Annual Report 2018

Inland Revenue
Te Tari Taake

ird.govt.nz

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.

OUR VALUES

Trust and integrity, Innovating to make a difference, Valuing people, Working together

What we want to achieve

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

It provides us with direction and keeps us focused throughout our transformation and beyond. It has six interconnected strands which are described below.

We want to keep our customers at the centre of everything we do. We are making tax simpler and easier to help our customers meet their obligations and receive the payments they are entitled to. We also collaborate with other agencies across government and other service providers to improve services to New Zealanders.

CUSTOMER

Putting the customer at the centre of everything we do.

PEOPLE

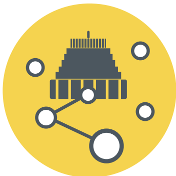
Working as part of Inland Revenue is unique, exciting, fulfilling, and career enhancing.

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.



POLICY AGILITY

Policy change is faster, cheaper and better–fit for a changing world.

DIGITAL

We fully embrace our place in the digitally connected world.

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.

The needs and wellbeing of New Zealanders are at the heart of what we do. We collaborate with others inside and outside government to deliver services that meet customers' needs and expectations.

We are the principal steward of New Zealand's revenue system. We have a critical role to play in maintaining and enhancing the integrity of the tax system by making sure the system is clear, consistent and simple. We provide advice to the Government on tax policy and the social policies that we administer. We also advise the Government on international tax issues and are involved in the development and implementation of New Zealand's international tax legislation.

WE COLLECT OVER

80%

of the Crown's revenue

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.**

Our customers are represented by the inner inverted koru. They are the focus of all the work that we do.

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.

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.

QUICK PRINT
Full report

QUICK PRINT
Our financial statements

Open file with Acrobat to use print functionality

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Inland Revenue
Te Tari Taake

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 our customer-centred business transformation, and she chairs our Strategic Governance Board.

Naomi has a Master of Arts in English Literature and Sociology from Glasgow University. She 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.

In 2016 Naomi won the Women of Influence Award for Public Policy.

Sharon Thompson

Deputy Commissioner, Customer and Compliance Services—Individuals

Sharon joined Inland Revenue in July 2017 and brings a depth of experience in leading change, building employee engagement and improving services for customers.

Her career in banking has included developing and leading strategic change within large customer-facing teams and implementation of digital strategies to lift customer engagement.

Sharon holds a Master's degree in Management, specialising in change management and strategy.

Sharon leads the Customer and Compliance Services—Individuals and has accountability for the outcomes of customers that sit in the Families, Individuals, Micro-business and Not for Profit segments. This group is focused on delivering targeted, efficient services that are seamless and convenient, along with education and services in the community.

Greg James

Deputy Commissioner, Transformation

Greg joined us in June 2013. He has a wealth of experience in transformation and change and has successfully led a number of large scale and complex transformation programmes. Greg 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.

Greg leads our Transformation group which is tasked with delivering our transformation programme.

Gaye Searancke

Deputy Commissioner, Customer and Compliance Services—Business

Gaye joined us in August 2017. She is an experienced senior leader in the public sector, having led a number of high profile system-wide programmes.

Before joining us, Gaye held roles in the Executive Leadership teams of the Accident Compensation Corporation and the Ministry of Business, Innovation and Employment. Gaye has also led Public Sector Legal teams, worked as a Crown Prosecutor and as Senior Counsel for the Commerce Commission.

Gaye has a Bachelor of Laws (Hons) from the University of Otago. She leads the Customer and Compliance Services—Business group. Gaye has strategic accountability for the outcomes of customers that sit in the Small-Medium Enterprises and Significant Enterprises segments, and for our operational legal function and External Relationships.

Cath Atkins

Deputy Commissioner, Policy and Strategy

Cath joined us in January 2017. She has over 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. Cath has a Masters in Economics.

Cath leads our Policy and Strategy group which provides advice to the Government on tax and social policy issues and which leads the development of our strategy.

Gary Baird

Chief Technology Officer

Gary joined us in April 2016. He has held executive positions at ANZ Bank and DHL leading large and complex technology environments and has significant experience leading teams through transformation and integration projects.

Gary holds a Bachelor of Commerce and Management.

Gary leads the Information Technology and Change group, who are proud to deliver trusted and reliable technology and digital business services to our customers and staff. He also chairs the Digital & Data Platforms Group as part of the Government Chief Digital Officer's Digital Government Partnership.

Mark Daldorf

Chief People Officer

Mark joined us in January 2016 after an extensive private sector career in senior Human Resources and Change Management roles. 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 Foodstuffs Auckland. Mark has worked internationally in companies across Australia, the Middle East and Asia including Emirates Airline, Westpac and Standard Chartered Bank. Mark holds a Masters in Business Administration.

Mark's role at Inland Revenue includes leading the People and Culture group, chairing the Organisation Development Committee and leading people aspects of the transformation programme.

Mike Cunnington

Deputy Commissioner, Information and Intelligence Services

Mike joined us in July 2013, bringing experience of leading customer-centred change in a range of organisations, in New Zealand and internationally. Before joining Inland Revenue Mike was Chief Marketing Officer for ANZ Bank and has held senior positions in marketing agencies in New Zealand and the UK.

Mike holds a Bachelor degree in Politics and is a Fellow of the Chartered Institute of Marketers.

Mike has led the work to develop a more customer-focused approach to compliance, build supportive customer strategies and develop our digital, data analytics and marketing capabilities. He is the chair of our Customer-centric Committee.

Martin Smith

Chief Tax Counsel

Martin joined us 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, he 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 was director of Taxation Research for Ernst and Young in New Zealand.

Martin holds an Honours degree in Law and a Master of Laws, a post-graduate Diploma in Financial Management, and a Master of Taxation Studies (with Honours).

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. Martin is the chair of our Technical Governance Committee.

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 role of Deputy Commissioner, Corporate Integrity and Assurance, she had several senior roles including 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. Mary has a Masters in Business Administration.

Mary leads our Corporate Integrity and Assurance group. This group brings together our Corporate Legal, Commercial and Procurement, Corporate Risk and Assurance, Stakeholder Relations, Privacy Officer, and Governance and Integrity Teams. Mary is the chair of our Portfolio Governance Committee.

Lara Ariell

Chief Financial Officer

Lara joined us in April 2016 bringing wide-ranging business performance and financial experience. Before joining us, she was the Deputy Chief Executive—Finance at the Tertiary Education Commission.

Lara is a Chartered Accountant and a member of Chartered Accountants Australia and New Zealand. She has a Bachelor of Business Studies.

Lara's role includes leading the Performance, Facilities and Finance group and chairing our Performance and Investment Committee. The Chief Financial Officer of Inland Revenue is a key finance position in the state sector finance community. As a key finance position this role is expected to enable a more system-focused approach to strategic management of Crown finances, supporting the work of the Chief Government Accountant (Head of Finance Profession) by contributing to and leading system initiatives that improve strategic financial management across the state sector.

Back / Mary Craig, Lara Ariell, Mark Daldorf, Martin Smith, Greg James, Mike Cunnington, Cath Atkins

Front / Sharon Thompson, Naomi Ferguson, Gaye Searancke, Gary Baird

We organise ourselves around our customers

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

Customer and Compliance Services—Business

Assists customers to work through complex tax arrangements and compliance issues.

Uses analytics, forensics and case management to target end-to-end services.

Fosters relationships with delivery partners to support service delivery.

Customer and Compliance Services—Individuals

Assists customers to seamlessly comply and access entitlements right from the start through delivering targeted and efficient services and communications.

Uses analytics and the understanding of lifecycle events to design end-to-end services that are increasingly automated and self-managed.

Corporate Integrity and Assurance

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

Information and Intelligence Services

Helps us keep customers' needs in mind, and use data and intelligence to help us understand and influence customer behaviour.

Information Technology and Change

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

The Office of the Chief Tax Counsel

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

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.

Policy and Strategy

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

Transformation

Ensures transformation is implemented successfully, including delivery of solutions, services and benefit enablers, managing costs within the approved funding and meeting committed timeframes.

Manages robust change processes to ensure stakeholders' needs are met and supports stakeholders to adopt new systems and processes.

During the year we changed our structure and the way we work, organising ourselves around customers rather than functions to bring our people closer to customers. In February 2018 we established three new business groups: Customer and Compliance Services—Individuals, Customer and Compliance Services—Business, and Information and Intelligence Services. At the time we established these groups we disestablished our Service Delivery and Information, Intelligence and Communications groups. See page 63 for more details on these changes.

We are located throughout New Zealand

WE CURRENTLY HAVE OVER

5,200 STAFF

KEY

- Contact centres – services provided on phones
- Front-of-house – services provided at our public offices
- Community compliance – services provided in person

BASED IN

17 TOWNS & CITIES

We provide services to a wide range of customers

We have a wide range of customers, including employees, employers, the self-employed, companies, not-for-profit organisations, trusts, Māori authorities, tax agents, parents, students, savers and investors. As well as all people earning money in New Zealand, our customers include people who live overseas but have tax affairs or social policy obligations here.

In the tax year ended March 2017[1]:

INDIVIDUALS

Nearly 3.5 million people paid pay-as-you-earn (PAYE) or filed a personal tax return.

EMPLOYERS

202,000 employers filed more than 2 million employer monthly schedules with pay-as-you-earn deductions for employees.

COMPANIES

377,628 company tax returns were filed.

GST FILERS

640,000 registered customers filed more than 3 million goods and services tax returns.

[1] 2018 figures not available at time of publication.

In the 2017–18 financial year, we also managed or shared the administration of:

WORKING FOR FAMILIES TAX CREDITS

With the Ministry of Social Development we distributed $2.2 billion in entitlements to support working families.

CHILD SUPPORT

We collected $473 million from more than 164,000 parents who pay child support. We distributed $287 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 $6.0 billion to scheme providers. As at 30 June 2018 there were 2.9 million people enrolled in KiwiSaver.

STUDENT LOANS

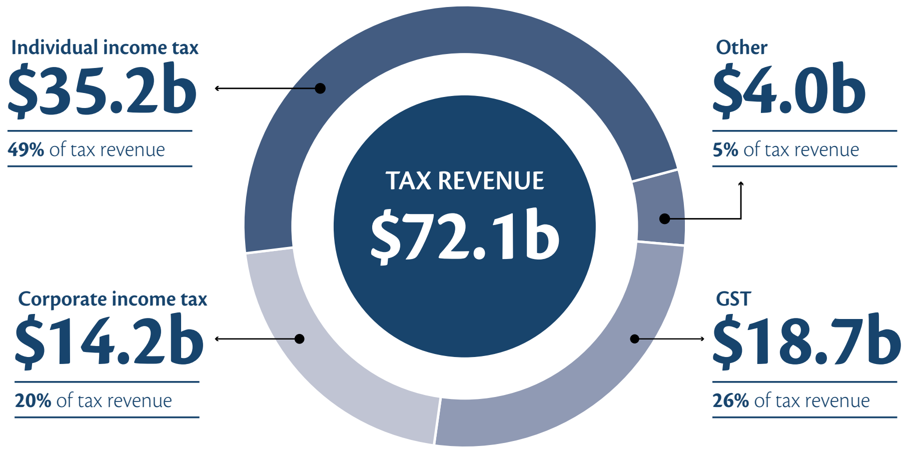
We jointly administer this programme with the Ministries of Education and Social Development (StudyLink). We had 719,000 student loan customers and collected more than $1.3 billion in repayments.

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 $288 million in payments to 41,927 parents.

All New Zealanders benefit from tax

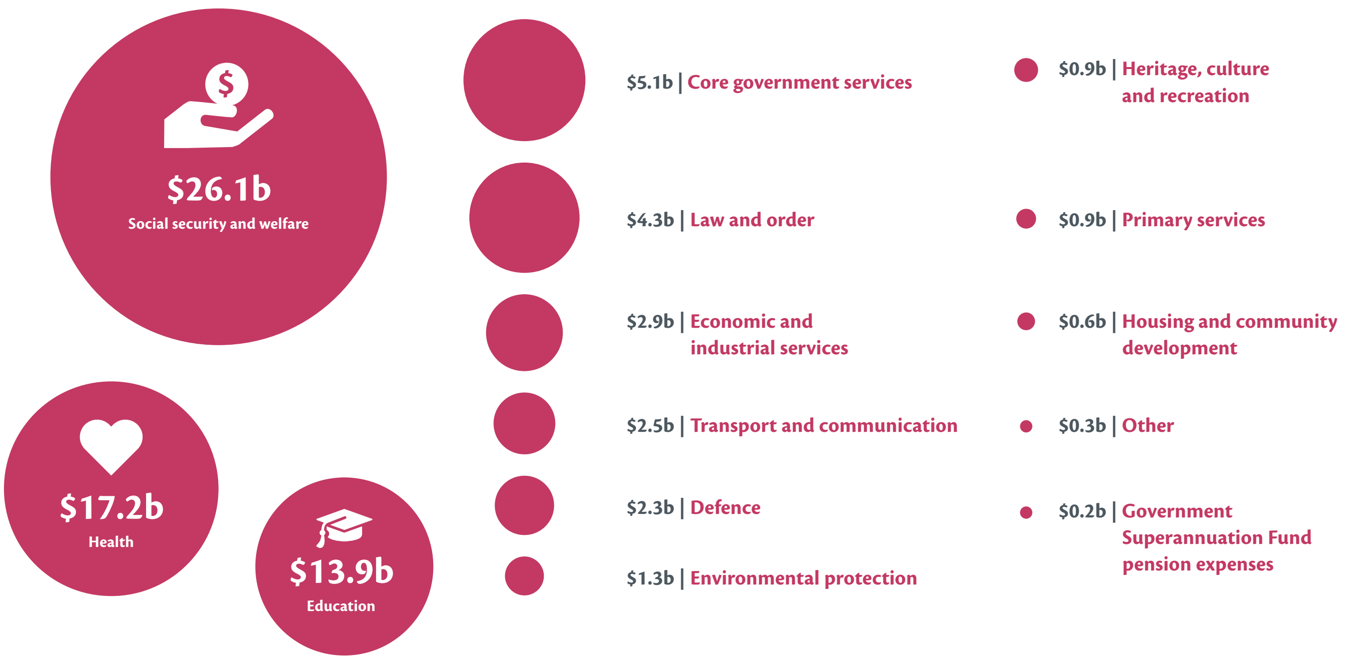
The money we collect helps pay for the public services all New Zealanders benefit from, such as education, roads and healthcare. One of our responsibilities is to make sure government has funding for these essential services.



In 2017–18 we collected $73.0 billion of revenue to help fund government programmes.

We collected $72.1 billion of tax revenue. Direct (or income) taxation, for example individuals' income tax or corporate income tax, accounts for 69% of tax revenue. GST accounts for 26%. For full details refer to pages 176 to 177.

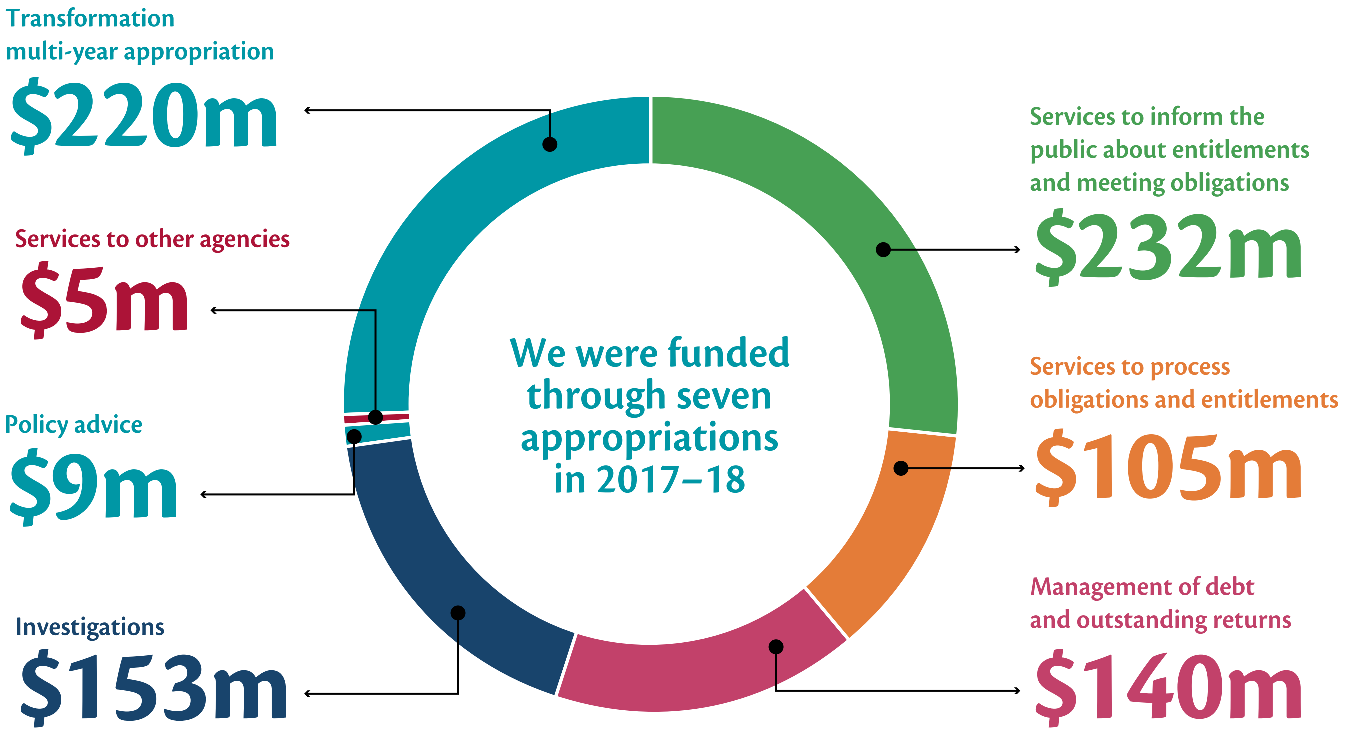
In 2017–18 the Government expected to spend in the following areas:



For full details see https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2018-html

We deliver our services through funding received from the Government

Each year we receive funding from the Government to deliver specific services. This funding is called an appropriation. Our total funding for 2017–18 was $864.6 million.



An appropriation is a parliamentary authorisation for the Government or an Office of Parliament to incur expenses or capital expenditure. Expenditure can only be incurred under an appropriation or other statutory authority.

A word from the Commissioner

E ngā mana, e ngā reo, tēnā koutou katoa

Inland Revenue plays a unique role in making New Zealand a great place to live, work and raise a family. It is important that we are ready to play this role in a changing world. We are undertaking our transformation programme to help us to do this. We want to ensure that tax is more simple, open and certain for our customers and that we have the capabilities we need to be able to meet their needs.

This has been a significant year for us as we took the next steps in our transformation journey. It has been another busy and at times challenging year for us, but overall we have performed well and continued to deliver strong results. As I look back over the year I am once again proud of what our people and our organisation have achieved, as we work hard for our customers and continue to successfully implement our transformation programme.

Making it easier for customers

Our transformation continues to affect nearly every part of how we work to deliver a modern, agile revenue system focused on delivering for our customers.

In April this year we took another step forward when we successfully implemented the second phase of our transformation. This resulted in additional tax products becoming part of our new system and approximately 30% of tax revenue is now being fully managed in our new system START. We have further enhanced our customers' online experience, and some taxes such as fringe benefit tax can now be managed online for the first time. We are already delivering benefits for our customers and for Inland Revenue.

Since moving all GST transactions into our new system in early 2017, the effort required by customers to meet their GST obligations has reduced. By the end of June 2018, 86% of customers filed their returns electronically, up 7% on the previous year. I am pleased to say that customers are telling us it takes 10 hours less a year to meet their GST obligations.

Our people, our organisation

Over the last year we took a significant step in changing our organisation. Our new customer-focused organisational model went live in February with three new business groups. We transitioned more than 4,000 people into new roles and teams. As part of this we made major changes to the way we work, redesigning the roles of our frontline staff. This was a challenging time for our organisation and the change was harder than we anticipated for many of our people.

We have empowered our people to better help customers by taking more decisions without referring these to other parts of the organisation, resulting in faster service and decisions for customers. Our people are enjoying being able to work end-to-end to resolve issues, and our customers appreciate having their query dealt with by one person, rather than having to deal with many.

Facing the challenges of meeting customer demand

Meeting customer demand during the peak filing period from April to July each year is always challenging. This year we experienced some issues with our online services in June, including myIR. There were times when the online services were not available and when customers struggled to use the service to confirm their Personal Tax Summaries and file their GST returns, which was frustrating for them.

We acknowledged these issues publicly, apologised to our customers, identified the issues and worked through them. We continue to learn from every situation, so that we can do things differently to minimise disruption and frustration for our customers and our people.

Working with other organisations

To be able to fully meet our customers' needs we work with many different organisations, both in New Zealand and internationally. This includes sharing information and data, developing and improving services, streamlining processes and delivering policy.

We supported the new Government and responded to their priorities by providing policy advice and working with other agencies to design and implement these policies, including fees-free tertiary education and Best Start. I am particularly proud of our work with the Department of Internal Affairs and the Ministry of Social Development to support and introduce the Government's Best Start initiative, which resulted in up to $60 of weekly payment for families with new babies.

Looking ahead

The Government continues to support our transformation. I'm excited about the year ahead, as we prepare to implement the biggest change for individual customers in nearly 20 years, in April 2019. This is where our vision of helping people and business get their taxes right from the start, with less effort, will become even more of a reality.

The Tax Working Group will be releasing its recommendations during the coming year and the recommendations that come from the Welfare Expert Advisory Group may also impact on our work. We will work through any changes required.

Change is rarely easy and there will always be challenges. We are using what we learned and applying this to how we do things in the future for our customers and our people. I am confident that with each of the changes we will move closer to delivering a world-class revenue system for all New Zealanders.

Kia tau ngā manaakitanga ki a koutou katoa

Naomi Ferguson

Naomi Ferguson | Commissioner of Inland Revenue

Our highlights

We collected

$73.0

BILLION

in revenue to help fund government programmes. This is an increase of $2.9 billion from the $70.1 billion collected last year.

We paid

$3.3

BILLION

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

We achieved

43

of our 50 service performance targets.

New

online services

are available for withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty.

Our three new

business groups

started operating in February 2018.

Our people are working

differently

—customer-facing teams are now more empowered to make decisions when they are helping customers.

We helped establish the new

Best Start

payment working with the Department of Internal Affairs using SmartStart.

We were part of two winning teams in cross-government nominations in the 2018 Institute of Public Administration New Zealand Public Sector Excellence Awards.

We won the award for 'Most Effective Recovery' at the Business Continuity Institute 2017 Australasian Awards.

Our 2017 annual report won a gold award in the 2018 Australasian Reporting Awards.

Child Support debt is down

17%

from last year.

We successfully implemented

Release 2

of our Transformation on 17 April 2018.

UPTAKE FOR NEW CHANGES EMBEDDED THROUGH RELEASE 2

More than

1,100

customers have used the new Accounting Income Method to file their provisional tax.

Independent reviews of the progress we are making with our transformation completed by Gateway reviewers and KPMG were

positive.

We implemented

new rules

to counter base erosion and profit shifting through the Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 which became law on 27 June 2018.

Over

500

employers have filed more than 3,000 payday returns.

83%

of returns were filed electronically, up from 78% in 2016–17.

More than

500,000

employer monthly schedules have been filed in START, containing more than 10 million items of employee data.

We are operating in a changing environment

We need to understand our operating environment and explore how it could change in the future. We evaluate our environment to identify existing and emerging trends, risks and opportunities. This allows us to be responsive and build resilience, ensuring sustainable and successful delivery of our services and the achievement of our mission, vision and outcomes.

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

EMPOWERED INDIVIDUALS

People connecting directly with each other instead of through institutions.

DISRUPTIVE TECHNOLOGY

Advances in technology that are changing business models, how whole sectors operate and the type of company that is dominating certain sectors.

MATURING DIGITAL ECOSYSTEM

The 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; ethnicity and cultural changes in society.

POWER SHIFT

The rise of the east as an economic power.

CLIMATE CHANGE

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

URBANISATION

Cities driving economic growth and how urban centres are evolving.

Our research and analysis indicates these drivers of change have remained the most relevant for us over several years. We check the relevance of what is likely to drive change for us on a regular basis.

Our story 2018

We have had a busy, challenging year. We made significant changes to our organisation and ways of working, as well as moving more of our services to our new technology platform. This was an exciting time of change for us, and we continued to perform successfully and deliver services to New Zealanders.

Our people were challenged by learning to use the new system, while continuing to operate the old and new systems in parallel. Our customers are also getting familiar with our new system and processes. This had an effect on our performance, but we worked hard to maintain our customer service levels through this time.

We implemented Release 2 of our transformation

We are transforming New Zealand's revenue system in four broad stages—digital services, tax, social policy and a final wrap up—in a series of releases.

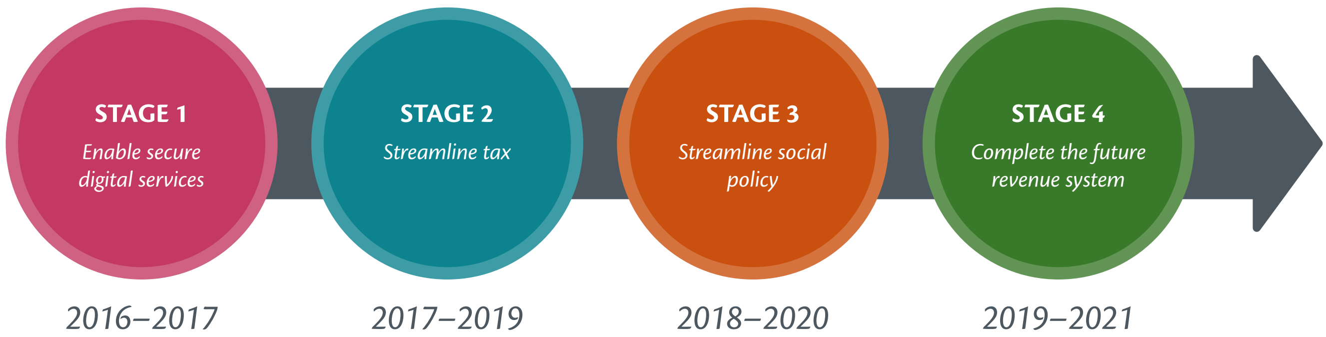
The first two releases have been successfully implemented and are delivering benefits for customers. Stage 1—in February 2017—moved GST to our new systems and processes. Release 2, requiring a larger transfer of data, happened in April 2018, with our services briefly closing for four days to move more tax types to the new system and to introduce new options for customers. Achieving this was a significant milestone for us.

Our customers and our people both needed support to work in the new system. This is not unexpected, given the nature and extent of the changes we are making. We communicated earlier and more often with businesses and tax agents about what the changes in Release 2 would mean for them. We also provided our people with more targeted training before and after Release 2 went live and with more intensive technical support after the system was up and running. We believe the changes we are making will be positive for our customers but the extended period of change continues to affect their experience.

Transformation is about more than technology

In February 2018 more than 4,000 of our people moved into three new business groups: Customer and Compliance Services—Individuals, Customer and Compliance Services—Business, and Information and Intelligence Services. Though we had resources in place to support our people through this change, many people did not feel the process was managed successfully and that they had the information and support they needed. We commissioned a review of the implementation of the organisational change, and are committed to learning from this.

Our new structure is underpinned by changes to the way we work. We raised monetary delegation levels and introduced devolved decision making to staff working directly with customers. Previously, many of these decisions had to be referred to team leaders or managers. Now our staff can support our customers and provide them with more services at once.



We work with other organisations to help customers

Cross-government services like SmartStart and Te Hokinga ā Wairua base government support around New Zealanders' needs rather than agencies' processes. This year we implemented the new Best Start payment to new parents through SmartStart, which is already being used by most new parents. By sharing information with other agencies, we make sure that people receive the payments they are entitled to.

We also work with other tax agencies across the world to improve tax compliance from multinational companies. We are implementing the Common Reporting Standard to exchange financial account data with other tax agencies.

There have been a number of challenges

We faced some challenges during the year and this had an effect on our services to customers. In June, technical problems meant that our secure online services, myIR, were not available to some customers, and other customers found that logging in took too long. Though this was not related to Release 2, it was a significant issue to deal with when our people and customers were still getting used to new systems and processes. The interruptions to online services led to more phone calls, many of which we were unable to answer, and more complaints than at the same time in previous years.

Looking forward

In 2018–19 we will continue to make changes and to meet the challenges that these bring. Release 3 will move the remaining tax types into START. The changes to how individuals interact with the tax system will be the largest in more than 20 years and will mean that about 750,000 tax refunds will be automatically generated for wage and salary earners who do not usually apply to get their overpayments refunded. Payday filing of employee income information will become compulsory for businesses from 1 April 2019. Preparation for these significant changes is well underway, and we will continue to test our readiness and have our transformation reviewed externally.

We will continue to change the way we work in 2018–19 and we will introduce further system and process change with our new enterprise support system. Our new ways of working will become more embedded and our people will be using their skills to make the best decisions for customers more quickly. Our people will have the opportunity to develop their capabilities to help them continue to serve customers in agile ways that meet customers' needs.

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

WHAT WE WANT TO ACHIEVE

Our Strategy

Our long-term approach to creating value and better outcomes for New Zealanders

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.

WHAT WE ARE HERE FOR

Our Mission

We 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 98 to 101.)

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

PROGRESS IS TRACKED THROUGH **OUR IMPACTS** (Impact Measures are on pages 102 to 108.)

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

OUR OUTPUTS ARE WHAT WE DELIVER TO CUSTOMERS AND STAKEHOLDERS (Output Measures are on pages 109 to 127.)

WHAT WE WANT TO BE

Our Vision

A world-class revenue organisation recognised for service and excellence

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

Our business is run efficiently and effectively

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

Our workforce is highly skilled, motivated and diverse

To find out more refer to the following sections of the **ANNUAL REPORT**

Making it easier

Supporting compliance

Supporting our people

Our governance and management

How we performed

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 delivering our outcomes

Our outcomes are the long-term results we want to achieve to make sure we contribute to the economic and social wellbeing of New Zealand by collecting and distributing money. Our outcome measures help us understand our performance in delivering our outcomes.

OUR OUTCOMES	OUR PERFORMANCE
Revenue is available to fund government programmes through people meeting payment obligations of their own accord	**More revenue** assessed compared to forecast and **87.9%** of tax payments made by customers on time
People receive **payments** they are entitled to, enabling them to participate in society	**Improved timeliness** of payments and refunds made to customers
New Zealanders benefit economically and socially through Inland Revenue **working collaboratively** across our external environment	**Benefit** delivered for services around life events and **worked collaboratively** with other agencies to deliver new services

Overall, in 2017–18 we improved our performance. Of eight measures that have numerical results, our performance improved on last year for five. More customers are receiving the payments they are entitled to when they should. Our collaboration with other agencies is helping customers navigate their rights and obligations around life events more easily, and businesses are finding it costs less and takes less effort to deal with government.

Full details on our performance against our outcomes are on pages 98 to 101.

We track our progress through the impacts we want to make

Our impact statements outline the difference we want to make to help achieve our mission. Our impact measures help us understand our performance in these areas. They show us that customers are still getting familiar with our new system and processes and that issues with access to our online services have flow-on effects.

We also have integrity measures to help us understand the level of trust and confidence people have in us. These measures have improved over the last year, which means more customers have trust and confidence in us.

IMPACT STATEMENTS	OUR PERFORMANCE
Customers have **easy access** to our services	**86.6%** of customers are **satisfied** with overall accessibility and convenience—less than last year
Customer effort is reduced over time	• **82.1%** of customers find it easy to comply—less than last year • Customers spent **less time** on tax compliance
Customers **get it right** from the start	• **79.5%** of customers perceive that Inland Revenue makes it easy for them to get it right • **More** customers filed their GST directly through their software packages
We use **information and insight** to improve potential future revenue	We took a **proactive approach** on how we communicate with customers to improve compliance
Our business is run efficiently and effectively	**Consistent results** achieved on how effectively and efficiently we are running our business
The **policy change** process is of high quality, fast and cost-effective	We self-assessed our **policy capability** and have identified key capabilities that we aspire to have
We **collaborate** with other agencies and the private sector both domestically and internationally to create cost and/or productivity savings	We continue to **collaborate and share information** with other agencies to make a difference to New Zealanders
Our workforce is highly skilled, motivated and diverse	• Staff engagement is **27%**, 17% lower than the previous survey in 2015 • We have introduced a range of tools to help people understand and develop across our **12 people capabilities**
We protect the **integrity** of the tax system, and our stakeholders and the public have trust and confidence in us	• **88.6%** of customers have **trust and confidence** in Inland Revenue • **Increased** Public Sector Reputation Index score

Full details on our performance against our impact measures are on pages 102 to 108.

We track our performance against output targets for the services we provide

Our outputs demonstrate services to customers, government, other agencies and progress of our transformation. Each year we receive funding from the Government to deliver these services. We agree with the Government how we will use our funding and how we will measure our performance. We measure our performance through output measures and we have targets for each measure.

We achieved 43 out of 50 output performance targets compared to 45 out of 52 last year

43/50 ACHIEVED

Services to inform the public about entitlements and meeting obligations	8/12 ACHIEVED
Policy advice	3/3 ACHIEVED
Services to process obligations and entitlements	13/14 ACHIEVED
Services to other agencies	2/2 ACHIEVED
Management of **debt and outstanding returns**	10/11 ACHIEVED
Transformation	3/4 ACHIEVED
Investigations	4/4 ACHIEVED

We achieved 43 of 50 of our performance targets. The extended period of change for our customers while we introduce new systems and processes continues to affect our customers' experience. We expect that in the longer term, the changes we are making will be positive for our customers and improve our performance. However, there are challenges to our performance during the period of change, which have affected customer satisfaction and ease of compliance.

In the Services to inform area, our performance in answering customers' phone calls within two minutes has decreased on last year. Some of the fall is a result of the problems with our online services in June, which led to more customers calling us. Many customers were also unsure after the changes in Release 2 and called us to confirm that they were doing the right thing. As customers become more confident in the new system, these contacts will decrease.

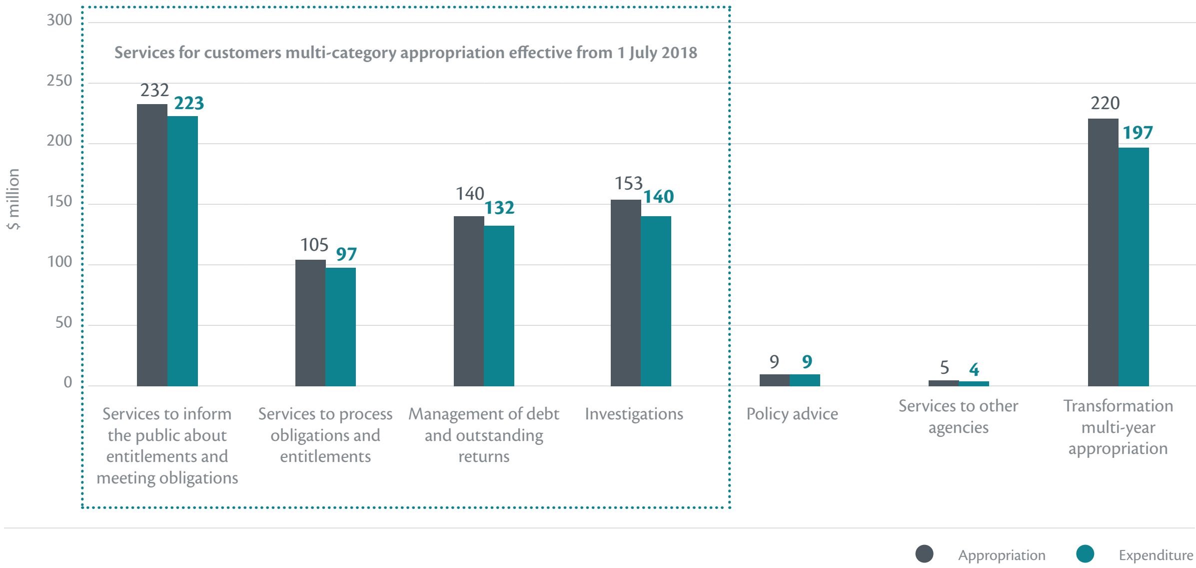
We applied lessons learnt from GST go-live in February 2017 and decided to implement the rest of our transformation progressively in a series of releases from 2018 to 2021. This minimises the impact of working across two systems and reduces the amount of the disruption for our customers and our people. We will complete the migration of tax products to START with Release 3 in April 2019. This meant we missed our transformation milestone target to migrate all tax products to the new tax system by 30 April 2018.

Full details on our performance against our output measures are on pages 109 to 127.

We managed our finances well and finished the year within all appropriations

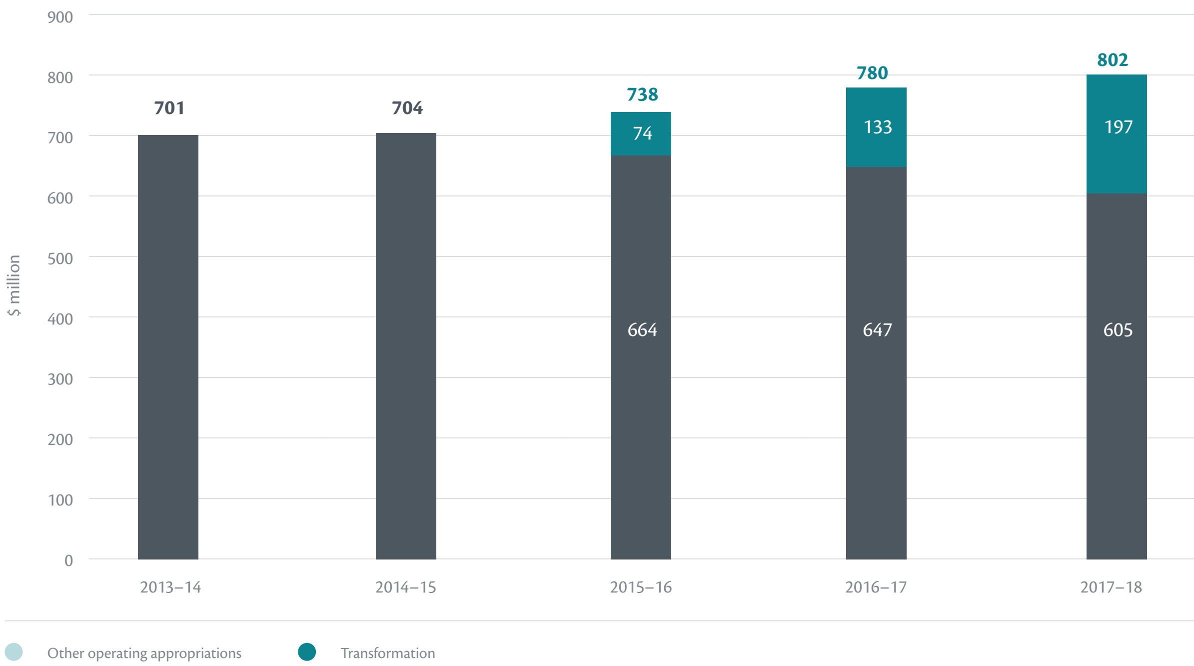
In 2017–18, our total spend against our operating appropriations was $802 million. *Services to inform the public about entitlements and meeting obligations* continued to be our biggest spend, followed by our *Transformation multi-year appropriation*. Some transformation activities and the associated funding have been shifted to future years to align with our delivery approach. This allows us to change the way we deliver our services and minimises the impact on our customers.

BREAK DOWN OF 2017–18 EXPENDITURE AGAINST OPERATING APPROPRIATIONS



Over the past five years, our total spend has increased by $101 million as we deliver business transformation. While our spend against other operating appropriations dropped over the same time, we continued to perform successfully and deliver our services to New Zealanders.

OPERATING EXPENDITURE FROM 2013–2014 TO 2017–18



Transformation multi-year appropriation

We received approval from the Ministers of Finance and Revenue in March 2017 for a multi-year appropriation for business transformation activity, effective from 1 July 2017 until 30 June 2021. Transformation is a complex multi-year programme. A multi-year appropriation provides us with the flexibility to manage our finances to achieve our overall goals.

Services for customers multi-category appropriation

In February 2018 the Ministers of Finance and Revenue approved a multi-category appropriation for our customer-centric services. This will be effective from 1 July 2018 and changes the number of our appropriations to four.

