
	Total minimum lease payments payable	
513	Not later than one year	59
–	Later than one year and not later than five years	59
513	**Total minimum lease payments**	**118**
(26)	Future finance charges	(8)
487	**Present value of minimum lease payments**	**110**
	Present value of minimum lease payments payable	
487	Not later than one year	53
–	Later than one year and not later than five years	57
487	**Total present value of minimum lease payments**	**110**
	Represented by:	
487	Current	53
–	Non-current	57
487	**Total finance leases**	**110**

Note 15: Other financial liabilities

Other financial liabilities entered into with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. Other financial liabilities greater than 12 months are subsequently measured at amortised cost using the effective interest rate method.

2015–16 Actual $000		2016–17 Actual $000
	Current liabilities	
271	Leasing incentives	288
271	**Total current liabilities**	**288**
	Non-current liabilities	
864	Leasing incentives	780
864	**Total non-current liabilities**	**780**
1,135	**Total other financial liabilities**	**1,068**

Note 16: Taxpayers' funds

Taxpayers' funds is the Crown's net investment in Inland Revenue. It is measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified into a number of components:

- repayment of surplus to the Crown
- capital injections
- capital withdrawals.

Capital management

Inland Revenue's capital is its taxpayers' funds. This is made up of general funds and is represented by net assets.

Inland Revenue manages its revenue, expenses, assets, liabilities and general financial dealings prudently. Inland Revenue's taxpayers' funds are largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the Government Budget processes, the Treasury instructions and the Public Finance Act 1989.

The objective of managing Inland Revenue's taxpayers' funds is to ensure that Inland Revenue effectively achieves its strategic direction, while remaining a going concern.

Note 17: Related party transactions and key management personnel

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

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect that Inland Revenue would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Inland Revenue has no related party transactions that are required to be disclosed in 2016–17 (2015–16: $nil).

Remuneration to key management personnel

The remuneration of key management personnel during the year was as follows:

	2015–16 Remuneration $000	2016–17 Remuneration $000	2015–16 Full-time equivalents	2016–17 Full-time equivalents
Leadership team, including the Commissioner (Chief Executive)				
Remuneration and other benefits	3,696	4,110	10	10

The key management personnel remuneration disclosure includes the Commissioner (Chief Executive), five Deputy Commissioners, Chief Tax Counsel, Chief Financial Officer, Chief Technology Officer, Chief People Officer and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined and paid by the State Services Commission.

The remuneration disclosure excludes the Minister of Revenue. The Minister's remuneration and other benefits are set out by the remuneration authority, are not received only for her role as a member of key management personnel of Inland Revenue and are not paid by Inland Revenue.

Note 18: Financial instruments—categories of financial instruments

The carrying amounts of financial assets and financial liabilities in each of the financial instrument categories are as follows:

2015–16 Actual $000		Notes	2016–17 Actual $000
	Debtors and receivables		
29,709	Cash and cash equivalents		34,831
235,912	Debtor Crown		178,452
3,065	Net debtors	9	3,667
268,686	**Total debtors and receivables**		**216,950**
	Fair value through surplus or deficit		
6,405	Derivative financial instrument liabilities		8,260
6,405	**Total fair value through surplus or deficit**		**8,260**
	Financial liabilities measured at amortised cost		
43,252	Creditors and other payables	11	52,613
487	Finance lease liabilities	14	110
1,135	Other financial liabilities	15	1,068
44,874	**Total financial liabilities measured at amortised cost**		**53,791**

Note 19: Derivative financial instruments

For certain foreign currency transactions Inland Revenue uses derivative financial instruments (foreign currency forward exchange contracts) to mitigate risks associated with foreign currency fluctuations. The foreign currency forward exchange contracts are entered into with the New Zealand Debt Management Office (NZDMO).

The use of foreign currency forward exchange contracts is governed by Inland Revenue's foreign exchange policy, which provides written principles on the use of financial derivatives consistent with Inland Revenue's risk management strategy.

Inland Revenue does not hold or issue derivative financial instruments for trading purposes. It has not adopted hedge accounting.

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently restated at fair value at each balance date. They are reported as either assets or liabilities, depending on whether the derivative is in a net gain or net loss position, respectively. Movements in the fair value of derivative financial instruments are recognised in the surplus or deficit.

Derivative financial instruments are classified as current if the contract is due for settlement within 12 months of balance date. Otherwise the full fair value is classified as non-current.

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2017 was NZ $79,418,000 (2015–16: NZ $103,109,000). The contracts consisted of the purchase of US[1] $48,315,000 (2015–16: US $63,325,000) and AU[2] $3,856,000 (2015–16: AU $4,544,000). The unrealised loss on the forward exchange contract derivatives was NZ $1,855,000 at 30 June 2017 (2015–16: $6,405,000). The majority of the forward exchange contracts relate to future expenditure requirements for the Business Transformation programme.

[1] US = United States dollars

[2] AU = Australian dollars

Note 20: Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the *Statement of financial position*, fair values are determined according to the following hierarchy:

- quoted market price (level 1)—financial instruments with quoted prices for identical instruments in active markets
- valuation technique using observable inputs (level 2)—financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- valuation techniques with significant non-observable inputs (level 3)—financial instruments valued using models where one or more significant inputs is not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Statement of financial position.*

	Valuation technique			
	Quoted market price	Observable inputs	Significant non-observable inputs	Total
	$000	$000	$000	$000
2016–17				
Financial liabilities				
Forward foreign exchange contracts	–	8,260	–	8,260
2015–16				
Financial liabilities				
Forward foreign exchange contracts	–	6,405	–	6,405

There were no transfers between the different levels of the fair value hierarchy.

Note 21: Financial instruments—financial instrument risks

Inland Revenue's activities expose it to a variety of financial instrument risks, including market risk credit risk, and liquidity risk. Inland Revenue has a series of policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow Inland Revenue to enter into any transactions that are speculative in nature.

Market risk

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates is called currency risk.

Inland Revenue purchases fixed assets and services from overseas suppliers and it is therefore exposed to currency risk arising from various currency exposures, primarily for United States and Australian dollars.

Under its foreign exchange policy, Inland Revenue enters into foreign currency forward exchange contracts to manage foreign exchange exposures when single foreign exchange transactions exceed NZ $100,000 or the transaction exposure for an individual currency exceeds NZ $100,000. This policy has been approved by the Treasury and is in line with the requirements of the Treasury's *Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure.*

The following provides a sensitivity analysis of the impact on the surplus of movements in currencies assuming that all other variables are held constant:

	Impact on surplus if the NZ dollar strengthened by 5% against currencies NZ$ Inc/(dec)		Impact on surplus if the NZ dollar weakened by 5% against currencies NZ$ Inc/(dec)	
	2015–16	2016–17	2015–16	2016–17
	$000	$000	$000	$000
Foreign exchange assets and liabilities excluding forward foreign exchange contracts				
Unrealised gains/(losses)				
United States dollar	(295)	(363)	326	402
Australian dollar	(17)	(18)	18	21
Forward foreign exchange contracts				
Unrealised gains/(losses)				
United States dollar	(4,243)	(3,141)	4,690	3,472
Australian dollar	(227)	(193)	251	214

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

Inland Revenue has no interest-bearing financial instruments so it has no exposure to interest rate risk.