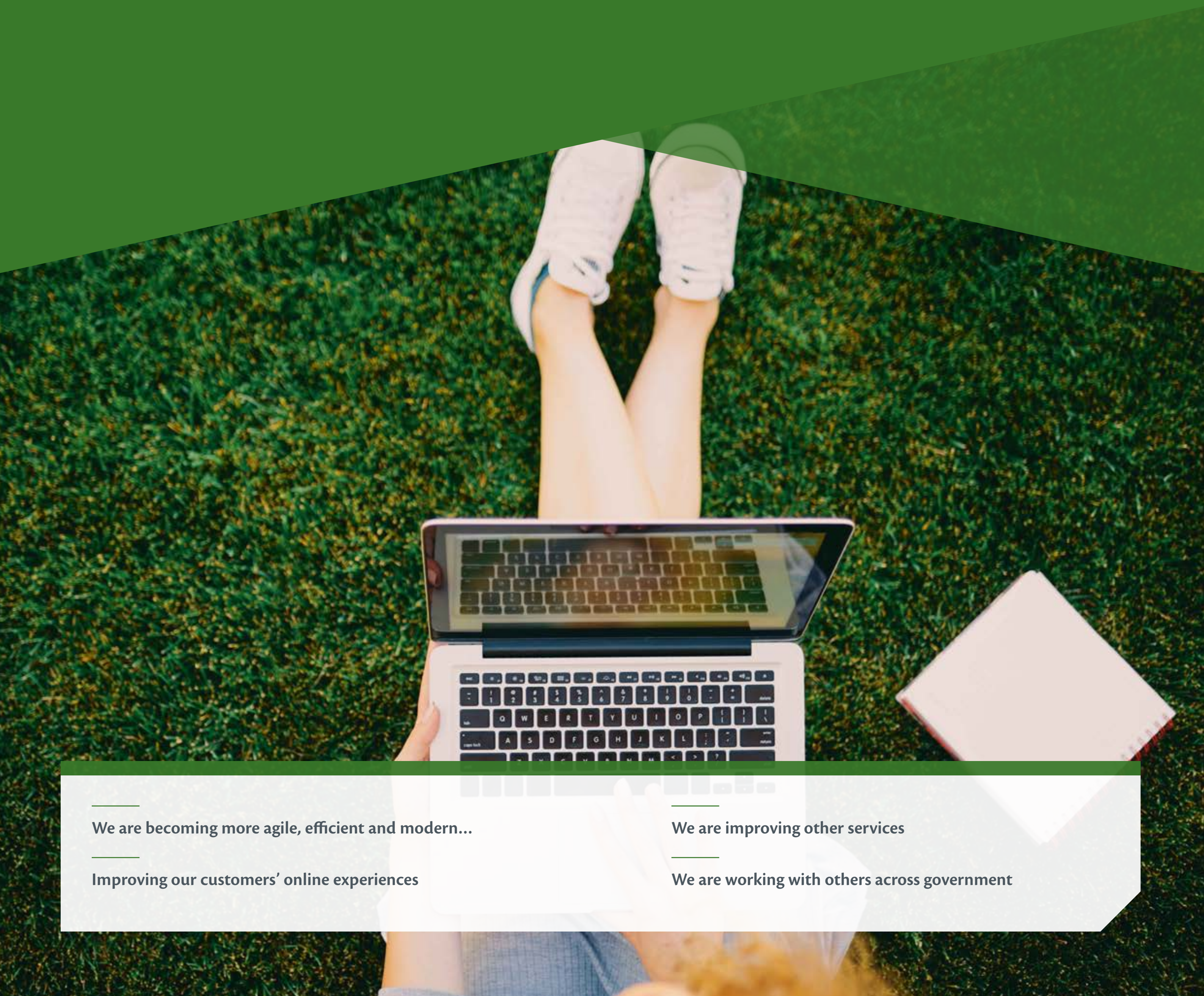
PREVIOUS APPROPRIATION STRUCTURE	NEW APPROPRIATION STRUCTURE
1. Services to inform the public about entitlements and meeting obligations 2. Services to process obligations and entitlements 3. Management of debt and outstanding returns 4. Investigations	1. Services for customers multi-category appropriation a. Services to inform the public about entitlements and meeting obligations b. Services to process obligations and entitlements c. Management of debt and outstanding returns d. Investigations
5. Policy advice 6. Services to other agencies 7. Transformation multi-year appropriation	2. Policy advice 3. Services to other agencies 4. Transformation multi-year appropriation

This multi-category appropriation aligns strongly with what we are aiming to achieve through transformation. We will be customer-centric, intelligence-led and agile in the delivery of integrated and end-to-end services to New Zealanders.

Making it easier

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 are changing our organisation to be more customer-centric and empowering our people to make confident decisions.

We will keep learning and making improvements as we transform by being open to feedback and consulting with our customers and our people. We will create a system that lets people manage their own tax and social policy entitlements and feel certain they are getting things right.



We are becoming more agile, efficient and modern...

We are improving other services

Improving our customers' online experiences

We are working with others across government

At a glance...

Small and medium-sized businesses are spending
less time
on tax compliance

New
online services
are available for withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty

More than
500,000
employer monthly schedules have been filed in START, containing more than 10 million items of employee data

Provisional Tax

More than
1,100 customers
have used the new Accounting Income Method, providing a pay-as-you-go option for small businesses

We introduced voluntary
payday filing
for employers, with just over 500 customers filing 3,000 payday returns by end of June 2018

We
communicated more
with our stakeholders and involved our customers in the preparation for Release 2

Our people had better
support
before and after Release 2 implementation

Working with other agencies, we helped to quickly introduce
Best Start
payments for families with new babies

We
shared
more information with other agencies to help customers

We implemented
Automatic Exchange of Information
with international tax treaty partners to help combat global tax evasion

We successfully implemented
Release 2
of our transformation

Our
homepage
is faster after a redesign

We are becoming more agile, efficient and modern...

On 12 April 2018 New Zealand's revenue system was briefly closed while over one million accounts were transferred to a new system. Rigorous testing, meticulous planning and effective teamwork during the cut-over ensured a seamless transfer. We opened to customers again on 17 April 2018 as planned. We had achieved our second major transformation release.

Our transformation is more than an upgrade of technology. It is an overhaul of the revenue system. Changes to policy, process, technology and our organisation design are transforming the revenue system and delivering on our outcomes.

Our transformation will make us more:

> Agile
> Effective
> Efficient
> Responsive.

Once we have finished our transformation programme, customers will manage their tax obligations with speed and certainty and the Government will have greater ability to make policy changes faster and more cost-effectively.

...as we transform New Zealand's revenue system

The transformation programme has four overlapping stages.

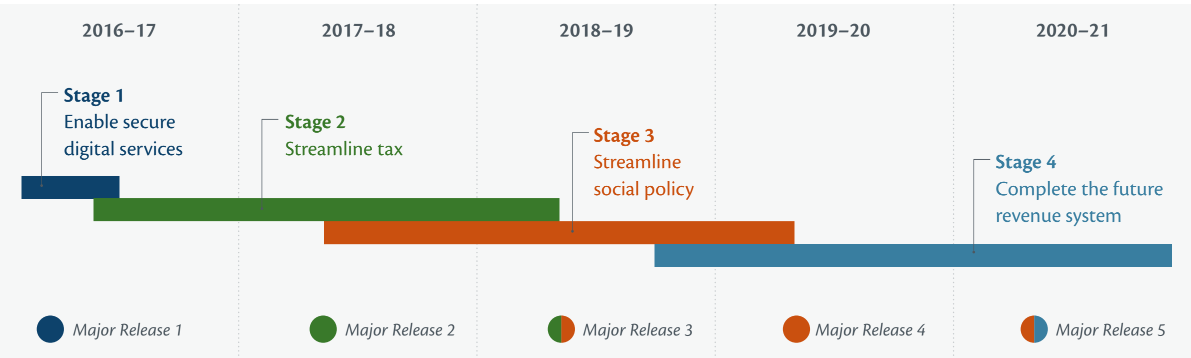
Stage 1 was about enabling digital services and was completed in February 2017 when we moved GST services from our previous technology system, FIRST, to our new system, a commercial off-the-shelf software package from FAST Enterprises that we call START (Simplified Tax and Revenue Technology).

Stage 2 is in progress and is about streamlining our tax system. To minimise the risk of working across two systems and potential disruption for our customers, from Stage 1 we have adopted a release-based approach. This means that we are migrating tax and social policy products to START in smaller steps. Stage 2 has two major releases—Release 2 was delivered in April 2018 and Release 3 is planned for April 2019. Release 2 involved migrating withholding taxes to new systems and processes and starting collection of income information in START. Release 3 completes the migration of income tax, and includes Working for Families.

Stage 3 is about streamlining social policy and overlaps with Stage 2 and 4. Stage 4 will complete the delivery of a future revenue system taking us through to 2021.

Our modern revenue system will mean customers will need far less time and effort to meet their obligations and receive their entitlements. Tax will be correctly deducted and assistance will be provided when it is needed. Together, this will contribute to a more productive, sustainable and inclusive society and economy and support the wellbeing of New Zealanders and their families.

FIGURE 1: NEW ZEALAND'S REVENUE SYSTEM IS BEING TRANSFORMED IN FOUR STAGES



Positive stakeholder satisfaction results

Some of our biggest stakeholders gave positive feedback on the way we handled the changes to GST in Stage 1 of our transformation and on how much time they are needing to spend on tax compliance.

The results of the annual Inland Revenue satisfaction survey carried out by Chartered Accountants Australia and New Zealand (CA ANZ) and Tax Management NZ were presented at the CA ANZ conference in Auckland in November 2017.

Of the 416 tax professionals who responded to the survey 78% rated their experience with us positively:

> 4% excellent
> 31% very good
> 43% good.

Survey respondents were most positive about their interactions with us for general information (85%), followed by processing (77%) and tax audits (74%). 69% rated their phone calls with us good or better but noted issues around call wait times and getting consistent information. 96% of the survey respondents considered themselves well aware of the changes that would happen when Release 2 was delivered.

Our survey of the time that small and medium-sized businesses spend on tax compliance activities was released in 2017. It showed that the median time spent had reduced to 27 hours per year, down from 36 hours the previous year. For more information on this survey see page 103.

Release 2 was completed in April 2018

On 17 April 2018 changes to streamline business taxes were implemented. This second major change, known as Release 2, means that it is now easier for customers to meet their obligations for a wider range of taxes, such as withholding taxes, fringe benefit tax, gaming machine duty and portfolio investment entity returns. Now around 30% of all revenue is being fully managed in the new START system. For the products that have migrated to START customers can for the first time:

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

Reporting of employee PAYE information every payday instead of monthly is now an option for employers and will become compulsory from April 2019.

Release 2 also implemented legislative changes. The Accounting Income Method (AIM) option makes it possible for smaller businesses to align their provisional tax payments with what they have earned, and the Automatic Exchange of Information (AEOI) to share information with international tax treaty partners. Financial institutions began reporting financial information for non-residents on 30 June 2018. These new products are early examples of a more resilient and sustainable system that enables enhanced policy agility.

FIGURE 2: RELEASE 2 PRODUCTS

TAX PRODUCTS AND OTHER INFORMATION

Withholding taxes
> Approved Issuer Levy
> Resident Withholding Tax
> Resident Withholding Tax on Dividends
> Resident Withholding Tax on Interest
> Non-Resident Withholding Tax
> Resident Land Withholding Tax
> Interest PAYE Exempt Receipts
> Portfolio Investment Entity

Fringe Benefit Tax
> Fringe Benefit – Annual Return
> Fringe Benefit – Income Year
> Fringe Benefit Tax

Gaming Machine Duty
> Gaming Machine Duty
> Problem Gambling Levy
> GST on Problem Gambling Levy

Payroll subsidy

Employment Information in START

KEY LEGISLATIVE CHANGES

The Accounting Income Method (AIM)

Payday filing of employment information

Automatic Exchange of Information (AEOI):
> Common Reporting Standard (CRS) and Foreign Account Tax Compliance Act (FATCA)

CASE STUDY

Go-live weekend

Cutover weekend for Release 2 started at 4pm on Thursday 12 April 2018 and ran until 8am on Tuesday 17 April 2018. People from 18 other organisations including Deloitte, Accenture, Spark, Vodafone and Xero joined a team of more than 220 of our people to work around the clock in shifts over the four days.

START Release 2 Deployment Manager, Luke Collier, says the team was pretty confident that things would go to plan, following indepth preparation for the big event.

"We ran three dress rehearsals called mock go-lives ahead of the actual go-live weekend, involving all of the team members. These mock go-lives meant we were able to make changes and refine processes, and address any major issues. This included making sure things were in the right sequence and that we had enough time to get them done, as well as allow for inevitable issues. Following the final mock go-live we knew that we had a solid plan but, more importantly, a team who knew what they were doing and could successfully deal with the unexpected," said Luke.

The planning and effort required to undertake Release 2 was more complex than the first release in February 2017, particularly because there were two live production systems—FIRST and START—to manage over a four-day close down.

"The focus of the weekend involved closing our services to customers, transferring data from FIRST to START and completing validation checks before opening up again. This included making more than 1,000 changes in 27 different systems, including FIRST and START," said Luke.

The team worked hard and stayed committed and calm during the weekend. They were well supported by their peers who looked after their wellbeing and made sure they were fed and hydrated. Reports suggested that amongst other food the team also consumed 36 pizzas and 18 packets of biscuits over the four days. *"An important part of the planning and support"*, said Commissioner Naomi Ferguson, *"was ensuring that the pizzas arrived at the right time and that we had some healthier options on hand too, so lots of fruit to munch on through the night."*

By the time we reopened for business on the Tuesday we had migrated and verified:

187,826 employers

3.8 million employee line items

13 million returns

1 million tax type accounts

$18 billion of payments history

Our hard work over the cutover weekend was praised by a number of key stakeholders. This included the Minister of Revenue, Hon Stuart Nash and State Services Commissioner, Peter Hughes who shared the following with our Commissioner Naomi Ferguson:

"That's fantastic Naomi. Absolutely fantastic! And reflects a huge amount of hard work and extra effort on the part of your team."

Customers are coming on board with the changes

By the end of June 2018:

- approximately 3,000 payday returns had been filed by just over 500 employers
- more than 30,000 withholding tax and fringe benefit tax returns had been filed
- more than 500,000 employer monthly schedules had been filed, containing more than 10 million items of employee data
- just over 1,100 customers were using the accounting income method to file their provisional tax returns
- more than 700 Automatic Exchange of Information registrations had been received.

Our customers benefit from payday reporting

Payday reporting has been available since 1 April 2018. It means employers and payroll intermediaries can send us information on employees' incomes every payday instead of monthly, which is more effective for them and saves time, especially if they file direct from their payroll software.

The changes will mean we receive more timely and accurate information for calculating customers' tax and entitlements. This will give families more certainty about the support they are entitled to and what their payment obligations are.

To prepare for the changes we met representatives from 20 different companies in the software industry in New Zealand and Australia in August 2017. We are continuing to work with payroll providers to build, test and implement payday reporting before it becomes compulsory from 1 April 2019.

Small businesses have another option for provisional tax

Small businesses with turnover of less than $5 million a year can now work out their provisional tax using the Accounting Income Method (AIM).

Until we introduced AIM as part of Release 2, businesses could only pay provisional tax at set times of the year, regardless of when they earned their income. AIM means small businesses can:

- pay smaller amounts of provisional tax more often
- get refunds of overpaid provisional tax during the year
- avoid paying interest or penalties provided they pay what their software tells them to, on time
- have their provisional tax calculations done for them by their software
- have their information sent to us by their software, with no extra steps needed.

By 30 June 2018 more than 1,100 of our customers were using the Accounting Income Method. Initial analysis shows that the main adopters are from the building, plumbing, electrical, automotive servicing, general practitioner, café and restaurant sectors. These are the groups we had expected would be best suited to the Accounting Income Method. Some accounting firms have also chosen to use AIM this year. We expect the use of AIM to grow steadily over time. We are listening to feedback and continuing to improve the AIM experience as we go.

International exchange of information with global partners

We now have the technology required to enable the exchange of information about foreign tax residents with domestic financial institutions and global partners as part of the Automatic Exchange of Information initiative. Refer to page 59 in the *Supporting compliance* section for further details.

Our customers helped us in the lead up to Release 2

We applied the lessons learned from implementing our GST changes as we planned for Release 2. We communicated more with stakeholders, involved customers more in design and used a more structured approach to support customers and our people immediately after go-live.

Customer testing made a difference

We provided opportunities for a range of customers to validate the design of new services throughout the design process. Our customers were involved in testing to make sure we made their myIR user experience as easy as possible. We focused on the look, layout, navigation and language used in myIR.

We used a testing process called usability testing, where a customer is given an online task to complete. This one-on-one testing involves a customer and a facilitator, who helps to guide the session and drill down into any issues raised.

Where possible we worked to incorporate all recommended usability changes ahead of go-live. However, some changes will be made after Release 2. For example, for Release 2 we planned to remove the existing ir-File option and have employers file their employer monthly schedule (EMS) through the My business tab in myIR. However, customer testing showed that this change would mean an inferior experience for customers so we decided not to make this change in Release 2. We are looking at the process and propose to make these changes in a way that improves the customer experience through Release 3.

We will keep involving customers during Release 3. They will validate designs during the definition and design phase and will be involved in testing during the development, testing and production phases.

How tax agents helped us prepare

As part of preparation for Release 2, tax agents from a range of businesses joined us to help test the new system and co-design some parts of it. They told us what they were finding difficult and why, and helped give us a better understanding of what works.

"It has been great to have the opportunity to come in and have a voice—after all, this system is a core part of our business. Tax agents are using the system all day, every day, so any problems really hurt."

CRAIG SAVAGE | A TAX AGENT WHO CAME TO WORK WITH US

Business customers were kept up to date with Release 2

Customer feedback from Stage 1 indicated that details about the change came too late to understand and prepare for.

We learnt from this and started communicating earlier for Release 2. We ran webinars from August 2017 and our other customer communication began in November 2017 and continued until 24 June 2018. We wanted to build awareness and understanding of the changes and what business customers using myIR needed to do.

To help business customers, tax agents and bookkeepers to understand the changes, we:

> sent emails and letters to 355,000 business customers and 24,000 tax agents and bookkeepers

> ran 264 seminars across the country, attended by 7,642 business and tax professional customers

> held 15 webinars, attended by 6,585 customers

> added information on our website and campaign landing pages for businesses and tax professionals

> used digital communication, such as banners, search engine communication and social media

> ran videos to help customers get familiar with the new My business section of myIR, which were viewed 261,011 times

> posted videos of our customers talking about their experience of the changes through our social media channels.

We made the most of the time our systems were unavailable to visit customers throughout New Zealand

On 13 April and 16 April 2018, while our systems were briefly closed, our people visited small to medium-sized businesses in communities nationwide. Accompanied by members of our Executive Leadership Team their visits included more than 1,900 businesses in the hospitality and retail sectors.

These visits made the most of the opportunity while systems were closed for the cutover of Release 2 to help business customers understand what the changes meant for them, to promote business record keeping and to build relationships in the community.

In Auckland, our Takapuna team, along with Sharon Thompson, Deputy Commissioner for Customer and Compliance Services—Individuals, had excellent exchanges with customers. 98% were responsive to Inland Revenue being out in the community. A comment from a business customer: *"You used to be the enemy IRD—now you help and it's good to see".*

Greymouth Community Compliance Team Leader Robyn Ashworth says her team thoroughly enjoyed the experience.

"My team loved getting out with customers with a positive message and they found new businesses, changes of ownership, closed businesses and pop up businesses operating from home. We had just on 10 requests for advisories around online filing and/or getting it right. When speaking directly to customers—they are interested in AIM and payday filing and can see benefits."

Positive response from our business customers

The lessons we learned from Release 1 and the involvement of customers in our testing, design and development of Release 2 enhanced our understanding of customer experience. Feedback from our business customers and tax agents since go-live has been largely positive. In the three weeks after Release 2 go-live, approximately 7% of customers reported having issues finding their way around myIR, compared to approximately 30% for the same time after Release 1 go-live.

Supporting our people to help customers in Release 2

We prepared our people for Release 2

To prepare for the Release 2 changes, we delivered detailed training with 270 classroom sessions held across 19 different sites. In total, 2,459 of our people attended one of these sessions and 742 more people completed online training. The type of training people received depended on their roles.

'Early Life Support' helped our people after Release 2 went live

After Release 2 went live, we moved into a phase called Early Life Support for approximately three months. It started at midday on Monday 16 April 2018 with 'HyperCare' for the first three weeks. HyperCare was an intense period of practical system and people support. The approach we adopted for Early Life Support for Release 2 helped us understand customer issues better, resolve them more quickly, and deliver a more coordinated response.

More than 220 'Blue Crew' were on hand to provide deskside support for our people across the country. The Blue Crew had extra knowledge of START. We learnt from Stage 1 that the Blue Crew needed greater support and more information, so for Release 2 we had more than 90 key users working with the Blue Crew. Key users were the local go-to people. They knew who to contact within the network to provide support.

The Early Life Support portal, which our people could access from the front page of our intranet, was new to Release 2. People could log an issue if the Blue Crew member could not help. The issue was then prioritised and worked on. The person logging the issue received an email when the issue had been resolved. People could also use the portal to search for issues other people had encountered and click an 'Affects Me' button, which allowed us to focus on the most important issues.

In the first two weeks after go-live, there were 50% fewer issues raised than in the same period after Stage 1 and we completed twice the number of technical fixes. This was as a result of getting clearer, faster information from our people, which reduced duplication of requests and let us work on fixing the more important issues.

Our new culture and processes improve how we support our customers

In early 2018 we introduced a new approach to our customer-facing teams—devolved decision making. This fits with our plans to move decision making as close to the customer as possible. It allows people to exercise their skills and knowledge to make decisions following processes without the need for leaders to sign off on the decisions they are making. Over time more decisions will be devolved.

As a result, more customers have been able to sort out all of their tax affairs at one time, instead of having to call back to get information again.

"I just wanted to say this new setup has worked really well. I have been able to sort out my Fringe Benefit Tax, GST and Non Resident Withholding Tax (NRWT) today. For NRWT I would have had to call to get the return information but not having to do that saved me time and I was able to sort it out myself."

INLAND REVENUE CUSTOMER

For example, a process to transfer payments our customers have made into earlier tax years has gone from taking three weeks, which included being referred from one part of our organisation to another, to a job that one customer service officer can do in five minutes while on the phone.

We have also introduced broader revenue delegations, which over time will enable our people to make and own more decisions than they can now without having to escalate them. We have clear and simple business processes to guide our people as they make decisions.

Broader delegations also help our customers. Our people can now release large refunds to customers themselves, which means our customers do not have to wait for their refunds to be approved.

Release 3 preparations are underway

Release 3 is planned for April 2019 and will move Income Tax and Working for Families Tax Credits entitlements to new systems and processes. This will be the biggest release so far as it will affect most New Zealanders. Business system testing—making sure the START system works as planned—began on schedule in June 2018. This is the first phase of testing, and further phases will continue through 2018–19. In addition, 60 of our people, who mostly work in customer-facing roles, came to a two-day workshop. They were able to get hands on with the system and gave us valuable feedback on gaps and improvements before the design was locked down.

Legislation will make tax simpler for individuals

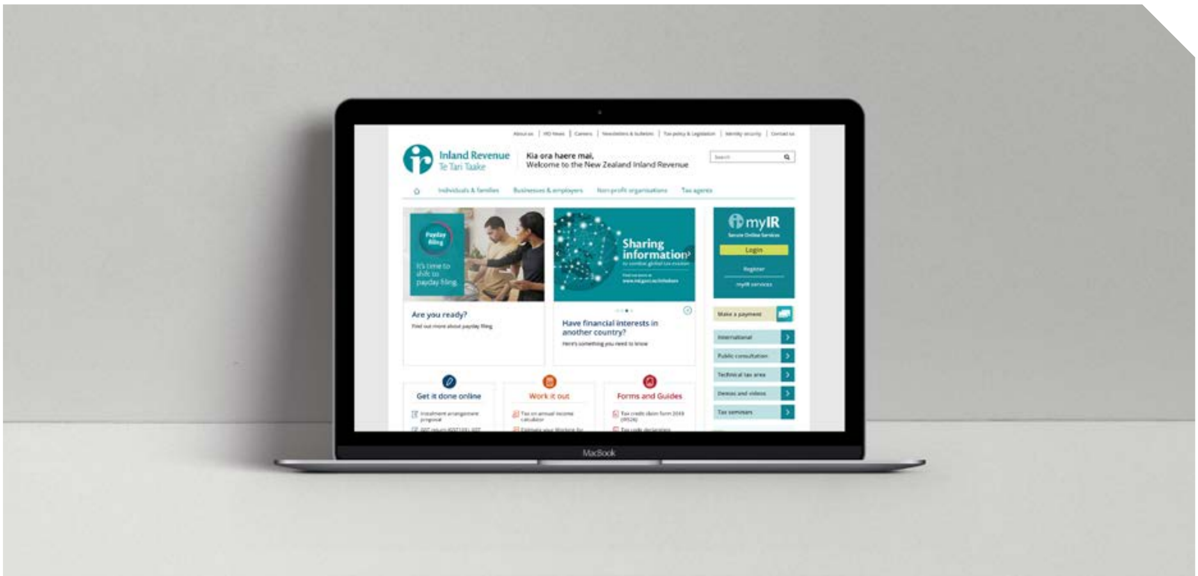
The Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters) Bill was introduced to Parliament on 28 June 2018.

If passed, the reforms in this bill will simplify the tax system for individuals. Amongst other proposals, changes would allow us to monitor and contact customers who may not be on the tax code best suited to their circumstances and to automate refunds and 'tax to pay' statements to customers whose only income is from salary, wages or investments.

Most people will have little need to contact us and, in time, more people will be paying the correct amount during the year without needing to provide us with any extra information.

Improving our customers' online experiences

Enabling customers to do more online is a key part of our strategy and helps to save customers time and money. Completing their tax and social policy obligations online also helps customers get it right the first time and means we do not have to contact customers to check the information provided is accurate.



Improving our digital channels

The latest improvements to myIR, our secure online service, went live on 17 April 2018 as part of Release 2. For business customers, the My GST section of myIR was renamed My business. In this section businesses can file, pay and amend all the tax types that have moved to our new system. For tax agents, the GST section of myIR has been renamed Business, and agents can file, pay and amend these tax types there as well. The process for registering clients for new account types has also been simplified.

We are dealing with problems with our online services

In mid-May 2018 we began to receive reports from some customers that it was taking longer to log in to myIR than is acceptable—some had delays of up to 40 seconds — and some services were temporarily unavailable. In June 2018 the problems became more serious, with a number of incidents that had a significant impact on customers' experience of myIR. Some customers were not able to access their information, confirm their Personal Tax Summary (PTS) or complete their GST returns.

Some very specific customer feedback led us to the problem with load balancing equipment in the network infrastructure, which was quickly fixed. As a result of resolving these technical faults, by 28 June 2018 our services were performing to their normal levels. To acknowledge this disruption we removed late filing and late payment penalties for any GST returns due on 28 June 2018 and extended the return filing date to Wednesday 4 July 2018.

We recognise that this performance is not acceptable and we have put in place actions to address the instability of our services.

The problems with our online services meant that a high volume of calls were received in June 2018 from customers experiencing issues. Call capping occurs when we receive a high volume of calls in a short amount of time and we do not have capacity to answer the calls. We capped 286,392 calls during June 2018 to manage the spike in demand. This is a 69% increase from 169,533 capped calls in June 2017.

This contributed to an 85% increase in complaints in April -June 2018 compared to the same three months in 2017. We received 3,541 customer complaints during this quarter, 1,623 of which were received in June 2018. The main reasons for the complaints were customers being unable to log into myIR or get through to our Contact Centre. We now have a better understanding of what can affect the number of complaints and we will use this to improve our services.

The issues with our online services were not specifically related to Release 2 go-live. However, during our transformation and throughout Release 3 we will continue to operate our old FIRST and new START systems in parallel. This has added to the complexity and fragility of our technical environment. Completing transformation as quickly as possible will minimise the amount of time the old and new systems need to co-exist and is the best way to manage risk.

A faster homepage

Our homepage, www.ird.govt.nz, has been re-graded from 'slow' to 'fast' by Google thanks to a redesign in November 2017.

Two and a half times as many customers are now trying to self-serve by clicking the 'myIR Login' and 'register' links. There has also been a reduction in the number of people using the on-site search to look for these links since they are more easily accessible.

At the end of June 2018 this meant:

> 15% faster load speed, something that makes a big difference for rural internet users with slower connections, as well as our website's ranking on Google

> 27% lower bounce rate, which means more of the visitors to our homepage are clicking a link to go elsewhere on our website instead of leaving. This is a sign that visitors are more engaged with the new homepage.

> a seven-second fall in time spent searching for links on our homepage. This indicates customers are able to find what they need quickly and are less likely to call us.

Working with the Blind Foundation to make our online services accessible

We have worked with the Blind Foundation's Access Advisors initiative to make sure that the services that were part of Release 2 are accessible to customers with sight impairments. We know that it can be extremely difficult for people with vision impairments to use a website if there has not been consideration of different users' needs as part of the design and development. Our work with Access Advisors has helped us to meet government accessibility standards. More importantly we have received positive feedback from the Blind Foundation for changes we have made. We will continue with this work as we get ready for Release 3 and for any more changes we make to our website.

Customers log in with RealMe

From September 2017 customers were able to log into myIR using RealMe, a secure way for customers to prove who they are online, or using their existing myIR user ID and password. At 30 June 2018 more than 40,000 customers had used RealMe to access myIR.

We are improving other services

As well as introducing our new system and focusing on our online services, we are looking for other ways to improve our services for customers.

Two million Voice ID customers

Voice ID is a streamlined process that allows customers to use their unique voiceprint when calling us. It means that customers no longer have to answer questions to verify their identities, making things faster and easier. At 30 June 2018 we had 2,092,425 customers registered for Voice ID.

Since we introduced Voice ID six years ago, around eight million calls have been verified and around 400,000 myIR accounts have been activated or reset through the Voice ID system. On average, customers save 40 seconds per call by using Voice ID to access our services.

We helped customers through adverse events

We work closely with other agencies to make sure we respond quickly during adverse events, such as the droughts in both islands in January 2018 and flooding in Gisborne in June 2018. This includes our people going into the community to help out with tax matters where needed. We knew that tax would not be front of mind for our customers affected and were able to take a realistic and flexible approach to their tax obligations or payments:

> We allowed late deposits to the income equalisation scheme—late deposits for the 2018 tax year can be made up until 30 April 2019.

> Applications for early refunds from the income equalisation scheme were allowed.

> Affected customers could ask for relief from penalties if they had missed payments or filing returns.

We are working with others across government

One of our outcomes is that New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment. Over the year we worked with a number of organisations to improve public services and to contribute to the Government's goals.

We supported the Government by providing effective policy advice

The policy advice we provide is critical to ensuring that our tax and social policy systems operate as intended.

In 2017–18 we worked on many of the Government's highest tax policy priorities including:

> encouraging research through a research and development tax incentive

> ring-fencing rental losses to limit how much investors or speculators in rental housing can reduce the tax paid on other income

> extending the bright-line period for buying and selling a property from two years to five years

> creating an even playing field between New Zealand retailers and importers by applying GST on imported low-value goods from 1 October 2019

> supporting other government departments with the design and implementation of policies in their portfolios, such as fees-free tertiary education.

The Government established the Tax Working Group in order to examine further improvements in the structure, fairness and balance of the tax system. We have provided support to the Tax Working Group through the secretariat including robust policy analysis and guidance alongside the Treasury.

The Tax Working Group and the Welfare Expert Advisory Group reflect the Government's intention to consider changes to the tax and social welfare system that we administer. We anticipate significant policy changes arising from the advice from these groups in 2019.

A summary of the Government's tax policy work programme is available at http://taxpolicy.ird.govt.nz/work-programme

How the New Zealand Business Number (NZBN) is used by other agencies

The New Zealand Business Number is a unique identifier assigned to businesses in New Zealand. Once it is fully implemented, it will allow businesses to easily update and share information with each other and with government and save time and money from not having to update key information multiple times, in a variety of ways.

We participated in the development and design of the NZBN system. All NZBNs have been entered into our new START system and now the Ministry of Business, Innovation and Employment (MBIE) can check whether an applicant for an NZBN already has one, using that applicant's IRD number.

We have provided the Accident Compensation Corporation (ACC) with an information share to link the NZBN to the ACC number. This means ACC has an accurate record of the NZBN without needing to use secondary identification methods, such as name matching.

We are sharing information with other agencies

Our information sharing with the Ministry of Social Development (MSD) helps them administer social benefit and superannuation programmes.

In July 2017 we completed an Approved Information Sharing Agreement (AISA) with MSD. The AISA consolidates our information sharing, widens the purposes that shared information can be used for and enables new information sharing.

Our information can now be combined with MSD's for research into customers who have debts with both agencies.

The information sharing arrangements already in place continued to achieve good results:

> Our proactive share with MSD to identify benefit overpayments identified an estimated $51.0 million in overpayments and arrears.

> Information we shared with Ministry of Justice enabled collection of more than $11.4 million in overdue fines.

> We shared information three times in response to four requests for information from WorkSafe New Zealand and 57 times in response to 60 requests from 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 have also made progress on other AISAs including:

> working with New Zealand Police and 10 other agencies to facilitate information sharing in the Gang Intelligence Centre to help reduce the harm caused by gangs

> expanding our current AISA with New Zealand Police for serious crime to include sharing information with New Zealand Customs and the Serious Fraud Office for investigations into serious fraud

> working with the Ministry of Business, Innovation and Employment to bring together and expand our current information shares with the Companies Office.

Services designed around life events are making it easier to interact with government

We recognise that through a customer's life there will be events where they will need to interact with government agencies. This can be challenging, but we are working with other agencies to provide more joined-up services to make customers' interactions with government easier.

We have worked with the Ministry of Health, Ministry of Social Development and Department of Internal Affairs on delivery of the award-winning SmartStart, an interactive website that provides step-by-step information and support to help parents access the right services for them and their baby, and Te Hokinga ā Wairua—End Of Life, which helps families deal with government agencies after someone has died.

We worked with other agencies to implement Best Start through SmartStart

Best Start is a new weekly payment of $60 per child, available to eligible parents who have a baby due on or after 1 July 2018.

Together with the Department of Internal Affairs (DIA), we designed systems so that customers can apply online for Best Start using SmartStart. Around 97% of parents use the SmartStart website to register the birth of their baby.

Parental Tax Credit is a payment made to eligible families. It was replaced by Best Start on 1 July 2018. Babies with an expected due date after 1 July 2018 but born before could be eligible for either Best Start or Parental Tax Credit payments.

We worked with DIA to launch Best Start registration early on 15 May 2018, with supporting manual processes, to help identify these customers. Our Upper Hutt operational team contacted eligible customers to give them the choice between Best Start and Parental Tax Credit payments. It was important that these customers were given the option to choose the best payment for them.

We kept a customer focus throughout the design of Best Start. We carried out customer testing early and frequently. We worked with DIA to ensure we used the same language consistently. We used feedback, design suggestions and insights from our Upper Hutt operational team to improve the Best Start registration.

Our work to design and deliver Best Start for customers was underpinned by close collaboration with other agencies, including DIA and the Ministry of Social Development. It was also made possible by the efforts of staff from across many of our business groups. Everyone worked together with a common focus—making it easy for customers to apply for and receive their Best Start payments.

Delivering on the National Strategy for Financial Capability

We work closely with the Ministry of Business, Innovation and Employment (MBIE), Financial Markets Authority, Commission for Financial Capability and the Tertiary Education Commission (TEC) to improve New Zealanders' financial capability. Our work has included:

- working with MBIE and KiwiSaver scheme providers on policy proposals which, once enacted, will improve the flexibility of KiwiSaver
- researching why KiwiSaver members were not taking up their full Member Tax Credit entitlements and what can be done to encourage higher take-up
- working with the Financial Markets Authority on helping people choose the right KiwiSaver scheme for them
- working with the Commission for Financial Capability on videos of students telling prospective students about what they wished they had known before becoming a student
- working with the TEC on using Inland Revenue/TEC data to help students make good study decisions.

Awards

At the 2018 Institute of Public Administration New Zealand Public Sector Excellence Awards, Inland Revenue was part of two winning teams in cross-government nominations.

Delivering fees-free tertiary education for 2018

Along with the Tertiary Education Commission, the Ministry of Education and the Ministry of Social Development we were commended for our work in delivering the Government's fees-free tertiary education policy.

The project won two awards—the Prime Minister's Award for Public Sector Excellence and Achieving Collective Impact.

The judges said the project was, *"An outstanding example of innovation and cross-agency delivery, taking complex new policy from concept to design and implementation in just six weeks; delivering a fast, stable service under the pressure of high demand."*

Anti-Money Laundering and Countering Financing Terrorism

Our International Revenue Strategy team was part of the winning joint nomination for the Excellence in Regulatory Systems category.

It recognised the work that we, along with the Ministry of Justice, Department of Internal Affairs, the Reserve Bank, the Financial Markets Authority and New Zealand Customs, have done on the regulatory system for anti-money laundering and countering the financing of terrorism.

Photos / Courtesy of IPANZ.

The year ahead | Overview of what we will deliver in 2018–19

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.

In 2018–19 we will implement Release 3 of our business transformation and migrate Income Tax and Working for Families Tax Credits entitlements to new systems and processes. This is a significant release as it will affect most New Zealanders. It is more complex and higher risk than the first two releases, as changes to systems, processes and legislation will affect businesses, individuals and financial institutions. For individual customers, the changes will be the biggest in nearly 20 years.

Changes to the collection of PAYE information, the collection and use of investment income information and changes to the administration of individuals' income tax (this is subject to legislation) mean that, over time, most salary and wage earners will pay what they need to and receive what they are entitled to during the year. About 750,000 tax refunds will be automatically generated for wage and salary earners who do not usually apply to get their overpayments refunded. Working for Families Tax Credits entitlements will be more accurately monitored and adjusted throughout the year.

These changes are being introduced progressively and will be fully implemented by 2020–21.

We will also provide Ministers with advice on the recommendations from the Tax Working Group and the Welfare Expert Advisory Group. During the year we will continue to work on:

> the design and implementation of a research and development tax incentive

> the development of information sharing arrangements between key public sector agencies to improve the effectiveness and efficiency of government

> applying GST on imported low-value goods

> legislative changes to maintain our tax and social policy systems.

Supporting compliance

Paying tax helps pay for the public services we all rely on, like 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, taking fast and fair action when they do not meet their obligations by themselves, and managing overdue debt.

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

Sometimes people do not pay their obligations or receive the right entitlements. We focus our efforts in areas where we know people are more likely to get it wrong or where people knowingly do not pay the right amount of tax.

Helping our customers comply

Addressing non-compliant activities

Managing debt and returns not filed by the due date

Facilitating international tax compliance

At a glance...

85% of people filed their returns on time, the same as last year, and 88% of people

paid on time

also the same as last year

Fewer customers are going into debt after the 7 February and 7 April

payment dates

We identified

$145.2 million

in tax position differences from investigations in the hidden economy

We received

extra funding

in Budget 2018 to help collect company and associated returns not filed by the due date

Child support debt has

decreased 17%

from last year

Our advertising to student loan customers

won a silver

at the Effie Awards

We implemented new rules to help

prevent base erosion and profit shifting

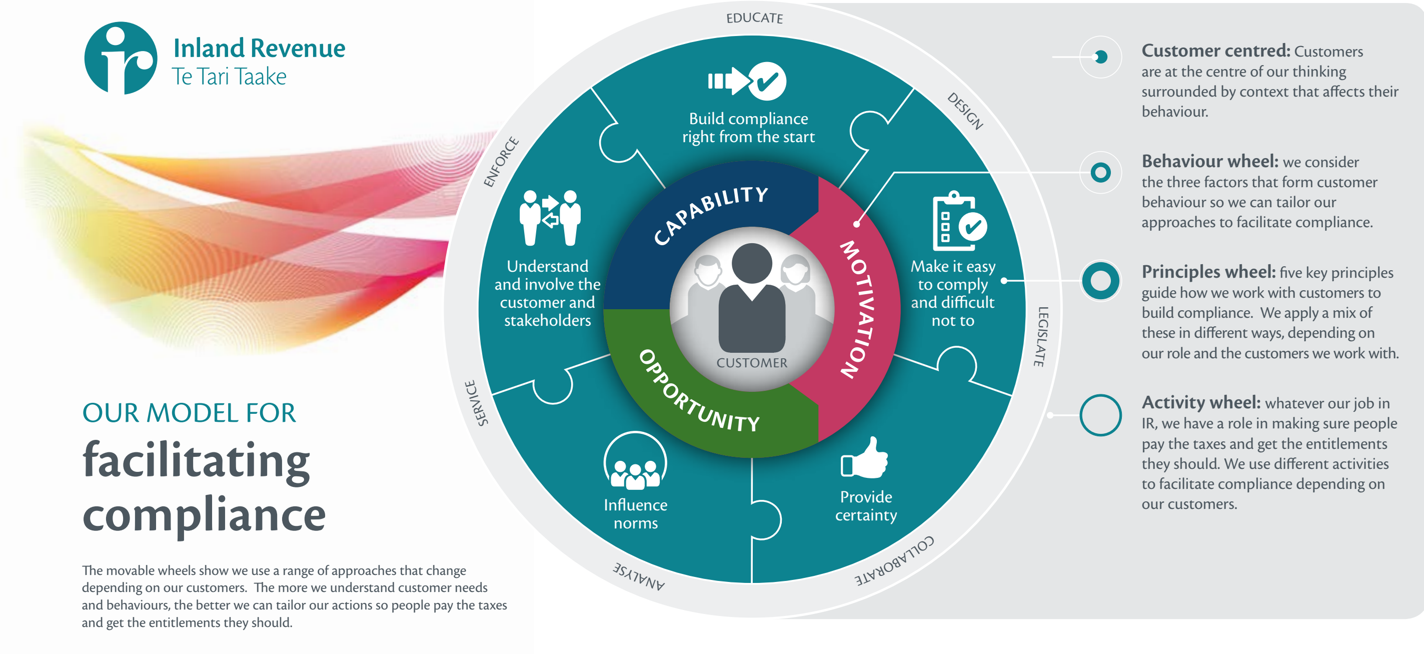
through the Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 which became law on 27 June 2018

Helping our customers comply

Compliance means customers pay the taxes and get the entitlements they should. As we transform, we are changing how we work with customers. We are becoming more proactive, 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. As we transform we are looking to organise ourselves to best serve our customers and to provide options, like online solutions, to make it easy for them.

Our compliance model, shown here, helps us understand what makes up customer behaviour. It also has a set of principles to help tailor the activities we do to encourage customers to want to get it right themselves.

FIGURE 3: OUR COMPLIANCE MODEL



We know that most people want to get it right. Understanding our customers lets us tailor our services and the information we give to make it easy for people to understand and meet their obligations and receive their correct entitlements.

Our customers may experience, over their lifetime, key life and business events. These events may have various financial results which can mean our customers need to have different types of interactions with us. By thinking about the different ways customers need to deal with us, we can tailor our services to give people the support they need at what are often challenging times.

Our new Customer and Compliance Services groups, established in February 2018, are organised by customer segments so that they can provide better services to customers and improve the overall customer experience.

Supporting customers to meet their obligations

To help customers meet their tax and social policy obligations we talk to them, communicate through digital media and contact people by letter, email and text. Our aim is to make sure customers know their due dates for filing and paying and are reminded if these are missed.

Community engagement makes it easier for customers

We have Community Compliance staff in 17 towns and cities across New Zealand.

Our Community Compliance team provides a range of frontline services to inform customers about how to meet their obligations and receive entitlements. Our community compliance goal is to build relationships in the communities we serve to help improve voluntary compliance.

Within our Community Compliance team we have Kaitakawaenga Māori, who are at all of our sites. They offer a free advisory service to Māori people, organisations and businesses.

Where appropriate we also partner with external stakeholders, like the Ministry of Social Development, to deliver information and help mutual customers. Working collaboratively with other agencies and being part of the broader public service helps benefit all New Zealanders. It is important that we work with others to make it easier for all New Zealanders to deal with government.