Credit risk

The risk that a third party will default on its obligations to Inland Revenue, causing a loss to be incurred is called credit risk. In the normal course of its business, credit risk from debtors and receivables is concentrated with the Crown and other government agencies.

The carrying amount of financial assets recognised in the *Statement of financial position* best represents Inland Revenue's maximum exposure to credit risk at balance date.

Inland Revenue does not require any collateral, security or other credit enhancements to support financial instruments with financial institutions that it deals with, because these entities have high credit ratings. Westpac is Inland Revenue's main bank and has a Standard and Poor's credit rating of AA–. Inland Revenue enters into foreign currency transactions with the NZDMO (Standard and Poor's credit rating of AA). For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not material.

Liquidity risk

Liquidity risk is the risk that Inland Revenue will encounter difficulty raising liquid funds to meet commitments as they fall due.

As all but an insignificant proportion of funds come from the New Zealand Government and cash is drawn down on a fortnightly basis, Inland Revenue does not have significant liquidity risk. In meeting its liquidity requirements, Inland Revenue closely monitors its forecast cash requirements with expected cash drawdowns from the NZDMO. Inland Revenue maintains a target level of available cash to meet liquidity requirements.

Contractual maturity analysis of financial liabilities, excluding forward foreign exchange contracts

The table below analyses Inland Revenue's financial liabilities that will be settled, based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Notes	Carrying amount $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2016–17						
Creditors and other payables	11	52,613	52,613	52,613	–	–
Finance lease liabilities	14	110	118	59	59	–
Other financial liabilities	15	1,068	1,068	288	689	91
Total		**53,791**	**53,799**	**52,960**	**748**	**91**
2015–16						
Creditors and other payables	11	43,252	43,252	43,252	–	–
Finance lease liabilities	14	487	513	513	–	–
Other financial liabilities	15	1,135	1,135	271	619	245
Total		**44,874**	**44,900**	**44,036**	**619**	**245**

Contractual maturity analysis of forward foreign exchange contracts

The table below analyses Inland Revenue's forward foreign exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Note	Liability carrying amount $000	Total contractual cash flows NZ dollar $000	Less than 6 months NZ dollar $000	6–12 months NZ dollar $000	1–5 years NZ dollar $000
2016–17						
Gross settled forward foreign exchange contracts	19	8,260	–	–	–	–
–Outflow		–	79,418	13,652	17,707	48,059
		8,260	**79,418**	**13,652**	**17,707**	**48,059**
2015–16						
Gross settled forward foreign exchange contracts	19	6,405	–	–	–	–
–Outflow		–	103,109	13,107	16,487	73,515
		6,405	**103,109**	**13,107**	**16,487**	**73,515**

Note 22: Explanation of major variances against budget

The following major budget variances occurred between the 2016–17 actuals and the 2016–17 budget. The budget figures for 2016–17 are those included in *The Estimates of Appropriations for the year ending 30 June 2017*.

	Notes	2016–17 Unaudited budget $000	2016–17 Actual $000	Variance $000	Variance %
Statement of comprehensive revenue and expense					
Revenue					
Revenue Crown	(a)	886,787	785,452	(101,335)	(11%)
Expenses					
Personnel	(b)	617,346	524,779	92,567	15%
Operating	(c)	214,799	190,748	24,051	11%
Amortisation and impairment	(d)	49,879	37,612	12,267	25%
Capital charge	(e)	22,363	17,694	4,669	21%
Statement of financial position					
Current assets					
Cash and cash equivalents	(f)	18,000	34,831	(16,831)	(94%)
Debtor Crown	(g)	119,186	178,452	(59,266)	(50%)
Non-current assets					
Property, plant and equipment	(h)	52,236	41,611	10,625	20%
Intangible assets	(i)	243,491	177,260	66,231	27%
Current liabilities					
Creditors and other payables	(j)	33,200	63,126	(29,926)	(90%)
Employee entitlements	(k)	41,000	41,852	(852)	(2%)
Provision for other liabilities	(l)	217	1,818	(1,601)	(738%)
Derivative financial instruments	(m)	–	2,917	(2,917)	–
Non-current liabilities					
Employee entitlements	(n)	36,400	41,313	(4,913)	(13%)
Derivative financial instruments	(o)	–	5,343	(5,343)	–
Statement of changes in taxpayers' funds					
Capital withdrawals	(p)	–	(75,783)	75,783	–

Statement of comprehensive revenue and expense

(a) Revenue Crown was lower than budget by $101,335,000 (11%). The decrease was mainly due to:

- an expense transfer of $89,624,000 from 2016–17 to 2017–18 for the Business Transformation programme to align with the updated delivery schedules
- retention of underspends of $9,298,000 was transferred to 2017–18 as a result of operational efficiency savings in 2016–17
- an operating expense transfer of $12,675,000 from 2016–17 to outyears to align with the timing of depreciation and operating costs associated with several short-term IT solutions.

The decrease was partly offset by an approved transfer of $13,500,000 from 2015–16 to 2016–17 for the Business Transformation programme. The transfer was approved after the budget was set.

(b) Personnel expenses were lower than budget by $92,567,000 (15%). The decrease was mainly due to Business Transformation programme expenditure being moved into 2017–18 to align with the latest delivery schedules. There were also organisational savings due to the timing of attrition and positions not being backfilled. This is in line with our workforce management principles.

(c) Operating expenses were lower than budget by $24,051,000 (11%). The decrease was mainly due to Business Transformation programme expenditure being moved into 2017–18 to align with the latest delivery schedules. There were also operating savings due to reduced spend in information and technology as we continue to review our technology contracts and reduce storage demands.

(d) Amortisation and impairment was lower than budget by $12,267,000 (25%). The variance mainly reflects less amortisation than budgeted due to the deferral of Business Transformation programme capital spend to outyears.

(e) The capital charge was lower than budget by $4,669,000 (21%). The decrease was mainly due to the reduction in the capital charge rate from 8% to 7% (July 16 to December 2016) and from 7% to 6% (January 2017 onwards). The remainder was due to a capital transfer of $73,800,000 from 2016–17 to 2017–18, partially offset by a $54,000,000 capital injection for the Business Transformation programme.

Statement of financial position

(f) Cash and cash equivalents were higher than budget by $16,831,000 (94%). The variance is due to holding US $11,028,000 (NZ $15,032,000) on deposit for payment of Business Transformation programme contracts and additional cash at year-end as a result of higher than budgeted creditor balances.

(g) Debtor Crown was higher than budget by $59,266,000 (50%). Debtor Crown increases when less cash is drawn from the Treasury. The increase was mainly due to revised Business Transformation programme workstreams and the timing of spend.

(h) Property, plant and equipment was lower than budget by $10,625,000 (20%). The decrease was mainly due to the revised timelines in some leasehold improvement projects. Capital expenditure has been moved to 2017–18 and outyears to align with the latest spend forecasts for these projects.

(i) Intangible assets are lower than budget by $66,231,000 (27%). The decrease was mainly due to the capital transfer of $73,800,000 from 2016–17 to 2017–18 for the Business Transformation programme to reflect timing adjustments in spend due to the dynamic and complex nature of the programme.

(j) Creditors and other payables were higher than budget by $29,926,000 (90%). The variance was due to the timing of vendor payments and higher Business Transformation programme accruals.

(k) & (n) Employee entitlements were higher than budget by $5,765,000 (7%). The variance was due to macroeconomic changes in the actuarial valuations of retiring and long-service leave valuations in 2016–17, and an increase in outstanding retiring and long-service leave benefits.

(l) Provision for other liabilities was higher than budget by $1,601,000 (738%). The variance was due to new onerous lease (vacant space) provisions in buildings that Inland Revenue leases mainly as a result of the Kaikoura earthquake.

(m) & (o) Derivative financial instruments were higher than budget by $8,260,000. The variance is due to foreign exchange movements impacting forward foreign exchange contracts entered into as a result of the Business Transformation programme.

Statement of changes in taxpayers' funds

(p) Capital withdrawals were higher than budget by $75,783,000. Inland Revenue has transferred $73,800,000 capital from 2016–17 to 2017–18 for the Business Transformation programme. Some foundation infrastructure investment initially scheduled to occur during Stage 1 has been re-sequenced to minimise overall risk. The transfer better aligns investment with the implementation of Stage 2 of the programme. Inland Revenue has returned $1,983,000 capital for the cashing out research and development tax losses project to the Crown, as it has been completed.

Note 23: Events after balance date

After balance date Inland Revenue announced the outcome of a consultation process on the first phase of a new organisation design for the Department. This sees much of Inland Revenue reorganised into three new groups—two Customer and Compliance Services groups, one for Individuals, Families and Micro Businesses and the other for Small, Medium and Significant Enterprises, and an Information and Intelligence Services group. The implementation date for the first phase of the new organisation design will be February 2018. Inland Revenue has not recognised a liability for costs associated with implementing the new organisation design as at 30 June 2017.

There have been no other significant events after balance date.

Financial Schedules
Non-departmental

Schedule of non-departmental revenue

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Direct taxation			
	Income tax			
	Individuals			
26,328,258	Source deductions	27,041,000	27,905,092	28,705,000
5,786,290	Other persons	5,865,000	6,382,203	6,497,000
(1,738,894)	Refunds	(1,712,000)	(1,638,269)	(1,686,000)
502,356	Fringe benefit tax	547,000	524,838	554,000
30,878,010	**Total individuals**	**31,741,000**	**33,173,864**	**34,070,000**
	Corporate tax			
11,769,987	Gross companies tax	11,924,000	13,931,349	13,395,000
(238,132)	Refunds	(207,000)	(187,967)	(206,000)
733,953	Non-resident withholding tax	504,000	599,038	589,000
(7,608)	Foreign-source dividend withholding payments	2,000	(9,770)	–
12,258,200	**Total corporate tax**	**12,223,000**	**14,332,650**	**13,778,000**
	Other direct income tax			
1,666,564	Resident withholding tax on interest income	1,629,000	1,471,685	1,519,000
626,211	Resident withholding tax on dividend income	604,000	742,533	685,000
1,170,388	Employer superannuation contribution tax	1,201,000	1,218,758	1,282,000
3,463,163	**Total other direct income tax**	**3,434,000**	**3,432,976**	**3,486,000**
46,599,373	**Total direct taxation**	**47,398,000**	**50,939,490**	**51,334,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Indirect taxation			
	Goods and services tax			
27,598,507	Gross goods and services tax	28,010,000	29,650,616	30,641,000
(11,158,089)	Refunds	(10,801,000)	(11,751,384)	(11,774,000)
16,440,418	**Total goods and services tax**	**17,209,000**	**17,899,232**	**18,867,000**
	Other indirect taxation			
84,473	Approved issuer levy	101,000	79,502	88,000
275,489	Gaming duties	278,000	297,670	285,000
1,940	Other indirect taxation	–	6,972	–
361,902	**Total other indirect taxation**	**379,000**	**384,144**	**373,000**
16,802,320	**Total indirect taxation**	**17,588,000**	**18,283,376**	**19,240,000**
63,401,693	**Total taxation**	**64,986,000**	**69,222,866**	**70,574,000**
	Other revenue			
194,194	Child support	193,000	184,576	182,000
603,296	Interest unwind—student loans	608,000	602,489	601,000
84,301	Other revenue	81,000	76,989	78,500
881,791	**Total other revenue**	**882,000**	**864,054**	**861,500**
64,283,484	**Total revenue**	**65,868,000**	**70,086,920**	**71,435,500**

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental expenditure

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Benefits and other unrequited expenses			
1,082	Child tax credit	900	879	900
1,793,410	Family tax credit	1,797,000	1,722,732	1,823,000
513,245	In-work tax credit	600,000	553,072	561,000
(15)	KiwiSaver: Fee subsidy	–	(6)	–
11,928	KiwiSaver: Interest	10,000	11,818	12,000
685,618	KiwiSaver: Tax credit	728,000	731,000	798,000
13,765	Minimum family tax credit	15,000	12,703	12,000
216,824	Paid parental leave payments	277,000	274,496	338,000
30,480	Parental tax credit	29,000	29,315	29,000
4,624	Payroll subsidy	5,900	5,514	5,900
3,270,961	**Total benefits and other unrequited expenses**	**3,462,800**	**3,341,523**	**3,579,800**
	Borrowing expenses			
25	Adverse event interest	10	33	10
1,637	Environmental restoration account interest	2,000	1,636	2,000
6,245	Income equalisation interest	10,000	5,114	10,000
7,907	**Total borrowing expenses**	**12,010**	**6,783**	**12,010**
	Other expenses			
680,343	Impairment of debt and debt write offs[1]	1,093,307	493,017	800,000
–	Impairment of debt relating to child support	5,000	–	–
140,000	Impairment/(impairment reversal) of debt relating to student loans	100,000	(62,000)	100,000
659,383	Initial fair value write down—student loans	689,000	661,715	676,000
1,479,726	**Total other expenses**	**1,887,307**	**1,092,732**	**1,576,000**
4,758,594	**Total expenditure**	**5,362,117**	**4,441,038**	**5,167,810**

[1] Impairment of debt and debt write offs relates to general tax, Working for Families Tax Credits and KiwiSaver debt.