Our Community Compliance team are skilled across a range of tax types and compliance activities. As well as meeting with customers when they visit our offices, services include:

- **Providing seminars to inform customers**

  In 2017–18 we gave seminars to 4,963 people at 36 locations. Seminars were on a range of topics to help our customers understand their obligations and entitlements and to let them know about changes.

  The seminars included an introduction to business, GST, business expenses, employers, rental property information and IR3 individual income return form completion.

- **Meeting customers in rural New Zealand**

  In 2017–18 we were at 61 locations in New Zealand for meetings with 2,614 customers who attended 433 mobile office events.

  These meetings were usually held at a Ministry of Social Development site or a Heartland Services site. Heartland Services provides access to government services in provincial or rural areas of New Zealand. We also held community clinics with the Māori Land Court to reach whānau who are succeeding to Māori land and may be generating income from leased Māori land.

The work that our Community Compliance team do is supported by networks and relationships with industry groups, community-based organisations and other government and non-government agencies. These networks and relationships help us to influence and understand communities. Together, we are able to improve voluntary compliance in particular sectors, work alongside industry groups to help their members get it right from the start and collaborate with government agencies to educate or help our most vulnerable customers.

"I went into this seminar not knowing anything about the tax system and came out feeling good about where to go from here. Thank you".

"As a complete beginner I had to grapple with the terminology as well as the content, but the presenters were patient, helpful and professional".

CUSTOMERS WHO ATTENDED A COMMUNITY COMPLIANCE SEMINAR DURING 2017–18

Piloting tailored communications to customers

We have been looking at how we deliver targeted and tailored communications to customers. This helps us understand our customers, their behaviour and key life events.

To deliver a tailored approach, we need to understand a customer's opportunity, capability, motivation and their ability to meet their obligations or to receive their entitlements. Based on these factors, we have four groups of customers who are:

> willing and able to comply
> willing and not able to comply
> not willing and able to comply
> not willing and not able to comply.

Getting to know our GST customers

In late 2017 we ran a pilot focused on GST customers with a filing obligation for the return period ending 30 September 2017.

Customers were divided into the four groups above based on their ability and willingness to file on time. The customers were sent tailored communications rather than the standard communication automatically issued.

The pilot was particularly successful for customers who were 'willing and able' to file on time with nearly one-third (31%) filing closer to the due date than customers receiving our standard communication.

We will keep running pilots and use what we learn to tailor and improve our communication for a wider range of customers and products, so that our customers are more likely to get it right from the start. This will include using social media and improved digital advertising to promote on-time filing and payment.

Helping customers file on time and stay out of debt

Making sure customers know what their obligations are helps them file on time, stay out of debt and avoids penalties and interest being added to what they owe.

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

- 119,581 people who had a 7 July 2017 income tax return due date
- 199,008 customers who were due to make a payment on 7 February 2018. This resulted in 142,350 or 72% paying before the due date, up from 47% the year before. In March 2018 we began contacting the 56,658 customers who had not met their obligations.
- 235,837 customers who were due to make a payment on 7 April 2018. In total, there were 284,975 who were due to make a payment and 175,438 or 62% paid before the due date. In June 2018 we began contacting the 109,537 or 38% of customers who had not met their obligations.

This year 85% of people filed their returns on time, the same as last year, and 88% of people paid on time, also the same as last year. For more information on our performance for the year refer to pages 117 to 118.

Helping child support customers get it right from the start

Child support is money paid by parents who do not live with their children or who share care of their children with another person. Wherever possible, we encourage parents and carers to work out their own arrangements for child support.

Our role in administering child support is to calculate entitlements and obligations where private arrangements could not be reached, generally using the standard formula set out in law, and to collect and distribute payments as they are received.

We help parents to pay on time by contacting them early. We talk to them when they are first assessed and we follow up with a reminder text for their first due date. In 2017–18 we received 40,927 child support applications, compared to 42,676 in the previous year.

If a parent falls into debt, early intervention is a priority. We text or talk to the parent in the first few days after their payment is missed. Helping child support customers early is important as a large number of parents are on low incomes and may have a limited capacity to repay debt.

We prefer to work with parents. If an arrangement to manage their debt is not possible, we will use options which include:

- compulsory deductions from employment income
- deductions from monies held by third parties (other than employers) like banks
- taking court action, like having the parent's means looked at and a court order for payment made, placing charging orders on any property owned, seeking a warrant to seize property or applying for a warrant for the parent's arrest.

Helping student loan customers

We jointly administer the student loans scheme with the Ministries of Education and Social Development. We are responsible for collecting student loan repayments and making sure customers meet their repayment obligations. Customers can make payments through their PAYE deductions or directly to us.

As at 30 June 2018 we had:

- 719,187 student loan customers
- collected $1.3 billion in repayments during the year, up 5.9% from last year. Of the total repayments, $960.7 million came through PAYE, up 7.3% from last year and $387.4 million directly from customers, up 2.6% from last year.

The increase in repayments shows people are more aware of student loan obligations both by customers in New Zealand and overseas.

We contact customers overseas in a number of ways. We emailed approximately 6,000 customers who had been overseas for four–five months in 2017–18. We explained what they would need to do if they planned to stay overseas for more than six months and became an overseas-based customer. 65% of customers opened the email which is a lot higher than other student loan email communication that can average around 45%.

If customers did not open the first email we sent a follow-up email one week later. We phoned people where we did not have a valid email address or where customers had not opened their emails. We phoned approximately 1,500 customers in the eight months from August 2017 and talked about:

> repayment holiday opportunities
> interest charges on the loan while overseas
> repayment due dates
> repayment options—emphasising smaller manageable payments
> fee-free global money transfer options.

Of the 1,500 customers we phoned, 22% met their obligation by 31 March 2018. We did not phone customers in the previous year and 11% of customers met their 31 March 2017 obligation.

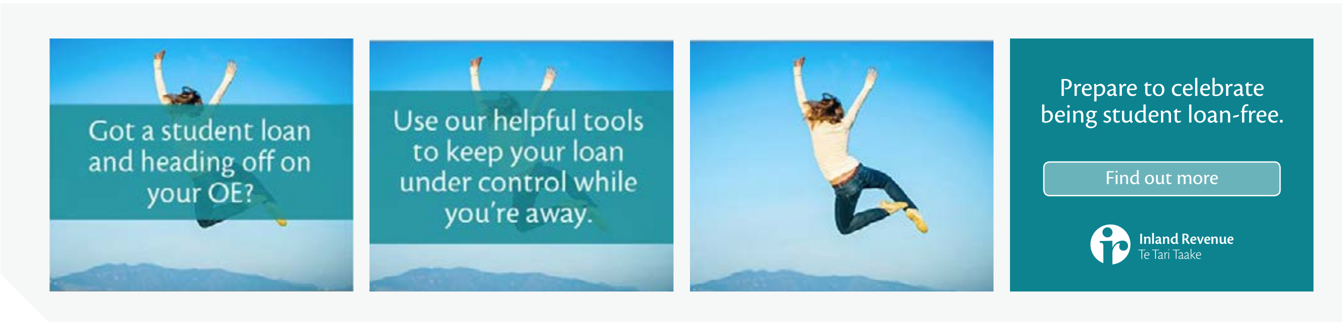
A successful advertising campaign

In October 2017 Inland Revenue and our advertising agency FCB won silver in the advertising industry's Effie Awards, for Sustained Success. This complements the gold award in the same category at the Beacon Awards earlier in the year. In the past two years we have won 12 New Zealand awards for this successful campaign.

It is a targeted online advertising campaign that we have improved on since 2014. It has been run across a range of media and has helped us locate many hard-to-find overseas-based customers.

Since June 2014, we have seen:

> 812,000 visits to our student loan campaign website
> the percentage of overseas-based customers with renewed contact details increase from around 9% to 59%
> the number of overseas-based customers making annual repayments increase by 36%.



Keeping New Zealanders up to date on their property obligations

New Zealanders love property, with our property tax decision tree and associated webpages among the most visited on our website.

Our website gives useful information on what our customers need to know when they are involved in residential property transactions. We have web tools and guides, like the IR313 Buying and selling residential property guide, to help customers comply with all aspects of property taxation. We publish articles like Questions We've Been Asked about specific tax issues to set out our answers to enquiries that we have received.

In March 2018 the Government announced that from 29 March 2018, the bright-line period for buying and selling a property would increase from two years to five years. This means people who sell a residential property in New Zealand within five years of buying it must pay income tax on any gains, unless the property was their main home or another exemption applies.

We ran targeted social media communications and included information in newsletters and on our homepage and media site to make sure that people with a property interest were aware of this change. During the month-long campaign our social media content reached over 200,000 people and approximately 40,000 people visited the bright-line campaign webpages. We are also using intelligence and analytics to identify our bright-line customers early so we can target our interventions, such as running campaigns to help our customers get it right from the start.

Helping businesses comply with their obligations

We help customers by providing advice and certainty on commercial, finance, transfer pricing and tax dispute matters. Business customers are given help ranging from education documents and online information to non-binding advice, right through to formal binding rulings giving certainty to tax positions.

We classify a significant enterprise as a group or enterprise that has GST turnover greater than $30 million or has 50 or more employees. These customers may operate multinational groups, who may have cross-border transactions and/or use complex structures.

A compliance manager or account manager is assigned to help our largest customers meet their obligations. We give tax advice and do annual risk reviews and investigations.

We also enter into advance pricing agreements with multinational customers to provide certainty about tax positions. An advance pricing agreement is about how related parties will price the goods or services for tax purposes. Transfer pricing or base erosion and profit shifting are major issues and the prices attached to goods and services can dramatically influence whether the New Zealand entity is profitable or not. An advance pricing agreement removes the audit risk for the customer and for Inland Revenue by putting a minimum floor on how much profit there is.

Helping a customer meet their obligations

Over the past few years we have been working with a customer who had significant cross-border transactions with other companies in its group. This customer had historically recorded large tax losses.

The costs the company was attributing to transactions between it and overseas companies within its group came to our attention.

We met with the customer to understand their cost basis and to talk about Inland Revenue's views. We held discussions over a number of months and found a mutually acceptable pricing basis for their cross-border and intra-group transactions.

As a result, the customer restated their cost calculations. This has meant the reported tax positions going forward, including the current 2018 income tax assessment, have changed from recording losses to returning profits.

By providing well-reasoned research, helping the customer with their obligations and working with them, we have changed the customer's practices.

Providing certainty and clarifying tax law

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

As part of our work we review and update our published guidance. This year we updated our published statement on the taxation of trusts because of many changes to the legislation over the years. This area is of particular importance to customers as trusts are often used as a way to own property in New Zealand.

We also updated our guidance on when fringe benefit tax is payable on motor vehicles provided by employers to employees. New Zealand businesses provide their employees with company vehicles in a variety of ways. There are often a number of common errors made in the associated fringe benefit tax returns.

The guidance explains how fringe benefit tax compliance obligations may arise in differing circumstances. We produced animated videos to help explain fringe benefit tax obligations.

We also give certainty to businesses through taxpayer rulings. These rulings give our interpretation of how the law applies in specific circumstances.

This year we ruled on $54 billion worth of arrangements, where the associated tax at issue was more than $16 billion. Last year we ruled on $13.4 billion worth of arrangements, where the associated tax at issue was more than $2.4 billion.

Overall, 88% of customers were very satisfied with our rulings service this year, with the remaining 12% 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.

Focusing on New Zealand's hidden economy

Tax can be difficult and sometimes people make mistakes, especially when just starting out in a business. We focus on areas where we know people are more likely to get it wrong and provide education, tools and support to help them get it right from the start.

Sometimes people intentionally choose to participate in the hidden economy or commit fraud by operating totally or partially outside the tax system. This includes not declaring or accurately reporting all of their income or attempting to receive refunds and entitlements they are not eligible for. Where we find this, we take appropriate action.

Hidden economy activities include:

- not declaring cash sales
- not recording employees and paying them in cash with no PAYE deducted
- only declaring part of an employee's payments so that they can incorrectly obtain other entitlements like Working for Families Tax Credits.

Undeclared cash jobs in the construction industry

We are continuing to help customers do the right thing by giving them the information, help and tools they need.

Between late October 2017 and early December 2017 we ran our new 'Footprints' campaign aimed at discouraging cash jobs in the construction industry. The campaign built on the success from the 'No Grey Areas/It's Tax Crime' campaigns in previous years.

One of the aims of the campaign was to make tradespeople think twice before doing an undeclared cash job and to let people know that we will help those who want to get it right.

The campaign used the tagline 'Every undeclared cash job leaves a trail' and was delivered through:

- radio
- emails and letters sent to construction customers
- online channels—mobile phone, social media and digital
- billboards in major urban centres
- Community Compliance visits to building sites
- our Inland Revenue website homepage and a campaign landing page.

The campaign had positive results, with around 48% of our target audience (tradespeople) increasing the amount of GST they calculated by more than 3%.

Our May 2018 survey on public attitudes to, and use of, the hidden economy also showed practices and attitudes are changing:

> 76% of people surveyed said they had not taken part in the hidden economy, up from 71% in November 2017

> 39% were in favour of cash jobs under the current economic climate, down from 45% the same time last year

> 54% of respondents disagreed with the sentiment that cash jobs are ok if it makes it cheaper, up from 48% in May 2017

> 51% felt that cash jobs are commonly offered by tradespeople or available if requested, which keeps decreasing from 63% in 2013–14 and 58% in 2014–15.

The latest responses show positive shifts in society's attitudes to taking part in the hidden economy. A greater percentage of people believe that offering cash jobs or paying people 'under the table' is wrong, with fewer people inclined to be involved in this type of activity.

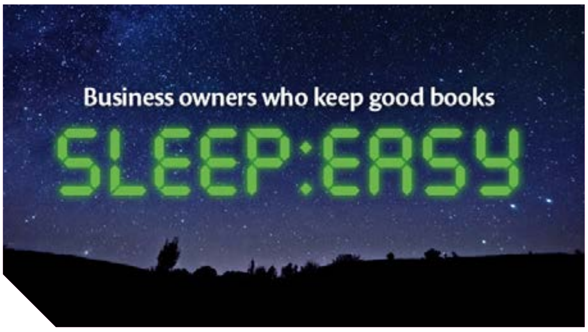
Improving compliance in the hospitality sector

Good record keeping is key to customers getting their tax affairs right.

In May–June 2018 we ran our 'Sleep Easy' campaign aimed at increasing declared income from the hospitality sector. Businesses within the sector include restaurants, cafés, bakeries, takeaway shops and liquor outlets.

Given the relative ease of access, high number of cash transactions and more short-term nature of employees, the hospitality sector is regarded as high risk when it comes to hidden economy activities and undeclared income.

The campaign promoted the theme of 'Good Books, Good Business' and had a 'Sleep Easy' page on our website. Online



information in several languages gave advice to customers on how to meet their record-keeping and basic tax responsibilities.

The 'Sleep Easy' campaign promoted the fact that keeping good books and records is not just for tax purposes, it is good for business. Good books help customers understand their profitability, build a base value for their business, support the ability to obtain finance for business growth and development and enable good tax and other central and local agency compliance.

In June 2018 the campaign also used targeted direct communications like emails and letters, with 32,000 hospitality businesses getting information from us. We were also in trade magazines with our 'Sleep Easy' message.

Following on from the direct mail out, we aim to visit more than 3,000 hospitality businesses across New Zealand in late July 2018. The visits will promote key messages and make business operators aware of the importance of recording and reporting cash transactions, as well as giving us an opportunity to correct common mistakes around what qualifies as good records for tax purposes.

We will leave our flyer on 'Good Books, Good Business' with business operators. The flyer will be available in a range of languages.

The campaign's outcome will be assessed in July 2018.

Managing debt and returns not filed by the due date

We take a proactive approach to help customers to file on time and pay on time. This helps them get it right from the start to prevent them from getting into debt and having penalties and interest added to what they owe.

We contact customers through a variety of channels, including sending text messages and emails, making phone calls and meeting them in person. We also give priority to returns that have social policy elements so that we can accurately work out customers' social policy entitlements.

Working with customers who have not filed a return by the due date

As at 30 June 2018 the number of returns that remain unfiled after the due date is 755,109, a 15.4% increase from the previous year.

In 2016–17 we had reduced the number of unfiled returns to 654,357, the lowest since 2010. This strong position has negatively affected our result against our performance measure which has a target of 0% year-on-year growth. Refer to page 118 in *How we performed*.

In the 2010–11 financial year, the Government gave us extra funding to collect returns and tax associated with returns not filed by the due date. By 30 June 2018, we had used the funding to collect $598 million against the June 2020 target of $421 million.

During the year we used some of this funding to:

> run a pilot which focused on GST customers who had a filing obligation for the return period ending 30 September 2017. Refer to page 46 for details on the pilot.

> review the registration and filing requirements for non-individual customers (excluding companies) who had not been filing income tax returns or filing returns with no income for some time.

We use technology to gain customer insights to allow us to focus on higher-value returns while removing returns that do not need to be filed, for example:

> customers who had previously filed a nil income tax return were not automatically issued a current year return to file

> where GST returns and other intelligence showed that companies had higher income levels, priority was given to contacting them about filing their income tax returns.

In the coming year, we will keep helping customers file their returns on time. This includes using the additional funding we received in Budget 2018 to help collect company income tax returns and associated returns not filed by the due date.

Resolving new debt quickly

We are making good progress in helping customers resolve debt early. One of our performance measures is to resolve 80% of debt cases within six months. This year we resolved 81.5%, down from last year's 85%. Refer to page 119 in *How we performed*.

Two important dates in the tax year are 7 February and 7 April. They are key payment dates for customers with a bill for their income tax, Working for Families Tax Credits or student loan.

Our performance this year was achieved by resolving a large number of new debt cases where customers had not paid by the 7 February 2017 and 7 April 2017 due dates, as shown in Table 1 below.

We are making good progress in working with customers who have a debt from the 7 February 2018 and 7 April 2018 tax payment due dates, as shown in Table 2. Our campaign activity will continue into the next year to encourage more customers to resolve their debt.

Focusing on tax debt

As at 30 June 2018, our tax debt, excluding student loans in default and child support debt, was $3.1 billion. This is a 3.7% increase from the previous year when debt dropped

TABLE 1: DEBT CASES RESOLVED FROM 7 FEBRUARY 2017 AND 7 APRIL 2017 DUE DATES

Due date for payment	Number of debt cases that had an overdue income tax obligation	% of debt cases resolved within six months of the due date for payment
7 February 2017	84,633	80%
7 April 2017	113,017	81%

TABLE 2: DEBT RESOLVED FROM 7 FEBRUARY 2018 AND 7 APRIL 2018 DUE DATES

Due date for payment	Number of customers who had an overdue income tax obligation	Total debt owed by customers ($ million)	% of customers who resolved their overdue income tax obligation as at 30 June 2018	Total debt resolved as at 30 June 2018 ($ million)
7 February 2018	56,658	$318	46% (26,218)	$89
7 April 2018	109,573	$1,926	50% (54,644)	$1,328

TABLE 3: TAX DEBT AS AT 30 JUNE ($ MILLION)

	2014	2015	2016	2017	2018	Change since 2017
Working for Families Tax Credits	406.6	334.8	224.6	193.4	140.1	-27.6%
GST	1,775.5	1,527.5	1,387.0	825.6	814.9	-1.3%
Income Tax	2,519.6	2,653.0	2,568.5	1,556.2	1,651.3	6.1%
KiwiSaver	33.3	29.4	24.9	26.5	42.4	60.0%
Other tax	121.8	115.9	69.7	79.9	79.8	-0.1%
PAYE	613.9	492.4	428.9	309.7	374.9	21.0%
Total debt	**5,470.7**	**5,153.0**	**4,703.6**	**2,991.3**	**3,103.4**	**3.7%**

36%, helped by a $2.2 billion write-off of mainly irrecoverable and aged debt. This year we wrote off $613 million of debt. Writing off irrecoverable debt is in line with our debt strategy to deal appropriately with what cannot be collected and allows us to focus on debt that can be recovered.

We collected $4.9 billion in tax debt, a decrease of 32.2% from last year. The amount collected is strongly influenced by large business customers using extension-of-time and tax pooling services. Our customers who choose to use these services get an extension to their tax payment dates.

Focusing on child support debt

We encourage parents to address their child support debt quickly by paying the full amount. We work with those who cannot pay the full amount to set up regular payments to pay the debt off over time. This helps them to avoid missing payments and incurring penalties.

For parents who work with us to make payment we can reduce or write off the penalties. This allows parents to get on top of their debt, improves ongoing compliance and results in better outcomes for all parties. In 2017–18 we wrote off $594 million of child support debt, almost all of which was penalty debt. This is slightly less than the $674 million written off last year. It shows our ability to write off penalties for parents who make payments to resolve their core debt under new legislation from 2016–17.

As at 30 June 2018 child support debt is $2.3 billion, a decrease of 17% from this time last year showing our continued focus on getting onto debt as soon as it becomes overdue and granting upfront relief for customers. We have reduced the number of child support customers in arrears by 7.5%. Table 4 shows debt from overdue child support.

TABLE 4: CHILD SUPPORT DEBT AS AT 30 JUNE ($ BILLION)

	2014	2015	2016	2017	2018
Total debt value	3.047	3.276	3.311	2.736	2.259
Penalties only	2.372	2.605	2.661	2.119	1.662

Finding overseas parents who owe child support

About 17,000 parents who pay child support are believed to be living overseas, with approximately 13,400 in Australia. Since 1 July 2000, New Zealand and Australia have had an agreement under which New Zealand collects child support for Australia and vice versa.

More New Zealand parents who pay child support live in Australia than the other way around, meaning that the benefits of the agreement to New Zealand are substantial. Under this agreement New Zealand has received $500.5 million from Australia since 2001, including $51.0 million this year, compared to $44.5 million in the prior year. Over $159.4 million has been disbursed to Australia since 2001, including $14.6 million this year compared to $13.9 million in 2016–17.

Since September 2008, we have had an 'information match' with the New Zealand Customs Service. We match people entering or leaving New Zealand which allows us to receive real-time border crossing information for child support customers who have not made arrangements to pay their child support debt. In 2017–18 there were 11,947 matches made against people entering or leaving New Zealand, down from 15,425 in the prior year.

We also have a Passport Information Sharing Programme with the Department of Internal Affairs which resulted in 1,996 contact records matched for parents who had a child support debt in 2017–18 and 913 successful contacts. Payments received from these parents were $372,000.

Court-awarded maintenance can be collected in countries that are part of the Commonwealth scheme or the United Nations Convention on the Recovery Abroad of Maintenance. Inland Revenue also acts as the collection agent for overseas cases under these schemes once the Ministry of Justice confirms the maintenance order. This year we collected $891,225 and passed it on. Depending on what the court order directs, the money collected is either passed to the receiving parent or sometimes to an overseas court.

Increasing payments from student loan customers living or moving overseas

We have run student loan campaigns for a number of years to tell customers of their obligations and provide tools to stay on track with payments. We deliver specific messages to overseas-based customers, New Zealand-based customers looking to move overseas and parents of borrowers. This year, overseas-based customers repaid $221.3 million, up 3.0% from last year.

As at 30 June 2018, overdue student loan debt was $1.3 billion. This is a 9.5% increase from the previous year, driven by defaulting overseas-based customers. However the number of customers with overdue debt has reduced by 1.6%.

Student loan customers living overseas make up 74% of those in default, and owe 91% of the student loan default amount. The overdue amount increased by $115 million in 2017–18 largely due to the majority of overseas-based customers failing to meet their repayment obligations and late payment interest being applied.

We try to make sure that overseas-based customers know their obligations and what could happen if they do not pay. We ran online advertising, including social media posts, throughout the year and sent emails and texts with specific messages based on previous payment history to customers in the months when payments were due.

For the 31 March 2018 annual repayment date, 22% of the 108,758 customers living overseas made the correct payment on time. We sent three rounds of emails and text reminders to the 54,033 overseas-based customers who we had a valid email address for. Of these customers emailed, 43% made a payment. For customers who did not make the full payment on time, we sent 33,892 emails including a hard-line message to those who had opened one of the March 2018 reminder emails but had still not contacted us or made a payment.

We advised customers that if the right payment was made before 30 April 2018, late payment interest would not be added. Of the 33,892 customers contacted in April 2018, 13% made a payment.

In the previous year 24% of customers made a payment which was very high as it was the first time we had tested the hard-line message and we also communicated to a larger number of customers.

TABLE 5: OVERSEAS–BASED STUDENT LOAN CUSTOMER NET REPAYMENTS ($ MILLION)

2013–14	2014–15	2015–16	2016–17	2017–18
158.0	184.7	216.1	214.8	221.3

Results from the March–April 2018 campaign for the 31 March due date for overseas-based customers were:

- 5.8% more customers than the previous year had met their full repayment obligation by 30 April 2018.
- The total value of repayments from all overseas-based customers during the campaign period was $51.0 million. This was $3.9 million less than in 2017 and may have been due to more overseas-based customers making regular repayments during the year.
- 47.2% of overseas-based customers are taking positive actions towards their student loan. This is 1.8% more than last year.

Exchanging information with the Australian Taxation Office

Student loan customers living overseas make up 15% of the total student loan population but have 91% of the default amount.

About 70% of all overseas-based customers with overdue repayments are based in Australia. We signed an arrangement with the Australian Taxation Office (ATO) in October 2016 for it to share contact information on student loan customers with us. This has meant we can locate and make contact with more customers. We exchange data for matching with the ATO several times a year.

In 2017–18, we sent records for 128,930 customers for matching. Of these, matches were found for 85,147 customers.

Addressing non-compliant activities

Most people pay their fair share of tax. For the few who do not pay, we intervene and encourage them to do the right thing. If this approach is not successful, we have a range of options towards taking a firmer line, such as investigation activity.

Our investigations activity plays an important role in protecting the integrity of the tax system. When customers take a tax position, sometimes our investigations find they have not got things right. When this happens, we issue a new assessment and may charge penalties and interest.

Through our investigations we identified total tax differences of $1.08 billion where customers did not get things right for the year ending 30 June 2018. For 2017–18 our overall return on investment for our investigations activity was $7.86:$1 against the performance measure target of $7.00:$1.

Our Budget-specific initiatives contributed $199 million to the total tax differences identified. These initiatives focus on additional investigations in complex technical issues, aggressive tax planning, property compliance and the hidden economy. This year the return on investment of $6.74:$1 was below the annual target of $7.68:$1 as we have had fewer complex technical cases closed during the year. Significant enterprises are not taking aggressive tax positions for a number of reasons, including our increased compliance-focused work in this area and changes to international tax rules. We have achieved 76% of the $1.06 billion multi-year target in discrepancies so are well on track to achieve the Budget-funded outcome by 2020.

By using intelligence-led insight and analysis and managing investigations well, we provide assurance to New Zealanders that we will take appropriate action to address non-compliant activities.

While investigations can be a challenging experience for customers, 71% were satisfied with their audits against our performance target of 70%.

We use a range of actions to address non-compliant activities

We use a range of actions to identify when customers are not getting it right and prevent them from getting it wrong. This includes:

- conducting annual reviews of larger customers' tax returns
- using criteria based on intelligence and information to select smaller and medium-sized businesses to audit
- doing investigations of transactions that show tax avoidance indicators and where the complexity of the issue requires a thorough review.

Our compliance activity covers a range of interventions. When dealing with smaller issues covering a larger number of customers, we may decide education through publishing alerts or media articles is the best response.

Other times we may use a campaign-type approach involving a range of interventions. For example, if we have identified a potential error we will advise the customer. It is then up to the customer to correct the error. If that approach does not result in the customer correcting the error, we may follow up with further actions, which can include investigation. On other occasions, we use the intelligence obtained from customer interactions to begin audits.

We encourage customers to voluntarily comply and when a mistake is found, we encourage people to make a voluntary disclosure. For a number of reasons, including better intelligence and having a range of interventions, there has been an increase in both the number of voluntary disclosures and the value of the tax changes from them.

Our success in Budget-funded initiatives

Complex technical issues including aggressive tax planning cases are reducing

Some people attempt to reduce the amount of tax they should be paying or increase their entitlement to social benefits. They may do this by structuring their tax affairs inappropriately or adopting aggressive tax positions and/or interpretations.

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 customers know and understand their obligations and help them to get it right. We make sure we keep up with judicial decisions and new ways of arranging finances.

Aggressive tax investigations have often resulted in large tax adjustments. We have had significant success in the courts with tax avoidance cases and generated more than $2 billion in tax adjustments from these over the past decade.

In addition, legislation to target tax avoidance mass-marketed schemes through tax loss ring-fencing and increased penalties has resulted in fewer tax avoidance arrangements to investigate. Fewer New Zealanders are receiving unexpected tax bills because they are not entering into these arrangements.

Our investigations into aggressive tax planning and other complex technical issues resulted in tax position differences of $242 million in 2017–18. Of this, $89 million came from work funded through Budget-specific initiatives.

Addressing non-compliance in the property sector

We are focused on property speculators who we believe are not meeting their obligations, with an emphasis on speculation in and around new developments, infill housing and properties that have been sold within a short duration. Additional revenue of $117 million was assessed in 2017–18 as a result of audit activities on property compliance issues.

During our initial focus on speculators we carried out a lot of work on areas where the property turnover is high and where customers are more likely to get it wrong.

In 2017–18, over $7 million of Resident Land Withholding tax was deducted and paid from properties sold by overseas-based vendors who are subject to the bright-line test.

Data from Land Information New Zealand is helping us monitor property transactions

Since the bright-line test came into effect on 1 October 2015 we have had processes that mean property transactions can be monitored in real time. This is allowing us to understand trends and monitor and make initial judgements about customer compliance with the property tax rules. This means we can address these risks early.

We are using data from Land Information New Zealand to help us work out appropriate tax treatment for property transactions. This data has identified customers who have bought and sold residential properties within two years and who have not claimed an exemption on the tax statement provided with the sale.

To date our analysis of the 2016 income tax year returns indicates that less than 10% of taxable property transactions that were within the two year bright-line period were taxable under the bright-line provisions. While about 50 more residential property transactions still need to be reviewed for this period our audit results show about 80% compliance with the bright-line legislation.

Analysis of the bright-line transactions for the 2017 tax year identified around 3,000 transactions to be reviewed. We plan to contact the customers who were involved in these transactions. They will be encouraged to use our online resources to work out their bright-line obligations and encouraged to voluntarily comply with the bright-line legislation.

We will take action to address high risk compliance issues and deliberate non-compliance behaviours.

All potential bright-line transactions for the 2018 tax year have been identified although no assessment of compliance has been made as returns are not due yet.

Targeting New Zealand's hidden economy

Over the past year our investigations into the hidden economy found tax position differences of $145.2 million. Of this, $38.2 million came from work funded by the Government through Budget-funded initiatives aimed at targeting the hidden economy.

We also focused on fraud, including customers who attempt to obtain refunds, claims or other entitlements by intentionally trying to mislead or deceive us. Our adjustments to these entitlements due to fraud totalled $13.2 million.

Prosecuting when necessary

We completed 94 prosecutions for tax evasion, knowledge and Crimes Act 1961 offences. This compares with 118 in

2016–17. As at 30 June 2018, there were 121 prosecution cases before the courts compared with 115 at 30 June last year.

Tax cases received more media attention in the past year. This reflects public concern about appropriate action being taken when taxpayers are non-compliant. For the first time, this year a successful application was made by the New Zealand Herald to film and take photos in a criminal tax sentencing matter in the Auckland District Court. It involved income tax, PAYE and GST totalling $283,000.

We also play an important role on the international stage. New Zealand has acted as a pilot country in providing considerable content to the Organisation for Economic Co-operation and Development (OECD) in respect of the OECD drafting a publication about its members' anti-tax-crimes regimes.

Prosecuting customers with overdue returns

Working with customers is our preferred approach, however, if returns still remain unfiled by the due date we will consider taking prosecution action.

Last year 111 referrals were made for consideration of prosecution. We are working with many of these customers to get returns filed and avoid legal proceedings unless it is truly necessary.

As a result, 86 of the cases were resolved with the customer prior to going to court. Cases are usually resolved by the customer filing their returns and making arrangements to pay the tax assessed.

The remaining 25 cases went to court with 12 resulting in convictions and 13 are still before the courts.

In one case an individual and the company they controlled were convicted for not filing any income tax returns for six years. As a result of the prosecution and the work done with the customer and their agent, all of the returns were filed and overdue taxes were paid in full.

Legal action for parents with a child support debt

Where payments for child support cannot be arranged we can take action through the court.

For a parent who is liable to pay child support, is about to leave New Zealand and who has not made arrangements to pay 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 paid or under a payment arrangement. A parent can only be arrested to prevent them leaving New Zealand as the legislative provision does not allow for an arrest on arrival into New Zealand.

The Family Court issued 22 warrants for arrest for unpaid child support in the last year. As a result, 13 arrests were made at the border while the other nine people arranged payment before departure.

The 22 warrants have resulted in lump sum payments totalling $147,566 and arrangements being put in place for payments of more than $7,000 per month on the remaining debt. Child support debt has reduced by over $2.3 million because of these 22 warrants.

In addition to the warrants for arrest, we filed 125 other proceedings for recovery of unpaid child support, compared to 83 last year. Other legal action includes applications for charging orders, orders for sale of property, summoning people for examination, warrants to seize property and community work sentences.

We take action to collect overdue student loan debt

We can seek warrants to arrest for unpaid student loans. We only seek warrants for the arrest of student loan customers living overseas if they keep refusing to work with us to repay their overdue debts. While arresting student loan customers is rare, it is an effective means to recover debt. The media attention of arrests at the border also helps to raise awareness of student loan obligations and the importance of paying. Over the past year we sought one warrant to arrest a customer through the New Zealand Court system. The arrest was not required as the customer made a satisfactory payment.

In addition to seeking warrants for a customer's arrest, we are able to bring civil proceedings against customers in Australia and the United Kingdom if they fail to pay. We began civil proceedings against 28 Australian-based customers this year. To date we have resolved seven cases, which includes four lump sum payments totalling $107,193. We have also started civil proceedings against a further five United Kingdom-based customers in the last year. These cases are all still in progress.

Changing the Tax Administration Act gives greater tax transparency for businesses

The Tax Administration Act 1994 was changed in 2017 to allow us to disclose a company's tax debt to approved credit reporting agencies if the debt is higher than $150,000 and strict criteria have been met. This means anyone running a credit check on the company would be able to see the tax debt and make a more informed decision on their future dealings.

In October 2017, an Auckland company became the first entity to have details provided to a credit reporting agency. Eight companies have been reported, with four subsequently placed into liquidation. Formal notices of our intent to credit report have been served on 25 directors associated with an additional 18 companies.

From a wider pool of companies reviewed for credit reporting, 15 companies paid $7.3 million of overdue tax debt in full and a further 34 companies set up arrangements with us to repay $4.4 million of overdue tax debt.

Facilitating international tax compliance

New Zealand is an attractive place for people to do business and invest. Tax from significant enterprises is a large part of our revenue base. This with the increasing complexities of globalisation means we need to participate in international solutions to facilitate compliance.

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

Progress on base erosion and profit shifting

There are a wide range of international tax planning techniques 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 have made lots of progress in implementing the Organisation for Economic Co-operation and Development (OECD) action plan on BEPS.

New rules to counter base erosion and profit shifting

We gave advice to the Government on its plan to address BEPS. The Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 received Royal assent on 27 June 2018 and is New Zealand's main legislative commitment to the OECD's action plan on BEPS.

The five main proposals in the Act are:

> stronger interest limitation rules, which will prevent multinationals from using artificially high interest rates on related party debt to shift profits out of New Zealand

> a permanent establishment anti-avoidance rule. This will prevent multinationals from using artificial arrangements to avoid having a taxable presence in New Zealand, as well as expanded source rules including to address an issue with the taxation of life reinsurance

> updated transfer pricing rules. This will prevent multinationals from using related party transactions to shift profits to offshore group members in a way that does not reflect the actual economic activities undertaken in New Zealand and offshore

> hybrid and branch mismatch rules, which will prevent multinationals from getting a tax advantage by exploiting differences between countries' tax rules

> increased administrative powers for Inland Revenue so we can investigate large multinationals that may be avoiding New Zealand tax more effectively.

Most provisions in the Act apply to income years beginning on or after 1 July 2018.

On 27 June 2018 we ratified the OECD's Multilateral Instrument, which is a treaty that amends most of our tax treaties to deal with treaty-based BEPS risks.

We estimate that these changes could mean an extra $200 million of tax revenue each year once they are fully phased in.

Facilitating international tax transparency through effective exchange of information

It has been a busy year for us in the international exchange of information. This included implementing key initiatives like the common reporting standard and Foreign Account Tax Compliance Act exchanges. We successfully completed two key initiatives as part of our BEPS Minimum standards. These are:

Country by Country Reporting

This year we successfully completed our first exchange of country-by-country reports which set out where multinationals have returned their income around the world. We exchanged country-by-country reports with almost 30 jurisdictions.

Exchange of Tax Rulings

We successfully exchange tax rulings with our treaty partners. We are participating in facilitating international tax transparency and reducing the opportunities for harmful tax practices.

There has also been a successful peer review by the Global Forum on Transparency and Exchange of Information for Tax Purposes (The Global Forum).

Key items include:

Implementation of the Common Reporting Standard (CRS)

The Common Reporting Standard, also known as the Automatic Exchange of Information (AEOI) is an OECD-led international initiative aimed at addressing offshore tax evasion through the global exchange of financial account data.

We are one of 102 jurisdictions committed to implementing the Common Reporting Standard. Our implementation legislation requires financial institutions to identify and report financial information for non-residents that hold or control financial accounts in New Zealand. This reporting must be done annually.

The first reporting period for financial institutions was 30 June 2018 and we have started to receive information from our financial institutions to get ready to exchange with our treaty partners by 30 September 2018.

Exchange of information on request (EOIR)

The Global Forum peer reviewed New Zealand's EOIR programme evaluating New Zealand's compliance with the international standard of transparency and exchange of information. The review tested how we meet international obligations for cooperating with other jurisdictions in the detection and prevention of tax evasion and avoidance. It also looked at how we use tax treaty exchange of information mechanisms to create greater transparency.

The review was divided into three main sections:

1. Availability of Information: This section tested the availability of information in New Zealand.
2. Access to Information: This section covered our access to information, including our ability to exercise our powers as well as rights and safeguards for taxpayers.
3. Exchange of Information: This section tested the effectiveness of our tax treaty network and our Exchange of Information programme in practice.

We took a strong 'New Zealand Inc.' approach to the review because the legal and administrative frameworks that support full EOIR compliance are administered by a range of New Zealand government agencies. Thanks to the excellent cooperation between the agencies we were able to show we had an holistic approach across regulatory regimes.

New Zealand kept its 'Compliant' rating, which is the highest rating. This rating backed up our strong international reputation and our part in the global effort to tackle tax evasion and avoidance through greater transparency and effective exchange of information.

Mutual Agreement Procedures (MAPs) help resolve international tax disputes

The MAP article in tax conventions allows designated government representatives to resolve international tax disputes.

New Zealand has 40 double taxation agreements (DTAs). Each agreement has an article establishing a MAP for resolving difficulties arising from the application of the particular DTA.

New Zealand has 11 tax information exchange agreements (TIEAs) in force which also contain a MAP article, as well as six supplementary agreements to these TIEAs which include a MAP article.

New Zealand was recently reviewed by the Forum on Tax Administration's MAP Forum. We received excellent feedback from peer jurisdictions and the MAP Forum made specific mention of our turnaround times and near 100% resolution of cases. This shows our strong customer-centric approach where we do our best to make sure of a fair outcome for our customers.

Focusing on multinational compliance

Multinationals continue to remain a priority customer segment for our international compliance programme.

This year our International Questionnaire went to over 650 corporates.

We collect and analyse relevant information about multinationals operating in New Zealand. We were pleased with the cooperation of these corporates as we received a 100% response rate to our questionnaire. We use the information to identify and combat transfer pricing and other base erosion and profit shifting (BEPS) activity.

We are developing an international monitoring framework to help us track and evaluate the effectiveness of our new BEPS legislation. The information from the questionnaire will help inform the framework. It will also allow us to track the compliance of multinationals and detect any changes in behaviour.

Working with international partners

We participate in relevant Organisation for Economic Co-operation and Development/Forum on Tax Administration work programmes, especially the Joint International Taskforce on Sharing Intelligence and Collaboration network. This facilitates the exchange of intelligence and best practices on common issues. This has been especially useful as we have worked on major data leaks including the Panama Papers and the Paradise Papers.

As a member of the Study Group on Asian Tax Administration and Research (SGATAR) taskforce our significant contribution for the year was the development of the multi-year plan to upskill tax administrations in SGATAR. This was adopted by the members at the 47th Annual Meeting in Boracay, Philippines and is now the base for capacity building for SGATAR for the next five years across its 17 members.

We also contributed to capacity building for SGATAR and the Association of Southeast Asian Nations members by working with the Inland Revenue Authority of Singapore and delivering a five-day training programme on the exchange of information. This was well received, as we have been recognised as one of the countries who lead the way in international exchange of information practices.

The year ahead | Overview of what we will deliver in 2018–19

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

We will continue with our activities in the hidden economy, property and complex technical issues like aggressive tax planning to help identify those who do not comply voluntarily.

Our work to tailor communications to different customer groups will continue so customers get the information they need to get things right from the start. The customer is at the centre of everything we do. We will use our customer segment strategies to improve our customers' experience.

We will increase our focus on the bright-line test so people are aware of their obligations when selling residential property. In Budget 2018 we received funding of $26.5 million to target customers who have not filed returns by the due date and to identify legislative opportunities to increase compliance over the next four years. We expect to generate additional assessed revenue of $183 million.

We will continue to be a part of the Organisation for Economic Co-operation and Development work to deal with base erosion and profit shifting. Once the initiatives are implemented they are collectively forecast to increase revenue by $200 million per year.

Supporting our people

Our organisation is changing and we are helping our people through this process. We are transforming and the way we deliver our services is changing. We are creating an agile, intelligence-led organisation built around the needs of our customers.

We are investing in the skills and capability of our people. We have programmes in place to help our people as we transform.

We will manage ourselves well as we change our organisation, systems and processes. We will work better together to deliver improved outcomes for our customers.

We are supporting our people to be successful

At a glance...