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental assets

As at 30 June 2017

2015–16 Actual $000		Notes	2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Current assets				
1,061,969	Cash and cash equivalents		1,085,000	1,781,521	1,400,000
8,538,107	Receivables	2	8,208,700	9,751,038	9,513,107
12,149	Receivables—child support	3	12,001	11,124	12,149
89,297	Receivables—other		119,407	98,903	133,584
1,209,000	Student loans	4	1,303,000	1,269,000	1,427,000
10,910,522	**Total current assets**		**10,728,108**	**12,911,586**	**12,485,840**
	Non-current assets				
323,400	Receivables	2	441,300	339,800	323,400
67,508	Receivables—child support	3	47,037	71,793	53,508
7,772,855	Student loans	4	7,957,035	7,927,800	7,783,158
8,163,763	**Total non-current assets**		**8,445,372**	**8,339,393**	**8,160,066**
19,074,285	**Total assets**		**19,173,480**	**21,250,979**	**20,645,906**

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental liabilities

As at 30 June 2017

2015–16 Actual $000		Notes	2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
	Current liabilities				
44,599	Child support		42,752	45,460	44,599
4,476,415	Refundables and payables	5	4,830,083	4,231,287	4,529,215
16,381	Unclaimed monies	6	14,859	18,206	16,381
4,537,395	**Total current liabilities**		**4,887,694**	**4,294,953**	**4,590,195**
	Non-current liabilities				
250,253	Reserve schemes	7	315,279	210,307	235,253
250,253	**Total non-current liabilities**		**315,279**	**210,307**	**235,253**
4,787,648	**Total liabilities**		**5,202,973**	**4,505,260**	**4,825,448**

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental movements between departments

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Unaudited budget $000	2016–17 Actual $000	2017–18 Unaudited forecast $000
14,053,126	Opening balance	13,500,169	14,286,637	15,364,254
59,524,890	Net result from operating activities	60,505,883	65,645,882	66,267,690
1,522,448	Asset transfer between departments—Ministry of Social Development—student loans	1,590,545	1,485,001	1,543,104
(60,813,827)	New Zealand Debt Management Office	(61,626,090)	(64,671,801)	(67,354,590)
14,286,637	**Closing balance**	**13,970,507**	**16,745,719**	**15,820,458**

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental commitments

As at 30 June 2017

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2015–16: $nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2017

2015–16 Actual $000		Notes	2016–17 Actual $000
	Quantifiable contingent liabilities		
172,327	Legal proceedings and disputes—assessed	8	144,983
132,525	Unclaimed monies	6	147,306
304,852	**Total quantifiable contingent liabilities**		**292,289**
	Quantifiable contingent assets		
21,584	Disputes—non-assessed	8	48,138
21,584	**Total quantifiable contingent assets**		**48,138**

There were no non-quantifiable contingent liabilities and contingent assets for the year ended 30 June 2017 (2015–16: $nil).

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Schedule of non-departmental trust money

For the year ended 30 June 2017

2015–16 Actual $000		2016–17 Contributions $000	2016–17 Distributions $000	2016–17 Total $000
	Child support			
11,715	Child support trust account	294,432	(273,708)	32,439
440	Reciprocal child support agreement trust account	13,938	(13,878)	500
12,155	**Total child support**	**308,370**	**(287,586)**	**32,939**
	KiwiSaver			
44	KiwiSaver returned transactions trust account	2,948	–	2,992
44	**Total KiwiSaver**	**2,948**	**–**	**2,992**
12,199	**Total trust money**	**311,318**	**(287,586)**	**35,931**

The child support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991. Inland Revenue administers these trust accounts for amounts collected from liable parents and the subsequent child support payments that are paid to the custodial persons.

The KiwiSaver trust account was established in accordance with section 74(4) of the KiwiSaver Act 2006. Inland Revenue administers this account to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, pending the completion of the financial transaction.

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

For a full understanding of the Crown's financial position and the results of its operations and cashflows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017**.

* This link leads to information not covered by the audit opinion on page 166.

Statement of accounting policies

These financial schedules are for the year ended 30 June 2017 and include forecast financial schedules for the year ending 30 June 2018.

The schedules have been combined to provide a single view of actual, budget and forecast information.

References to the financial schedules incorporate the actual, budget and forecast financial schedules, unless otherwise stated.

Reporting entity

These non-departmental financial schedules present financial information on public funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017*. For a full understanding of the Crown's financial position and the results of its operations and cashflows for the year refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2017*.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2017. The forecast financial schedules are for the year ending 30 June 2018.

The financial schedules were authorised for issue by the Acting Chief Executive/Commissioner of Inland Revenue on 28 September 2017.

Basis of preparation

The accounting policies set out below and in the notes have been applied consistently to all periods presented in these financial schedules.

These financial schedules have been prepared on a historical cost basis, unless otherwise stated. The accrual basis of accounting has been used, unless otherwise stated.

These financial schedules are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000). The functional currency of Inland Revenue is New Zealand dollars.

The financial schedules have been prepared in accordance with the Tier 1 *Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS).*

Standards issued and not adopted early

Standards and amendments, issued but not yet effective that have not been adopted early and which are relevant to Inland Revenue are:

Financial instruments

In January 2017 the External Reporting Board issued *PBE IFRS 9: Financial Instruments.* This replaces *PBE IPSAS 29: Financial Instruments: Recognition and Measurement. PBE IFRS 9* is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses
- revised hedge accounting requirements to better reflect the management of risks.

The Crown will adopt the amended accounting standard in the 2018–19 financial year. The Department has not yet assessed the effects of the new standard on the non-departmental financial schedules but under the new standard it is likely that student loans will be reported at fair value, rather than at their current measurement basis of amortised cost. This valuation change will likely result in a one-off increase to the value of the student loan asset. The amount of this increase is still to be finalised.

This one-off increase will be reflected in the 2017–18 comparative numbers when the 2018–19 financial year's result is published.

Inland Revenue has not adopted any other new standards or amendments to standards early.

Critical accounting estimates

In preparing these financial schedules, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results.

Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions around income tax, PAYE and GST that have a significant risk of causing a material adjustment to revenue and the carrying amounts of receivables and payables within the next financial year, are referred to in the notes.

Accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note and which materially affect the measurement of financial results and the financial position are outlined below.

Expenses

Expenses are recognised in the period to which they relate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in bank accounts administered by Inland Revenue. All cash held in bank accounts is held in on demand accounts and no interest is payable to Inland Revenue.

Comparatives

When presentation or classification of items in the financial schedules is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impracticable to do so.

Change in accounting policies

There have been no changes in accounting policies since the date of the last audited financial schedules.

Budget and forecast figures

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP using accounting policies that are consistent with those adopted in preparing these financial schedules. They have also been prepared in accordance with *PBE Financial Reporting Standard 42: Prospective Financial Statements*.

The budget, revised budget and forecast financial schedules are not subject to audit.

The budget figures for 2016–17 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017*.

The revised budget figures for 2016–17 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations*) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017*.

The forecast figures for 2017–18 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018*.

The forecast financial schedules have been prepared in accordance with the Public Finance Act 1989.

Forecast policies

The forecasts have been compiled on the basis of existing government policies and ministerial expectations at the time the schedules were finalised and reflect all government decisions up to 27 April 2017.

While Inland Revenue regularly updates its forecasts, updated forecast schedules for the year ending 30 June 2018 will not be published.

The key assumptions in the preparation of the forecasts include:

- Tax revenue: tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between Inland Revenue and the Treasury.
- Student loans: the carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors, such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecast.
- Estimated year-end information for 2016–17 is used as the opening position for the 2017–18 forecasts.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2017* (http://www.treasury.govt.nz/budget/forecasts/befu2017)*.

Any changes to budgets during 2017–18 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018*.