Our three new business groups
started
operating in February 2018

Organisation design saw
150 task-focused job expectations
transformed
into 25 capability-based roles

Our people are working
differently,
customer-facing teams have more flexibility to use their skills and knowledge to make decisions when they are helping customers

Broader revenue
delegations
are helping customers as our people no longer have to escalate as many decisions

We launched our new
capability
development programme, Investing in You, in March 2018

Many of our people are taking part in
health & wellness
activities through our Hauora Hub, our wellness portal that gives our people resources on health and wellness

Our new performance approach,
Whanake,
was launched in August 2017

We are supporting our people to be successful

Investing in our people to meet the needs of our customers

Our transformation is more than just about introducing new systems and technology. It is also about creating an organisation that works better together, which ultimately improves outcomes for our customers.

We are creating an agile, intelligence-led organisation built around the needs of our customers. To get there we are investing in the skills and capabilities of our people and making changes to our leadership and culture.

The key shifts of our organisation design are shown in Figure 4.

Our three new business groups started operating in February 2018

We have made and will continue to make changes to the way we work. This year we developed:

> a new decision-making model and wider delegations so our people are clear about what decisions they can make and how to get help if they need it
> workflows for the new roles so people are given work relevant to their customer segment, skills and abilities
> programmes for new leaders and tailored support for our current leaders at all levels
> redesigned performance, recognition and pay approaches.

In February 2018 we established three new business groups:

> Customer and Compliance Services—Individuals
> Customer and Compliance Services—Business
> Information and Intelligence Services.

These groups replaced the Service Delivery and Information, Intelligence and Communications business groups. Around 4,200 people, or two-thirds of our people, were affected by the changes when the final decisions were announced in July 2017. When the new business groups started operating in February 2018, 90% of affected people had taken up new roles in the groups, with the balance leaving the organisation either through attrition before the process was complete or redundancy.

In the new business groups there were fewer management roles and more technical specialist roles. We did not reduce our frontline services or the number of offices in towns and cities throughout New Zealand.

We had a tailored transition process in place, in line with our people's employment agreements. Our People Transition Hub provided support during the transition process.

Allowing our people to put customers at the centre

Our new design transformed 150 task-focused job expectations into 25 capability-based roles.

We designed our customer-facing functions to allow our people to:

> provide better services to customers
> apply their skills more broadly to a range of work
> focus on growing their capabilities and skills
> work together more closely
> make the most of a new and changing work environment, aided by technology.

Our people are starting to work differently, with a focus on growing their skills through on-the-job learning and training.

We are preparing ourselves for the future

After establishing our new customer-facing groups in February 2018, we have started to look at the rest of the organisation. This covers how we do our policy work, our organisation-wide tax technical and our support areas such as finance, technology and people. We are thinking about how they might work in the future.

We are including our people and our unions in this thinking. We are working initially from a high-level view of how these areas might operate, sequencing further detail and implementation over the next three years in a way that supports transformation through to 2021.

We will keep our people, our unions and other key stakeholders fully involved as we progress this work.

We are involving our unions in our transformation

Our three unions—the Public Service Association (PSA), Taxpro and the National Union of Public Employees (NUPE)—play an important part in Inland Revenue. They represent the voices of their members and we are committed to working with them.

This includes communicating at the right time and in the right way to make sure unions can understand and influence decisions where appropriate, and work through different views when they arise.

In 2017 we worked with our unions to set up our three new business groups. We worked through a number of challenges with the PSA. During our transition process, the PSA began two legal proceedings against Inland Revenue in the later part of 2017—one about the use of psychometric testing as one source of information in our assessment and selection process, and one about the lawfulness of making individual offers once bargaining had begun.

The case about psychometric testing went directly to the Employment Court and a hearing date was set for May 2018. Working with the PSA to determine a way forward, Inland Revenue decided to remove the psychometric assessment component from the management of change process underway. Early in 2018 the PSA dropped its case against Inland Revenue.

The Employment Relations Authority heard the case about the lawfulness of making offers and found in favour of Inland Revenue on all accounts. The PSA appealed this decision to the Employment Court, which ruled in favour of Inland Revenue about making offers but agreed Inland Revenue should have dealt directly with the PSA for those who had authorised the PSA to represent them in this change process.

Throughout the 2017–18 year we met with the PSA often to work through the concerns of their members and reach agreement. In early 2018, Inland Revenue and the PSA reached a new agreement on how to work together.

We will continue to work alongside our three unions as we develop our future operating model. Members, representatives and delegates of our three unions are part of the work we are doing. As we plan our future, we will work with our unions to work out how best to involve them to reflect the interests of their members.

We are listening to our people and improving our processes

In March and April 2018 we commissioned an independent review of the change process that set up our three new groups. We know it was a challenging time for our people as some of our change processes did not work as well as they should have.

The aim of the review was to understand and gather feedback on the design process and introduction of the three new business groups. The review looked at what went well and what did not go well so we know how we can do things differently in the future. The reviewer spoke to more than 300 people involved in the change, from senior leaders to frontline staff and our unions.

The results were shared with our people in August 2018. The review found eight areas for improvement. We are working through how we will address each one.

We are adding some of the review's recommendations into the work we are doing as we develop our future operating model. This includes testing key ideas with our people early on, adding more resources including specialist human resources and communications people, helping our managers and team leaders more, and making sure all of our people are clear about what is changing and why.

FIGURE 4: FIVE KEY SHIFTS TO MOVE US TO OUR NEW ORGANISATION

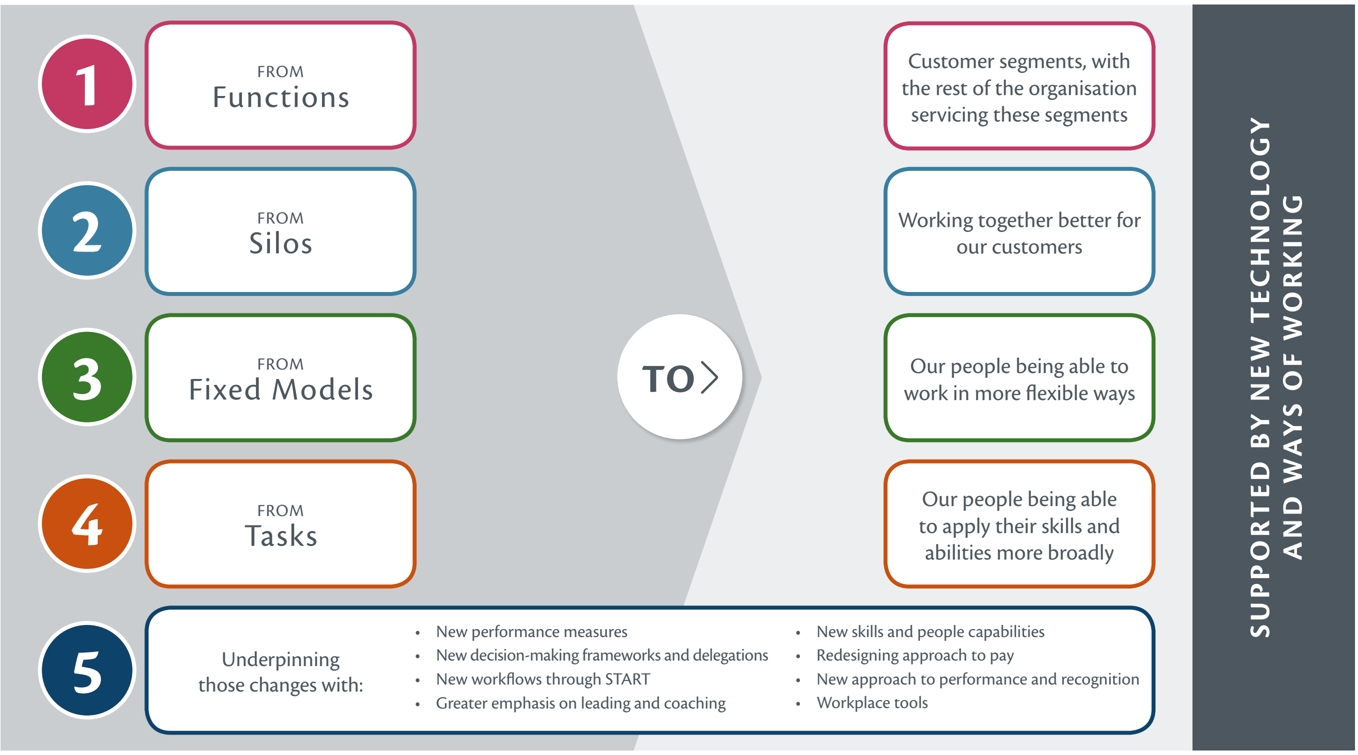
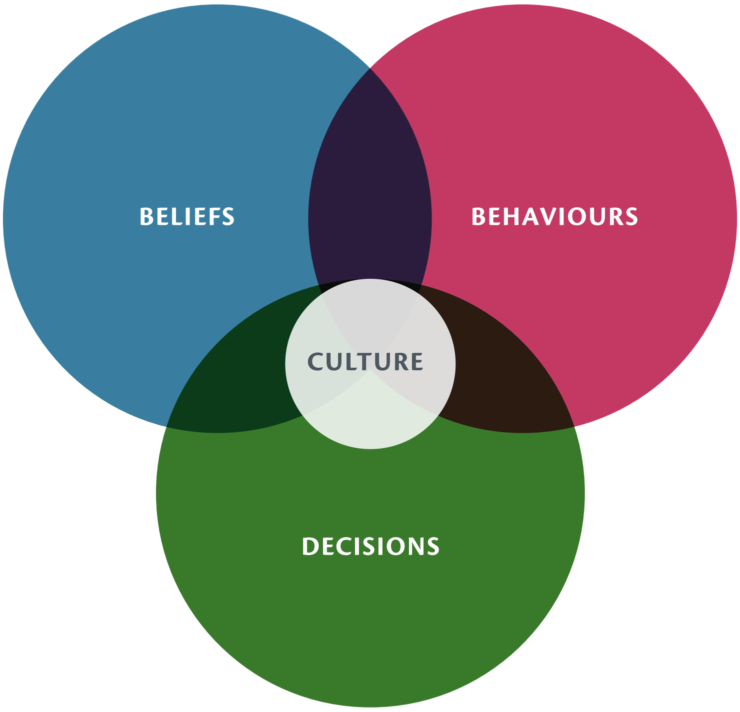
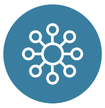


FIGURE 5: OUR DESIRED ORGANISATIONAL CULTURE



How we behave: leadership, behaviour styles, interpersonal dynamics.

- People oriented
- Empowered
- Proactive
- Collaborative



What's important to our business: vision and mission, strategy, business model, values, brand.

- Partnering with customers
- Externally focused
- Innovative

How we make choices: governance, decision rights and accountabilities, policies and processes.

- Whole of Inland Revenue
- Outcome oriented
- Open and transparent
- Risk tolerant

Our desired organisational culture

Our culture describes how we work together, our beliefs, values and behaviours and provides a foundation for everything we do. It shapes our relationships with each other, our work with our customers, the decisions we make and the actions we take.

We have identified the organisational culture that will support us to achieve our strategic objectives. We want to be seen as being customer-centric, intelligence-led and agile. These are our culture anchors.

We have a range of programmes already to help our people as we keep transforming. These programmes will become embedded over time and include:

- Our People Capabilities—in early 2018 we launched the 'My Capabilities' assessment tool which helps people understand their capability and find areas for development. At the end of June 2018 over 1,800 people had used the tool.
- Whanake (to grow/develop)—our redesigned performance approach was launched in August 2017. This is to help people to develop, grow and perform in their roles. Whanake is focused on helping broad conversations about current growth and performance and future development linked to the goals of the person. My Plan, the document that sits at the heart of Whanake, is now widely used across the organisation.
- Enabling You—is an online portal that gives our people the tools and information they need to navigate the changes happening in our organisation. It includes changes to our decision making, delegations and workflows.
- Hauora Hub—in 2018 we introduced health and wellness challenges to the Hub and we regularly have hundreds of people join them. These activities support our people's wellbeing and are a fundamental part of building a great working environment. Around 3,500 of our people are signed up to the Hub.
- Learning and Development—our approach puts our people at the heart of their own learning and development. Learning is built around their needs and helps find the capabilities, skills and knowledge that apply to their role. It also helps people build their own

learning plan to learn, grow and develop. Resources include our Team Performance programme which helps our leaders build high-performing teams and Kete Ahurea which supports knowledge of our desired culture.

> Continuing Professional Development—we support our people to meet their yearly professional learning and accreditation requirements. We continue to provide ongoing professional development for our tax professionals at all levels. This development ranges from in-house training on the interpretation and application of tax and social policy legislation, systems and task training, communities of practice for senior professionals, an annual tax conference and smaller special topic conferences.

We aim to make Inland Revenue a great place to work

We measure perceptions, employee engagement and the extent of any culture gap through Kōrero Mai, our organisation-wide culture and engagement survey.

Our last Kōrero Mai survey ran in July 2017. The survey ran at a time when we were undergoing changes to our business groups, which affected a large number of our people. Changes of this nature can be difficult for people and create uncertainty. The uncertainty our people were experiencing is reflected in our engagement score (27%). We will start running smaller and shorter Kōrero Mai pulse surveys in 2018–19. While our current level of employee engagement is low, we aim to make Inland Revenue a great place to work, where people are helped to do their best work.

We know our people are our greatest asset and we remain committed to improving employee engagement through the ongoing work we are doing.

Our current focus is:

> implementing change effectively and supporting our leaders and our people

> building trust and visibility and explaining the decisions that are being made about our future

> allowing our people to build their capabilities so they realise their potential while valuing the strengths their diversity brings

> improving workflow procedures and processes

> ensuring all communications are timely and open.

This will be achieved through a dedicated work programme, governed by our Organisation Development Committee.

In 2017–18 we:

> ran focus groups with senior leaders to create open discussion and visibility in 2018

> updated the information telling our people about what is happening, resources and articles, information on activities, links to learning materials to help teams and Kōrero Mai results

> launched our new recognition approach in late 2017. It promotes and makes it easier to recognise the contributions of our people

> introduced resources to make sure a range of learning opportunities that support knowledge of our desired culture and engagement are available.

To embed the programmes already in place we will:

> run focus groups over the next 12–18 months, so people can share their thoughts on a range of matters when our executive and senior leaders visit sites around the country

> hold communication groups for leaders and all staff, including forums for people to share their experiences

> recognise our people who are doing great work in building team culture and creating a positive working environment

> target Kōrero Mai pulse surveys at various levels of the organisation to help us understand the effect our initiatives and activities have on our people.

We are committed to our responsibilities under the Treaty of Waitangi

We understand the importance of having the right capability to meet the needs of our Māori customers and our Treaty of Waitangi obligations as a government agency. During the year we worked on developing our Māori capability in te Reo Māori and tikanga Māori.

Our new role descriptions include an expectation that our people have the skills and knowledge to deliver appropriate services to Māori within the spirit of the Treaty of Waitangi. This expectation is supported by Māori capabilities that are part of our people capabilities.

We are incorporating tikanga cultural practices

Tikanga Māori practices are being incorporated into our general accommodation processes, like when we move into a new building. This gives us an opportunity to develop the capability of our people so they understand what is happening and how they are can take part.

During the year we:

> participated in blessings for new building sites, including our new Palmerston North site

> held blessings to open buildings, including EagleTech House in Wellington and our new buildings in Napier.

When we hold these ceremonies, we work with and are guided by the mana whenua of the region. Building or strengthening relationships with various mana whenua groups helps us to recognise and respect the rights of mana whenua and meet our Treaty of Waitangi obligations.

Key features in many of our buildings are our taonga Māori. We are updating our taonga (treasure) guidelines in 2018–19 to make sure we care for our taonga appropriately, especially when doing building works or general maintenance.

We are updating our Te Reo Māori Language Plan

Te Reo Māori Language Act 2016 requires agencies to have a Māori Language Plan to support the wider Government Māori language strategy Maihi Karauna.

To help us understand the new requirements, we talked to Te Taura Whiri i te Reo Māori, the Māori Language Commission, about updating our Māori Language Plan. In June 2018 we signed an agreement called Mahi Tahi with Te Taura Whiri i te Reo Māori that will see us working together to review and develop our new Māori Language Plan.

This review will include talking with our people. We will deliver an updated Māori Language Plan in 2018–19.

We are increasing the capabilities of our people

Our people need the right capabilities to support delivery for our customers as we transform and beyond. Capability is the mix of skills, knowledge, experience and attitudes required to do the job. We are helping our people adapt to changes in customer needs and the environment we work in, while keeping up excellence in specialist technical knowledge.

Our priority people capabilities

We have 12 people capabilities. Each capability has three levels—fundamental, applied and expert. These are the capabilities we will focus on so that we can achieve our future state.

The 12 people capabilities are integrated into our role design and our approaches to learning, performance and workforce management.

New capability development programme is designed for our people

In March 2018 we released our capability development programme called Investing in You. The programme has a number of learning initiatives, tools and resources that allow our people to discover their strengths, capabilities and the areas they want to develop.

FIGURE 6: INLAND REVENUE PEOPLE CAPABILITIES

New approach to decision making helps us support customers

During the year we changed our decision-making and revenue delegations frameworks. This change is one of the five shifts. It gives our customer-facing staff the power and support to make more decisions for their customers rather than waiting to get approval from their team leaders or managers.

These new responsibilities and wider roles mean that customers are able to get more of their queries sorted by one person, with some queries being sorted in hours rather than weeks. It also means our people get a more rewarding work experience.

More information on these changes can be found in *Making it easier* on page 36.

Aysha says, "For me, this works great because it gives me the confidence to take actions that I wouldn't have previously done—but I knew how to do". Tim agrees, saying it allows him to get results for customers straight away. "I really enjoy it because, for me, it means I can do more for the customer when I have them on the phone."

AYSHA HAMILTON AND TIM LYE | WELLINGTON CONTACT CENTRE, HAWKESTONE STREET.

We know we are going to be a smaller organisation

We have a set of workforce principles to manage what will happen when our staff numbers reduce, make the most of opportunities for existing staff and achieve the right capability for the future.

One principle is that we will think carefully before we make permanent external appointments. This means we are looking inside the organisation first, making sure our people have the opportunity to grow and develop.

These workforce principles have had a positive effect on the flexibility of our workforce. We have used a range of employment contract lengths when appointing people. Filling vacancies through internal secondments or fixed-term employment contracts has given us flexibility and helped us keep providing our services.

We have redesigned our performance and recognition approach

Whanake shows our increased focus on understanding and developing capability to support our desired culture.

Instead of conversations that were about measuring and assessing performance, our focus is on regular high-quality coaching conversations with a person's leader. These conversations will help develop the capability of our people to deliver our services to customers, rather than focus on performance ratings.

The approach is based on our belief that our people can and will do a great job.

Whanake is supported by five behaviours that show what doing a great job looks like and provide a framework for coaching conversations. They are:

- We **deliver**: We do what it takes to deliver for our customers and are accountable for our commitments
- We are **clear**: We know what we need to do to achieve
- We **connect**: We connect what we are seeking to achieve with the goals of the organisation and our colleagues
- We **collaborate**: We work together, committed to both our colleagues' and Inland Revenue's success
- We are **curious**: We ask questions, listen and continue to learn.

The behaviours link directly to our wider programme of people initiatives and in particular our shift to becoming a capability-led organisation. Refer to Figure 4 for the five shifts.

We recognise the great work our people do

Our new recognition approach promotes and makes it easier to recognise the great contribution our people make every day.

In April 2018 we brought all recognition resources together. These resources support everyday recognition options, with simple and easy-to-use tools like eCards that our people can use to acknowledge their colleagues.

We also have more formal options like the Commissioner's Awards where people nominate colleagues for going the extra mile, delivering great customer services, innovating to make a difference or showing great leadership skills.

Our new pay approach

We have continued our redesign of our pay approaches to ensure they are contemporary, support transformation and reward people for growing their capability and contributions. Our new pay designs must also continue to be affordable and sustainable, and be flexible enough to keep pace with changing requirements.

The thinking and intentions that underpin our pay redesign work is consistent with our philosophies about performance and capability. During March and April 2018 we shared our approach for roles under collective coverage, our Banded Pay Structure, and roles that are excluded from collective coverage, our Graded Remuneration Structure.

The new Graded Remuneration Structure took effect from 1 July 2018. The new Banded Pay Structure was a key part of collective agreement bargaining discussions with each of our three unions, and has been implemented for members of the PSA, Taxpro and NUPE, and for our people who are not members of a union.

Awards

At the 2018 LearnX awards our Accelerate First Line and Advanced leadership development programmes won Platinum in the 'Best advance in leadership' category. LearnX is an organisation that supports and promotes advancements in workforce learning.

Our 2017 Annual Report won gold at the Australasian Reporting Awards. The Awards encourage effective communication of business and financial information and to continually improve the standard of reporting.

We were also finalists at the CIO 2018 Awards in the 'Business Transformation through Digital and IT' category.

Commissioner's Awards

Every month we have winners in the Commissioner's Awards and each recipient is entered into the overall Stellar Achievement awards held in August each year. These two people were winners at the 2018 Stellar Achievement awards:

Photo / Commissioner Naomi Ferguson with Dale Parkes

Photo / Commissioner Naomi Ferguson with Brodie Congdon

Charter Award winner—Dale Parkes

This award is for a person who demonstrates outstanding or excellent customer services and displays the values and expectations of our Customer Charter.

Dale has been called "a breath of fresh air", "reliable", "knowledgeable" and "a fixer".

The customer also wrote about his experience online and said "A bubbly woman called Dale in the Manawatu contact centre managed to combine good humour with an ability to make stuff happen".

"Best of all she didn't treat me like I was dumb when I asked dumb questions. Rather she used that magic phrase "how can I make this right for you?"

Innovation Award winner—Brodie Congdon

This award goes to people who have developed new ways of doing our work that reflects the type of organisation we need to be.

Brodie made a new tool that made a dreaded task a lot faster, more accurate and more professional looking. He was a key person in developing an automation tool called 'note extractor' which automatically takes system and telephone notes from the old FIRST system. This has really improved how information is handled, speeding up the process from taking hours to seconds. It's also helping cut human errors in Privacy Act requests.

We provide Equal Employment Opportunities for everyone

We understand that our workforce needs to reflect the values and make-up of the communities we serve, which helps 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 make sure of equality in the workplace for everyone. We want to remove barriers so all of our people have opportunities to develop and progress.

We apply our EEO policy in all our people processes, including recruitment and development.

We are addressing the gender pay gap

The gender pay gap is a high-level indicator of the difference between women and men's salaries. It is worked out as the difference between the average annual salary for women and the average annual salary for men. The gender pay gap at Inland Revenue is 19.4% and the difference in average salaries for men and women is $16,235. However, the average pay gap for people in similar roles is only 0.3%—men and women are paid equally. The gender pay gap is almost entirely explained by the fact that we have fewer women in higher paid roles and more women in lower paid roles. Women only make up 43% of the people who earn over $100,000, while they make up 68% of the people who earn under $100,000.

This year we focused on what is driving our gender pay gap and finding actions we can take to reduce it. We did this through data analysis and workshops with stakeholders, our Women's Network and other diversity networks and unions.

The result is a five-year action plan that includes activity to:

> Attract a diverse pool of applicants to improve representation of underrepresented groups at all levels and areas of the organisation

We will do this by limiting the requirements in our adverts to those that are essential; advertising all roles as being flexible as some roles currently cannot be part time; and including statements in our job adverts that promote our diversity and inclusion aspirations.

> Ensure our selection processes are free from bias to improve representation and pay equity at all levels and areas of the organisation

We will introduce mechanisms to remove bias from shortlisting for all roles and review our end-to-end process to build in checks and balances where unconscious bias may occur.

> Have a place where all people can work to their potential and develop their careers regardless of gender. We will support our people who are in the early stages of their careers to recognise their capabilities so they can build rewarding careers. The 12 capabilities and broad based roles are designed to allow people to develop their careers by working across Inland Revenue with ease.

We will make sure gender neutrality is considered in our future design and flexible working is built in line with the gender pay gap principles. We will build on our work to promote gender equality and improve representation through mechanisms like coaching/mentoring and internships. We encourage all of our people to invest some of their time in personal development.

> Have a gender neutral working environment and a culture that supports gender equality

We will review all of our policies and guidelines to make sure they are gender neutral; review our use of imagery to ensure it is gender neutral; ensure gender neutrality is considered in all organisational development work and people-related initiatives; and regularly measure and publish progress in relation to the gender pay gap, representation and pay progression.

> Be a family friendly employer and enable our working parents to build successful careers

We will build on our work to make sure that training includes those who work flexibly; set up the expectation that all business meetings include our people who work part time and flexible work hours; update our return-to-work process for staff returning from parental leave; and make sure all of our offices have a separate, secure nursing room with adequate business tools to support new parents to keep working if they wish.

Improving our sites to meet the needs of the disabled community

In 2017 we started working with Workbridge to find out how we can more effectively meet the workplace needs of the disabled community. Workbridge is the largest New Zealand-owned employment agency for people with disabilities, injury or illness. It is an incorporated society and a not-for-profit organisation and its services are free for employers and jobseekers. Our work so far with Workbridge has included visits of all of our sites, looking at some of our recruitment practices and looking for ways in which we can become a more disability friendly workplace.

Workforce statistics

Our workforce profile

Our workforce profile is changing as we transform. During the year we had a decrease in our permanent full-time equivalent (FTE) staff and the number of fixed-term FTEs and contractors increased. The demographic make-up of our people has stayed relatively the same over the past five years.

Our workforce profile is shown in Figure 7.

We value diversity and inclusion in our workforce

Meeting the diverse needs of New Zealanders is important to us. A diverse workforce and an inclusive culture allows us to better understand and respond to our customers' needs. We value diversity of thought, beliefs, backgrounds and capabilities.

As at 30 June 2018 our people represented 114 different ethnicities, which is also broadly in line with the ethnic make-up of New Zealand.

Refer to Table 6 for a comparison of ethnicities at Inland Revenue.

The diverse perspectives of our people help us understand the challenges some of our customers have when working with us. As we transform our organisation there will be more opportunities for our people and as we become more customer-centric and intelligence-led, the diversity of our workforce will help us design and deliver the right services for our customers. Understanding our customers, how they see the world and the life events they are experiencing means we can help our customers get it right from the start.

Our diversity and inclusion advisory group, Te Manu Korihi

Te Manu Korihi is made up of people within and outside of our organisation. Te Manu Korihi plays an important role by giving us diversity and inclusion perspectives for our people-related policies. We are also starting to give Te Manu Korihi an opportunity to help us with our customer-based strategies so they reflect the wide range of customers we serve.

During 2017–18 Te Manu Korihi met every two months and talked about:

> how we engage with social policy customers on policy changes
> analysis of diversity data
> the gender pay gap
> findings from our Diversity and Inclusion benchmarking survey
> the issues we need to think about to address demographic shifts to meet the needs of our customers.

TABLE 6: COMPARISON OF ETHNICITIES AT INLAND REVENUE

	New Zealand 2013 Census	**Inland Revenue** Human Resource Capability Report 2017	**Inland Revenue** Human Resource Capability Report 2018	**Public Sector** Human Resource Capability Report 2017
European	74%	73.6%	71.4%	69.1%
Māori	15%	12.1%	12.6%	16.0%
Asian	12%	15.3%	16.0%	9.4%
Pasifika	7%	6.7%	7.8%	8.7%

As people can identify with more than one ethnicity, these figures add up to more than 100%.

Our diversity networks help and develop our people

We understand the value people get from feeling included and belonging in an organisation. We help our people to create and nurture this sense of belonging through a range of diversity networks, including Māori, Pasifika, LGBTQI+ and Women's networks.

During the year we celebrated different cultural activities, including:

> Māori Language Week. Many of our local offices ran activities, which provided our people with opportunities to join celebrations and learn some te Reo Māori along the way.

> We celebrated a range of Pacific Language Weeks promoted by the Ministry for Pacific Peoples. In celebrating these language weeks, we understand the importance of these languages to our Pasifika staff and customers.

> We also celebrate other cultural occasions, like Chinese New Year.

> Our Women's Network had guest speakers on topics like career development, the gender pay gap and women in technology.

Photo / Deputy Commissioner Sharon Thompson and Customer Service Officer William Yu enjoying the Chinese New Year celebrations at our Takapuna office.

During the year we reviewed the way these networks operate. We found out what we needed to update as we made changes to our organisational structure and new ways of working. We also looked at how we could expand the networks.

We held meetings with our people to find out what they thought about the networks. These meetings found opportunities for our networks to contribute to the way we do our work.

In 2018–19 we will test the recommendations on how our networks could operate differently. Recommendations include:

> looking at how to support the networks so they can be run effectively and efficiently

> making sure networks are giving the right support for our people and where issues can be escalated

> engaging with Māori to gain an understanding of how diversity networks can help towards the achievement and maintenance of our obligations and responsibilities under the Treaty of Waitangi.

Our diversity and inclusion survey helps us build a more inclusive culture

To give us a clear picture of diversity and inclusion we carried out a Diversity and Inclusion benchmarking survey in November 2017.

The survey asked our people about how they identify, their attitudes, behaviours and experiences around a number of demographic identifiers, and how they feel about diversity and inclusion at Inland Revenue. Over half of our people took part in the survey.

The results showed that most of our people agree we have an inclusive culture and that we are doing a good job of supporting the diversity of our people. We are doing this through employing a diverse range of people, celebrating different cultural festivals and events, helping a number of diversity networks and featuring diversity and inclusion stories regularly on the intranet. It also showed us where we need to do more work.

Over the next year we will improve our understanding of these areas so we can develop targeted actions. This will be done through further data analysis, workshops with our people and stakeholders, like our unions and Te Manu Korihi, to find out what sorts of activities we should be doing and the development of an action plan with clear measures and targets.

"IR hires different cultures, and it's great to meet new people from different cultures."

"The IR TechWeek Diversity & Inclusion series of talks were awesome—thought provoking and thought shifting. The quality of conversations and questions has been really high. It's an awesome way to spread the word around D&I and making us all think."

"I find everyone in my unit at IR is supported and encouraged to celebrate cultural days significant to them. I love learning about other cultures so this is an aspect I really enjoy."

QUOTES FROM INLAND REVENUE STAFF.

FIGURE 7: OUR WORKFORCE PROFILE

	Headcount	Full-time Equivalent	Average Age	Full Time	Part Time	Permanent
2014	5,788	5,641	42.9	91%	9%	98%
2015	5,820	5,679	43.0	91%	9%	98%
2016	5,789	5,662	43.3	91%	9%	97%
2017	5,519	5,401	44.0	91%	9%	95%
2018	**5,250**	**5,134**	**43.7**	**91%**	**9%**	**89%**

	Fixed Term	New Hires	Exits	Unplanned Turnover	Total Turnover	Average Length of Service
2014	2%	743	663	8.6%	10.0%	11.1
2015	2%	737	675	10.0%	10.6%	11.3
2016	3%	558	658	10.0%	10.5%	11.5
2017	5%	400	670	10.7%	11.1%	12.8
2018	**11%**	**604**	**938**	**12.1%**	**15.4%**	**13.6**

	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%
2018	**64%**	**58%**	**47%**	**36%**	**42%**	**53%**

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

We are supporting Papa Pounamu and Te Hora

The Commissioner of Inland Revenue and the Secretary of the Treasury co-lead Papa Pounamu. This is the public sector diversity and inclusion work programme set by the State Services Leadership Team.

The officials group, Te Hora, supports Papa Pounamu. This group is made up of officials from various agencies across the public sector, including Inland Revenue, the Treasury and the State Services Commission. During 2017–18 Te Hora delivered a number of initiatives, including agency diversity and inclusion profiles and a public service-wide stocktake of diversity and inclusion policies, processes and activities.

We are keeping our people healthy, safe, secure and well

In February 2018 we launched a new vision for health, safety and wellbeing at Inland Revenue, where working in a safe and healthy way is what we do. We believe a workplace and culture that promotes healthy and safe work, and encourages our people to be well, is a better place to work.

Our vision encourages everyone to show manaakitanga (care and respect) and kaitiakitanga (guardianship) to all of our people, and integrates managing risks and health and safety into all of our work activities.

We have improved our health and safety reporting

We have moved to a risk-based health and safety governance report that focuses on proactively managing risks to our people's safety and health. It also uses incident reporting to check how effectively we are managing each risk.

The report also focuses on health and safety governance issues, how we engage with our people and it allows our senior leaders to check that the ways we keep our people healthy and safe are effective.

We report on our health, safety and wellness to our National Health and Safety Governance Committee and our Strategic Governance Board every two months.

We are focused on keeping our people safe

We have a strong focus on keeping our people safe and secure at our front-of-house counter services and when they do visits in the community. We do this by looking at the design of our front-of-house areas and by giving training and help to our people so they know how to manage risks.

TABLE 7: KEY HEALTH AND SAFETY RISKS

Health and safety risk	How we manage the risk
High-medium risk security events	*Front-of-house design and clear communication procedures and training to our people.*
Driving	*We choose appropriate vehicles and manage who is able to access vehicles.*
Hazardous substances including asbestos	*We choose safer substances where possible and we are working with landlords where asbestos requires management. To comply with the requirements of the Health and Safety at Work (Asbestos) Regulations 2016 we have been working with our landlords to gather information on the presence of asbestos in buildings we lease built before 2000.*
Unsafe contracted physical works	*We choose contractors that have a history of safe, healthy work practices.*
Working alone when visiting customers	*Our people hold meetings at our sites where required and do risk assessments before visiting in the community.*
Fire	*We control the risks of fire in our premises by choosing buildings built from materials that have limited flammability and carrying out emergency evacuation drills.*
Animal attack	*We require our customers to restrain animals and we hold meetings at our sites rather than in the community if there are concerns.*
Psychological risks	*Our people have access to an Employee Assistance Programme wellbeing programme. We also monitor how long our people are working and when they are taking leave. We are working with the government sector to introduce all-of-government mental health tools.*

Our updated health, safety and wellbeing commitment and framework sets out clear expectations for our people.

All senior leaders attended training in April and May 2018 that focused on health and safety critical risk management processes. We have put in place a three-year strategic plan to keep improving the way we integrate health and safety risk management within our business processes.

We are introducing improved business unit and site risk registers and a risk-based approach to managing the health and safety risks of contractors doing physical works at our sites around New Zealand.

Table 7 describes our key health and safety risks and how they are managed.

By joining a number of data sources we have a clearer picture of how effectively we are managing our risks to health and safety.

Table 8 shows our health and safety reports for 2017–18.

We keep working with our people, their leaders and the Accident Compensation Corporation to support our people with recovery and a safe and timely return to work.

We also keep working on improving the management of our psychological risks and helping our people with mental health issues, as well as promoting good mental wellbeing for all our people.

We engage with our people around health, safety and wellbeing

Our online Hauora Hub gives our people resources on physical and mental health and wellness. People have also been involved and supported in health, safety and wellbeing activities through the year. This included talking to our people and the unions when we updated our Worker Participation Agreement. The Worker Participation Agreement outlines how we work with our unions and our people to provide a safe and healthy working environment. Our health, safety and wellbeing processes are for everybody in our organisation as we want all of our people to know what their responsibilities are.

Health and safety representative elections in May 2018 had a strong response across our sites. As at 30 June 2018 we have 180 health and safety representatives.

Over 2,120 people had a flu jab paid for by Inland Revenue in 2018, which is 41% of our people—slightly higher than other years. To the end of June 2018, over 1,400 people had accessed counselling through the Employee Assistance Programme (nationwide) and onsite Workplace Support (Christchurch offices). We have seen access to the services rise, which may be because of better understanding of the services and promotion during our change programme.

TABLE 8: HEALTH AND SAFETY REPORTS 2017–18

Type	Number
Incident reports related to our identified key risks	139
Discomfort reports	481
Security reports including events with superficial and no injuries	862
Reports related to our key risk areas:	
Driving	47
Psychological risk	47
Legionella, hazardous substances or asbestos	6
Fire systems	3
Animal attacks	2
Unsafe contracted work	2
Other reports	294
Work-related Accident Compensation Corporation (ACC) claims	61
Incident requiring notification to WorkSafe New Zealand under the Health and Safety at Work Act 2018	1
Total reports	**1,945**

We are adopting new ways of working

We trialled different ways of setting up our workspaces

During the year we looked at different ways of working. We looked at some activity-based working styles. The study allowed us to look at which roles across our organisation are:

- focused—where people spend most of their day working on individual concentrated tasks at a desk
- connected—people who spend approximately half of their day working on individual concentrated tasks and the other half meeting and collaborating with others
- dynamic—people who spend most of their day meeting and collaborating with others.

In the Asteron Centre in Wellington we started a trial in late April 2018 with one floor that has two different teams set up with new working spaces. Using the activity-based working style data we had for roles within these teams we made new working zones for the trial. The zones were free desk space, collaboration space, connection space, quiet or focused space and assigned desking.

Feedback from the trial shows that each team has adopted different aspects of activity-based working to support their own environments.

Where possible we will look to apply new working zones to new sites, like in Palmerston North. We will keep doing observation studies to look at whether changes in our workplace setup and how we allocate space to our people will benefit our organisation.

New workplace tools allow our people to work more collaboratively

The way we work is changing. We are improving our workplace technology so that it meets our changing needs by moving to a cloud-based solution, Office 365. We now have WiFi at all our sites. This allows our people and visitors, including our customers, to connect to the internet on their laptops and devices.

We are also investing in tools that support our information and knowledge management. This includes Stax, our new enterprise content management system.

We are beginning to introduce agile teams and work methods to deliver results to the organisation differently. This includes understanding the type of capabilities and culture needed to support this. We are using new business tools in different ways. Tools like JIRA and Confluence are helping us manage and track our work.

Implementing new technology has allowed our people to work in more collaborative, flexible and agile ways. This included:

- increasing the number of tablets and laptops, which gives more mobility and flexibility with working arrangements for our people
- allowing teams spread across different sites to use technology like Skype and video conferencing so they can come together as a networked team to interact and collaborate
- incorporating Skype with a shared collaboration tool like Microsoft OneNote and a large display so teams in different sites can join in meetings
- replacing desk phones with Skype softphones
- moving data from our drives and email to the cloud, which offers more storage and easier access from outside of our network
- upgrading from Windows 7 to Windows 10, which gives more functionality and security
- using large touchscreen TVs to help facilitate team stand-up meetings, small team discussions and Release 2 Early Life Support
- using Yammer (see below) to gather ideas from across our organisation
- having more mobility and easier access to files and applications from outside of our network.

We are using Yammer to connect our people across the organisation

In February 2018 we launched Yammer, an internal social networking tool that helps our people collaborate, ask questions, test ideas and share knowledge in real time. It is part of the shift in the way we do things to help our people connect with each other, regardless of where they are and what their roles are.

We ran a six-week trial of a small number of open pilot groups that everyone could follow and take part in. Five of the six groups met their success criteria, with more interest in internal news stories and good innovation and connections between different areas. In May 2018 Yammer was opened up so that anyone can make new groups.

The year ahead | Overview of what we will deliver in 2018–19

Our organisation will keep changing as we work towards making an agile, intelligence-led organisation built around the needs of our customers.

Our people will be supported through a range of programmes, including our capability development tool, Investing in You, so people can find areas to work on to increase their skills and capabilities.

We will introduce recommendations from the independent review of our initial management of change process.

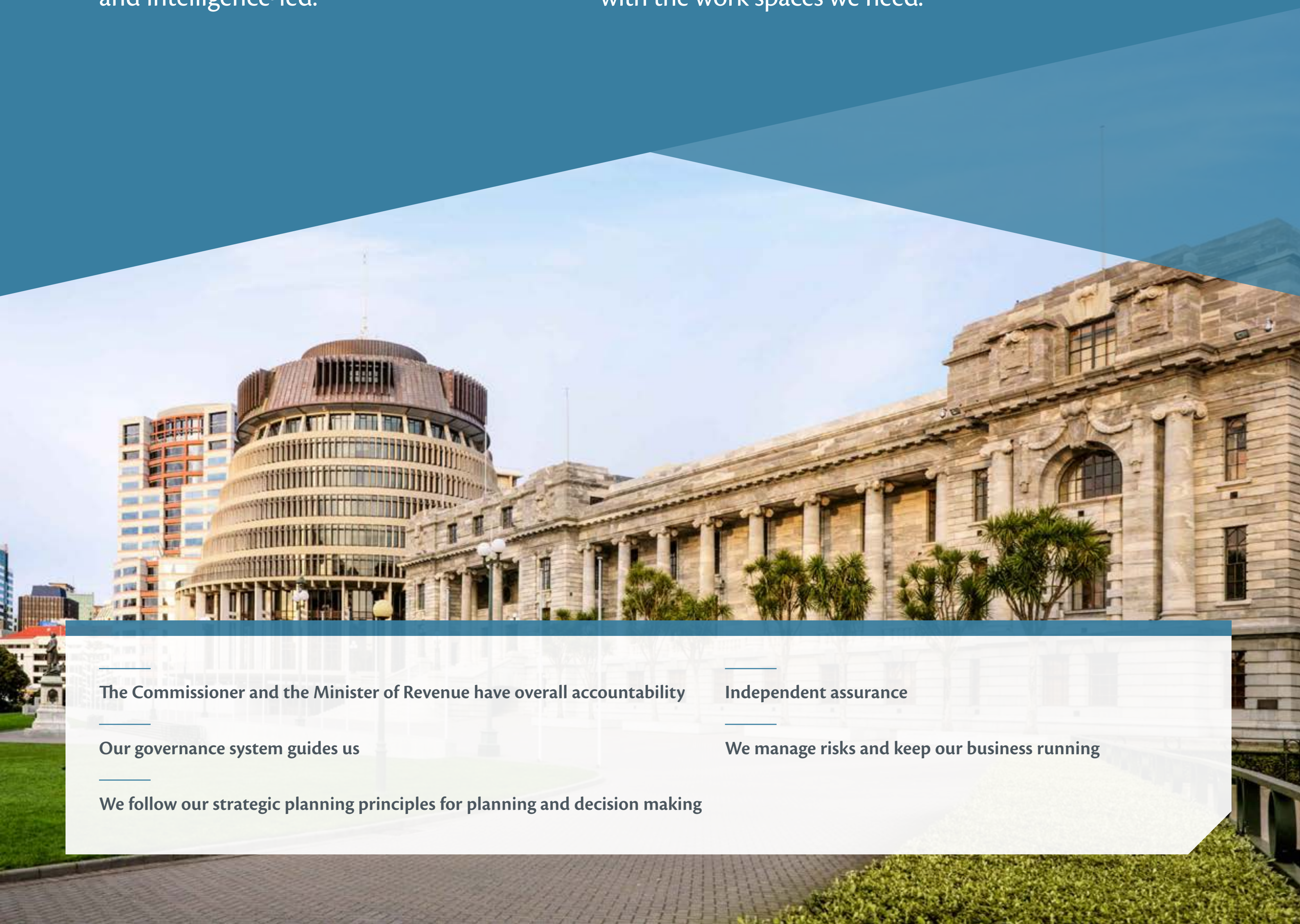
We will keep working on building organisational culture and make sure our people have opportunities to learn, grow and develop. We want Inland Revenue to be a great place to work—to help keep us on track with this we will run Kōrero Mai pulse surveys throughout the year to check in to see how people are feeling.

We will work on our five-year action plan to address the gender pay gap and keep working towards a more inclusive culture and support our diversity and inclusion networks. Health and safety will become embedded so we have a workplace where people can be well and have a better place to work.

Our governance and management

We have a well-established system of governance that guides us as we work to achieve our outcomes. As a government department, the way we work and the things we do are shaped by laws and the Government. Our strategic direction and performance is managed through our Strategic Governance Board and supporting committees. As we transform we will look at our governance system to make sure we stay customer-centric, agile and intelligence-led.

Our people are guided by policies and frameworks to ensure that we act appropriately and meet public expectations. Independent groups regularly review how we are doing to give an external view, and we use this advice to improve. Effective risk management makes sure our operations are adaptive and ready for change. We also make sure that our technology systems are ready for the changes we will make and that our property portfolio keeps providing us with the work spaces we need.



At a glance...

The governance **structure** that was implemented in July 2017 is serving us well

Independent reviews of our transformation and performance are used to confirm that our business is **well-managed**

We have **policies and frameworks** in place to guide our business practices and behaviour

Risk management is an important part of our governance and management system. A review of our **risk management** processes was done this year and we have strengthened our risk management processes.

We are improving the **security** of our customers' information and making improvements to make sure our services still work during unplanned events

The Commissioner and the Minister of Revenue have overall accountability

Inland Revenue and the Minister of Revenue are governed by the Tax Administration Act 1994, which puts the responsibility to look after the integrity of the tax system on the Minister of Revenue, as well as on Inland Revenue. Protecting the integrity of the tax system includes looking after taxpayers' trust in Inland Revenue; their right to confidentiality; and their right to have their tax worked out fairly, impartially and according to the law.

The Minister of Revenue is accountable for the overall working of New Zealand's tax system, for Inland Revenue as a government department, and for protecting the integrity of the tax system. Inland Revenue's decisions on tax policy or social policy are made jointly by the Minister of Finance and the Minister of Revenue or the appropriate Minister in the case of social policy.

Overall accountability and responsibility for the operations of our organisation sits with the Commissioner. The Commissioner appoints members and approves any changes to membership of Board and Committee structures.

The Minister of Revenue and the Commissioner have important and complementary roles in providing a good tax and social policy system. Tax can only be levied according to the laws passed by Parliament. We have an obligation to levy tax in accordance with the law.

Our Code of Conduct sets our standards of behaviour

New Zealanders expect our people to maintain high standards of behaviour as public servants. Our Code of Conduct sets out the standards of integrity, conduct and behaviour expected of us in our day-to-day work. It applies to all employees, including external consultants and contractors working for Inland Revenue.

Our Code of Conduct adopts and reflects the four guiding principles from the State Services Commission's Standards of Integrity and Conduct. As public servants we will be:

- Fair
- Impartial
- Responsible
- Trustworthy

Our Code of Conduct builds on these minimum requirements and expectations and reflects the employment principles in our employment agreements, and legislation applying to Inland Revenue and employees, for example, the Tax Administration Act 1994.

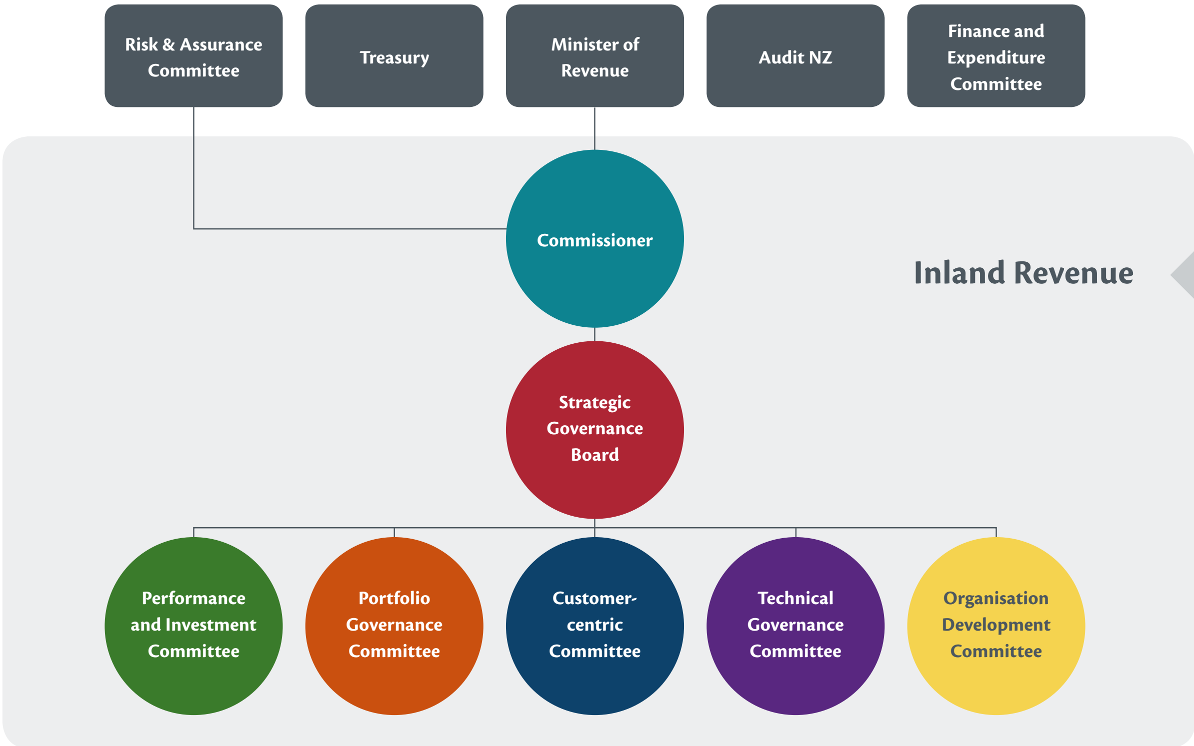
Our people protect the integrity of the tax system, including customer perceptions of integrity, at all times and maintain confidentiality of all matters relating to the law that Inland Revenue administers.

Our governance system guides us

We have a governance system in place to make sure we are doing the right things in the right way to achieve our strategic objectives, reduce our risks and meet Government expectations.

Our governance system is made up of the Strategic Governance Board (Board) and five committees. The Board is chaired by the Commissioner and membership is made up of all of our Executive Leadership Team. Membership on the committees is based on having the right expertise from across the organisation and is a mix of executive leaders, senior leaders and external advisors where appropriate. Roles and responsibilities are clearly defined to make sure there is separation of governance and management accountabilities.

FIGURE 8: OUR GOVERNANCE AND ACCOUNTABILITY STRUCTURE



The purpose of the **Strategic Governance Board** is to provide overall governance for our organisation including the strategic direction of our transformation and reviewing strategic risks. The Board makes sure all the parts of transformation come together, making decisions on where we may need to speed up or slow down, including reviews of policy settings.

The **Performance and Investment Committee** governs our organisational performance and investment decisions. The committee makes sure we are in line with our strategic direction and meeting performance targets. This includes:

- risks to performance
- investment decisions to achieve our strategic direction
- oversight of the Business Transformation programme deliverables as they transition into business-as-usual activity
- governance of benefits realisation.

The **Portfolio Governance Committee** oversees the delivery of our projects and programmes, ensuring they are managed well, follow the appropriate quality assurance processes and stay healthy from a cost/benefit, schedule and quality perspective. Any significant project issues are escalated to the Performance and Investment Committee.

The **Customer-centric Committee** focuses on developing our capability to understand our customers. This includes how information we have can be used to better understand our customers and improve our decision making. It governs customer-centric and intelligence-led initiatives.

The **Technical Governance Committee** makes sure of the effective coordination and management of our legal/technical business and significant tax technical issues. The committee monitors current and upcoming litigation cases, and reviews our litigation strategies. It also identifies and considers significant emerging technical trends.

The **Organisation Development Committee** supports and oversees the delivery of our organisational structure, our workforce capability and capacity, locations and facilities. This includes people change and transition processes, our new ways of working and the development of people capability.

The Strategic Governance Board and committees each have a quorum. If there is no quorum, the decision to reschedule will be made by the Chair of the committee.

We regularly update our governance structure to make sure there is appropriate oversight and support to achieve our strategic objectives. This includes reviewing membership, ensuring the Board and Committees are supporting delivery and managing enterprise risks.

TABLE 9: BOARD AND COMMITTEE MEMBERS

	Strategic Governance Board	Performance and Investment Committee	Portfolio Governance Committee	Customer-centric Committee	Technical Governance Committee	Organisation Development Committee
Meeting Frequency	*Monthly*	*Monthly*	*At least monthly, more frequently if required*	*Quarterly*	*Monthly*	*Monthly*
Commissioner	Chair					
Chief Financial Officer	✓	Chair	✓			
Chief People Officer	✓			✓		Chair
Chief Technology Officer	✓	✓	✓			✓
Chief Tax Counsel	✓				Chair	
DC, Corporate Integrity and Assurance	✓	✓	Chair			✓
DC, Information and Intelligence Services	✓	✓	✓	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		✓				
Business Case Lead, Business Transformation		✓				
Chief Advisor to DC, Corporate Integrity and Assurance				✓		
Director, ICT Solutions				✓		
Director, Digital Change				✓		
Director, Public Rulings					✓	
Director, Escalations and Advising					✓	
Policy Director, External					✓	
Legal Services Leader					✓	
Manager, Technical Standards					✓	
Customer Segment Lead, Significant Enterprises					✓	
Manager, Cross Agency				✓		
Business Transformation Manager, Tax on Income Lead				✓		
Organisational Change Management and Training Lead, Business Transformation						✓
Independent advisors			2	1		

The transformation programme is integrated into our organisational governance

We are delivering wide-ranging and large-scale change through our transformation programme. Given the broad impact, programme oversight is integrated into our organisational governance bodies—the Board and committees. This means that decisions made within the programme are the right decisions for our customers and the New Zealand revenue system.

The transformation programme is led by the Commissioner and Deputy Commissioner, Transformation

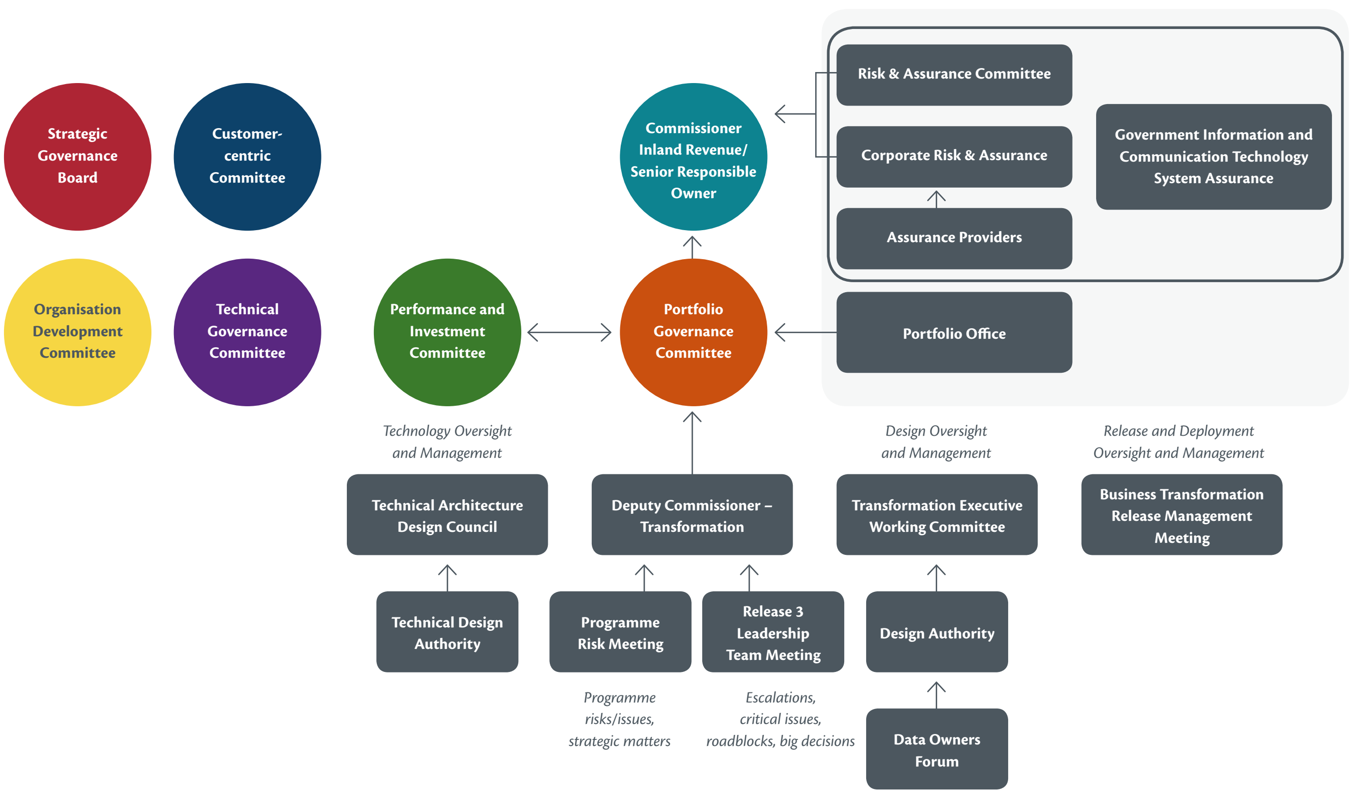
In the role of Senior Responsible Owner (SRO), the Commissioner makes sure that the programme meets its investment objectives and that it is reviewed at appropriate stages. The SRO also takes ownership of the business case. This role cannot be delegated.

The Deputy Commissioner, Transformation is responsible for making sure that transformation is introduced successfully. This includes delivery of solutions, services and benefit enablers, managing costs within the approved funding and meeting timeframes. This role is also responsible for making sure robust change management processes are in place so the needs of our customers and stakeholders are met and they take up the new systems and processes being introduced.

The transformation programme is overseen by our governance system

- The Strategic Governance Board makes sure the programme is in line with our overall strategic objectives.
- The Portfolio Governance Committee gives governance oversight for the programme, making sure milestones are being delivered and the general health of the programme finances, schedule and quality.
- The Performance and Investment Committee controls funding decisions, checks benefit delivery and oversees programme deliverables as they transition into business-as-usual activity.
- Organisational design changes needed to meet our transformation objectives are governed by the Organisation Development Committee, within parameters set by the Strategic Governance Board.

FIGURE 9: TRANSFORMATION GOVERNANCE



We follow our strategic planning principles for planning and decision making

As our business transforms, it is important to make sure that changes we make are always in line with the strategic goals for our organisation. Our strategic planning principles guide our planning and decision making. By staying true to our strategic planning principles we are confident that we are making the right decisions to achieve our outcomes.

We re-examine these principles each year, updating them where appropriate.

TABLE 10: OUR STRATEGIC PLANNING PRINCIPLES

Strategic planning principle	Implications for our planning
IR for the future, our key strategic document, and the corporate strategy tell our core story about delivering greater value for the people of New Zealand. https://www.ird.govt.nz/aboutir/reports/business-plan	*IR for the future* sets the vision for Inland Revenue. The corporate strategy outlines our strategic intent and how we will become a sustainably successful organisation that is customer-centric, intelligence-led and agile.
Our focus is on delivering our agreed outcomes with Government and our business transformation.	We will positively manage the customer experience through change while meeting our agreed outputs with Government. Our resources will be allocated to delivering our outcomes, our business transformation and as directed by Government. Collection of Crown revenue should not be compromised.
Our transformation is a significant contribution to improving the wellbeing of New Zealanders.	As we transform, we are better placed to contribute to broader government outcomes, supporting initiatives that improve the intergenerational wellbeing of New Zealanders.
Throughout the change journey, we must protect the integrity of the tax system.	We must consider the implications of any change as it applies to the integrity of the tax system. This means protecting our ability to collect revenue and distribute entitlements and keeping our customers' and stakeholders' trust and confidence in us.
There will be significant changes in the capability and size and profile of our workforce.	In the next four years, Inland Revenue will become a smaller organisation with different skills and ways of working. Our culture will shift to be more customer-centric, intelligence-led and agile, with highly knowledgeable people who comfortably work with a wider group of business partners to deliver. We will think about the effects of what we do and how we behave on our customers and evolve our ways of working appropriately. We will make an inclusive environment in which diversity and capability are highly valued. Most of our people will experience organisational change (including formal change processes) over the coming years.
We take a holistic and transparent approach to ensure we are making sustainable decisions to achieve our outcomes.	We will take an enterprise view of our funding to enable the business to make good decisions at the right time. We need to find savings to meet organisational cost pressures and achieve the administrative savings that Inland Revenue has committed to deliver as an outcome of business transformation. When making funding decisions, we look at value for Inland Revenue and value for the people of New Zealand.

Managing our business

Our strategic principles guide what we do. Our management principles guide how we work and ensure we are making the right decisions:

We will take an enterprise view— every decision needs to be taken with the organisational view in mind. We will continue to be guided by our corporate strategy.

Sustainability— any decisions need to be affordable in both the short and long term.

Transparency— there are a lot of moving parts, we need to be able to see the long-term financial impacts.

Simplicity— we want to make things easy for the business while maintaining quality and meeting requirements.

Supporting cultural change— we are moving to a new way of working and need to challenge what has been done in the past and whether this enables future ways of working.

Value for money— we need to be clear on the value-add for Inland Revenue and the broader tax system.

Independent assurance

Our Risk and Assurance Committee is an independent body providing impartial oversight and advice

The role of the Risk and Assurance Committee is to provide independent advice and insight to the Commissioner on risk oversight and management, and the system of internal control. All five members are independent external experts, with a mixture of skills in assurance, financial management, risk management and organisational change. The Committee meets at least four times a year and at other times as necessary.

The duties and responsibilities of the Risk and Assurance Committee include:

- independent oversight of key operational and change activities
- reviewing the effectiveness of enterprise risk management and associated controls
- reviewing internal fraud control arrangements
- reviewing our business continuity and emergency management planning arrangements, including that those plans are periodically tested
- ensuring health and safety incident reviews are being responded to appropriately
- commenting on the coverage of our annual internal audit programme
- reviewing internal and external audits, discussing any issues and checking on the introduction of the auditor's recommendations.

The Risk and Assurance Committee members are:

Steven Fyfe (Chair) | Steven worked in the banking industry with National Bank and ANZ until 2011. He brings governance, large change programme and commercial experience to the Committee.

His current governance roles include Chair of Cigna Life Insurance NZ Limited and Red Cross Foundation, Trustee of Victoria University of Wellington Foundation, The Royal New Zealand Ballet Company and Wellington Regional Stadium. He is a member of the Financial Management Authority's Auditor Oversight Group.

Michael Ahie | Michael is an experienced director and senior executive with diverse domestic and international experience in both the private and public sectors.

Michael has a strong background in strategic planning and change management. He is Chancellor of Massey University and Chairman of Plant and Food Research. He is a director of FMG and BCC Ltd, and the Chair of the board of ComplyWith, Spring Sheep Milk Co. and the Plant Market Access Council.

Sandi Beatie QSO | Sandi is an experienced senior executive in both the public and private sectors. She has held positions as Deputy State Services Commissioner and Deputy Chief Executive at the Ministry of Justice and the Department of Corrections.

She was a member of the Better Public Services Advisory Group. Sandi is currently a Board member of Education Payroll Limited, Chair of the Archives Council, and is on the Risk and Assurance Committee for the Department of the Prime Minister and Cabinet.

She is also a member of the Governance Board for Transforming the System of Service Delivery for the Department of Internal Affairs and a Trustee for Trade Aid, Paraparaumu.

Sandi is a member of the Independent Reviewer's panel for the Performance Improvement Framework administered by the State Services Commission.

Her contribution to the State was recognised in 2016 when she became a Companion of the Queens Service Order.

Fiona Oliver | Fiona is an independent director with a governance portfolio in the commercial (listed and private) and public sectors across a diverse range of sectors, including renewable energy, professional services, risk management and intelligence software, financial services and commercial property.

Fiona has held executive leadership roles in the financial services industry, including as Chief Operating Officer for BT Funds Management, Westpac's investment arm, Manager of Risk & Operations for the private equity division of AMP Limited in Sydney and London and General Manager, Wealth Management, for AMP New Zealand. Fiona has specialist knowledge of investments and capital markets.

Prior to her career in management, Fiona was a senior corporate and commercial lawyer in private practice and as in-house corporate counsel, specialising in corporate finance transactions.

Melanie Templeton | Melanie is the Commercial Director for an Agtech company, Regen Limited, operating in irrigation management. Melanie was previously Group Executive for Rabobank Australia and New Zealand Group and General Manager of RaboDirect New Zealand and Australia.

During her executive career, Melanie was on several management oversight and establishment committees, as well as on project governance boards. She was the responsible manager for the control environment, risk and compliance for online banking operations in New Zealand and Australia and represented the region on the global risk management committee.

She is currently a director on the newly established Centre for Space Science Technology, as well as being a director of fintech company PledgeMe.

TABLE 11: RISK AND ASSURANCE COMMITTEE MEETINGS 2017–18

Member	14/9/17	2/10/17	7/12/17	9/2/18	8/3/18	11/6/18
Steven Fyfe (chair)	✓	✓	✓	✓	✓	✓
Michael Ahie	✗	✓	✓	✓	✓	✓
Sandi Beatie	✗	✓	✓	✓	✓	✓
Fiona Oliver	✓	✓	✓	✗	✓	✓
Melanie Templeton	✓	✓	✓	✓	✓	✓

Independent reviews verify that transformation is well managed and governed

We have an assurance management plan in place for the transformation programme, incorporating regular Independent Quality Assurance (IQA), Technical Quality Assurance (TQA) and Gateway reviews.

The primary purpose of the IQA and TQA reviews is to assess the processes, standards, guidance and practices used in the governance and management of the project or programme and to review progress towards goals.

KPMG is Inland Revenue's IQA and TQA provider. During 2017–18 KPMG completed two combined IQA and TQA reviews.

Gateway is an independent and confidential peer review process by the Treasury to assess programme progress and to rate the likelihood of successful delivery of their outcomes. The Gateway review looks at programmes and projects at key decision points in their lifecycles. It looks ahead to give assurance that they can successfully progress to the next stage.

Reporting transformation progress

The Ministers of Finance and Revenue can meet with independent reviewers and are briefed on the findings and Inland Revenue's management responses once a review is complete.

Overall transformation programme updates are provided to the Ministers of Finance and Revenue each month. Implementation progress and benefits realised are reported to Cabinet twice a year.

Cabinet papers, programme updates and summaries of our independent reviews are published on our website, http://www.ird.govt.nz/transformation

TABLE 12: INDEPENDENT REVIEWS OF THE TRANSFORMATION PROGRAMME DURING 2017–18

Review	Review purpose	Results
Gateway July 2017	To confirm continued alignment to the delivery of outcomes and benefits.	The Gateway review team 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 made five recommendations: • Four recommendations were rated as 'do now' • One was rated 'to consider'. All recommendations have been actioned.
IQA 6 and TQA 5 August 2017	Broad assessment of transformation, including decision-making processes and delivery progress.	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". This review rated 21 different areas: • Eleven areas were rated as good practice • Four were rated as low risk/issue • Six were rated as medium risk/issue. All accepted recommendations have been actioned.
Gateway March 2018	To confirm continued alignment to the delivery of outcomes and benefits.	The Gateway review team noted that "…the Inland Revenue Business Transformation Programme continues to be strongly led, governed and managed". In addition to strong management and governance, a number of factors combined mean that "…the programme is currently on track for success, both in the immediate term for Release 2 and overall…". The review made five recommendations: • One was rated as 'do now' • Two were rated as 'do by' (action is required in the near future to increase the likelihood of success) • Two were rated 'to consider' (good practice). All recommendations were accepted and are either in progress or planned for development.

TABLE 12: INDEPENDENT REVIEWS OF THE TRANSFORMATION PROGRAMME DURING 2017-18 (CONTINUED)

Review	Review purpose	Results
IQA 7 and TQA 6 May 2018	To review our readiness for Release 2 go-live in April 2018.	KPMG noted that "In summary, our assessment is that the Programme demonstrates a good state of readiness for Release 2 go-live". KPMG noted that transformation continues to be well managed and has the characteristics of a high performing team: "Programme performance remains good (indeed in many areas the Programme continues to be amongst the most effective we have seen)". The review assessed and rated 25 different areas: • Eight areas were rated as good practice • Twelve were rated as low risk/issue • Five were rated as medium risk/issue. All recommendations for the medium rated risks/issues were accepted and are either complete, in progress or planned for resolution.

Our procurement processes were externally reviewed

In March 2018 the Office of the Auditor-General (OAG) released its report on a routine review of our Business Transformation procurement processes. The review, between March 2017 and September 2017, looked at procurement completed before March 2017. The review looked at two parts of the procurement process:

> How we source goods and services, focusing on compliance with applicable rules and policies.

> How we manage our relationships with suppliers.

The review was positive and the OAG said we have progressed well. Four improvements were suggested:

> Improve compliance with the Government Rules of Sourcing and our own policies to make sure that we always follow a robust, fair and consistent procurement process.

> Strengthen the way we apply and record quality controls for procurement to show that quality controls are always applied as intended.

> Prioritise improvements to storage to make sure there is a complete and accessible audit trail.

> Put adequate probity assurance arrangements in place and document this to show our procurement process is transparent and impartial.

A plan is in place to do all the actions by October 2018.

This report is published on the Office of the Auditor-General's website, https://oag.govt.nz/2018/ird-procurement

Our performance and finances have external review and regulation

The Public Finance Act 1989 (PFA) provides a framework for government financial activity and the spending of public money. The PFA establishes lines of responsibility to prepare, audit and publish financial and non-financial information.

The PFA achieves financial control by:

> providing a framework for the authorisation of expenditure

> making sure the Government is clear about its fiscal objectives and intentions

> imposing penalties about incomplete, false or misleading financial management information.

The financial statements and performance information in our Annual Report must be audited by the Office of the Auditor-General, or by an auditor acting on their behalf, typically Audit New Zealand.

We regularly report to the Finance and Expenditure Committee

The Finance and Expenditure Committee (FEC) is one of New Zealand's parliamentary select committees. The FEC is made up of members from across four political parties. In June 2017 the FEC reviewed and accepted our planned spending and goals for the 2017–18 financial year. In March 2018 the FEC reviewed our performance for the 2016–17 financial year. The Commissioner of Inland Revenue briefed the committee on Stages 1 and 2 of our transformation, policy work to shape the tax system, organisational design, discussions with unions and our business performance. The committee asked questions about our transformation, the bright-line test, progress in reducing debt and the hidden economy. The outcomes of these hearings are published on the Parliament website, https://www.parliament.nz

The Investor Confidence Rating measures our investment management capability

The Investor Confidence Rating (ICR) is coordinated by the Treasury and helps government agencies identify where a lift in capability is needed to maximise the value of investments and assets. The ICR is one part of the information that is considered by Cabinet when it prioritises investments across Government.

The last ICR review was in 2016 and we received an A rating, showing a high level of performance. In September 2017 we completed an interim Outlook Indicator—a mid-cycle review of our progress towards improving key aspects of investment performance. The Treasury assessed the Outlook Indicator as 'positive', which tells us that at the current and projected rate of improvement we are likely to maintain or improve our current score at the next ICR assessment, which will be completed in February 2019.

We manage risks and keep our business running

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

We are committed to making sure effective risk management is embedded across the whole organisation. Our risk management principles help us do that. Our Enterprise Risk Management Framework is designed with these principles at the centre and is consistent with the International Risk Management Standard (ISO 31000:2009).

Our risk management approach relies on the support and participation of all of our people. Each business unit is responsible for the identification, monitoring and reduction 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.

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

We are strengthening our risk management practices

Our risk management practices help to ensure that we update our understanding and approach to risks across the organisation. In the past year this included a focus on our new Customer and Compliance Services business groups.

As part of improving risk management practices we ordered a review of the effectiveness of the implementation of our formal Enterprise Risk Management Framework. The results of this review told us about improvements in the effectiveness of our risk management functions. We are developing risk and control libraries and introduced recommendations on joint communications and training for risk and integrity.

We have updated our enterprise risks

With involvement and oversight from our Strategic Governance Board, our enterprise risks were updated. As part of this, our Executive Leadership Team now collectively checks the enterprise risks most related to their business area. Refer to Table 13 for our six enterprise risks and their executive stewards.

TABLE 13: OUR SIX ENTERPRISE RISKS AND THEIR EXECUTIVE STEWARDS

Enterprise Risk	Executive Leadership Team members
Failure to meet expectations of government (which is in three parts: new priorities and policies; core business; business transformation).	DC, CCS—B, DC, CCS—I, DC, Policy and Strategy, DC, Transformation
The levels of voluntary compliance are reduced to the point of having a significant impact on revenue collection for the Crown.	DC, CCS—B, DC, CCS—I, DC, II&S
Unable to ensure continuity of business services.	CFO, CTO, DC, People and Culture
Insufficient people capability and capacity to deliver outcomes.	DC, CCS—B, DC, CCS—I, DC, People and Culture
Failure to maintain the integrity of Inland Revenue's information.	DC, CI&A, Chief Tax Counsel, DC, II&S
Unexpected negative customer reaction to the transformation changes.	DC, CCS—B, DC, CCS—I, DC, CI&A, DC, Transformation

Our Internal Assurance and Advice team help us manage our risks

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

Throughout the year the team review business processes, looking at key risks and controls and make recommendations to address any weaknesses. They also provide assurance by reviewing controls as new systems or processes are being designed. Some transactions within support services are electronically checked.

The team completed the following reviews during the year:

Assurance reviews

- Customer identity fraud
- Health and Safety compliance
- Software licensing maturity
- Personnel security requirements
- GST end-to-end
- Outbound Customer and Compliance Services—Individual/Business email
- KiwiSaver
- Expenditure
- Cloud services
- Legislative compliance

Project quality assurance reviews

- Hamilton future accommodation project readiness
- Families Package

Controls assurance

- Business Transformation Release 2—business process risks and controls for new services platform and enterprise support services workstreams

Other assurance products

- Chief Security Officer assurance map update

The findings from the reviews are discussed with the relevant business managers, our Risk and Assurance Committee and our external auditors, Audit New Zealand.

Our Internal Assurance and Advice team checks progress and reports quarterly to our Risk and Assurance Committee and Performance and Investment Committee to make sure that the recommendations from both internal and external reviews are agreed with management and introduced within the agreed timeframe.

We reduce and manage the risk of fraud and corruption

Our Integrity Assurance team help reduce and manage the risk of fraud and corruption and keep appropriate standards of integrity and conduct.

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

We have robust and carefully managed reporting tools and response practices in place for wrongdoing and we keep improving our understanding and management of our fraud and corruption risk profile.

Fraud risks within Inland Revenue are managed as part of our enterprise-wide risk management processes.

Over the past year our work programme included:

- raising awareness on fraud and integrity risk through education
- delivering 31 fraud and integrity sessions at 24 different sites reaching 1,223 of our people
- developing and refining our data collection and analysis to continuously review discretionary management expenditure and reimbursements.

We have good practices for managing wrongdoing

Our score for the managing of wrongdoing is the highest possible. In September 2017 we asked Griffith University in Australia to benchmark our management of wrongdoing as part of its research project on the Australian and New Zealand public sector. Data and information was gathered from 699 organisations across 18 industry groups and public sectors.

We scored extremely well on 8 out of the 10 assessment areas considered strong whistleblowing processes.

We scored the highest possible score on Advice Provision, Reporting Channels, Incident Tracking, Investigation Process, Support Strategy, Risk Assessment, Dedicated Support, and Remediation. While we did not achieve the highest score in the last two areas, Awareness Methods and Training, we still out-performed the other organisations in the assessment.

The report noted that compared to the other organisations, we have some of the strongest processes in place to help staff before and during their reporting of wrongdoing. We understand the importance of keeping these high standards and we are already looking at areas where we could make further improvements, like having other options for our people to 'speak up' and report wrongdoing in the workplace.

Key technology risks are managed as we transform

During the year we have upgraded critical parts of our technology infrastructure that support our key business applications, including upgrades to our imaging platform, integration software and our network boundary security environment.

While system availability has generally been good throughout the year, during June 2018 some of our digital services were not available and at times it took customers longer to login to myIR than is acceptable. This also had an impact on our phone services. During this time some customers may not have been able to get to their information, confirm their Personal Tax Summary (PTS) or complete their GST return.

We formed a dedicated team to make sure the problems were fixed as soon as possible. All the major technical faults that caused business interruption for our customers are now fixed and/or have extra checking in place to make sure there is ongoing management.

As a result of fixing these technical faults, by 28 June 2018 customer experience had returned to levels normally expected, with PTS confirmations back on track. To acknowledge the disruption we removed late filing and late payment penalties for any GST returns due on 28 June 2018 and extended the return filing date to 4 July 2018.

We tested our ability to work in a disaster

As part of Stage 1 of our transformation, new technology was established, including the implementation of two new data centres in Auckland (primary) and Wellington (backup). To make sure of the resilience of the base technology and our new START system we performed a full disaster recovery test in December 2017. This test involved switching to the backup data centre and operating for a work week before switching back to the primary data centre.

While some technical issues were found during the test, these were fixed and from a technical perspective the test was successful. The core START environment met its recovery time objective of four hours. However, there were some parts where the recovery time was longer than we wanted and we are reviewing how to improve this. The next disaster recovery test is planned for November 2018.

Keeping information safe is important to us

We hold a large amount of information and it is important that we keep this safe and protect the security of our information systems. Through our ICT Security Programme, we are improving our technology and processes to safeguard the integrity of our information systems and lift our security awareness culture.

We worked with security experts, Deloitte, during the year to run through a number of scenarios of security-related events. Our people across the organisation were involved, including the Crisis Management Team and the Executive Leadership Team.

In 2017–18 we completed around 50 reviews of data, systems and software. These reviews are done to make sure customers have confidence in the data and tools they use to fulfil their tax obligations.

We take the privacy of our customers seriously

We process more than 25 million transactions and pieces of correspondence every year and we are committed to looking after customer information. However, when dealing with such large amounts of information, occasionally mistakes happen. Staff are encouraged to report errors or privacy breaches.

Last year, 160 privacy breaches were reported, compared to 129 in 2016–17. None of the breaches meant there was any harm or adverse effects to any individual.

One of the breaches involved an information match we have with the Ministry of Justice. Under the match the Ministry sends information to us on individuals who owe money and we send matched name and address information back. We made a coding error that resulted in more than 3,000 incorrect addresses being given to the Ministry.

The Ministry relied on that information to write to individuals about alleged fines or reparation. When the breach was discovered, the match was immediately suspended, data was corrected and the Ministry contacted affected customers.

We have effective business continuity and emergency response processes in place

To meet our commitments to the Government and our customers we must be able to keep our core services operating, while dealing with sudden disruptive events like earthquakes and information and communications technology outages.

The way we respond to an event depends on its size and scope:

> Operational response—Site Emergency Teams of volunteers on site coordinate the response to any site-

specific event and communicate details to key people. The priority of the Site Emergency Team is to make sure staff are okay and to communicate event details.

> Tactical response—Business Continuity Response Teams deliver the continuity strategies for their business units.
> Strategic response—The Crisis Management Team (CMT) keeps overall control and manages the response to a disruption that has impacts to our corporate priorities. The CMT consists of the Executive Leadership Team, representatives from key Business Groups and support staff. The CMT is responsible for management of our response to major events.

In an emergency, the Commissioner decides if the Crisis Management Team will be 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.

At the Business Continuity Institute 2017 Australasian Awards we won the award for the 'Most Effective Recovery' recognising how effectively we recovered from the 14 November 2016 Kaikoura earthquake. These awards recognise the outstanding contributions of business continuity, risk and resilience professionals and organisations.

The award acknowledged the quality and effectiveness of our business continuity planning and ability to manage and cope with large disruptions. It also acknowledged what we learnt during the recovery and how this is helping improve our resilience.

During the first half of 2018 we:

- revised the Crisis Management Plan to incorporate what we learned during the Kaikoura earthquake response to make sure that any future Crisis Management Plan activations are managed as effectively as possible
- delivered refresher training to all site emergency teams to better equip them to respond to local emergencies.

We are managing our property portfolio

We are transforming our business. By 2021 we will be a smaller and more effective and efficient organisation. We have built greater flexibility into our leases for giving up space we do not need. We also facilitate opportunities to sublease or co-locate with other agencies, including co-working arrangements or consolidating our own office space.

Many of our people in Wellington had been working in temporary accommodation over the 18 months since the Kaikoura earthquake. Our people have shown tremendous resilience and flexibility during this time. We have now moved our people and our front-of-house services out of temporary buildings. Our frontline teams and front-of-house services moved back to the Hawkestone Street building in June 2018. The temporary lease for No.3 The Terrace expired in May 2018 and our people from this building have moved back to the Asteron Centre.

In June 2017 we were advised that our Napier building was earthquake-prone and we moved our people into temporary accommodation. Our people will move from temporary sites in Bower and Tennyson Streets to our new Hastings Street building at the end of November 2018.

We have a lease expiring on our Bryce Street building in Hamilton on 31 December 2018 and we will relocate to a new building in Te Rapa. Construction of the Te Rapa site is underway and occupation is scheduled for October 2018.

We are focused on ensuring environmental sustainability

We are governed by the Government Building Performance Specification for government leases. The specification requires energy performance levels for new large buildings and promotes the use of energy-efficient building design and parts. Base building energy usage must be less than 105kWh per square metre per year. We comply with these specifications in all our new leases.

We are working with an Energy Management Services consultant to analyse our electricity and gas usage, find and quickly address outliers and to recommend ways to increase energy efficiency.

We are using recycling and organic waste removal services in most of our sites.

Our procurement approach

Our commercial and procurement function focuses on getting better value for money by looking for innovative efficiencies and improvements in our procurement processes and market engagement.

We have an established supplier management framework for our key business transformation partners to strengthen relationships, monitor performance and encourage continuous improvement.

We have assessed our capability using the Government Procurement Capability Index tool and, overall, we are ahead of the generally expected capability level. This evaluation forms part of the Investor Confidence Rating assessment which will be completed in February 2019.

We take part in cross-government procurement activity when it meets our business goals and is cost-effective. We take part in over 20 all-of-government, syndicated and common capability contract arrangements.

During the year we continued our strategic procurement activity as part of our business transformation. This activity includes looking for an advanced analytics partner to introduce and manage a new data and intelligence platform. It also includes looking for an Enterprise Support Services solution (see below). Other activity included looking for a new hardware provider and transitioning our people onto a new desktop environment and looking for a supply of contingent workers, like contractors to help us keep delivering our services. During the year we changed our contingent workforce provider to Madison. Madison has innovative plans on how we can meet our customers' needs in line with our future thinking.

We are improving our enterprise support services

During 2017–18 we selected a preferred supplier for a new cloud-based enterprise support services solution to replace our current on-site solution.

Enterprise support services covers our processes for human resources, finance, procurement and other support services. The new solution will be introduced over the next 18 months and will allow our people to be more effective and efficient, give better quality information for decision making, as well as provide savings. We will be flexible with the introduction so that Release 3 of our transformation is not affected.

In Budget 2018 the Government announced an e-invoicing project to be led by the Ministry of Business, Innovation and Employment (MBIE). E-invoicing will allow significant modernisation of the way business is done across the Government and business sectors. As part of our enterprise support services project we will work with MBIE and help with the introduction and take up of e-invoicing.

The year ahead | Overview of what we will deliver in 2018–19

Our governance system will guide us as we continue to transform our organisation in 2018–19. Our strategic planning principles and management principles will be looked at to make sure they are still fit for purpose. The external scrutiny of our work, and particularly of our transformation programme, will give the public assurance that we are managing our resources well and will help us to improve.

In preparation for Release 3 of our transformation, we will keep testing our systems and will have our progress assessed independently. Because of the size of Release 3, which will be the biggest change to our system for individuals in more than 20 years, it is critical that we get it right. We will keep working to embed risk management practices in our new business groups to support the culture of devolved decision making. We will also complete assurance reviews on various topics.

The Enterprise Support Services solution will be implemented 'out of the box' meaning we will use the solution with little or no customisation of the product. We will then begin delivering regular, small changes as we design the solution for our business.

The Investor Confidence Rating assessment will take place during late 2018 and early 2019. In 2018–19, our work on our facilities and assets will focus on asset replacement helping our future ways of working.