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these forecast financial schedules and the actual reported results include:

- changes to the budget through initiatives or legislation approved by Cabinet
- macroeconomic changes impacting revenue, expenditure and debt levels
- the timing of taxpayers' filing and payment of returns
- the timing of taxpayer refund and credit claims
- the outcome of the disputes process, including litigation.

* This link leads to information not covered by the audit opinion on page 166.

Notes to the financial schedules

Note 1: Revenue

Tax revenue is a non-exchange transaction.

The payment of tax in itself does not entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and benefits.

Tax revenue is recognised when a taxable event has occurred, the tax revenue can be reliably measured and it is probable that economic benefits will flow to the Crown.

Tax is recognised at face value as the fair value is not materially different from the face value.

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. Inland Revenue has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. Such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. Inland Revenue is unable to reliably estimate the amount of unreported tax.

Income tax

Income tax is recognised on an accrual basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.

Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year terminal assessments. The amount of income tax receivable or refundable is not known with certainty until income tax returns for the period have been filed. This usually occurs sometime after the publication of the annual report.

The measurement of the income tax accruals requires significant estimates. Key features of the estimation used are as follows:

- Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, provisional tax assessments are accrued based on a forecast cashflow model, as provisional payment due dates occur after income has been earned. This model is based on assumptions in the *Budget and Economic Fiscal Update 2017* (http://www.treasury.govt.nz/budget/forecasts/befu2017)*. A key assumption of this estimation is the split of cash receipts between terminal and provisional tax. This split is calculated based on historical information. Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, their credit balance is accrued as revenue.
- For individual taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable at year end based on prior year returns.
- For company taxpayers not subject to provisional tax for the current year, revenue is recognised when terminal tax is assessed, ie no estimate of tax revenue is accrued in the period of the taxable event. This is because a reliable estimate cannot be made in the period of the taxable event unless a return is filed.

Goods and services tax (GST)

GST returns are assessed on a one, two, three or six-monthly basis and are due the month after the end of the period. At year end the amount outstanding is estimated as follows:

- for taxpayers who file a return for over $1 million of GST for the June period, the actual amounts filed by taxpayers in July are used
- for all other taxpayers the estimate is based on the most recent assessed GST return.

Pay-as-you-earn (PAYE)

PAYE returns are assessed monthly and are due the following month. At year end the amount outstanding is estimated as follows:

- for taxpayers who file a return for over $1 million of PAYE for the June period the actual amounts filed by taxpayers in July are used
- for all other taxpayers the estimate is based on the most recent assessed PAYE return.

Child support

Child support revenue is the penalties levied on child support debts owed to both custodial persons and the Crown by the liable parents. This revenue is recognised initially at fair value and subsequently tested for impairment at year end.

* This link leads to information not covered by the audit opinion on page 166.

Interest unwind—student loans

Interest unwind on student loans is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Effective interest rates are assigned to new lending from 1 January 2013 on a 'year of lending' basis. Effective interest rates are allocated to borrowers based on the year of first borrowing for loans drawn down before 1 January 2013.

Note 2: Receivables

Receivables include general taxes, Working for Families Tax Credits, KiwiSaver and any penalties and interest associated with these activities. The interest and penalties charged on receivables are presented as revenue in the *Schedule of non-departmental revenue*. Receivables for child support and student loans are reported separately in Notes 3 and 4 respectively.

Receivables are initially recognised at face value as the fair value is not materially different from the face value and are subsequently tested for impairment at year end.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Impairment movements are recognised in the *Schedule of non-departmental expenditure*. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

Financial models have been constructed for Inland Revenue to calculate the impairment of receivables. These models apply a number of assumptions on future repayment behaviour, as well as economic assumptions, such as the discount rate and inflation. Key assumptions are explained below.

The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

Tax pooling funds held in Crown bank accounts have been netted off against receivables. These funds have been deposited by commercial intermediaries and allow taxpayers to pool tax payments to reduce their use-of-money-interest exposure. Underpayments and overpayments are offset within the same pool. We estimate that the majority of pooling funds relate to income accruals included in not due receivables.

2015–16 Actual $000		2016–17 Actual $000
	Receivables	
12,607,405	Gross receivables	12,102,007
(3,745,898)	Impairment	(2,011,169)
8,861,507	**Carrying value receivables**	**10,090,838**
	Current and non-current apportionment	
8,538,107	Receivables—current	9,751,038
323,400	Receivables—non-current	339,800
8,861,507	**Carrying value receivables**	**10,090,838**
	Ageing profile of gross receivables	
7,927,376	**Not due**	**9,110,734**
	Past due[1]	
737,979	Less than 6 months	707,277
398,251	6–12 months	447,216
661,984	1–2 years	560,980
2,881,815	Greater than 2 years	1,275,800
4,680,029	***Total past due***	**2,991,273**
12,607,405	**Total gross receivables**	**12,102,007**
37%	% Past due	25%
	Receivables—impairment	
4,192,162	Balance at 1 July	3,745,898
680,343	Impairment losses recognised	493,017
(1,126,607)	Amounts written off as uncollectable	(2,227,746)
3,745,898	**Balance at 30 June**	**2,011,169**

[1] Figures are based on debt elements (a specific tax type and time period for which a debt is due).

Not due receivables comprise estimations for tax where the tax has been earned but is not yet overdue.

Receivables are classified as past due when any outstanding revenues are not received from taxpayers by their due dates. Due dates will vary, depending on the type of revenue outstanding (eg income tax, GST, KiwiSaver) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio and the significant assumptions underpinning the valuation are shown below:

2015–16 Actual		2016–17 Actual
7,892,385	Recoverable amount of receivables not due ($000)	9,080,152
969,122	Recoverable amount of receivables past due ($000)	1,010,686
8.27%	Use-of-money-interest rate	8.22%
6.00%	Discount rate	5.00%
(28,000)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(32,000)
30,000	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	33,000

The fair value of receivables is not materially different from the carrying value.

Credit risk

In determining the recoverability of receivables, Inland Revenue uses information about disputes and experience of the outcomes of such disputes, together with trends of payment timeliness and other information obtained from credit collection.

Under the Tax Administration Act 1994, Inland Revenue has broad powers to ensure that people meet their obligations. Part 10 of the Act sets out the powers of the Commissioner to recover unpaid tax.

The Crown does not hold any collateral or any other credit enhancements over receivables which are past due.

Receivables are widely dispersed over a number of taxpayers and as a result the Crown does not have any material individual concentrations of credit risk.

Note 3: Receivables—child support

The Crown collects monies from liable parents and passes this to custodial persons. The child support receivable represents penalties which have been incurred as a result of the under-payment of the debt and in the main relates to penalties imposed on liable parents who default on their payments.

Child support penalties grow exponentially due to their compounding nature. The recovery of debt is challenging and 97% of child support debt is written down at initial recognition as it is not expected to be collected. The non-recoverability of penalties has been allowed for in the initial fair value write-down figure. At year end the fair value of the outstanding debt is also tested for impairment.