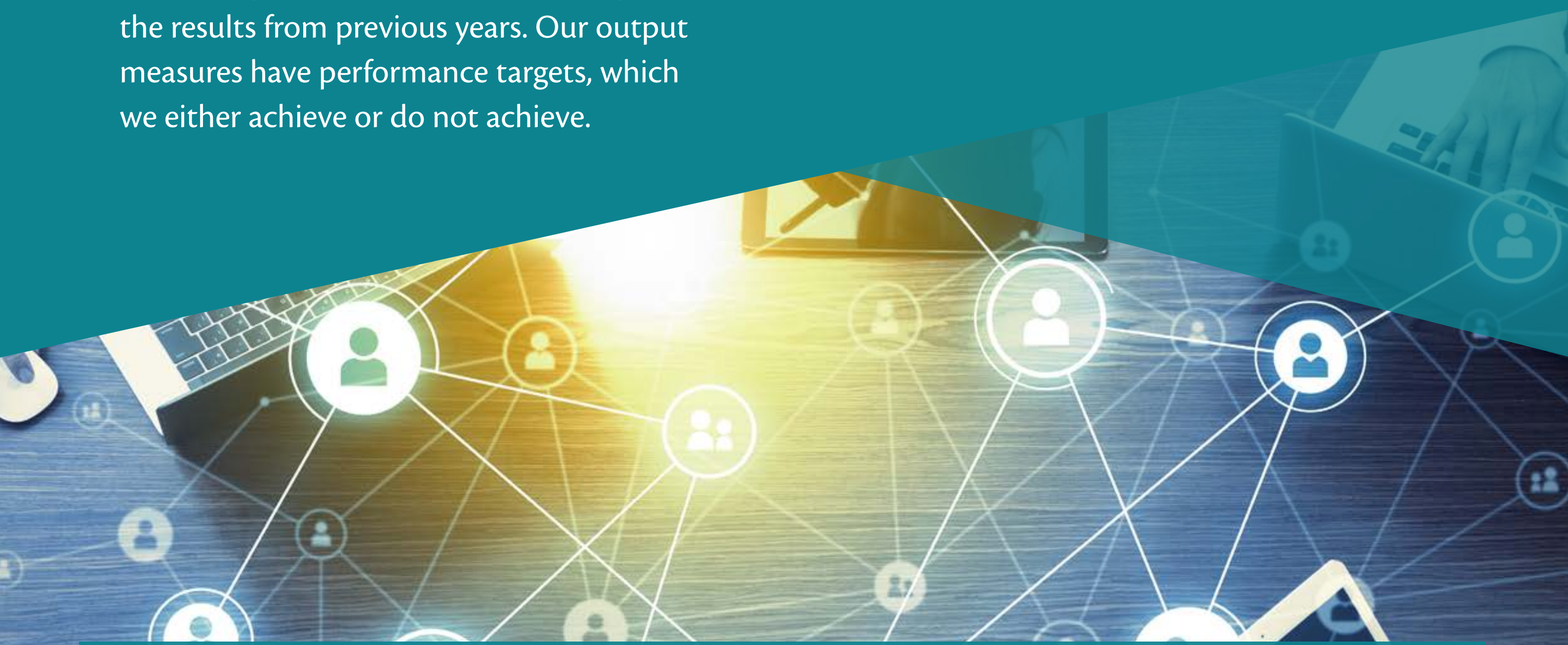
How we **performed**

We track our progress towards achieving our mission and vision through our performance measures. Our diagram on pages **22 to 23** 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 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 2017–18 is measured by comparing our actual achievements against the results from previous years. Our output measures have performance targets, which we either achieve or do not achieve.

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** and **asset** performance. We show how we managed our finances to deliver our services and how efficiently and effectively we managed our resources.



Our performance in 2017–18...

- Our outcome measures help us understand our performance in delivering our outcomes. Overall, in 2017–18 we improved our performance. Of eight measures that have numerical results, our performance improved on last year for five. More customers are receiving the payments they are entitled to when they should. Our collaboration with other agencies is helping customers understand their rights and obligations around life events more easily and businesses are finding less cost and effort is needed to deal with government.
- Our impact measures help us track our performance in achieving our mission. They show us that customers are finding our new system challenging, and that issues with the accessibility of our online services have flow-on effects. Our two integrity measures show improvement on the previous year, with more customers having trust and confidence in us.
- 2017–18 was an important and challenging year for us and overall we performed well. We achieved 43 out of 50 of our performance targets, compared with 45 out of 52 in 2016–17.
- The extended period of change for our customers while we introduce new systems and processes continues to impact our customers' experience. We continued to deliver strong results across our core processing activities, management of debt and returns and our investigations.
- We faced some significant difficulties during the year and this had an effect on our services to customers. From May to June, technical problems meant that our secure online services, myIR, were not available to some customers and other customers found that logging in took too long. For a few measures our performance has dropped, including percentage of calls answered within two minutes.
- We managed our finances well during 2017–18, finishing the year within budget.
- Our asset performance measures help us monitor how well we are managing our assets. We achieved five out of seven asset performance measures.

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 2018 and the forecast financial statements reflect the financial position and operations of the department for the year ending 30 June 2019.

Naomi Ferguson

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue
28 September 2018

Countersigned by:

L Ariell

Lara Ariell
Chief Financial Officer
28 September 2018

How we performed against our measures

OUTCOME MEASURES

Overall performance improved to help achieve our mission

More revenue assessed compared to forecast and **87.9%** of tax payments made by customers on time

Improved timeliness of payments and refunds made to customers

Benefit delivered for services around life events and we **worked collaboratively** with other agencies to deliver new services

IMPACT MEASURES

We made a difference in areas that helped us achieve our mission

86.6% of customers are **satisfied** with overall accessibility and convenience—less than last year

- **82.1%** of customers find it easy to comply —less than last year
- Customers spent less time on tax compliance

- **79.5%** of customers perceive that Inland Revenue makes it easy for them to get it right
- **More** customers filed their GST directly through their software packages

We took a **proactive approach** on how we communicate with customers to improve compliance

Consistent results achieved on how effectively and efficiently we are running our business

We self-assessed our **policy capability** and have identified key capabilities that we aspire to have

We continue to **collaborate and share information** with other agencies to make a difference to New Zealanders

- Staff engagement is **27%**, 17% lower than the previous survey in 2015
- We have introduced a range of tools to help our people understand and develop across our **12 people capabilities**

- **88.6%** of customers have **trust and confidence** in Inland Revenue
- **Increased** Public Sector Reputation Index score

OUTPUT MEASURES

We achieved 43 out of 50 output performance targets compared to 45 out of 52 last year

43/50 ACHIEVED

Services to inform the public about entitlements and meeting obligations — **8/12** ACHIEVED

Services to process obligations and entitlements — **13/14** ACHIEVED

Management of **debt and outstanding returns** — **10/11** ACHIEVED

Investigations — **4/4** ACHIEVED

Policy advice — **3/3** ACHIEVED

Services to other agencies — **2/2** ACHIEVED

Transformation — **3/4** ACHIEVED

Our outcome measures show what we have achieved

Our outcome measures help us track our performance in delivering our outcomes. Delivering our outcomes allows us to achieve our mission. We have three outcomes and overall in 2017–18 we improved our performance.

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.

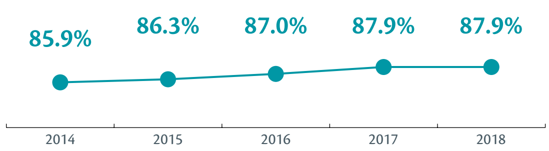
We have two measures for this outcome. The first measure relates to timely and cooperative behaviour of our customers, resulting in tax obligations being paid, which contributes to revenue being collected to fund government programmes. The other measure looks at how much revenue is collected compared with the Government's revenue forecast.

Percentage of tax payments made by customers on time

In 2017–18, 87.9% of tax payments, including income tax, PAYE and GST, were paid on time and in full by our customers. This is consistent with our 2016–17 result. In our *Statement of Intent 2016–20* we say this measure includes partial payment of tax. This measure now aligns with the output measure that reports on the percentage of tax paid by customers in full and on time.

87.9%

of tax payments made by customers in full on time

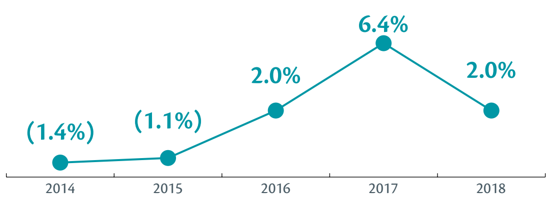


Distribution of total system revenue

In our *Statement of Intent 2016–20* we say this measure reports our revenue collected through intervention activities, such as debt collection, audit and litigation, and revenue collected that did not require intervention. We have now changed this measure to be the total revenue the Government expects to receive compared with the total amount of revenue assessed.

2.0% more

revenue assessed compared to forecast



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

We are responsible for making sure people receive their payments in a timely manner to allow them to participate in society. Under this outcome we have five measures on the timeliness of payments and refunds made to customers. This year our performance was strong, with improvements across all five measures.

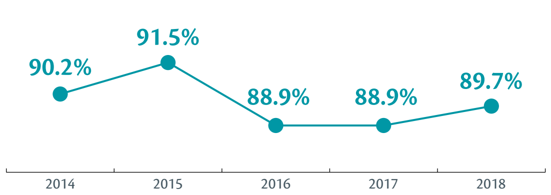
We have developed indicators for the accuracy of tax refunds. These provide a starting point for us to understand our performance in this area and we will continue to refine these over time. We have initial accuracy results for GST refunds and will provide income tax results using information from our new system following the roll-out of Release 3 in April 2019.

We will also continue work to develop accuracy indicators for social policy payments, using information from our new system from April 2019.

Tax refunds paid to customers on time

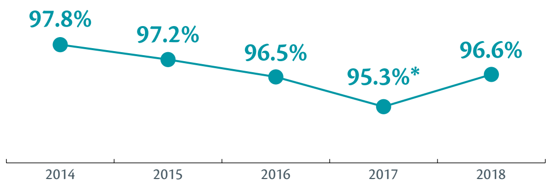
89.7%

of income tax refunds were paid to customers on time



96.6%

of GST refunds were paid to customers on time



*The 2016–17 result differs from the one reported in our 2017 Annual Report. We have re-stated the result as we understand more about our data from our new START system. More information on this timeliness measure is on page 115.

Tax refunds paid to customers with no amendment after the initial refund

98.1%

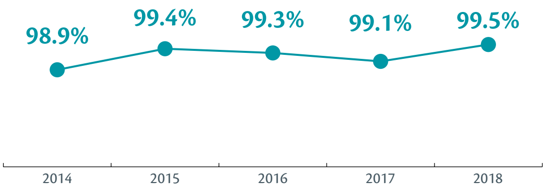
*of GST refunds with no amendment after the initial refund**

*2017–18 is the first year we have full-year data available from our new START system, which allows us to measure the accuracy of GST refunds.

Social policy payments made to customers on time

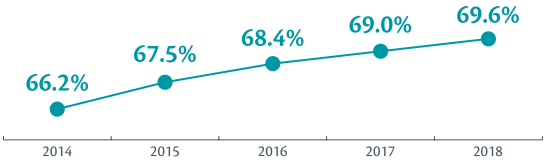
99.5%

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



69.6%

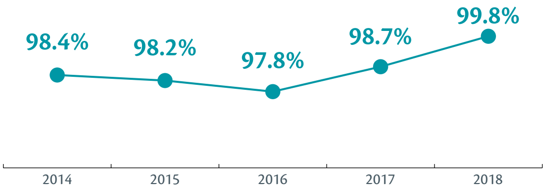
of child support assessments were paid on time



To help our customers to get it right from the start, we need to clarify complex relationship information with them before we issue an assessment. This affected our ability to issue assessments on time.

99.8%

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. More information on our collaboration with other government agencies is on pages 39 to 42.

Inland Revenue services integrated around life events

We are working with other agencies to provide more joined-up services to make customers' interactions with government easier. We helped with the development of two services this year that are designed to help people work through certain life events. These are Best Start and myTrove.

We implemented Best Start through SmartStart—an interactive website that gives step-by-step information and support to help parents access the right services for them and their baby. Around 97% of parents use this website to register their baby. Best Start is a new weekly payment of $60 per child, available to eligible parents who had a baby due on or after 1 July 2018. Together with the Department of Internal Affairs, we designed systems so that eligible families can apply online for their Best Start entitlement using SmartStart.

Getting ready for the release of Best Start was a joined effort across Inland Revenue and between several government agencies including the Department of Internal Affairs, the Ministry of Business, Innovation and Employment and the Ministry of Social Development.

We also piloted the myTrove service that allows people 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. The pilot is to help us understand the benefits of receiving notification of a death through a third party. We will continue trialling the use of myTrove data to speed up processes in 2018–19.

Reduced cost to business in dealing with government

We are contributing 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. All NZBNs have been entered into our new START system and now MBIE can check whether an applicant for an NZBN already has one, using that applicant's IRD number.

We have provided the Accident Compensation Corporation (ACC) with information to link the NZBN to the ACC number. This means ACC has an accurate record of the NZBN without needing to use other identification methods, like name matching.

We are working on the 2018–19 Better for Business work programme through the Steering and Agency Engagement Groups. This includes work on the Customer Experience Index. The Customer Experience Index will provide a customer-focused quality assessment of the customer experience across government.

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 achieve our mission.

Overall we had similar levels of performance as last year. Some results show that customers are finding our new system challenging and that issues with the accessibility of our online services have flow-on effects. We also have two integrity measures to help us understand the level of trust and confidence our customers have in us. These measures show we have improved on last year, with more customers having trust and confidence in us.

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

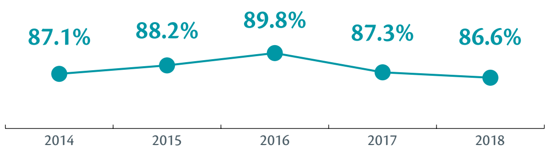
Customers have easy access to our services

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

Customer satisfaction with Inland Revenue's overall accessibility and convenience

86.6%

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



The level of satisfaction with the accessibility and convenience of our services has decreased since we introduced the new GST online services last year. We also had interruptions to our online services during June that negatively affected our customers. As a result of what we learned this year, we set up processes for detecting and responding to incidents that will reduce the effect on our customers in the future.

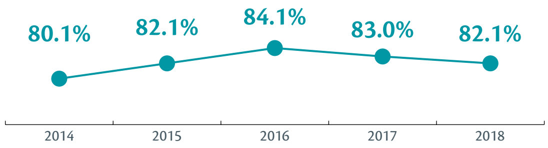
Customer effort is reduced over time

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 Tax Compliance Costs survey for significant enterprises customers.

Customers find it easy to comply

82.1%

of customers find it easy to comply



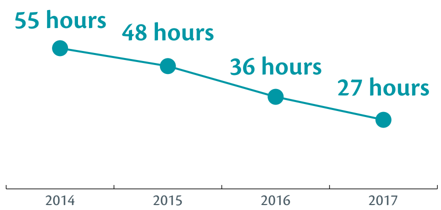
While our new systems and processes aim to reduce customer effort, we understand that it may mean more effort in the short term as customers get used to working with them.

Customer time spent on tax compliance

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

27 hours

in 2017.



The 2016 result was released in 2017 and shows the median time small and medium-sized businesses spent on tax compliance activities over the year. The survey results in earlier years showed that the most time-consuming tax type was GST. We made big changes in 2016, which allowed customers to file GST directly through their accounting software. This contributed to the improved results for 2016 and 2017. 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 was

0.13

Full Time Equivalent

per $100,000 of tax revenue

The 2017 tax compliance cost survey shows the average time large enterprises spent on tax compliance. This is the first time we have researched the compliance costs for large enterprises.

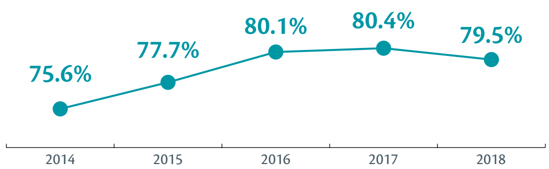
Customers get it right from the start

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

79.5%

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



This result decreased slightly in 2017–18. The introduction of new 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. Interruptions to our online services during June also negatively affected our customers' perception.

Customers filing GST directly through their software packages

We are designing and delivering services in partnership with others inside and outside government. In 2016 software providers MYOB and Xero introduced their GST filing services to all their GST-registered customers to enable them to file GST through their accounting software.

Customer uptake has been strong. Around 298,000 GST returns were filed during 2017–18 through accounting software, which is approximately 10% of all GST returns filed over the same period, almost double the uptake of 2016–17.

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 their 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 presented as case studies. This year we have two short performance stories related to our work on student loans and the hidden economy.

Return on investment of targeted interventions

We are becoming more intelligence-led, understanding our customers to work out the best messages and ways of communicating with them to improve compliance. This is shown in the success of our student loans campaigns. We aim to increase the compliance of customers 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.

We increased our focus on obligations of customers who have recently moved overseas or soon will. As a result of this targeted approach, performance keeps improving. The 2017 campaign result shows 5% more student loan customers living overseas made repayments than in the same period last year.

We kept up our Hidden Economy campaign to improve compliance in the construction industry. The campaign used online channels, billboards, radio slots at peak driving times for tradespeople, direct mail outs, and visits from our community compliance teams. The campaign had positive results, with around 48% of our target audience (tradespeople) increasing the amount of GST they calculated by more than 3%.

We also introduced a campaign to engage the hospitality sector. The campaign uses targeted communications and placements in trade magazines to advertise to business owners that improving record keeping will help them 'Sleep Easy'. We will also be doing a national visit programme for these customers. The campaign's outcome will be assessed in July 2018.

Both of these campaigns show how we have used information and insight to improve our communications with customers.

Our business is run efficiently and effectively

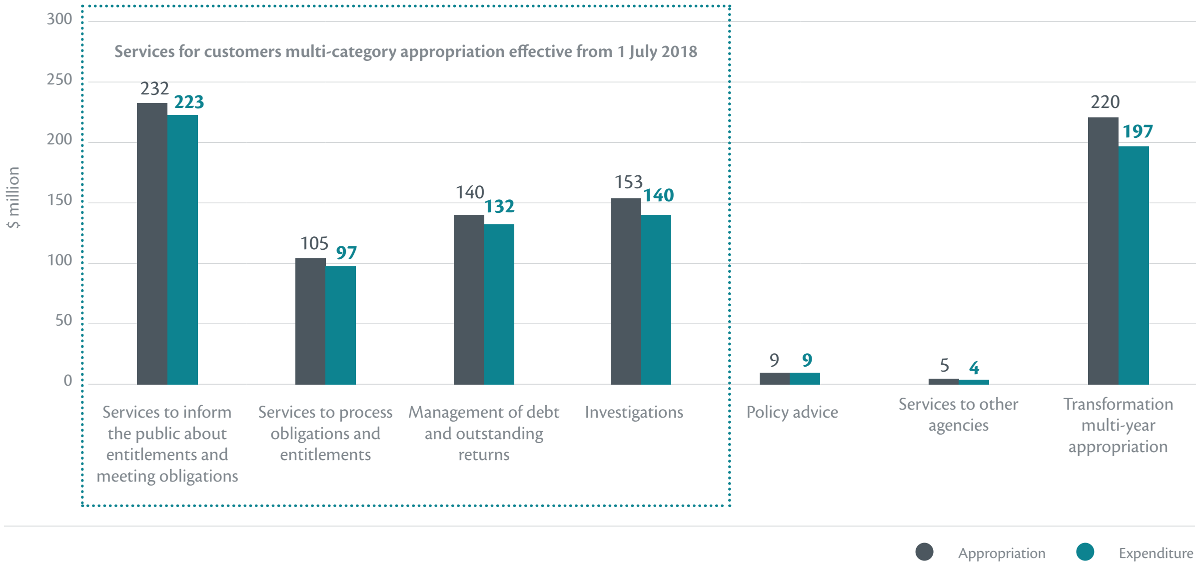
We have three measures for this impact.

The 2017–18 results on the effective and efficient running of our business have not changed significantly from last year's results even though we introduced more changes in our START system and experienced myIR incidents in June.

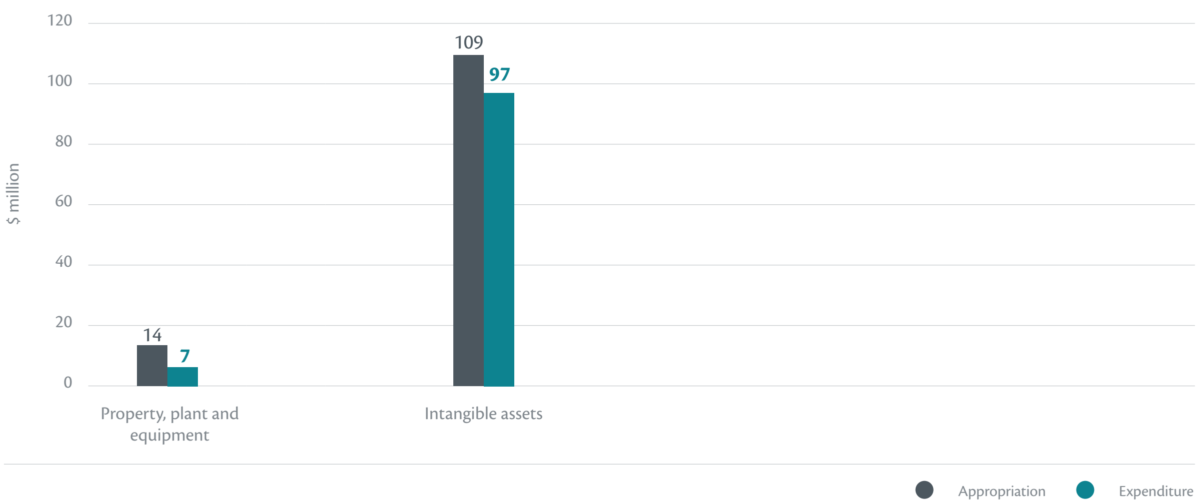
Expenditure incurred against departmental appropriations

Our work is funded through operating appropriations. We finished the 2017–18 year within all appropriations.

BREAK DOWN OF 2017–18 EXPENDITURE AGAINST OPERATING APPROPRIATIONS



BREAK DOWN OF 2017–18 CAPITAL EXPENDITURE AGAINST CAPITAL 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 the 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. We were the only agency to receive an 'A' rating in 2016.

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. This is a sign that at the current and projected rate of improvement we are likely to keep or improve our current score at the next ICR assessment, which will be completed in February 2019.

System availability

To deliver our services, our systems need to be available. Our 2017–18 results show that we have maintained system availability over the year.

During June 2018, some of our online services were temporarily not available and at times it took our customers longer to login to myIR. We set up processes for detecting and responding to incidents to improve our customers' experience.

	2017 average	2018 average
Back office | *Our internal applications, databases, software and desktops*	99.9%	99.8%
eChannel | *Our electronic services*	99.9%	98.9%
FIRST | *Our mainframe infrastructure*	100%	100%
START | *Our new mainframe infrastructure*	100%	99.9%
Voice channel | *Our telephone systems*	99.6%	100%

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

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. We measure quality, cost and ministerial satisfaction through our output measures for policy advice—see page 123.

This year, we used the Policy Maturity Matrix developed by New Zealand's Department of the Prime Minister and Cabinet to assess our policy capability. Based on our recent self-assessment, we have a capability level of 2.3 and we have identified key capabilities that we aspire to have.

We will focus on improving:

- engagement of other agencies and stakeholders
- quality policy advice, by enhancing planning and project management and quality assurance
- policy outcomes and building capability for the future.

By achieving these capabilities, our score will improve to 2.5.

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 uses case studies to demonstrate the breadth of collaboration, including outcomes from information sharing, to improve results for customers and government.

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.

Information sharing with the Australian Taxation Office has helped our work on collecting student loans overdue debt by getting updated contact details for those customers located in Australia. For more details on this, see pages 55.

In July 2017 we completed an Approved Information Sharing Agreement (AISA) with the Ministry of Social Development (MSD). This agreement helped MSD administer social benefit and superannuation programmes.

We kept up our work with New Zealand Police and 10 other agencies on an AISA to aid information sharing in the Gang Intelligence Centre (GIC). The AISA will allow us to take part more fully in the GIC by sharing information to help reduce the harm caused by gangs.

We have also made good progress towards expanding our current AISA with New Zealand Police for serious crime to include sharing information with the Serious Fraud Office (SFO) and New Zealand Customs. Expanding this agreement will improve information sharing with the SFO and New Zealand Customs for investigations into serious fraud. We are also working on a new AISA with the Ministry of Business, Innovation and Employment (MBIE). This agreement will bring together and expand our current information sharing with the Companies Office.

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, is under development.

Motivation and resilience was tested this year as we implemented more changes through transformation and embedded our three new groups. Our people have maintained their performance and kept delivering excellent services to our customers and key stakeholders.

Staff engagement

Staff engagement is

27%

Compared to the Australasian Government benchmark of 56%

This result was from our culture and engagement survey run in July 2017.

The result was below the Australasian Government benchmark. We aim to improve engagement and make Inland Revenue a great place to work, where people are valued as individuals.

Workforce capability

We are continuing to develop measures that focus on workforce capability.

This year, a range of tools and resources were created to help our people understand our 12 people capabilities. The My Capabilities tool helps our people reflect on and understand their strengths and potential development areas. The tool was launched in March 2018, along with a number of resources and guides.

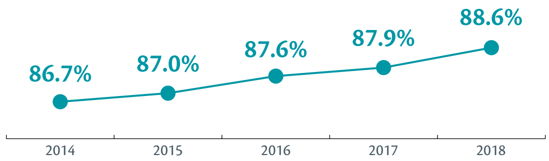
We protect the integrity of the tax system, and our stakeholders and the public have trust and confidence in us

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

88.6%

of customers have trust and confidence in Inland Revenue

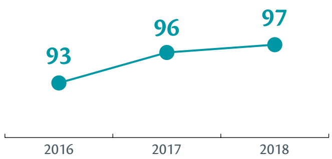


The percentage of customers who have trust and confidence in us continues to trend upwards.

Public Sector Reputation Index (RepZ)

Our RepZ score is:

97



The Index measures perception of a public sector organisation across leadership/success, fairness, social responsibility and trust. Our latest result of 97 was released in April 2018 and is based on field work conducted in 2017. 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 strong.

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

This section reports 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 2018**. Full details can be found on the Treasury's website.

We have included comparison of our performance information against the performance measures and results for 2016–17. Our performance targets for 2018–19 are also included to provide context to the 2017–18 results. We explain measures that have not met the target or have achieved a result that was 15% greater than the 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 110 to 127 are not subject to audit.

Review of 2017–18 output performance measures and targets

Similar to last year, we have two categories of performance measures: primary measures and supporting measures. Our primary measures have a greater focus on what we are intending to achieve and show progress towards achieving our outcomes. The supporting measures are more operational in nature, providing additional information.

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

We have moved three output measures from primary to supporting measures. These measures are good indicators of activity rather than indicators of what we want to achieve and will be drawn upon where relevant to support our performance story. This movement reflects the emphasis of the Public Finance Act 2013 changes to focus on the outcomes we intend to achieve.

We updated the milestone measures for our Transformation appropriation to reflect the agreed key programme milestones in 2017–18. This reduced the overall number of output measures from 52 in 2016–17 to 50 for 2017–18.

* This link leads to information not covered by the audit opinion on page 202.

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

8/12
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 we intend to achieve

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 by online 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:

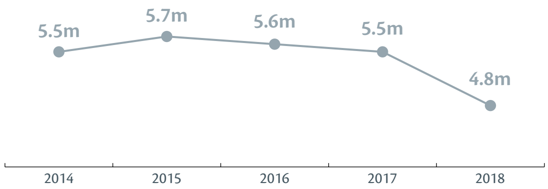
- preparing and issuing binding public rulings
- developing and publishing non-binding statements on the Commissioner's view of the law administered by us, such as interpretation statements and guidelines
- considering applications for, and providing, taxpayer-specific depreciation determinations
- preparing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

The numbers we work with

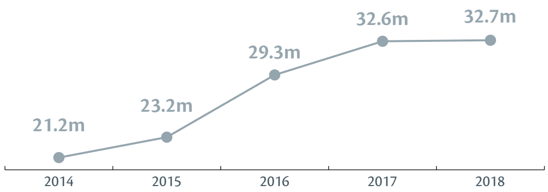
4.8 million

customer service contacts



32.7 million

self-help service contacts



How we performed

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
82.6%	Minimum percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations #	80%	82.2%	85%
77.7%	Minimum percentage of customers who perceive that resolving issues with Inland Revenue requires low effort #	80%	78.6%	80%
	Not achieved—Our customers' perception that resolving issues requires low effort is below target. This has been affected by our change to new online systems and processes since February 2017. We have seen a slight improvement in the fourth quarter. We worked closely with customers to understand their challenges in the new system and made improvements based on their feedback and we will keep doing this.			
87.8%	Minimum percentage of overall customer satisfaction with the quality of Inland Revenue services to inform #	90%	87.5%	90%
	Not achieved—Our customers' satisfaction with the quality of our services has not improved from last year. It has been lower than the target since we started implementing our new online systems and processes in February last year.			
	Supporting measures			
$32.52	Maximum average cost of a customer-initiated contact	$35.00	$39.05	$35.00
	Not achieved—Working across two systems has negatively affected the average cost of a customer-initiated contact. The telephone, correspondence and counter activities have taken longer and total costs have increased by 6% compared to last year.			
67.0%	Minimum percentage of telephone calls answered within two minutes	75%	63.5%	75%
	Not achieved—This year we answered 64% of customer calls within two minutes against the target of 75%. We had some unexpected surges in call demand during the year. For example, in June, a high number of calls were received from customers experiencing issues with our online services. To manage the increased number of calls from our customers during our busiest time, we increased our temporary resources and had as many people as possible answering phones. For the year we answered 78% of calls compared to 86% last year.			

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
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%
32	Minimum number of published or finalised public items that give the Commissioner's interpretation of the law	25	28	25
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%
90%	Minimum percentage of public items (including relevant public consultation) completed within 18 months of allocation	85%	88.9%	90%
100%	Minimum percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	96.9%	90%

Actual performance measured using a sample of the customer population.

All targets are unaudited.

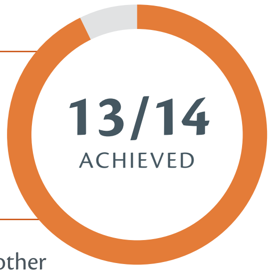
What it cost

Output statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
210,297	Revenue from the Crown	230,971	230,971	214,572	206,671
1,442	Other revenue	1,107	1,278	1,882	1,278
211,739	**Total revenue**	**232,078**	**232,249**	**216,454**	**207,949**
212,093	**Total expenses**	**222,663**	**232,249**	**216,454**	**207,949**
(354)	**Net surplus/(deficit)**	**9,415**	**–**	**–**	**–**

02. Services to process obligations and entitlements



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 we intend to achieve

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.

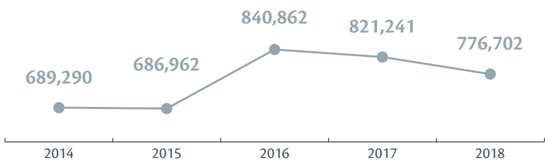
We also process child support assessments and provide an administrative process for reviewing child support assessments, which is intended to be low cost and readily accessible to custodians and parents.

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, allowing them to participate in society.

The numbers we work with

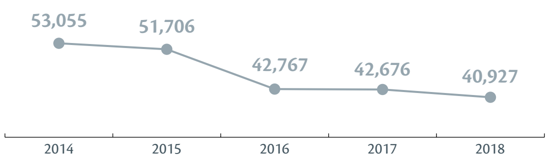
776,702

tax and social policy registrations (excluding child support) received



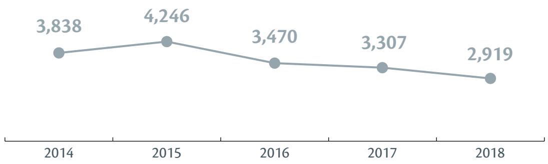
40,927

child support applications received

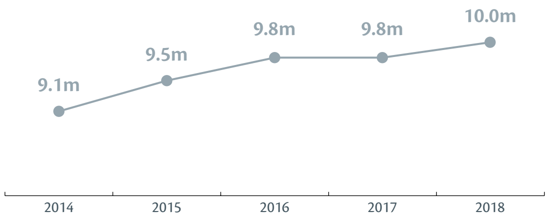


2,919

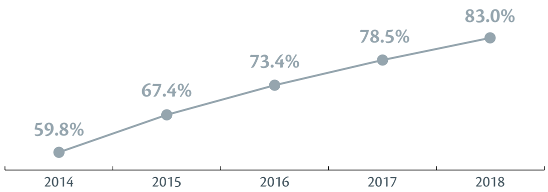
applications for administrative review of child support assessments received



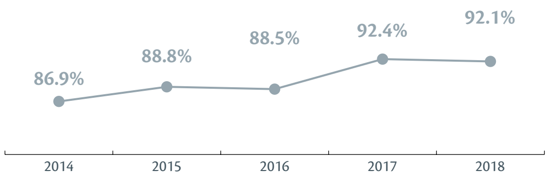
10 million
returns received



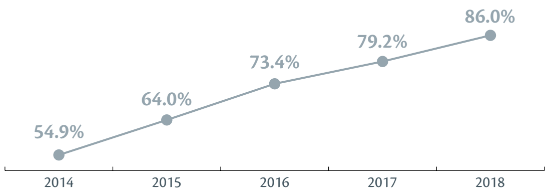
83%
of returns filed electronically



92.1%
of income tax returns filed electronically



86%
of GST returns filed electronically



How we performed

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
80.4%	Minimum percentage of customers who perceive that Inland Revenue makes it easy for people to get it right #	75%	79.5%	80%
88.3%	Minimum percentage of social policy and tax registrations processed within five working days	85%	93.6%	85%
88.9%	Minimum percentage of income tax disbursements issued within six weeks	85%	89.7%	85%

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
95.3%	Minimum percentage of GST disbursements issued within four weeks*	95%	96.6%	95%
	The 2016–17 result is different from the one reported in our 2017 Annual Report. We have re-stated the result as we understand more about the data from our new START system. This timeliness measure only relates to GST disbursements resulting from customers filing GST returns that trigger a credit assessment. The 2016–17 result incorrectly included all types of disbursements that arise, such as overpayments and credit use of money interest. This reporting issue has now been fixed.			
	Supporting measures			
93.4%	Minimum percentage of income tax returns finalised within four weeks	90%	92.9%	90%
97.8%	Minimum percentage of GST returns finalised within three weeks	95%	99.6%	95%
99.8%	Minimum percentage of employer monthly schedule employee deductions finalised within four weeks	95%	99.7%	95%
$2.16	Maximum average cost of processing income tax returns, GST returns and employer monthly schedules	$4.00	$2.17	$4.00
	The cost of processing each return is consistent with the 2016–17 result. The strong performance reflects the increased number of customers filing their returns online. In 2017–18, 83% of returns were filed electronically, up from 78% in 2016–17.			
99.5%	Minimum percentage of notices and statements produced without error #	98.5%	99.6%	99.8%
93.0%	Minimum percentage of tax credit claim payments made within three weeks	90%	92.9%	90%
99.1%	Minimum percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	99.5%	95%
98.7%	Minimum percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	99.8%	97%
90.8%	Minimum percentage of child support administrative review decisions issued within seven weeks	85%	89.7%	90%
78.4%	Minimum percentage of child support assessments issued within two weeks	80%	78.5%	80%
	Not achieved—To help our customers to get it right from the start, we need to clarify complex relationship information with them before we issue an assessment. This affected our ability to issue assessments within two weeks.			

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 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
87,736	Revenue from the Crown	84,241	84,241	93,368	94,657
21,608	Other revenue	20,754	20,815	21,134	20,815
109,344	**Total revenue**	**104,995**	**105,056**	**114,502**	**115,472**
108,731	**Total expenses**	**97,134**	**105,056**	**114,502**	**115,472**
613	**Net surplus/(deficit)**	**7,861**	**–**	**–**	**–**

03. Management of debt and outstanding returns

10/11
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 we intend to achieve

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 returns not filed by the due date, 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 returns not filed by the due date is presented on pages 52 to 55.

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, returns not filed by the due date and child support debt. The table below shows our return on investment (ROI) in these three areas.

2017 Unaudited ROI Actual		2018 Unaudited ROI Actual
$17.39	Ageing debt	$7.50
$10.83	Unfiled returns	$5.15
$2.65	Child support compliance	$2.70

Our debt and unfiled returns Budget-specific initiatives have been very successful over time. We have exceeded the ageing debt cash collected and unfiled returns assessed revenue target for the multi-year work programmes that end in 2020. As expected, the revenue collected in 2017–18 through the unfiled returns initiative was less than last year. We have been using a predictive model to select high-value unfiled returns. Our success with this has meant that we now have fewer of these high-value returns to target.

Extra 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 so far has resulted in an extra $99 million recovered from parents.

How we performed

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
85.0%	Minimum percentage of returns filed on time	80%	85.4%	85%
$113.23	Minimum value of assessed revenue for every outstanding return dollar spent	$45.00	$96.02	$45.00

This measure demonstrates the cost-effectiveness of our work on returns not filed by the due date. The positive outcome we have achieved is driven in part by our intelligence-led efforts and use of a predictive model, which allows 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.

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
87.9%	Minimum percentage of tax payments made by customers on time	85%	87.9%	85%
$79.23	Minimum cash collected for every debt dollar spent	$40.00	$66.10	$30.00

This measure demonstrates the cost-effectiveness of our debt collection activities. The cash collected for every debt dollar spent fell slightly from last year as the amount of cash collected is 32% lower compared to last year. The overall costs of collecting overdue debt reduced by 18%.

The amount of cash collected has been strongly affected by large business customers using extension-of-time and tax pooling services. 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. We will change the methodology of this measure to exclude the tax pooling for 2018–19.

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
69.0%	Minimum percentage of child support assessments paid on time	65%	69.6%	70%
	Supporting measures			
$15.15	Maximum average cost of finalising an outstanding return	$16.00–$18.00	$16.48	$18.00–$20.00
(7.6%)	Maximum percentage growth in outstanding returns	0%	15.4%	0%

Not achieved—We compare the number of returns not filed by the due date with the same period last year. Our strong position last year has affected our current year-on-year growth result. Last year we achieved an 8% reduction against a target of 0% and we reduced the number of returns not filed by the due date to 654,357, the lowest level since 2010. As at the end of June, we have 755,109 returns not filed by the due date, a 15.4% increase from last year. We continued to use predictive modelling, which allowed us to focus on customers who are more likely to have higher-value returns and to provide tailored and targeted services to them.

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
46.4%	Maximum percentage of collectable debt value over two years old	60%	44.3%	55%

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.

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
75.6%	Minimum percentage of debt value resolved for those who did not have a debt at the start of the year	65%	72.4%	Measure retired
85.0%	Minimum percentage of debt cases resolved within six months	80%	81.5%	80%
77.5%	Minimum percentage of New Zealand paying parent child support debt cases resolved within 12 months	75%	78.0%	75%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
145,689	Revenue from the Crown	137,922	137,922	145,680	150,233
2,150	Other revenue	1,298	2,022	2,621	2,022
147,839	**Total revenue**	**139,220**	**139,944**	**148,301**	**152,255**
146,315	**Total expenses**	**131,625**	**139,944**	**148,301**	**152,255**
1,524	**Net surplus/(deficit)**	**7,595**	**–**	**–**	**–**

04. Investigations

4/4
ACHIEVED

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

What we intend to achieve

This appropriation is intended to protect the revenue base.

What we do

The activities we undertake 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 and 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 55 to 56.

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 55 and 56.

2017 Unaudited ROI Actual		2018 Unaudited ROI Actual
$6.00	Hidden economy	$6.19
$19.05	Complex technical issues (including aggressive tax planning)	$7.10
$2.76	Fraud	$3.35
$8.28	Property compliance	$8.30
$11.55	**Investigations total from Budget-specific initiatives**	**$6.74**

Investigations return on investment result of $6.74 this year is below the annual target of $7.68 as we have fewer complex technical cases. So far, we have achieved 76% of the $1.06 billion discrepancies target and are well on track to achieve the outcomes for investigations by 2020.

How we performed

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
87.6%	Minimum percentage of customers whose compliance behaviour improves after receiving an audit intervention #	80%	80.0%	85%
$8.31	Minimum discrepancy identified for every output dollar spent	$7.00	$7.86	$7.00
80.8%	Minimum percentage of litigation judgments found in favour of the Commissioner	66%	89.1%	75%
	This achievement reflects a total of 46 judgments for the year, 41 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 change the percentage achieved significantly.			
	Supporting measures			
74.6%	Minimum percentage of audited customers who are satisfied with their experience #	70%	70.5%	75%

Actual performance measured using a sample of audit cases.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
172,517	Revenue from the Crown	152,413	152,413	173,089	171,679
1,584	Other revenue	264	304	568	304
174,101	**Total revenue**	**152,677**	**152,717**	**173,657**	**171,983**
168,338	**Total expenses**	**140,164**	**152,717**	**173,657**	**171,983**
5,763	**Net surplus/(deficit)**	**12,513**	–	–	–

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 we intend to achieve

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 page 39.

How we performed

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
75.0%	Minimum percentage of sample reports that meet quality standards	75%	95.0%	80%
	The policy advice we provide is critical to ensuring that our tax and social systems operate as intended. This year, we used the Policy Quality Framework criteria from the Department of the Prime Minister and Cabinet to assess our policy quality. The improvement of this measure reflects our focus on providing high-standard policy advice to Ministers.			
80.0%	Minimum percentage of ministerial satisfaction for policy advice	80%	92.0%	90%
	The performance is assessed by a survey completed by the Minister of Revenue. The improved satisfaction result reflects our efforts in providing high-quality policy activities like policy reports, consultation on tax policy issues, supporting legislation through Parliament and the delivery of the tax policy work programme.			
$130.88	Maximum average cost per hour of producing policy advice outputs	$150.00	$139.35	$150.00

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
9,483	Revenue from the Crown	9,384	9,384	9,537	10,595
33	Other revenue	11	13	23	13
9,516	**Total revenue**	**9,395**	**9,397**	**9,560**	**10,608**
9,006	**Total expenses**	**8,864**	**9,397**	**9,560**	**10,608**
510	**Net surplus/(deficit)**	**531**	**–**	**–**	**–**

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 we intend to achieve

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 NZPC with the following support services:

- operating bank accounts, jointly with 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

2016–17 Actual		2017–18 Target	2017–18 Actual	2018–19 Target
	Primary measures			
85.8%	Minimum percentage of satisfaction of the Department of Internal Affairs for services provided	70%	81.6%	75%
	We maintained a satisfactory score of 82% for services provided to the Department of Internal Affairs. We will keep working with them to improve our services.			
98.0%	Minimum percentage of satisfaction of the New Zealand Productivity Commission for services provided	70%	92.5%	90%
	We maintained a strong and successful relationship with the New Zealand Productivity Commission. This result shows a high level of satisfaction with services provided.			

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
2,360	Other revenue	4,361	5,071	3,060	4,684
2,360	**Total revenue**	**4,361**	**5,071**	**3,060**	**4,684**
2,380	**Total expenses**	**4,191**	**5,071**	**3,060**	**4,684**
(20)	**Net surplus/(deficit)**	**170**	**–**	**–**	**–**

Our transformation

07. Transformation

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

What we intend to achieve

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 multi-year, multi-stage 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 website, http://www.ird.govt.nz/transformation*

* This link leads to information not covered by the audit opinion on page 202.

How we performed

	2017–18 Milestone	2017–18 Actual
Deliver new functionality to allow customers (or their agents) to self-manage their GST obligations	30/04/2018	Achieved
Accounting Income Method (AIM) regime operational in the new tax system (START)	30/04/2018	Achieved
Migrate all tax products to the new tax system (START)	30/04/2018	Not Achieved

Not achieved—Since the milestones were set, the release schedule for transformation has been amended. We applied lessons learnt from GST go-live in February 2017 and decided to implement the tax products in two releases. This minimises the impact of working across two systems and reduces the amount of disruption for our customers and our people. We started the migration of income tax to START with Release 2 in April 2018. Income information is being collected in START so that the pre-population of individuals' information can begin—the information will be available at the end of the 2018–19 year. Release 3 in April 2019 will complete the migration of income tax to START.

	2017–18 Milestone	2017–18 Actual
Complete the stage 2 plan for implementing any further legislative changes (subject to Ministers' decisions)	30/04/2018	Achieved

All targets are unaudited.

What it cost

Other expenses statement

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Revenue				
159,730	Revenue from the Crown	220,168	220,168	382,372	320,876
–	Other revenue	4,273	–	–	–
159,730	**Total revenue**	**224,441**	**220,168**	**382,372**	**320,876**
133,476	**Total expenses**	**196,774**	**220,168**	**382,372**	**320,876**
26,254	**Net surplus/(deficit)**	**27,667**	**–**	**–**	**–**

The increase in this appropriation is in line with our forecast and the approved funding for this multi-year programme.

Our asset performance

Assets have been grouped into Property and Information, Communications and Technology portfolios. The following asset performance measures apply to both our owned and leased assets.

Our asset performance measures are unaudited.

Property asset performance:

Our property asset performance measures tell us how our property portfolio is performing against the organisational goals and government guidelines. We want to measure and ensure we are consistently achieving:

- a structurally sound building portfolio compliant with Health and Safety and Building Act 2004 legislation
- a comfortable, modern workplace and front-of-house environment for our staff and customers
- compliance with Government Property initiatives.

Unaudited 2016–17 Actual	Performance Measures	How we measure it	Unaudited 2017–18 Target	Unaudited 2017–18 Actual
96%	Buildings with a New Building Standard earthquake rating greater than 67%	This measures the condition of our buildings. The rating is based on an assessment of the expected seismic performance of an existing building relative to a new building on the same site.	100%	96%
	Not achieved—The building condition rating was below the target, with one building falling below 67%—Hamilton Rural Bank building. We expect this rating to improve once we move our people into the Home Straight building in 2018–19.			
14.1 m²	Occupancy rating (m² per person)	This measures the utilisation of our buildings. We report the average rate of occupancy across all of our sites. Only floor space suitable for occupancy is included in the calculation.	15 m²	13.6 m²
82%	Percentage of desks that are permanently in use	This measures the utilisation of our desks. This measure is calculated by taking a count of people per site divided by the workstations per site.	80%	83%
1.9	Condition assessment average across all offices	This measures the condition of our offices, including improvements such as office fit-outs and refurbishments. The conditions are graded per site from 1 to 5 (1=excellent, 5=poor) according to the International Infrastructure Management Manual standard.	2.5	2.1

Information, Communications and Technology asset performance:

Our Information, Communications and Technology performance measures are important as they reflect how both our internal and customer-facing operational systems are performing against predetermined benchmarks.

Unaudited 2016–17 Actual	Performance Measures	How we measure it	Unaudited 2017–18 Target	Unaudited 2017–18 Actual
99.9%	Percentage of serviceable hours that systems are available to users	This measures the utilisation (uptime) of our key systems to provide confidence of continued service to our customers. The time taken for planned outages for maintenance is not included in the calculation.	99.5%	99.8%
0	Average number of priority 1 outage incidents per month	This measures the availability of our five key groups of systems (eChannels, FIRST, voice, desktop applications and START). The result is the average number of Priority 1 outages per month. Priority of incidents is classified from 1 to 5. A Priority 1 incident is the most important and is where a critical service is unavailable, a contact centre is unavailable or a major location is unavailable and there is no workaround.	2.0	2.6
	Not achieved—We had 31 serious incidents this year resulting in an average monthly result above the target. This was affected by outages in our online services in May and June 2018.			
78%	Weighted asset condition	This measures the condition of our five key groups of systems. It calculates the average condition of systems according to a weighted list of questions, primarily what level of support is available for the system and how up-to-date the system version is.	79%	83%

Our capital expenditure

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 we intend to achieve

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 2017–18 are:

- *Maintain and improve business infrastructure.*

  Our investment profile for maintaining and improving business infrastructure includes technology replacements, accommodation fit outs and an upgrade of contact centre technology

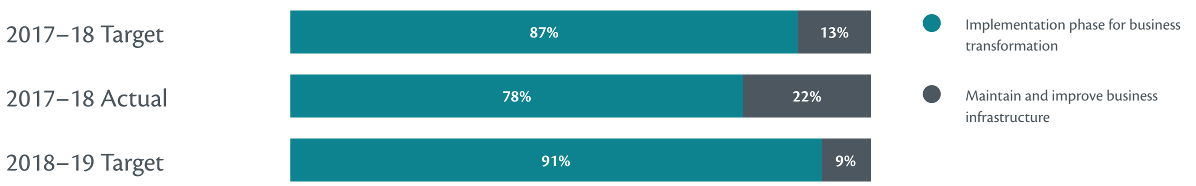
- *Implement Business Transformation.*

  Our investment profile for Business Transformation includes implementing core and supporting capabilities, including technology, for a modern digital revenue system for New Zealand

More information on our capital expenditure can be found throughout this report, particularly on page 133.

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 Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations* on page 133.

For details of departmental capital injections please refer to page 134.

Our financial summary

In 2017–18, we took another major step forward in our transformation and we managed our finances well.

Operating expenditure

In 2017–18, we spent $802.0 million to operate our organisation. This was $65.2 million lower than our Government funding and other income. The lower spend is mainly due to the change in both the phasing and the delivery of the transformation programme, delays in recruitment and longer than expected time for transitioning people into new roles in the new organisation.

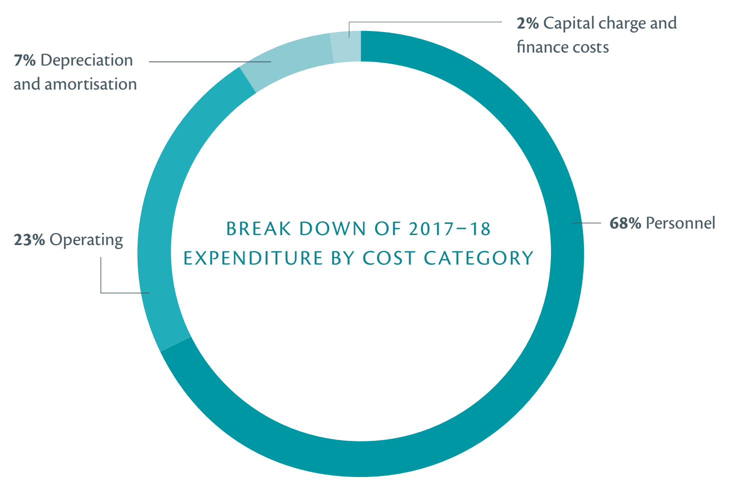
Operating funding of $55.4 million is ring-fenced for funding transfers to 2018–19 and outyears and to meet our commitments for system-wide initiatives. This includes a funding transfer of $23.4 million in our Transformation multi-year appropriation and transfer of other operating funding of $27.5 million for which we have approval in-principle from the Ministers of Finance and Revenue. We will also contribute $4.5 million to the Digital Government Partnership Innovation Fund for 2018–19.

Operating expenditure by cost categories

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

Our total personnel costs for 2017–18 were $545.2 million. Approximately 77% of these costs were directly related to our employees' remuneration costs.

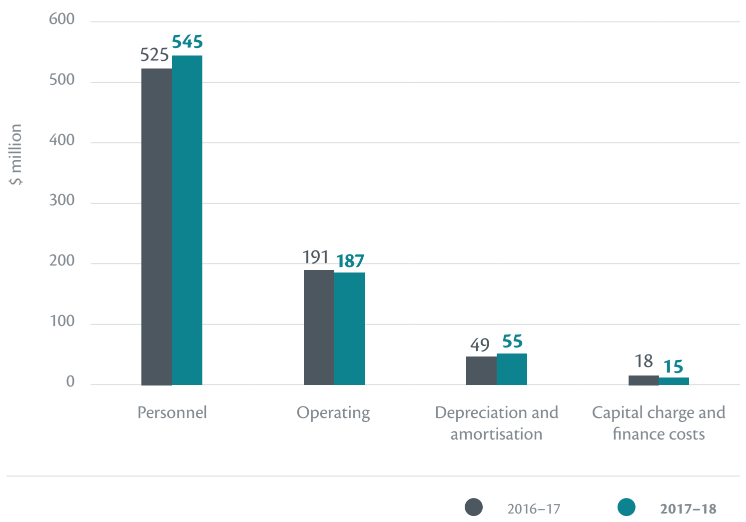
Operating costs for the year were $187.0 million. Approximately 74% of these operating costs relate to information technology, rental, communications, and printing and postage.



Comparing 2017–18 to 2016–17

Our personnel and operating costs were $16.7 million higher in 2017–18 than 2016–17, mostly driven by increased activities for Release 2 of business transformation.

BREAK DOWN OF 2016–17 AND 2017–18 EXPENDITURE BY COST CATEGORY



Capital expenditure

We spent $103.7 million in capital investment in 2017–18. This was lower than our revised capital budget of $123.1 million, mainly due to the re-phasing of the capital plan for the transformation programme to align with our updated delivery approach. Unused capital funding will be carried forward into our 2018–19 capital reserve.

Future outlook

Our operating and capital expenditure are forecast to increase significantly in 2018–19 as we implement Release 3 of our business transformation. Operating expenditure for 2018–19 is forecast to be $983.8 million, an increase of $181.8 million from 2017–18. Capital expenditure for 2018–19 is forecast to be $143.2 million, an increase of $39.5 million. The capital investment contributes to the growth of our net assets to $409.9 million from $317.3 million in 2017–18 and is mostly driven by more intangible assets as we further transform the organisation.

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 2018.

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

For the year ended 30 June 2018

Actual[1] 2017 $000		Actual[1] 2018 $000	Unaudited revised budget[6] 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Vote: Revenue				
	Output expenses				
9,006	Policy Advice	8,864	9,397	9,560	10,608
212,093	Services to Inform the Public about Entitlements and Meeting Obligations	222,663	232,249	216,454	–
108,731	Services to Process Obligations and Entitlements	97,134	105,056	114,502	–
146,315	Management of Debt and Outstanding Returns	131,625	139,944	148,301	–
168,338	Investigations	140,164	152,717	173,657	–
	Services for customers—MCA[2]				
–	Services to Inform the Public about Entitlements and Meeting Obligations	–	–	–	207,949
–	Services to Process Obligations and Entitlements	–	–	–	115,472
–	Management of Debt and Outstanding Returns	–	–	–	152,255
–	Investigations	–	–	–	171,983
644,483	**Total departmental output expenses**	**600,450**	**639,363**	**662,474**	**658,267**
2,380	Services to Other Agencies RDA[3]	4,191	5,071	3,060	4,684
646,863	**Total output expenses**	**604,641**	**644,434**	**665,534**	**662,951**
	Other expenses				
133,476	Transformation[4]	196,774	220,168	382,372	320,876
133,476	**Total other expenses**	**196,774**	**220,168**	**382,372**	**320,876**
780,339	**Total expenses**	**801,415**	**864,602**	**1,047,906**	**983,827**
	Capital Expenditure PLA[5]				
12,833	Property, plant and equipment	6,749	14,000	8,000	13,000
87,828	Intangible assets	96,933	109,096	213,600	130,200
100,661	**Total Capital Expenditure PLA**	**103,682**	**123,096**	**221,600**	**143,200**

[1] Excludes remeasurement of $585,740 (2016–17: $2,282,000). 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] From 1 July 2018 four of our output appropriations have been combined into a Multi-Category Expenses appropriation (MCA).

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

[4] Part of the 2017–18 Transformation funding has been re-phased into 2018–19 and outyears to better align with the updated business transformation work plan.

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

[6] The revised budget figures for 2017–18 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2018.*

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

Explanations of significant variances against budget are detailed in the relevant notes of the departmental financial statements.

All of the 2017–18 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 2018

In the 2017-18 financial year there were no instances of:

- expenses and capital expenditure incurred in excess of appropriation (2016–17: $nil)
- expenses and capital expenditure incurred without appropriation or other authority or outside the scope or period of appropriation (2016–17: $nil).

Statement of departmental capital injections

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget 2018 $000	Unaudited forecast 2019 $000
	Vote: Revenue			
58,110	Capital Injections	58,600	181,600	98,200

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2016–17: $nil).

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

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited revised budget[1] 2018 $000	Unaudited budget 2018 $000	Unaudited forecast 2019 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
–	Best Start tax credit PLA[2 & 3]	–	–	–	80,000
279,610	Child support payments PLA	287,639	288,000	291,000	300,000
879	Child tax credit PLA	773	800	900	600
1,722,732	Family tax credit PLA	1,639,099	1,696,000	1,823,000	2,628,000
553,072	In-work tax credit PLA	515,118	533,000	561,000	540,000
11,818	KiwiSaver: Interest	5,454	10,000	12,000	10,000
731,000	KiwiSaver: Tax credit	801,808	832,000	798,000	850,000
12,703	Minimum family tax credit PLA	11,597	12,000	12,000	14,000
274,496	Paid parental leave payments	288,174	297,000	338,000	360,000
29,315	Parental tax credit PLA	28,027	29,000	29,000	5,000
5,514	Payroll subsidy PLA	7,134	7,600	5,900	6,500
3,621,139	**Total benefits and other unrequited expenses**	**3,584,823**	**3,705,400**	**3,870,800**	**4,794,100**
	Borrowing expenses				
33	Adverse event interest PLA	1	10	10	10
1,636	Environmental restoration account interest PLA	1,636	2,000	2,000	2,000
5,114	Income equalisation interest PLA	4,565	7,000	10,000	10,000
6,783	**Total borrowing expenses**	**6,202**	**9,010**	**12,010**	**12,010**
	Other expenses				
493,017	Impairment of debt and debt write offs[4]	616,221	800,000	800,000	680,000
–	Impairment of debt relating to child support	–	5,000	–	–
–	Impairment of debt relating to student loans	–	66,000	100,000	–
661,715	Initial fair value write down—student loans	594,314	638,000	676,000	610,000
1,154,732	**Total other expenses**	**1,210,535**	**1,509,000**	**1,576,000**	**1,290,000**
4,782,654	**Total appropriations**	**4,801,560**	**5,223,410**	**5,458,810**	**6,096,110**

[1] The revised budget figures for 2017–18 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2018*.

[2] Best Start tax credit is a new appropriation commencing 1 July 2018.

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

[4] 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 the same accounting policies as 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 2018**.

* This link leads to information not covered by the audit opinion on page 202.

Statement of non-departmental unappropriated expenditure

In the 2017–18 financial year there were no instances of:

- expenditure incurred outside of appropriation (2016–17: $nil)
- expenditure incurred in excess of appropriation (2016–17: $nil).

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Statement of comprehensive revenue and expense

For the year ended 30 June 2018

Actual 2017 $000		Notes	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Revenue				
785,452	Revenue from the Crown	2	835,099	1,018,618	954,711
29,177	Other revenue	2	32,068	29,288	29,116
814,629	**Total revenue**		**867,167**	**1,047,906**	**983,827**
	Expenses				
524,779	Personnel	3	545,150	632,307	691,432
190,696	Operating	4	187,017	319,271	205,410
49,365	Amortisation, depreciation and impairment	9, 10	54,602	81,000	67,118
17,694	Capital charge	5	15,216	15,328	19,867
87	Finance	6	16	–	–
782,621	**Total expenses**		**802,001**	**1,047,906**	**983,827**
32,008	**Net surplus and total comprehensive revenue and expense**		**65,166**	**–**	**–**

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

Explanations of major variances against budget are detailed in the relevant notes.

Statement of financial position

As at 30 June 2018

Actual 2017 $000		Notes	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Current assets				
34,831	Cash and cash equivalents		55,263	18,000	30,000
178,452	Debtor Crown	11	187,147	173,762	139,739
12,585	Debtors and prepayments	11	14,262	14,822	12,122
560	Inventories held for distribution		485	650	500
226,428	**Total current assets**		**257,157**	**207,234**	**182,361**
	Non-current assets				
105	Prepayments	11	272	–	–
41,611	Property, plant and equipment	9	36,374	39,421	42,762
177,260	Intangible assets	10	231,154	327,641	320,433
218,976	**Total non-current assets**		**267,800**	**367,062**	**363,195**
445,404	**Total assets**		**524,957**	**574,296**	**545,556**
	Current liabilities				
63,126	Creditors and other payables	12	67,403	50,600	50,600
33,863	Surplus payable to the Crown	8	59,565	–	–
41,852	Employee entitlements	13	48,385	41,300	42,308
1,818	Provision for other liabilities	14	43	–	–
2,917	Derivative financial instruments	19	1,027	–	–
53	Finance leases	15	57	–	–
288	Other financial liabilities	16	274	247	230
143,917	**Total current liabilities**		**176,754**	**92,147**	**93,138**
	Non-current liabilities				
41,313	Employee entitlements	13	28,393	44,138	42,129
389	Provision for other liabilities	14	45	333	92
5,343	Derivative financial instruments	19	1,631	–	–
57	Finance leases	15	–	–	–
780	Other financial liabilities	16	811	617	275
47,882	**Total non-current liabilities**		**30,880**	**45,088**	**42,496**
191,799	**Total liabilities**		**207,634**	**137,235**	**135,634**
253,605	**Net assets**		**317,323**	**437,061**	**409,922**
253,605	Taxpayers' funds	7	317,323	437,061	409,922
253,605	**Total taxpayers' funds**		**317,323**	**437,061**	**409,922**

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

Explanations of major variances against budget are detailed in the relevant notes.

Statement of changes in taxpayers' funds

For the year ended 30 June 2018

Actual 2017 $000		Note	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
273,133	Opening balance at 1 July		253,605	255,461	311,722
32,008	Total comprehensive revenue and expense		65,166	–	–
(33,863)	Repayment of surplus to the Crown	8	(59,565)	–	–
58,110	Capital injections		58,600	181,600	98,200
(75,783)	Capital withdrawal		(483)	–	–
253,605	**Closing balance at 30 June**		**317,323**	**437,061**	**409,922**

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

Statement of cash flows

For the year ended 30 June 2018

Actual 2017 $000		Note	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Cash flows from operating activities				
842,912	Receipts from the Crown		826,403	1,023,308	977,070
28,575	Receipts from other revenue		31,421	29,680	29,328
(523,667)	Payments to employees		(552,978)	(628,093)	(690,370)
(174,939)	Payments to suppliers		(190,638)	(340,271)	(223,980)
(17,694)	Payments for capital charge		(15,216)	(15,328)	(19,867)
(285)	Goods and services tax (net)		2,334	1,707	(2,927)
154,902	**Net cash flow from operating activities**		**101,326**	**71,003**	**69,254**
	Cash flows from investing activities				
(13,246)	Purchases of property, plant and equipment		(7,598)	(8,000)	(13,240)
(83,217)	Purchases of intangible assets		(97,490)	(213,600)	(129,961)
(96,463)	**Net cash flow from investing activities**		**(105,088)**	**(221,600)**	**(143,201)**
	Cash flows from financing activities				
58,110	Capital injections		58,600	181,600	98,200
(35,266)	Repayment of surplus to the Crown	8	(33,863)	(38,840)	(30,900)
(75,783)	Capital withdrawals		(483)	–	–
(378)	Payments of finance leases		(60)	–	(57)
(53,317)	**Net cash flow from financing activities**		**24,194**	**142,760**	**67,243**
5,122	Net increase/(decrease) in cash and cash equivalents		20,432	(7,837)	(6,704)
29,709	Cash and cash equivalents at the beginning of the year		34,831	25,837	36,704
34,831	**Cash and cash equivalents at the end of the year**		**55,263**	**18,000**	**30,000**

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

Statement of cash flows (continued)

For the year ended 30 June 2018

Actual 2017 $000		Note	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
32,008	Net surplus	8	65,166	–	–
	Add/(less) non-cash items				
49,365	Amortisation, depreciation and impairment		54,602	81,000	67,118
1,855	Net unrealised foreign exchange losses/(gains)		(5,601)	–	–
51,220	**Total non-cash items**		**49,001**	**81,000**	**67,118**
	Add items classified as investing or financing activities				
1,497	Net loss/(gain) on disposal of property, plant and equipment		96	–	–
58	Net loss/(gain) on disposal of intangible assets		327	–	–
1,555	**Total items classified as investing or financing activities**		**423**	–	–
	Add/(less) working capital movements				
57,460	(Increase)/decrease in debtor Crown		(8,695)	4,690	22,359
4,588	(Increase)/decrease in debtors and prepayments		(1,844)	(4,526)	(3,914)
417	(Increase)/decrease in inventories held for distribution		75	50	–
4,846	Increase/(decrease) in creditors and other payables		5,686	(14,392)	(17,227)
1,113	Increase/(decrease) in employee entitlements		(6,385)	4,214	1,062
1,762	Increase/(decrease) in provision for other liabilities		(2,118)	(32)	(54)
(67)	Increase/(decrease) in other financial liabilities		17	(1)	(90)
70,119	**Net movements in working capital items**		**(13,264)**	**(9,997)**	**2,136**
154,902	**Net cash flow from operating activities**		**101,326**	**71,003**	**69,254**

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

Statement of commitments

As at 30 June 2018

Actual 2017 $000		Actual 2018 $000
	Capital commitments	
261	IT equipment	24
930	Leasehold improvements	2,098
7,281	Intangible assets	9,587
8,472	**Total capital commitments**	**11,709**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
40,231	Not later than one year	53,293
111,818	Later than one year and not later than five years	106,253
25,085	Later than five years	15,952
177,134	**Total non-cancellable operating commitments**	**175,498**
185,606	**Total commitments**	**187,207**

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

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 (i.e. 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 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 $6.310 million (2017: $9.463 million).

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 2018

Actual 2017 $000		Actual 2018 $000
	Contingent liabilities	
–	Employee grievances	70
585	Legal proceedings and disputes - taxpayer	560
585	**Total contingent liabilities**	**630**
	Contingent assets	
2,294	Legal proceedings and disputes - taxpayer	2,238
2,294	**Total contingent assets**	**2,238**

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

Contingent liabilities

Employee grievances

These contingent liabilities represent amounts that may be claimed by employees as a result of alleged grievances against Inland Revenue.

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* on page 182).

The expected value of the contingent liabilities is calculated using an outcome probability model that considers both the total potential liability and 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* on page 182).

The expected value of the contingent assets is calculated using an outcome probability model that considers both the total potential court costs recoverable and the probability of that outcome.

Notes to the financial statements

For the year ended 30 June 2018

These financial statements are for the year ended 30 June 2018 and include forecast financial statements for the year ending 30 June 2019.

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Who we are

Note 1. Basis of preparation

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.

Inland Revenue 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 2018. The forecast financial statements are for the year ending 30 June 2019.

The Chief Executive (Commissioner) of Inland Revenue authorised these financial statements on 28 September 2018.

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 Tier 1 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) in preparing the 30 June 2018 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.

Functional and presentation currency

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.

Accounting standards issued and not yet effective

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 assessed the effects of the new standard on the Departmental financial statements as minimal.

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, including expectations of future events that are believed to be reasonable under the circumstances, and other factors. 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 note 9 (Property, plant and equipment), note 10 (Intangible assets), note 13 (Employee entitlements) and note 15 (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 amounts in the financial statements and appropriation and output statements are 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 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 financial results.

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 and 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 the presentation or classification of items in the financial statements are 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 30 June 2017.

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 and forecast figures are not subject to audit.

The budget 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 revised budget figures for 2017–18 (refer to the *Statement of budgeted and actual expenses and capital expenditure incurred against appropriations* on page 133) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018**.

The forecast figures for 2018–19 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019**.

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 18 April 2018. While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2019 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 information and Inland Revenue's best estimates of future costs to be incurred for the Business Transformation programme.
- estimated year-end information for 2017–18 is used as the opening position for the 2018–19 forecasts.

Any changes to budgets during 2018–19 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

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 due to initiatives approved by Cabinet.
- technical adjustments to the budget, including transfers between financial years.
- the timing of expenditure relating to significant programmes and projects.

* This link leads to information not covered by the audit opinion on page 202.

Where our income came from

Note 2. Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue is recognised as follows:

Revenue from the Crown

Revenue from the Crown transactions are considered to be non-exchange transactions.

Revenue from the 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.

Inland Revenue can incur expenses only within the scope and limits of its appropriations.

The fair value of Revenue Crown is considered equivalent to the funding entitlement.

Explanation of major variance from budget

Revenue from the Crown was lower than Budget by $183.519 million. The majority of this variance is due to changes in the phasing and delivery of both the Business Transformation programme and the organisational change required to deliver the programme outcomes.

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.

Actual 2017 $000		Actual 2018 $000	Unaudited Budget 2018 $000
20,500	Accident Compensation Corporation—agency fees	20,500	20,500
–	Net gains on derivative financial instruments	4,272	–
2,373	Services and information provided to other agencies	2,717	3,073
2,255	Rental revenue from sub-leases	2,415	2,428
2,616	Court costs recovered	1,210	2,199
703	Revenue from rulings	828	1,088
730	Foreign trust administration fees	126	–
29,177	**Total other revenue**	**32,068**	**29,288**

Costs incurred in achieving our goals

Note 3. 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 expensed.

Actual 2017 $000		Actual 2018 $000	Unaudited Budget 2018 $000
399,073	Salaries and wages	391,030	452,282
106,501	Contractors and temporary staff	124,155	141,948
919	Termination benefits	21,071	21,350
12,334	Employer contributions to defined contribution schemes	12,436	12,511
1,058	ACC levies	1,209	1,307
308	Bonuses	339	278
553	Annual leave	161	896
1,875	Other	4,016	1,735
2,158	Retiring, long-service and sick leave	(9,267)	–
524,779	**Total personnel**	**545,150**	**632,307**

Explanation of major variances against budget

Personnel costs were lower than Budget by $87.157 million. The majority of this variance reflects the change in both the phasing and delivery of the Business Transformation programme, and organisational change required to deliver the programme outcomes.

Note 4. 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.

Actual 2017 $000		Actual 2018 $000	Unaudited Budget 2018 $000
63,595	Information technology costs	69,440	86,490
34,934	Accommodation lease rentals	36,688	37,203
21,650	Advertising, communication and publicity	21,250	27,160
11,837	Printing and postage	10,547	11,597
9,550	Office supplies and operating costs	9,613	11,205
9,250	Consultants	9,384	9,490
8,200	Travel and transport	8,804	8,239
6,575	Other operating expenses	6,488	108,302
7,303	Staff development	6,238	7,539
5,891	Legal expenses	5,478	6,295
2,292	Bank fees	2,348	3,243
1,373	Equipment maintenance	1,195	1,374
1,058	Audit fees for audit of the financial statements	1,084	1,155
1,555	Net loss on disposal of assets	423	–
50	Disbursements for audit of the financial statements	84	–
3,776	Net realised and unrealised foreign exchange losses/(gains)	53	(21)
4	Debt impairment and bad debts written off	3	–
1,803	Onerous leases	(2,103)	–
190,696	**Total operating**	**187,017**	**319,271**

Explanation of major variances against budget

Operating expenses were lower than budget by $132.244 million. The majority of this variance reflects the change in both the phasing and delivery of the Business Transformation programme, and the timing of the business transformation budget contingency which may still be required to manage future programme risks.

Note 5. 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 year ended 30 June 2018 was 6.0%.

Note 6. Finance

Borrowing costs are recognised as an expense in the financial year to which they relate.

Actual 2017 $000		Actual 2018 $000
35	Interest on finance loans	6
52	Discount unwind on provisions (Note 14)	10
87	**Total finance expense**	**16**

Return to New Zealand taxpayers

Note 7. Taxpayers' funds

Taxpayers' funds are the Crown's net investment in Inland Revenue.

Taxpayers' funds are divided and categorised into a number of components:

- total comprehensive revenue and expense
- repayment of surplus to the Crown
- capital injections
- capital withdrawals.

Capital management

Inland Revenue's capital is its taxpayers' 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 agreed outcomes, and remains a going concern.

Note 8. Surplus payable to the Crown

The surplus is required to be paid to the Crown by 31 October of each year.

Actual 2017 $000		Actual 2018 $000
32,008	Net surplus/(deficit)	65,166
1,855	Plus unrealised losses/(gains) in relation to forward foreign exchange contracts	(5,601)
33,863	**Total surplus payable to the Crown**	**59,565**

The net surplus includes $55.4 million which is ring-fenced for transfers to 2018–19 and to meet Inland Revenue's commitments for system-wide improvements and commitments.

Assets used to deliver our services

Note 9. Property, plant and equipment by category

Inland Revenue has operational assets that include IT equipment, furniture and office equipment, motor vehicles and leasehold improvements.

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

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 beyond one year, 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 beyond one year and the cost of the item can be measured reliably.

All repairs and maintenance are expensed.

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 reduce the value 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 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.

	IT equipment	Furniture and office equipment	Motor vehicles	Leasehold improvements	Assets under construction —leasehold	Total tangible assets
2018	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Cost						
Opening balance as at 1 July 2017	43,664	23,095	3,440	54,521	4,447	129,167
Additions by purchase	4,039	291	–	507	1,907	6,744
Transfers between category	19	–	–	3,970	(3,970)	19
Disposals	(9,895)	(481)	–	(74)	–	(10,450)
Closing balance as at 30 June 2018	**37,827**	**22,905**	**3,440**	**58,924**	**2,384**	**125,480**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2017	35,395	17,541	1,855	32,745	20	87,556
Depreciation charge—expensed	3,829	1,386	385	6,291	–	11,891
Depreciation charge—capitalised[1]	12	–	–	2	–	14
Disposals	(9,895)	(430)	–	(30)	–	(10,355)
Closing balance as at 30 June 2018	**29,341**	**18,497**	**2,240**	**39,008**	**20**	**89,106**
Carrying amount as at 30 June 2018	**8,486**	**4,408**	**1,200**	**19,916**	**2,364**	**36,374**
2017						
Cost						
Opening 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)
Closing balance as at 30 June 2017	**43,664**	**23,095**	**3,440**	**54,521**	**4,447**	**129,167**
Accumulated depreciation and impairment losses						
Opening 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)
Closing 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**

[1]Refers to 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

Impairment

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 expensed.

The reversal of an impairment loss is also recognised in the surplus or deficit.

Note 10. Intangible assets by category

Inland Revenue has intangible assets in the form of internally generated software and business process design assets and software licences. All intangible assets have finite useful lives.

Explanation of major variances against budget

Intangible assets are $96.487 million lower than budget due to the re-phasing of the capital plan for the Business Transformation programme to align with the updated delivery approach.

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 associated with the development of identifiable and unique software controlled by Inland Revenue, which will generate future economic benefits beyond one year.

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. Any other development costs are expensed.

Costs incurred on research of an internally generated intangible asset are expensed. Where the research phase cannot be distinguished from the development phase, the total cost is expensed.

Costs associated with maintaining internally generated computer software are expensed. Costs of configuring and customising commercial off-the-shelf software are capitalised.

Costs associated with the ongoing development and maintenance of Inland Revenue's existing websites are expensed.

Staff training costs are expensed.

Software licences

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and be able to use the specific software.

Costs associated with supporting and maintaining computer software licences are expensed.

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 when the asset no longer has a recognisable value. The amortisation charge is expensed.

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 disposal of an intangible asset is recognised in the financial results.

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 9. 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 assets
- anticipation of future events, which may impact their useful lives, such as changes in technology.

2018	Internally generated intangible assets $000	Software licences $000	Assets under construction —intangibles $000	Total intangible assets $000
Cost				
Opening balance as at 1 July 2017	584,639	108,309	36,112	729,060
Additions by purchase	48,321	8,106	–	56,427
Additions internally developed	9,099	–	31,422	40,521
Transfers between category	24,040	(637)	(23,422)	(19)
Disposals	(11,130)	(9,167)	–	(20,297)
Closing balance as at 30 June 2018	**654,969**	**106,611**	**44,112**	**805,692**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2017	462,303	85,880	3,617	551,800
Amortisation charge—expensed	36,275	6,045	–	42,320
Impairment losses	391	–	–	391
Transfers between category	1,218	(1,218)	–	–
Disposals	(10,888)	(9,085)	–	(19,973)
Closing balance as at 30 June 2018	**489,299**	**81,622**	**3,617**	**574,538**
Carrying amount as at 30 June 2018	**165,670**	**24,989**	**40,495**	**231,154**
2017				
Cost				
Opening balance as at 1 July 2016	539,261	104,753	30,615	674,629
Additions by purchase	34,144	10,368	–	44,512
Additions internally developed	18,758	–	24,789	43,547
Transfers between category	19,312	13	(19,292)	33
Disposals	(26,836)	(6,825)	–	(33,661)
Closing balance as at 30 June 2017	**584,639**	**108,309**	**36,112**	**729,060**
Accumulated amortisation and impairment losses				
Opening 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)
Closing 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**

[1]Refers to the amortisation charge for existing assets that are used 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.

Our intangible assets are mainly related to the START core revenue system. Of the $231.154 million carrying value for intangibles $14.715 million is for the START software licence asset and $103.002 million is the asset for the development of the START system to date. The estimated remaining amortisation period for our START assets is 14 years.

Note 11. Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions.

Explanation of major variances against budget

Debtor Crown was higher than budget by $13.385 million, mainly due to re-phasing of funding requirements and drawdowns for the Business Transformation programme.

Impairment of receivables

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 expensed.

Actual 2017 $000		Actual 2018 $000
	Current assets—exchange transactions	
	Debtors	
3,473	Accounts receivable	3,928
(6)	Less provision for impairment	(4)
200	Other debtors	388
3,667	*Net debtors*	4,312
8,918	Prepayments	9,950
12,585	**Total current assets—exchange transactions**	**14,262**
	Non-current assets—exchange transactions	
105	Prepayments	272
105	**Total non-current assets—exchange transactions**	**272**
12,690	**Total debtors and prepayments—exchange transactions**	**14,534**

Movements in the provision for impairment are as follows:

Actual 2017 $000		Actual 2018 $000
(21)	Opening balance as at 1 July	(6)
(3)	Additional provisions made during the year	(1)
18	Receivables written off during the year	3
(6)	**Closing balance as at 30 June**	**(4)**

The aging profile of our debtors are as follows:

2018	Gross debtors Actual $000	Impairment Actual $000	Net debtors Actual $000
Not past due	3,002	–	3,002
Past due 1 to 30 days	78	–	78
Past due 31 to 60 days	99	–	99
Past due 61 to 90 days	120	–	120
Past due > 90 days	1,017	(4)	1,013
Total	**4,316**	**(4)**	**4,312**
2017			
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**

Liabilities incurred by Inland Revenue

Note 12. Creditors and other payables

Creditors and other payables due within 12 months are recognised at their nominal value, unless the effect of discounting is material. Creditors and other payables due beyond 12 months are subsequently measured at amortised cost using the effective interest rate method, where applicable.

Actual 2017 $000		Actual 2018 $000
	Creditors and other payables—exchange transactions	
8,803	Accounts payable	10,294
43,810	Accrued expenses—other	44,260
52,613	**Total creditors and other payables—exchange transactions**	**54,554**
	Creditors and other payables—non-exchange transactions	
10,513	GST payable	12,849
10,513	**Total creditors and other payables—non-exchange transactions**	**12,849**
63,126	**Total creditors and other payables**	**67,403**

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 13. Employee entitlements

Explanation of major variances against budget

Provisions for employee entitlements were $8.660 million lower than budget. The decrease is largely driven by the valuation assumptions including the forecast reduction in our workforce as the Business Transformation programme is implemented.

Current 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 and long-service 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.

Non-current entitlements

Employee entitlements that are payable beyond 12 months, such as long-service leave and retiring leave, have been calculated on an actuarial basis.

Other provisions include an allowance to meet requirements of the Holidays Act (2003) and other operational employee matters.

Actual 2017 $000		Actual 2018 $000
	Current liabilities—exchange transactions	
27,413	Annual leave	27,128
5,284	Accrued salaries and wages	8,677
119	Termination benefits	4,178
2,083	Retiring leave	3,565
–	Other provision	2,018
1,260	Long-service leave	1,478
1,197	Sick leave	1,339
3	Time off in lieu	2
37,359	**Total current liabilities—exchange transactions**	**48,385**
	Current liabilities—non-exchange transactions	
4,493	PAYE payable	–
4,493	**Total current liabilities—non-exchange transactions**	**–**
41,852	**Total current liabilities**	**48,385**
	Non-current liabilities—exchange transactions	
32,689	Retiring leave	20,948
8,624	Long-service leave	6,021
–	Other provision	1,424
41,313	**Total non-current liabilities—exchange transactions**	**28,393**
41,313	**Total non-current liabilities**	**28,393**
83,165	**Total employee entitlements**	**76,778**

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 expense 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, where applicable.

Movements in the provisions for termination benefits are as follows:

Actual 2017 $000		Actual 2018 $000
	Termination benefits	
936	Opening balance as at 1 July	119
894	Additional provisions made	14,641
(1,609)	Amounts used	(10,463)
(102)	Unused amounts reversed	(119)
119	**Closing balance as at 30 June**	**4,178**

Movements in the provisions for other employee entitlements are as follows:

Actual 2017 $000		Actual 2018 $000
	Other employee entitlements provision	
–	Opening balance as at 1 July	–
–	Additional provisions made	3,442
–	**Closing balance as at 30 June**	**3,442**

Measuring retiring and long-service leave liabilities

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 also classified as a current liability. All other long-service leave and retiring leave is classified as a non-current liability.

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. Key assumptions used in calculating 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 2018. 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 2018 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 2.5% (2017: 3.0%).

Sensitivity analysis

The following table shows the effect of changes in forecast discount, salary inflation, and withdrawal rates on liabilities for long-service and retiring leave. Each factor is considered separately as if all other factors remained constant.

	Actual	Discount rate change		Salary inflation change		Withdrawal rate change	
	$000	$000	$000	$000	$000	$000	$000
		– 1.0%	+ 1.0%	– 1.0%	+ 1.0%	– 1.0%	+ 1.0%
2018							
Long-service leave	6,021	359	(341)	(151)	369	1,499	(1,161)
Retiring leave	20,948	1,702	(1,518)	(48)	1,732	6,722	(4,618)

Note 14. Provision for other liabilities

Inland Revenue recognises a provision for future payments 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 a payment 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, where applicable. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance expense.

Actual 2017 $000		Actual 2018 $000
	Current liabilities	
1,818	Onerous contracts	43
1,818	**Total current liabilities**	**43**
	Non-current liabilities	
60	Lease make-good	42
329	Onerous contracts	3
389	**Total non-current liabilities**	**45**
2,207	**Total provision for other liabilities**	**88**

Movements for each class of provision are as follows:

	Onerous contracts $000	Lease make-good $000	Total $000
Opening balance as at 1 July 2017	2,147	60	2,207
Additional provisions made	58	–	58
Amounts used	(216)	–	(216)
Unused amounts reversed	(1,945)	(26)	(1,971)
Discount unwind	2	8	10
Closing balance as at 30 June 2018	**46**	**42**	**88**
Opening balance as at 1 July 2016	413	32	445
Additional provisions made	1,803	18	1,821
Amounts used	(111)	–	(111)
Discount unwind	42	10	52
Closing balance as at 30 June 2017	**2,147**	**60**	**2,207**

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.

In the 2017–18 year $1.945 million of unused provision was reversed due to renegotiating lease terms.

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 payments to make-good the premises.

Note 15. 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 cost is expensed 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 the arrangements for the provision of telecommunications services include an embedded finance lease. The leased items are included within the net carrying amount of IT equipment (refer to Note 9). The net carrying amount of the finance lease is $57,000 (2017: $110,000).

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.

Note 16. 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, where applicable.

Actual 2017 $000		Actual 2018 $000
	Current liabilities	
288	Leasing incentives	274
288	**Total current liabilities**	**274**
	Non-current liabilities	
780	Leasing incentives	811
780	**Total non-current liabilities**	**811**
1,068	**Total other financial liabilities**	**1,085**

Other disclosures

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 2018 (2017: nil).

Remuneration to key management personnel

The remuneration of key management personnel during the year was as follows:

	Remuneration 2018 $000	Remuneration 2017 $000	Full-time equivalents 2018	Full-time equivalents 2017
Leadership team, including the Chief Executive (Commissioner)	4,673	4,110	11.3	10

The key management personnel remuneration disclosure includes the Chief Executive (Commissioner), six 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 their 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:

Actual 2017 $000		Actual 2018 $000
	Debtors and receivables	
34,831	Cash and cash equivalents	55,263
178,452	Debtor Crown	187,147
3,667	Net debtors	4,312
216,950	**Total debtors and receivables**	**246,722**
	Fair value through surplus or deficit	
8,260	Derivative financial instrument liabilities	2,658
8,260	**Total fair value through surplus or deficit**	**2,658**
	Financial liabilities measured at amortised cost	
52,613	Creditors and other payables	54,554
110	Finance lease liabilities	57
1,068	Other financial liabilities	1,085
53,791	**Total financial liabilities measured at amortised cost**	**55,696**

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 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 financial result.

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 2018 was NZ $49.877 million (2017: NZ $79.418 million). The contracts consisted of the purchase of US $31.858 million (2017: US $48.315 million) and AU $Nil (2017: AU $3.856 million). The unrealised gain on the forward exchange contract derivatives was NZ $5.601 million at 30 June 2018 (2017: unrealised loss of $1.855 million). The majority of the forward exchange contracts relate to future expenditure requirements for the Business Transformation programme.

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
2018				
Financial liabilities				
Forward foreign exchange contracts	–	2,658	–	**2,658**
2017				
Financial liabilities				
Forward foreign exchange contracts	–	8,260	–	**8,260**

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 currency 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*.

Sensitivity analysis

Assuming that all other variables remained constant, the impact on the surplus of a 5% increase/decrease in the New Zealand dollar against various other currencies held by Inland Revenue in its foreign currency account at 30 June 2018 would be a $2.610 million decrease and a $2.885 million increase respectively.