Historically, there have been limited provisions under child support legislation to write off penalties. However, legislative changes to the Child Support Act 1991, effective from 1 April 2016, have increased the Commissioner's ability to write off child support penalty debt. As a result of the legislative changes, the nominal value of child support debt will decrease over time.

Credit risk

The concentration of credit risk is limited as receivables are widely dispersed and this is not a risk that is actively managed. The Crown does not hold any collateral or other credit enhancements over these receivables.

2015–16 Actual $000		2016–17 Actual $000
	Receivables—child support	
2,660,704	Gross receivables	2,118,983
(2,581,047)	Impairment	(2,036,066)
79,657	**Total receivables—child support**	**82,917**
	Current and non-current apportionment	
12,149	Receivables—current	11,124
67,508	Receivables—non-current	71,793
79,657	**Carrying value receivables**	**82,917**
	Ageing profile of gross receivables	
–	Not due	–
	Past due	
259,324	Less than 12 months	132,814
240,285	1–2 years	259,324
2,161,095	Greater than 2 years	1,726,845
2,660,704	***Total past due***	**2,118,983**
2,660,704	**Total gross receivables**	**2,118,983**
100%	% Past due	100%
	Impairment of receivables—child support	
2,526,450	Balance at 1 July	2,581,047
251,545	Initial write down to fair value	128,829
(196,948)	Amounts written off as uncollectable	(673,810)
2,581,047	**Balance at 30 June**	**2,036,066**

Note 4: Student loans

Student loans are initially issued by StudyLink (Ministry of Social Development). The loans and any associated transactions are transferred to Inland Revenue on a daily basis. Inland Revenue holds the total nominal debt and carrying value of the scheme. The initial capital lending of student loans is administered under Vote Social Development. The initial fair value write-down expense on new capital lending, and any subsequent impairment, is administered under Vote Revenue.

Student loans are designated as loans and receivables under *PBE IPSAS 29: Financial Instruments: Recognition and Measurement*. Student loans are recognised initially at fair value, plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, and adjusted for impairment movements. Fair value on initial recognition of student loans is determined by projecting forward expected repayments and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and the event has an impact on the estimated future cashflows of the loan that can be reliably measured. The amount of the provision is the difference between the asset's carrying amount and the estimated impaired value. The impairment losses are recognised in the *Schedule of non-departmental expenditure*.

Impairment losses can be reversed where there is evidence that the impaired value of the financial asset has increased.

Actuarial models have been constructed to calculate the impairment of student loan debt. See below for more information on these models.

Below are definitions for the key terminologies associated with student loan values.

Nominal value	The total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties.
Carrying value	The value of the Student Loan Scheme asset, which is maintained in the scheme's accounts.
Fair value	The market value of student loans if they could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

Below are the carrying and nominal values of student loans:

2015–16 Actual $000		**2016–17 Actual $000**
8,864,382	**Carrying value at 1 July**	**8,981,855**
(1,208,888)	Repayments	(1,272,830)
1,522,448	Borrowings transferred from Ministry of Social Development	1,485,001
(659,383)	Fair value write down on new borrowings	(661,715)
(140,000)	(Impairment)/impairment reversal	62,000
603,296	Interest unwind	602,489
8,981,855	**Carrying value student loans at 30 June**	**9,196,800**
	Current and non-current apportionment	
1,209,000	Student loans—current	1,269,000
7,772,855	Student loans—non-current	7,927,800
8,981,855	**Carrying value student loans**	**9,196,800**
14,837,028	**Nominal value at 1 July**	**15,340,008**
1,522,448	Borrowings transferred from Ministry of Social Development	1,485,001
(1,208,888)	Repayments	(1,272,830)
135,382	Interest on overseas-based borrowers	119,811
22,704	Administration and establishment fees	23,016
63,844	Penalties	72,448
(32,357)	Death and bankruptcies	(32,483)
(153)	Voluntary repayment bonus	(66)
15,340,008	**Nominal value student loans at 30 June**	**15,734,905**

Student loan valuation model

Most of the data upon which the modelling depends is collated by Statistics New Zealand from Inland Revenue, Ministry of Education and Ministry of Social Development. The data covers borrowings, repayments, income, educational factors and socio-economic factors. It is current up to 31 March 2016. Some supplementary data from Inland Revenue and New Zealand Customs Service, about loan transactions and borrowers' cross-border movements for the period up to 31 March 2017, are also factored into the modelling.

The significant assumptions behind the carrying value are:

2015–16		2016–17
8,981,855	Carrying value ($000)	9,196,800
6.93%	Effective interest rate	6.84%
3.6%–5.5%	Interest rate applied to loans for overseas-based borrowers	3.9%–5.5%
0.4%–2.0%	Consumer Price Index	0.2%–2.0%
1.1%–3.0%	Future salary inflation	1.5%–3.0%

In 2016–17 there was an increase in the impaired value of student loans of $62 million (2015–16: impairment decreased the value by $140 million). Factors that contributed to this reversal of impairment of the student loan portfolio include:

- Updated modelling assumptions increased the value overall by $103 million (2015–16: decreased by $40 million). This was made up of three significant movements and a number of smaller changes:
  - Changes to reflect continued improvement in overseas-based borrowers' repayment behaviour, which increased the impaired value by $102 million (2015–16: $388 million)
  - Changes to the rates of low earners transitioning to high earners based on downward trends in emigration and return to study rates. This makes it less likely that low earners will go overseas or return to study and therefore more likely they will remain low earners. This change reduced the impaired value by $159 million (2015–16: $15 million)
  - Domestic repayment assumptions have been updated to reflect improved repayment levels. This has increased the impaired value by $75 million (2015–16: $nil)
  - Other modelling changes, including the roll forward of data, increased the impaired value by $85 million (2015–16: decreased by $413 million).
- Macroeconomic effects: assumptions around higher inflation in salary levels and repayment thresholds and higher loan and late payment interest rates have increased the impaired value by $43 million (2015–16: decreased by $176 million).
- Experience variance: the difference between what was predicted for the 2016–17 year at last year's valuation and the actual results increased the impaired value by $27 million (2015–16: $40 million).
- Policy changes: the basis for calculating the repayment threshold has changed from using the Consumer Price Index to using the Consumer Price Index excluding tobacco. This has increased the impaired value by $14 million.
- Removing adjustments for improvements in study leavers incomes and lower earners' employment rates decreased the impaired value by $125 million (2015–16: increase of $36 million). The adjustment for study leavers' income has now been incorporated into the model and the adjustment for lower earners' employment rates has been reduced based on experience.

The above sources of impairment are summarised in the table below:

2015–16 Actual $000		2016–17 Actual $000
	Sources of impairment	
	Data and modelling changes	
388,000	Updated overseas repayment assumptions	102,000
(15,000)	Updated transition assumptions	(159,000)
–	Updated domestic repayment assumptions	75,000
(413,000)	Other changes and roll forward of data	85,000
(40,000)	***Total data and modelling changes***	**103,000**
(176,000)	Macroeconomic effects	43,000
40,000	Experience variance	27,000
–	Policy changes	14,000
36,000	Other adjustments	(125,000)
(140,000)	**Total (impairment)/impairment reversal**	**62,000**

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. As such, the carrying value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors, such as inflation and the discount rates used to determine the effective interest rate applied to new lending. For these reasons, the valuation has a high degree of inherent uncertainty and there is a significant risk of material adjustment to the carrying value in future accounting periods. The key risks are below:

- If the recent improvements in overseas compliance are short-lived and repayment behaviour returns to the lower levels experienced in the past then impairment may result.
- Since 2005 the proportion of borrowers becoming low earners (ie earning below $25,000 per annum) has been steadily increasing for those studying lower level certificates. The income sub-models are based on recent experience so the current trends are being modelled. However, if the proportion of borrowers becoming low earners continues to increase, these income sub-models will need refining, which may result in impairment.
- Higher net migration has been observed, which could put pressure on employment rates in general. If employment outcomes for borrowers are negatively affected, the number of low earners may increase. Such a change in employment rates may result in impairment.

Fair value was determined by discounting the future cashflows at an appropriate discount rate.

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes, whereas the fair value was calculated using a discount rate that was current at 30 June 2017.

The significant assumptions behind the fair value are:

2015–16		2016–17
9,794,000	Fair value ($000)	9,812,000
5.44%	Discount rate	5.74%
(558,000)	Impact on fair value of a 1% increase in discount rate ($000)	(535,000)
630,000	Impact on fair value of a 1% decrease in discount rate ($000)	601,000

The *Student Loan Scheme Annual Report 2016/17* contains more information on the student loan scheme.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

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

The credit risk is reduced by the collection of compulsory repayments through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the Government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the Government.

Note 5: Refundables and payables

Refundables and payables are financial liabilities and are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to taxpayers. Refunds are issued to taxpayers once account and refund reviews are complete.

2015–16 Actual $000		2016–17 Actual $000
3,566,328	Taxes refundable	3,310,085
907,613	KiwiSaver payable	917,589
2,474	Paid parental leave payable	3,613
4,476,415	**Total refundables and payables**	**4,231,287**

Note 6: Unclaimed monies

Under the Unclaimed Money Act 1971, entities (eg financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

Note 7: Reserve schemes

2015–16 Actual $000		2016–17 Actual $000
195,048	Income equalisation	155,023
54,927	Environmental restoration	54,927
278	Adverse event income equalisation	357
250,253	**Total reserve schemes**	**210,307**

The income equalisation scheme allows taxpayers in the farming, fishing and forestry industries to make payments during the year by way of income equalisation deposits. Interest paid at a rate of 3% per annum will apply where a deposit is left in the scheme for a period of more than 12 months.

The environmental restoration account allows businesses to set aside money to cover restoration costs for monitoring, avoiding, remedying or mitigating any detrimental environmental effects which may occur in later years. Interest is calculated at a rate of 3% per annum and is payable from the day after the deposit is made until the day before a refund is made. Refunds will be made when the environmental restoration costs are incurred.

The adverse event income equalisation scheme operates in addition to the income equalisation scheme. Deposits earn interest at a rate of 6.5% per annum from the date of receipt until the deposit is refunded. Deposits can be withdrawn immediately but are transferred to the main income equalisation account if not withdrawn within 12 months of the deposit.

Note 8: Contingencies

Contingent liabilities and assets are recorded in the *Schedule of non-departmental contingent liabilities and contingent assets* at the point at which the contingency is evident. Contingent liabilities are disclosed if it is possible that they will crystallise. Contingent assets are disclosed if it is probable that the benefits will be realised.

Contingent liabilities

Legal proceedings and disputes—assessed

If a legal case is still not resolved at the end of the disputes process, Inland Revenue will issue an amended assessment to the taxpayer and recognise revenue and a contingent liability. The taxpayer is then able to file proceedings with the Taxation Review Authority or the High Court disputing the assessment.

Unclaimed monies

Unclaimed monies are repaid to the entitled owner on proof of identification. Based on trends from prior years, the estimated likely amount of unclaimed monies that will be paid out is recorded as a liability in the *Schedule of non-departmental liabilities* and the remainder is recorded as a contingent liability in the *Schedule of non-departmental contingent liabilities and contingent assets*.

Contingent assets

Disputes—non-assessed

Contingent assets arise as part of the tax dispute process, for example, when Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment through a notice of proposed adjustment (NOPA). At this point there has been no amended assessment issued and no revenue has been recognised so these adjustments are recorded in the *Schedule of non-departmental contingent liabilities and contingent assets* as disputes—non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely cash collectable for the disputes process, based on experience and similar prior cases, net of losses carried forward.

Contingent assets can also arise where the taxpayer has not filed an assessment but Inland Revenue believes they are liable for tax. In this situation Inland Revenue will issue an assessment. Where the taxpayer chooses to dispute the Inland Revenue initiated assessment, the assessment is not recognised as revenue and a contingent asset is recorded in the *Schedule of non-departmental contingent liabilities and contingent assets*. The value of the asset is based on the likely collectable portion of the default assessment, net of losses carried forward.

Note 9: Collection of earner levy

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation and passes the monies directly to them. The levies are not recognised as revenue or expenditure in the non-departmental schedules.

2015–16 Actual $000		2016–17 Actual $000
1,466,621	Earner levy	1,575,894
1,466,621	**Total collection of earner levy**	**1,575,894**

Note 10: Events after balance date

No events have occurred between the balance date and the date of signing these financial schedules that materially affect the actual results within these financial schedules.

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Inland Revenue's annual report for the year ended 30 June 2017

The Auditor-General is the auditor of Inland Revenue (the Department). The Auditor-General has appointed me, Chrissie Murray, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of the Department on pages 106 to 142, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2017, the statement of comprehensive revenue and expense, statement of changes in taxpayers' funds, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by the Department for the year ended 30 June 2017 on pages 66 to 100;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2017 on pages 101 to 104; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 144 to 164 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2017;
  - the schedules of expenditure; revenue; and movements between departments for the year ended 30 June 2017;
  - the schedule of trust monies for the year ended 30 June 2017; and
  - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2017; and
    - its financial performance and cash flows for the year ended on that date; and
    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards;
- the performance information of the Department:
  - presents fairly, in all material respects, for the year ended 30 June 2017:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
  - complies with generally accepted accounting practice in New Zealand;
- the statements of expenses and capital expenditure of the Department are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown present fairly, in all material respects, in accordance with the Treasury Instructions:
  - the assets, liabilities, commitments, and contingent liabilities and assets as at 30 June 2017;
  - expenses, revenue and movements between departments for the year ended 30 June 2017; and
  - the schedule of trust monies for the year ended 30 June 2017.

Our audit was completed on 28 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Chief Executive for the information to be audited

The Chief Executive is responsible on behalf of the Department for preparing:

- financial statements that present fairly the Department's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of the Department, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by the Department on behalf of the Crown.

The Chief Executive is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Chief Executive is responsible on behalf of the Department for assessing the Department's ability to continue as a going concern. The Chief Executive is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of the Department, or there is no realistic alternative but to do so.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to the Department's Statement of Intent 2016-2020, the relevant Estimates and Supplementary Estimates of Appropriations 2016/17 for Vote Revenue, and the 2016/17 forecast financial figures included in the Department's 2015/16 Annual Report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive.

- We evaluate the appropriateness of the reported performance information within the Department's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Chief Executive and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Department's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Department to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Chief Executive regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Chief Executive is responsible for the other information. The other information comprises the information included on pages 1 to 65 and 170 to 173, but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Department in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in the Department.

CAMurray

Chrissie Murray
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Additional Information

Information sharing with the Department of Internal Affairs

Under information sharing regulations, Inland Revenue must report annually, in respect of this approved information sharing agreement, on actions taken during each financial year.

In July 2017 the operation of this approved information sharing agreement was reviewed. It assessed the adequacy of controls in place and in particular, to ensure compliance with section 11 of the most current Approved Information Sharing Agreement (AISA). The review confirmed that Inland Revenue is operating in accordance with the terms and conditions of the AISA and the Memorandum of Understanding (MOU).

A copy of the approved information sharing agreement is available to view at http://www.ird.govt.nz/aboutir/agreements/agreement-dia.

Information sharing with the Department of Internal Affairs

Financial year ending 30 June 2017

Contact records received from DIA	518,292
Contact records not matched to a corresponding Inland Revenue record for:	504,768
• overseas-based child support debtors	
• overseas-based child support non-debtors who do not appear to have up to date contact information	
• overseas-based student loan defaulters	
Contact records matched to corresponding Inland Revenue records for:	
• overseas-based child support debtors	2,087
• overseas-based child support non-debtors who do not appear to have up to date contact information	72
• overseas-based student loan defaulters	8,677
• overseas-based student loan non-debtors who do not appear to have up to date contact information	2,688
Ongoing programme operating costs	$1,728[1]
Individuals successfully contacted[2] using contact records matched to:	
• overseas-based child support debtors (45%)	947
• overseas-based child support non-debtors who do not appear to have up to date contact information (56%)	40
• overseas-based student loan defaulters (35%)	3,029
• overseas-based student loan non-debtors who do not appear to have up to date contact information (35%)	928
Payments received from individuals as a result of successful contact with:	
• overseas-based child support debtors (216 payments)	$422,646
• overseas-based student loan defaulters (2,535 payments)	$6.4m
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Inland Revenue:	
• overseas-based child support debtors (465)	23%
• overseas-based student loan defaulters (1,862)	24%

[1] Approximate annual incidental charge.

[2] We have made attempts to contact all 13,524 matched individuals. 4,944 have passed our identity verification process.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

Information sharing with New Zealand Police

Inland Revenue's AISA with New Zealand Police sets out key activities that we need to report on each year in our Annual Report.

Under sections 96S(1)(b), 96T and 96U of the Privacy Act 1993, and clause 9 of the Privacy Regulations 1993, the Privacy Commissioner has specified the following reporting in respect of the AISA for: *supply of information for the purpose of prevention, detection, investigation or providing evidence of serious crime.*

A copy of the AISA is available to view at http://www.ird.govt.nz/aboutir/agreements/agreement-police.

Information shared

Financial year ending 30 June 2017

Description	Total
Number of requests for information made by Police to Inland Revenue	207
Number of responses with information provided by Inland Revenue to Police	167
Number of occasions Inland Revenue proactively provided information to Police	2

We did not supply the information requested 38 times because the request was invalid. Twice the information could not be supplied because we were not able to locate the individual.

Costs

The estimated cost of the sharing agreement with New Zealand Police is $19,995 for the year ended June 2017.

Benefits

Number of times information provided by Inland Revenue has been used in a case with a resolution of:

No offence	10
Prosecution	34
Warning	Nil
Still under investigation	96
No response received	27
Total	**167**

Warning, diversion and youth case action do not apply as the AISA focuses on serious offending and these possible resolutions are for lower-level offending, which fall below the serious crime threshold.

Assurance

An internal Critical Task Assurance review is applied across a selection of information requests and the proposed response. There have been no instances identified of information being shared contrary to the AISA.

Customer Satisfaction

Customer satisfaction of Inland Revenue's service delivery (all contact channels)

	2015–16		2016–17	
Customer group	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	**90%**	**78%**	**88%***	**75%***
Individuals (overall)	**88%**	**75%**	**87%**	**73%**
Working for Families Tax Credits	88%	75%	88%	77%
Child support	81%	63%	80%	64%
KiwiSaver (employees)	93%	81%	91%	80%
Student loan	90%	78%	90%	74%
Business (overall)	**92%**	**82%**	**88%***	**76%***
Small and medium enterprises	93%	84%	89%*	76%*
Large enterprises	93%	82%	90%	75%*
Tax agents	92%	80%	86%*	74%*
Not for profits	91%	79%	89%	77%

**Statistically significant decrease at 95% confidence level between 2015–16 and 2016–17.*

Customer satisfaction with our voice and correspondence channels

	2015–16		2016–17	
Customer group	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	**87%**	**72%**	**84%***	**69%***
Individuals (overall)	**86%**	**71%**	**84%**	**70%**
Working for Families Tax Credits	86%	73%	85%	74%
Child support	79%	59%	78%	62%
KiwiSaver (employees)	90%	78%	89%	77%
Student loan	89%	77%	87%	70%
Business (overall)	**88%**	**75%**	**84%***	**68%***
Small and medium enterprises	90%	77%	85%*	68%*
Large enterprises	88%	76%	84%	66%*
Tax agents	90%	77%	84%	71%
Not for profits	84%	66%	83%	66%

**Statistically significant decrease at 95% confidence level between 2015–16 and 2016–17.*

Customer satisfaction with our online services

Customer group	2015–16 Satisfied	2015–16 Very satisfied	2016–17 Satisfied	2016–17 Very satisfied
National results	**92%**	**81%**	**89%***	**77%***
Individuals (overall)	**90%**	**77%**	**89%**	**75%**
Working for Families Tax Credits	88%	75%	91%	80%
Child support	82%	67%	82%	65%
KiwiSaver (employees)	93%	81%	93%	81%
Student loan	92%	81%	90%	75%
Business (overall)	**94%**	**84%**	**90%***	**79%***
Small and medium enterprises	95%	86%	90%*	79%*
Large enterprises	96%	86%	93%	80%
Tax agents	91%	79%	84%*	74%
Not for profits	94%	85%	90%	81%

**Statistically significant decrease at 95% confidence level between 2015–16 and 2016–17.*

Full results from our Customer Satisfaction and Perceptions survey are on our website, www.ird.govt.nz/aboutir/reports/cust-survey.

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Presented to the House of Representatives pursuant to the Public Finance Act 1989 and the Tax Administration Act 1994.

This logo represents the way that we want to work with our customers to achieve our primary outcome of improving the economic and social wellbeing of New Zealanders.

The larger koru element reflects the environment and the support and guidance that we provide to our customers. The head of the koru meets the upward sweeping woven strands reflecting the relationships we have with our customers to help us understand their needs.

Our customers are represented by the inner inverted koru. They are the focus of all the work that we do.

The strands that form the base of the koru represent our work and the interwoven strands reflect the way we deliver our services through developing strong relationships, resources, knowledge, skills and capability.