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 New Zealand Debt Management Office (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 New Zealand Debt Management Office. 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.

	Carrying amount	Total contractual cash flows	Up to 1 year	1 to 5 years	Over 5 years
	$000	$000	$000	$000	$000
2018					
Creditors and other payables	54,554	54,554	54,554	–	–
Finance lease liabilities	57	57	57	–	–
Other financial liabilities	1,085	1,085	274	753	58
Total	**55,696**	**55,696**	**54,885**	**753**	**58**
2017					
Creditors and other payables	52,613	52,613	52,613	–	–
Finance lease liabilities	110	118	59	59	–
Other financial liabilities	1,068	1,068	288	689	91
Total	**53,791**	**53,799**	**52,960**	**748**	**91**

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.

	Liability carrying amount	Total contractual cash flows	Less than 6 months	6–12 months	1–5 years
	NZD$000	NZD$000	NZD$000	NZD$000	NZD$000
2018					
Gross settled forward foreign exchange contracts	2,658	–	–	–	–
Outflow	–	49,877	13,907	12,647	23,323
Total	**2,658**	**49,877**	**13,907**	**12,647**	**23,323**
2017					
Gross settled forward foreign exchange contracts	8,260	–	–	–	–
Outflow	–	79,418	13,652	17,707	48,059
Total	**8,260**	**79,418**	**13,652**	**17,707**	**48,059**

Note 22. Events after balance date

There have been no significant events after balance date.

Financial Schedules
Non-departmental

Why we include non-departmental schedules

Inland Revenue collects and distributes money on behalf of the Crown and the following non-departmental schedules provide information on the financial extent of these activities. The Commissioner is accountable for the financial management of these activities.

In 2017–18 we collected $73.0 billion of revenue on behalf of New Zealand to fund government programmes. We paid $4.4 billion in non-departmental expenses including Working for Families tax credits, KiwiSaver member tax credits, interest and other expenses.

What non-departmental schedules are and are not

The non-departmental schedules are prepared in accordance with relevant accounting policies and Treasury instructions to disclose non-departmental activities.

The non-departmental schedules do not, and are not intended to, constitute a set of financial statements and therefore do not include elements that would normally be expected to be found in financial statements, such as details of surplus or deficit, or a balance sheet.

For a full understanding of the Crown's financial position and the results of its operation and cash flows, refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2018**.

* This link leads to information not covered by the audit opinion on page 202.

Contents

Schedule of non-departmental revenue

For the year ended 30 June 2018

Actual 2017 $000		Note 2	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Direct taxation				
	Income tax				
	Individuals				
27,905,092	Source deductions (PAYE)		29,921,838	28,705,000	31,388,000
6,382,203	Other persons		6,819,205	6,497,000	6,968,000
(1,638,269)	Refunds		(2,102,414)	(1,686,000)	(1,764,000)
524,838	Fringe benefit tax		558,531	554,000	572,000
33,173,864	**Total individuals**		**35,197,160**	**34,070,000**	**37,164,000**
	Corporate tax				
13,931,349	Gross companies tax		13,779,246	13,395,000	14,660,000
(187,967)	Refunds		(157,050)	(206,000)	(207,000)
599,038	Non-resident withholding tax		626,561	589,000	669,000
(9,770)	Foreign-source dividend withholding payments		3,159	–	–
14,332,650	**Total corporate tax**		**14,251,916**	**13,778,000**	**15,122,000**
	Other direct income tax				
1,471,685	Resident withholding tax on interest income		1,530,871	1,519,000	1,737,000
742,533	Resident withholding tax on dividend income		752,790	685,000	769,000
1,218,758	Employer superannuation contribution tax		1,295,906	1,282,000	1,360,000
3,432,976	**Total other direct income tax**		**3,579,567**	**3,486,000**	**3,866,000**
50,939,490	**Total direct taxation**		**53,028,643**	**51,334,000**	**56,152,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2018

Actual 2017 $000		Note 2	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Indirect taxation				
	Goods and services tax				
29,650,616	Gross goods and services tax		31,774,795	30,641,000	33,360,000
(11,751,384)	Refunds		(13,086,351)	(11,774,000)	(13,370,000)
17,899,232	**Total goods and services tax**		**18,688,444**	**18,867,000**	**19,990,000**
	Other indirect taxation				
79,502	Approved issuer levy		107,255	88,000	98,000
297,670	Gaming duties		317,007	285,000	312,000
6,972	Other indirect taxation		1,341	–	7,000
384,144	**Total other indirect taxation**		**425,603**	**373,000**	**417,000**
18,283,376	**Total indirect taxation**		**19,114,047**	**19,240,000**	**20,407,000**
69,222,866	**Total taxation**		**72,142,690**	**70,574,000**	**76,559,000**
	Other revenue				
184,576	Child support		181,466	182,000	181,000
602,489	Interest unwind—student loans		603,685	601,000	584,000
76,989	Other revenue		49,796	78,500	46,000
864,054	**Total other revenue**		**834,947**	**861,500**	**811,000**
70,086,920	**Total revenue**		**72,977,637**	**71,435,500**	**77,370,000**

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

Schedule of non-departmental expenditure

For the year ended 30 June 2018

Actual 2017 $000		Note	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Benefits and other unrequited expenses				
–	Best Start tax credit*		–	–	80,000
879	Child tax credit		773	900	600
1,722,732	Family tax credit		1,639,099	1,823,000	2,628,000
553,072	In-work tax credit		515,118	561,000	540,000
(6)	KiwiSaver: Fee subsidy		(4)	–	–
11,818	KiwiSaver: Interest		5,454	12,000	10,000
731,000	KiwiSaver: Tax credit		801,808	798,000	850,000
12,703	Minimum family tax credit		11,597	12,000	14,000
274,496	Paid parental leave payments		288,174	338,000	360,000
29,315	Parental tax credit		28,027	29,000	5,000
5,514	Payroll subsidy		7,134	5,900	6,500
3,341,523	**Total benefits and other unrequited expenses**		**3,297,180**	**3,579,800**	**4,494,100**
	Borrowing expenses				
33	Adverse event interest		1	10	10
1,636	Environmental restoration account interest		1,636	2,000	2,000
5,114	Income equalisation interest		4,565	10,000	10,000
6,783	**Total borrowing expenses**		**6,202**	**12,010**	**12,010**
	Other expenses				
493,017	Impairment of debt and debt write offs		616,221	800,000	680,000
(62,000)	Impairment/(impairment reversal) of debt relating to student loans	5	(106,000)	100,000	–
661,715	Initial fair value write down—student loans		594,314	676,000	610,000
1,092,732	**Total other expenses**		**1,104,535**	**1,576,000**	**1,290,000**
4,441,038	**Total expenditure**		**4,407,917**	**5,167,810**	**5,796,110**

*Best Start tax credit is a new appropriation commencing on 1 July 2018.

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

Schedule of non-departmental assets

As at 30 June 2018

Actual 2017 $000		Notes	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Current assets				
1,781,521	Cash and cash equivalents		1,659,071	1,400,000	2,400,000
9,751,038	Receivables	3	10,419,313	9,513,107	10,356,138
11,124	Receivables—child support	4	10,662	12,149	11,124
98,903	Receivables—other		133,495	133,584	102,903
1,269,000	Student loans	5	1,310,000	1,427,000	1,535,000
12,911,586	**Total current assets**		**13,532,541**	**12,485,840**	**14,405,165**
	Non-current assets				
339,800	Receivables	3	312,700	323,400	312,700
71,793	Receivables—child support	4	71,375	53,508	60,793
7,927,800	Student loans	5	7,991,623	7,783,158	7,681,681
8,339,393	**Total non-current assets**		**8,375,698**	**8,160,066**	**8,055,174**
21,250,979	**Total assets**		**21,908,239**	**20,645,906**	**22,460,339**

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

Schedule of non-departmental liabilities

As at 30 June 2018

Actual 2017 $000		Notes	Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
	Current liabilities				
45,460	Child support		8,599	44,599	45,460
4,231,287	Refundables and payables	6	5,191,928	4,529,215	4,291,687
18,206	Unclaimed monies	7	19,947	16,381	18,206
4,294,953	**Total current liabilities**		**5,220,474**	**4,590,195**	**4,355,353**
	Non-current liabilities				
210,307	Reserve schemes	8	227,577	235,253	210,107
210,307	**Total non-current liabilities**		**227,577**	**235,253**	**210,107**
4,505,260	**Total liabilities**		**5,448,051**	**4,825,448**	**4,565,460**

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

Schedule of movements between other government departments

For the year ended 30 June 2018

Actual 2017 $000		Actual 2018 $000	Unaudited Budget 2018 $000	Unaudited Forecast 2019 $000
14,286,637	Opening balance	16,745,719	15,364,254	16,477,913
65,645,882	Net result from operating activities	68,569,720	66,267,690	71,573,890
	Asset transfer between departments			
1,485,001	Ministry of Social Development—student loans	1,337,523	1,543,104	1,374,566
(64,671,801)	New Zealand Debt Management Office	(70,192,774)	(67,354,590)	(71,531,490)
16,745,719	**Closing balance**	**16,460,188**	**15,820,458**	**17,894,879**

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

Schedule of non-departmental commitments

As at 30 June 2018

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2016–17: $nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2018

Actual 2017 $000		Note 9	Actual 2018 $000
	Quantifiable contingent liabilities		
144,983	Legal proceedings and disputes—assessed		146,041
147,306	Unclaimed monies		161,390
292,289	**Total quantifiable contingent liabilities**		**307,431**
	Quantifiable contingent assets		
48,138	Disputes—non-assessed		48,950
48,138	**Total quantifiable contingent assets**		**48,950**

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

Schedule of non-departmental trust money

For the year ended 30 June 2018

Actual 2017 $000		Contributions 2018 $000	Distributions 2018 $000	Total 2018 $000
	Child support			
32,439	Child support trust account	285,507	(279,824)	38,122
500	Reciprocal child support agreement trust account	17,435	(17,398)	537
32,939	**Total child support**	**302,942**	**(297,222)**	**38,659**
	KiwiSaver			
2,992	KiwiSaver returned transactions trust account	–	(2,849)	143
2,992	**Total KiwiSaver**	**–**	**(2,849)**	**143**
35,931	**Total trust money**	**302,942**	**(300,071)**	**38,802**

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 parents who pay child support and the subsequent child support payments that are paid to custodial persons. From 2018, money held in trust is not included in the non-departmental reported cash and cash equivalents. Previously this was included within non-departmental assets.

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.

Notes to the financial schedules

For the year ended 30 June 2018

Index

How we have prepared these schedules

Note 1. Basis of preparation

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.

Inland Revenue 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.

These non-departmental financial schedules present financial information on 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 2018**. For a full understanding of the Crown's financial position and the results of its operations and cash flows for the year refer to the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2018**.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2018. The forecast financial schedules are for the year ending 30 June 2019.

The Chief Executive (Commissioner) of Inland Revenue authorised these financial schedules on 28 September 2018.

Statement of compliance

The financial schedules 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 Tier 1 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) in preparing the 30 June 2018 financial schedules.

Basis of preparation

The financial schedules have been prepared on a going concern basis, and the accounting policies set out below and in the notes to the financial schedules 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.

Functional and presentation currency

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.

* This link leads to information not covered by the audit opinion on page 202.

Standards issued and not adopted early

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.

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 assessed the effects of the new standard on the non-departmental financial schedules. Student loans will be reported at fair value, rather than at their current measurement basis of amortised cost. This valuation change will result in a one-off increase to the value of the student loan asset of $628 million.

Inland Revenue has not adopted early any other new standards or amendments to standards.

Estimations and judgements

In preparing these financial schedules, 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, including expectations of future events that are believed to be reasonable under the circumstances, and other factors. 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 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.

Changes in estimations

Further refinements have been achieved as part of the Business Transformation programme and this year Inland Revenue has included a new accrual for rebates on donations not yet refunded. Previously rebates for donations were recognised at the time of the refund. This increased Refunds by $212 million (see page 176).

Inland Revenue has also accrued for income estimated for Portfolio Investment Entities. This increased company tax revenue income by $121 million (see page 176).

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 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.

The budget and forecast financial schedules are not subject to audit.

The budget 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 revised budget figures for 2017–18 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations* on page 135) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018**.

The forecast figures for 2018–19 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019**.

The forecast financial schedules 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 schedules were finalised and reflect all government decisions up to 18 April 2018.

While Inland Revenue regularly updates forecasts, updated forecast schedules for the year ending 30 June 2019 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 2017–18 is used as the opening position for the 2018–19 forecasts.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2018* (https://budget.govt.nz/budget/forecasts/befu2018.htm)[1].

Any changes to budgets during 2018–19 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

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 due to initiatives or legislation approved by Cabinet
- macroeconomic changes impacting revenue, expenditure and debt levels
- the timing of customers' filing of returns and related payments
- the timing of customer refund and credit claims
- the outcome of disputes, including litigation.

* This link leads to information not covered by the audit opinion on page 202.

[1]This link leads to information not covered by the audit opinion on page 202.

How we have recognised revenue

Note 2. Revenue

Tax revenue is a non-exchange transaction.

This means the payment of tax in itself does not entitle a customer 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 based on self-assessment where customers are expected to understand the tax laws and comply with them. Inland Revenue helps its customers comply and addresses non-compliant activities. Most people pay their fair share of tax. For the minority who do not, Inland Revenue intervenes and encourages them to do the right thing. However 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. Inland Revenue treats it as accruing 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 is usually sometime after the publication of the annual report.

The measurement of the income tax accruals requires significant estimates. These include:

- Where customers 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 cash flow model. This model is based on assumptions in the *Budget and Economic Fiscal Update 2018* (https://budget.govt.nz/budget/forecasts/befu2018.htm)[2]. A key assumption is the split of cash receipts between terminal and provisional tax. This split is calculated based on historical information. Where customers 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 customers 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 customers not subject to provisional tax for the current year, revenue is recognised when terminal tax is assessed. No estimate of tax revenue is accrued in the period of the taxable event 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, Inland Revenue estimates the amount of GST outstanding as follows:

- For customers who file a return of GST for the June period, the actual amounts filed
- For customers who have not filed a return, the estimate is based on the most recently assessed GST return.

[2]This link leads to information not covered by the audit opinion on page 202.

Pay-as-you-earn (PAYE)

PAYE returns are currently assessed either monthly or for a pay period. At year end the amount outstanding is estimated as follows:

- For customers who file a return for more than $1 million of PAYE for June, the actual amounts filed by customers in July are used
- For all other customers the estimate is based on the most recently 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 parents who pay child support as well as child support due to the Crown.

This revenue is recognised initially at fair value and subsequently tested for impairment at year end.

Interest unwind—student loans

Student loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, student loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind.

Interest unwind on student loans is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash receipts through the expected life of the loan to that loan'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.

Crown assets we are managing

Note 3. 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 4 and 5 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 amounts Inland Revenue doesn't expect to recover are recognised when there is objective evidence that the asset is impaired. Impairments are included 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.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors 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 collection 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 customers to pool tax payments to reduce their exposure to use-of-money-interest. Underpayments and overpayments are offset within the same pool.

Actual 2017 $000		Actual 2018 $000
	Receivables	
12,102,007	Gross receivables	12,745,990
(2,011,169)	Impairment	(2,013,977)
10,090,838	**Carrying value receivables**	**10,732,013**
	Current and non-current apportionment	
9,751,038	Receivables—current	10,419,313
339,800	Receivables—non-current	312,700
10,090,838	**Carrying value receivables**	**10,732,013**
	Ageing profile of gross receivables	
9,110,734	Not due	9,642,555
	Past due*	
707,277	Less than 6 months	812,507
447,216	6–12 months	331,235
560,980	1–2 years	710,098
1,275,800	Greater than 2 years	1,249,595
2,991,273	**Total past due**	**3,103,435**
12,102,007	**Total gross receivables**	**12,745,990**
25%	% Past due	24%
	Receivables—impairment	
3,745,898	Opening balance	2,011,169
493,017	Impairment losses recognised	616,221
(2,227,746)	Amounts written off as uncollectable	(613,413)
2,011,169	**Closing balance**	**2,013,977**

* 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 due to be paid.

Receivables are classified as past due when they are not received from customers by their due date. Due dates will vary, depending on the type of revenue owing (for example, income tax, GST, KiwiSaver) and the customer's balance date. Past due debt includes debts collected under instalment, debts under dispute, default assessments and debts of customers 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 of the carrying value of receivables are shown below:

Actual 2017		Actual 2018
9,080,152	Recoverable amount of receivables not due ($000)	9,621,070
1,010,686	Recoverable amount of receivables past due ($000)	1,110,943
10,090,838	**Carrying value receivables ($000)**	**10,732,013**
8.22%	Use-of-money-interest rate	8.22%
5.00%	Discount rate	5.00%
(32,000)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(21,508)
33,000	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	27,859

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 past 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 customers and as a result the Crown does not have any material individual concentrations of credit risk.

Note 4. Receivables—child support

The Crown collects monies from parents who pay child support and passes this to custodial persons. The child support receivable represents penalties which in the main relates to penalties imposed on parents who default on their child support 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 we don't expect to collect it. 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 Crown does not hold any collateral or any other credit enhancements over receivables for child support which are past due.

Receivables for child support are widely dispersed over a number of customers and as a result the Crown does not have any material individual concentrations of credit risk.

Actual 2017 $000		Actual 2018 $000
	Receivables—child support	
2,118,983	Gross receivables	1,661,670
(2,036,066)	Impairment	(1,579,633)
82,917	**Carrying value receivables**	**82,037**
	Current and non-current apportionment	
11,124	Receivables—current	10,662
71,793	Receivables—non-current	71,375
82,917	**Carrying value receivables**	**82,037**
	Ageing profile of gross receivables	
–	Not due	–
	Past due	
132,814	Less than 12 months	141,666
259,324	1–2 years	132,814
1,726,845	Greater than 2 years	1,387,190
2,118,983	**Total past due**	**1,661,670**
2,118,983	**Total gross receivables**	**1,661,670**
100%	% Past due	100%
	Receivables—impairment	
2,581,047	Opening balance	2,036,066
128,829	Impairment losses recognised	137,416
(673,810)	Amounts written off as uncollectable	(593,849)
2,036,066	**Closing balance**	**1,579,633**

Note 5. Student loans

StudyLink (Ministry of Social Development) administers the initial capital lending and issues student loans. Loans and any associated transactions are then transferred to Inland Revenue. Inland Revenue hold the total nominal debt, administers the initial fair value write-down expense and any subsequent impairment and is responsible for collection of the debt.

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. They are subsequently measured at amortised cost using the effective interest rate method, and are adjusted for impairments. 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. The subsequent measurement at amortised cost is determined using the same effective interest rate as 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 amounts Inland Revenue doesn't expect to collect 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 loans. 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 cash flows 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 loan has increased.

Actuarial models are used to calculate the impairment of student loan debt. See below for more information on these models.

We use the following key terms to help us define 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.

The carrying and nominal values of student loans are shown below:

Actual 2017 $000		Actual 2018 $000
8,981,855	Opening carrying value	9,196,800
(1,272,830)	Repayments	(1,348,071)
1,485,001	Borrowings transferred from Ministry of Social Development	1,337,523
(661,715)	Fair value write-down on new borrowings	(594,314)
62,000	Impairment reversal	106,000
602,489	Interest unwind	603,685
9,196,800	**Closing carrying value**	**9,301,623**
	Current and non-current apportionment	
1,269,000	Student loans—current	1,310,000
7,927,800	Student loans—non-current	7,991,623
9,196,800	**Carrying value student loans**	**9,301,623**
15,340,008	Opening nominal value	15,734,905
1,485,001	Borrowings transferred from Ministry of Social Development	1,337,523
(1,272,830)	Repayments	(1,348,071)
119,811	Interest on overseas-based borrowers	111,165
23,016	Administration and establishment fees	22,804
72,448	Penalties	73,760
(32,483)	Death and bankruptcies	(63,411)
(66)	Voluntary repayment bonus	(47)
15,734,905	**Closing nominal value**	**15,868,628**

Student loan valuation model

Statistics New Zealand collates most of the data for this model 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 2017. In addition 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 2018 is also included.

The significant assumptions behind the carrying value are:

2017		2018
9,196,800	Carrying value ($000)	9,301,623
6.84%	Effective interest rate	6.77%
3.9%–5.5%	Interest rate applied to loans for overseas-based borrowers	3.7%–5.5%
0.2%–2.0%	Consumer Price Index	1.0%–2.0%
1.5%–3.0%	Future salary inflation	2.9%–3.3%

In 2018 there was a reversal of impairment of $106 million (2017: impairment reversal $62 million).

Factors that contributed to this reversal of impairment of the student loan portfolio include:

- Updated modelling assumptions increased the value overall by $97 million (2016–17: $103 million). This was made up of three significant movements and a number of small changes:
    - Changes to reflect continued improvement in overseas-based borrowers' repayment behaviour increased the impaired value by $47 million (2016–17: $102 million)
    - An assumed increase in the number of borrowers in New Zealand rather than overseas, partially offset by a projected increase in the proportion of borrowers who are low earners increased the impaired value by $33 million (2016–17: decreased by $159 million)
    - Domestic income and repayment assumptions have been updated to reflect projected income and repayment levels. This has decreased the impaired value by $48 million (2016–17: increased by $91 million)
    - Other modelling changes, including the roll forward of data, increased the impaired value by $65 million (2016–17: $69 million)
- Macroeconomic effects: wage inflation assumptions and repayment thresholds inflation assumptions increased the impaired value, while a decrease in the loan interest rate reduced the impaired value, resulting in an overall increase of the impaired value by $77 million (2016–17: $43 million)
- Experience variance: the difference between the higher than expected actual repayments and abnormally high write-offs increased the impaired value by $16 million (2016–17: $27 million)
- Provision for write-offs: we have provided for a level of write-offs. This has decreased the impaired value by $50 million (2016–17: $ nil)
- Policy change: the recent First Year Fees Free policy change affects new lending from 1 January 2018 and onwards and its impacts have been captured by the roll forward of data
- Removing adjustments for improvements in lower earners' employment rates decreased the impaired value by $34 million (2016–17: $125 million).

The sources of impairment are summarised in the table below:

Actual 2017 $000		Actual 2018 $000
	Sources of impairment	
	Data and modelling changes	
102,000	Updated overseas repayment assumptions	47,000
(159,000)	Updated transition assumptions	33,000
91,000	Updated domestic income and repayment assumptions	(48,000)
69,000	Other changes and roll forward of data	65,000
103,000	**Total data and modelling changes**	**97,000**
43,000	Macroeconomic effects	77,000
27,000	Experience variance	16,000
–	Provision for high write-offs	(50,000)
14,000	Policy change	–
(125,000)	Adjustments for improvements	(34,000)
62,000	**Total (impairment)/impairment reversal**	**106,000**

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. 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 as follows:

- 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 (that is earning below $25,000 per annum) has been steadily increasing for those studying lower level certificates. If the proportion of borrowers becoming low earners continues to increase, then impairment may result.
- The model assumes that low earner borrowers will remain low earners for the same duration in the future as they do currently. If the lengths of time borrowers remain low earners increases then impairment may result.

Fair value was determined by discounting the future cash flows 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 2018.

As previously mentioned, Inland Revenue will adopt PBE IFRS 9 in 2018–19. This will result in student loans being reported at fair value. This valuation change will result in a one-off increase to the value of the student loan asset of $628 million.

The significant assumptions behind the fair value are:

Actual 2017		Actual 2018
9,812,000	Fair value ($000)	9,929,000
5.74%	Discount rate	5.56%
(535,000)	Impact on fair value of a 1% increase in discount rate ($000)	(520,000)
601,000	Impact on fair value of a 1% decrease in discount rate ($000)	579,000

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. This is less effective with overseas-based borrowers.

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.

Crown liabilities we are managing

Note 6. 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 customers.

KiwiSaver payable represents contributions to be forwarded to scheme providers at balance date.

Actual 2017 $000		Actual 2018 $000
3,310,085	Taxes refundable	4,109,206
917,589	KiwiSaver payable	1,077,929
3,613	Paid parental leave payable	4,793
4,231,287	**Total refundables and payables**	**5,191,928**

Note 7. Unclaimed monies

Under the Unclaimed Money Act 1971, entities (for example, financial institutions, insurance companies) transfer money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identity.

Note 8. Reserve schemes

Actual 2017 $000		Actual 2018 $000
155,023	Income equalisation	172,650
54,927	Environmental restoration	54,927
357	Adverse event income equalisation	–
210,307	**Total reserve schemes**	**227,577**

The income equalisation scheme allows customers in the farming, fishing and forestry industries to make payments during the year by way of income equalisation deposits. Interest is paid at a rate of 3% per annum if 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 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 but are transferred to the main income equalisation account if not withdrawn within 12 months of the deposit.

Crown contingencies we are managing

Note 9. 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 crystalise. 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 customer and recognise revenue and a contingent liability. The customer 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 identity. Based on trends from prior years, the estimated likely amount of unclaimed monies that will be paid 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 customer of a proposed adjustment to their tax assessment through a notice of proposed adjustment (NOPA). At this point we have not issued an amended assessment 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 customer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue records a contingent asset based on the likely cash to be received from the disputes process, based on experience and similar prior cases, net of losses carried forward.

Contingent assets can also arise where the customer 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 customer 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.

Other disclosures

Note 10. Collection of earner levy

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation (ACC) and passes the monies directly to them. The levies are not recognised as revenue or expenditure in the non-departmental schedules. ACC pays Inland Revenue for these services.

Actual 2017 $000		Actual 2018 $000
1,575,894	Earner levy	1,645,400
1,575,894	**Total collection of earner levy**	**1,645,400**

Note 11. 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.

Independent Auditor's 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 2018

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 139 to 172, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2018, 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 2018 on pages 97 to 127 and 130;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2018 on pages 133 to 136; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 176 to 200 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2018;
  - the schedules of expenditure; revenue; and movements between departments for the year ended 30 June 2018;
  - the schedule of trust monies for the year ended 30 June 2018; 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 2018; 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 2018:
    - 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.
- 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 2018;
  - expenses, revenue and movements between departments for the year ended 30 June 2018; and
  - the schedule of trust monies for the year ended 30 June 2018.

Our audit was completed on 28 September 2018. 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 Commissioner 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 Commissioner for the information to be audited

The Commissioner 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 Commissioner 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 Commissioner is responsible on behalf of the Department for assessing the Department's ability to continue as a going concern. The Commissioner 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 Commissioner'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 2017/18 for Vote Revenue, and the 2017/18 forecast financial figures included in the Department's 2016/17 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 Commissioner.
- 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 Commissioner 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 Commissioner 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 Commissioner is responsible for the other information. The other information comprises the information included on pages 1 to 220 but does not include the information we audited, and our auditor's report thereon.

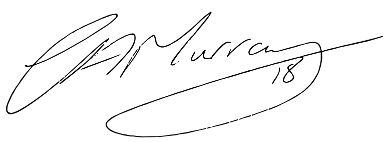
Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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.



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, for this approved information-sharing agreement, on actions taken during the financial year.

In July 2018, the operation of this approved information sharing agreement was reviewed. It assessed the adequacy of controls in place to ensure compliance with section 11 of the most current Approved Information Sharing Agreement (AISA). The review confirmed that we are operating in accordance with the terms and conditions of the current AISA and the Memorandum of Understanding (MOU).

A copy of the approved information sharing agreement is available to view at https://www.ird.govt.nz/aboutir/agreements/agreement-dia/

Information sharing with the Department of Internal Affairs

Financial year ending 30 June 2018

Contact records received from DIA	520,561
Contact records not matched to a corresponding Inland Revenue record for: • overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up to date contact information and • overseas-based student loan defaulters	506,993
Contact records matched to corresponding Inland Revenue records for:	
• overseas-based child support debtors	1,996
• overseas-based child support non-debtors who do not appear to have up to date contact information	85
• overseas-based student loan defaulters	8,829
• overseas-based student loan non-debtors who do not appear to have up to date contact information	2,658
Ongoing programme operating costs	$1,728[1]
Individuals successfully contacted[2] using contact records matched to:	
• overseas-based child support debtors (46%)	913
• overseas-based child support non-debtors who do not appear to have up to date contact information (33%)	28
• overseas-based student loan defaulters (40%)	3,562
• overseas-based student loan non-debtors who do not appear to have up to date contact information (44%)	1,157
Payments received from individuals as a result of successful contact with:	
• overseas-based child support debtors (171 payments)	$372,000
• overseas-based student loan defaulters (2,916 payments)	$7.1 million
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Inland Revenue:	
• overseas-based child support debtors (434)	22%
• overseas-based student loan defaulters (2,320)	27%[4]

[1] Approximate annual incidental administrative charge.

[2] We have made attempts to contact all 13,568 matched individuals, 5,660 have passed our identity verification process.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

[4] Note that the 24% reported for this measure in the 2016 and 2017 Annual Reports was incorrect. The correct results should have been 22% for both years.

Information sharing with New Zealand Police

Our 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 https://www.ird.govt.nz/aboutir/agreements/agreement-police/

Information shared

Description	Total
Number of requests for information made by Police to Inland Revenue	244
Number of responses with information provided by Inland Revenue to Police	220
Number of occasions Inland Revenue proactively provided information to Police	2

Costs

The estimated cost of the sharing agreement with New Zealand Police is $9,500 for the year ended 30 June 2018.

Benefits

Number of times information provided by Inland Revenue has been used in a case with a resolution of:

No offence	34
Prosecution	70
Warning	0
Still under investigation	113
Total	**217***

*Three requests were cancelled after the response was received by New Zealand Police but before it had been forwarded to the requestor.

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.

In the two instances where Inland Revenue proactively provided information to Police, the information was used in an investigation.[5]

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.

Amendments

No amendments have been made in the reporting period.

[5] Note that Inland Revenue's 2017 Annual Report should have reported that in the two instances where Inland Revenue provided information to the New Zealand Police in the year ending 31 July 2017, the information was used in an investigation.

Information sharing with the Ministry of Social Development

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 approved information sharing agreement listed in schedule 2A of the Privacy Act between Inland Revenue and the Ministry of Social Development (MSD) to facilitate the following public services:

(a) The accurate and efficient assessment of eligibility for, and entitlement to, benefits and subsidies;

(b) The accurate and efficient assessment and enforcement of tax obligations, including recovering any associated debt; and

(c) The accurate and efficient assessment and enforcement of obligations relating to benefits and subsidies, including recovering any associated debt.

Inland Revenue will collate the following information annually (for the period between 1 July and 30 June) and report the information in its annual report for that year.

A copy of the AISA is available to view at https://www.ird.govt.nz/resources/6/3/63e44fc2-dd72-49d9-8d5c-227ed7d35b8d/MSD-IRD-AISA.pdf

Scale

Metric	Shares derived from:	2017–18
Administration of shared services:		
Number of records disclosed (MSD to Inland Revenue)	Commencement Cessation benefits/students	3,912
	Housing Share	Note[1]
	Child support administration	94,378[2]
	Student Loan Programme	7,041,500[2]
Administration of social assistance:		
Number of records disclosed (Inland Revenue to MSD)	Community Service Card	1,373,489
	Commencement Cessation benefits/students	3,912
	Proactive Information Share—benefits and students	743,346
	Housing Share	Note[1]
	Child support administration	402,047[2]
	Student Loan Programme	15,700[2]

Benefits (Quantitative)

In the 2017–18 year:

- The information sharing under this AISA effectively helps MSD to assess eligibility for Community Services Cards and benefits and identify overpayments. It is also the most effective way for Inland Revenue and MSD to ensure customers receive their correct Working for Families Tax Credit entitlements.
- There have been no data breaches and no other difficulties in sharing information under the AISA.

Metric	Shares derived from:	2017–18
Administration of shared services (Inland Revenue) (excluding child support and student loans):		
Number of services automatically transferred	Working for Families Tax Credits (WfFTC) administration	15,326
Value of services stopped (overpayments)	WfFTC double payment (number)	754
	WfFTC double payment (value)	$210,233
Administration of social assistance (MSD) (across product range):		
Services offered or renewed (number)	Community Services Card	314,855
Service cancellations (number)	Proactive Information Share—benefits and students	1,365
	Housing Share	Note[1]
Adverse action notices (number sent)	Community Services Card	14,829
	Commencement Cessation benefits/students	74
	Proactive Information Share—benefits and students	99,857
	Housing Share	Note[1]
Challenges (number received and number upheld)	Community Services Card (received)	9
	Community Services Card (upheld)	6
	Commencement Cessation benefits/students (received)	4
	Commencement Cessation benefits/students (upheld)	1
	Proactive Information Share—benefits and students (received)	317
	Proactive Information Share—benefits and students (upheld)	171
	Housing Share (received)	Note[1]
	Housing Share (upheld)	Note[1]

Benefits (Quantitative) cont.

Metric	Shares derived from:	2017–18
Overpayments established (number and value)	Commencement Cessation benefits/students (number)	28
	Commencement Cessation benefits/students (value)	$58,728
	Proactive Information Share—benefits and students (number)	25,189
	Proactive Information Share—benefits and students (value)	$50,948,737
	Housing Share (number)	Note[1]
	Housing Share (value)	Note[1]
Arrears created (number and value)	Commencement Cessation benefits/students (number)	0
	Commencement Cessation benefits/students (value)	$0
	Proactive Information Share—benefits and students (number)	52
	Proactive Information Share—benefits and students (value)	$11,947
	Housing Share (number)	Note[1]
	Housing Share (value)	Note[1]
Referrals for suspected fraud (number)	Proactive Information Share—benefits and students	37
	Housing Share	Note[1]
Prosecutions successful (number)	Proactive Information Share—benefits and students	59
	Housing Share	Note[1]

Notes

[1]Housing and Student shares not yet commenced—MSD's intention was to improve how they deliver services to customers by expanding their information sharing with Inland Revenue in this area. Due to other Ministry priorities, resources to implement these changes have not been available, but they have been placed on the Ministry's Service Delivery work plan and will be considered as priorities allow.

[2] Estimated (as agreed with the Office of the Privacy Commissioner).

Assurance

In the 2017–18 year:

- MSD and Inland Revenue have received no privacy complaints about the operation of the information sharing under the AISA.
- In accordance with clause 9(e) of the AISA, which requires an annual audit of the operation of the agreement, plans are in place for an audit to be completed after the AISA has been in operation for a year.
- Since the Order in Council came into force no amendments have been made to the AISA.

Customer Satisfaction

Customer satisfaction (all channels)*

	Satisfied	Very satisfied
National results—All recent contact customers	88%	74%
Individuals (overall)	87%	73%
Working for Families Tax Credits	86%	73%
Child support	82%	66%
KiwiSaver	90%	79%
Student loan	90%	75%
Business (overall)	88%	75%
Small and medium enterprises	88%	76%
Significant enterprises**	90%	78%
Tax agents	87%	70%
Not for profits	87%	74%

*No statistically significant increases/decreases at the 95% confidence level between 2017 and 2018 for this table.

**Note: In line with our organisational design, our Customer Satisfaction & Perceptions survey reporting now uses the term 'Significant segment' in place of the term 'Large enterprises'.

Customer satisfaction with our voice and correspondence channels*

	Satisfied	Very satisfied
National results—All recent contact customers	84%	69%
Individuals (overall)	83%	69%
Working for Families Tax Credits	83%	69%
Child support	79%	62%
KiwiSaver	84%	76%
Student loan	87%	71%
Business (overall)	85%	68%
Small and medium enterprises	86%	70%
Significant enterprises**	87%	72%
Tax agents	86%	66%
Not for profits	83%	64%

*No statistically significant increases/decreases at the 95% confidence level between 2017 and 2018 for this table.

**Note: In line with our organisational design, our Customer Satisfaction & Perceptions survey reporting now uses the term 'Significant segment' in place of the term 'Large enterprises'.

Customer satisfaction with our online services*

	Satisfied	Very satisfied
National results—All recent contact customers	89%	77%
Individuals (overall)	88%	76%
Working for Families Tax Credits	88%	76%
Child support	83%	69%
KiwiSaver	93%	79%
Student loan	90%	78%
Business (overall)	90%	78%
Small and medium enterprises	90%	79%
Significant enterprises**	92%	81%
Tax agents	86%	70%
Not for profits	90%	78%

*No statistically significant increases/decreases at the 95% confidence level between 2017 and 2018 for this table.

**Note: In line with our organisational design, our Customer Satisfaction & Perceptions survey reporting now uses the term ‘Significant segment’ in place of the term ‘Large enterprises’.

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Appendix 1: Glossary

Term	Definition
aggressive tax planning	Aggressive tax planning refers to tax positions taken by taxpayers to reduce a tax liability or increase their entitlements to social benefits by using inappropriate or unlawful tax structures.
approved information sharing agreement (AISA)	A tool that allows government agencies to provide efficient and effective public services through collaborating and sharing information, without intruding on people's rights or exposing agencies to risk. Approved information sharing agreements are listed in Schedule 2 of the Privacy Act 1993. For more information see https://privacy.org.nz/privacy-for-agencies/information-sharing/approved-information-sharing-agreements/
Automatic Exchange of Information (AEOI)	Refers to the new global Standard for Automatic Exchange of Financial Account Information in Tax Matters, which aims to fight offshore tax evasion. Automatic Exchange of Information involves financial institutions collecting details of financial accounts held by non-residents and passing that information to us so that we can then pass it on to the relevant country.
base erosion and profit shifting (BEPS)	Refers to when multinational organisations avoid tax by using gaps and mismatches in different countries' tax rules to shift profits to countries where they have little or no tax to pay.
binding ruling	A binding ruling is Inland Revenue's interpretation of how a tax law applies to a particular arrangement and provides certainty on tax positions to the applicant. If a binding ruling applies to a taxpayer and they follow it, Inland Revenue is bound by it and must apply the tax consequences per the ruling.
Cabinet	The group of Government Ministers who make the Government's significant decisions. Cabinet is chaired by the Prime Minister.
Confluence	A collaboration tool used to help teams to collaborate and share knowledge efficiently.
Crown	All Ministers and all departments, the state as a whole.
Digital Government Partnership	The partnership, set up by the Government Chief Digital Officer, involves key stakeholders across government to support the goal of a single, coherent ICT ecosystem supporting radically transformed public services.
double tax agreements (DTAs)	Double tax agreements are international agreements between New Zealand and other jurisdictions to: provide relief from double taxation, remove tax impediments to cross-border trade and investment, and to assist in tax administration (including enabling the exchange of information for tax purposes).
Estimates of Appropriations	Detailed documents in which the Government sets out its spending plans for the coming financial year. The Estimates are presented to Parliament, which then approves them through an Appropriation Bill. (Full name: Estimates of Annual Appropriations for the Government of New Zealand.)
Fees-free	From 1 January 2018 in New Zealand, tertiary education will be fees-free for eligible first time tertiary students.
Foreign Account Tax Compliance Act (FATCA)	FATCA is a reporting regime that ensures United States (US) persons (and New Zealanders with accounts in the US) meet their tax obligations. It requires foreign financial institutions to register with and report financial account information to the Internal Revenue Service (IRS). FATCA reporting for New Zealand financial institutions is facilitated by Inland Revenue.

Gangs Intelligence Centre	A multi-agency centre, hosted by NZ Police, that draws on information from several government agencies to build detailed intelligence about the activity of gang members and prospects. For more information, see www.police.govt.nz/about-us/publication/gang-intelligence-centre
Generic tax policy process	A process that ensures better, more effective tax policy development through: • encouraging early consideration of proposals' key policy elements and trade-offs, such as their revenue impact, compliance and administrative costs, and economic and social objectives • providing opportunities for substantial external consultation • clarifying the responsibilities and accountabilities of participants in the process, particularly those of Inland Revenue and the Treasury. For more information, see http://taxpolicy.ird.govt.nz/how-we-develop-tax-policy
Global Forum on Transparency and Exchange of Information for Tax Purposes	A forum of over 140 member countries that ensures implementation of internationally agreed standards of transparency and exchange of information in the tax area. Through an indepth peer review process, the Global Forum checks that its member countries fully implement the standard they have committed to. Its secretariat is based in the OECD Centre for Tax Policy and Administration. For more information, see www.oecd.org/tax/transparency/
Government Rules of Sourcing	The standards of good practice for government procurement. Includes rules for planning procurement, approaching the marketplace and contracting. For more information, see http://www.procurement.govt.nz/procurement/for-agencies/key-guidance-for-agencies/the-new-government-rules-of-sourcing
integrity of the tax system	At all times, we need to make sure we are protecting the integrity of the tax system, which section 6(2) of the Tax Administration Act 1994 defines as follows: (2) Without limiting its meaning, the integrity of the tax system includes— (a) Taxpayer perceptions of that integrity; and (b) The rights of taxpayers to have their liability determined fairly, impartially, and according to law; and (c) The rights of taxpayers to have their individual affairs kept confidential and treated with no greater or lesser favour than the tax affairs of other taxpayers; and (d) The responsibilities of taxpayers to comply with the law; and (e) The responsibilities of those administering the law to maintain the confidentiality of the affairs of taxpayers; and (f) The responsibilities of those administering the law to do so fairly, impartially, and according to law.
Investor Confidence Rating (ICR)	A Treasury-led assessment of government agencies' investment and asset management. The Investor Confidence Rating shows the level of confidence that investors (such as Cabinet and Ministers) can have in an agency's ability to deliver an investment result. It also shows where investment management capability and performance can be lifted. The Investor Confidence Rating uses a rating scale from A to E. For more information, see www.treasury.govt.nz/statesector/investmentmanagement/review/icr
JIRA	A tool used to plan, track, and manage agile and software development projects.
LGBTQI+	The LGBTQI+ is a community and includes people who identify as takataapui, lesbian, gay, bisexual, queer, heterosexual, intersex, transsexual, or transgender.
multi-category appropriation (MCA)	A single appropriation made up of multiple categories (which can be different types of expenditure, including output expenses, other expenses and non-departmental capital expenditure) that all contribute to the same overarching purpose. Multi-category appropriations allow greater flexibility.
Mutual agreement procedure	Our double tax agreements contain a provision called the mutual agreement procedure. This allows a taxpayer to present their case for relief from excess taxation to the competent authority of a tax administration. The procedure is also referred to as a request for competent authority assistance. Most cases requiring competent authority assistance concern transfer pricing adjustments.

National Strategy for Financial Capability	A strategy developed and led by the Commission for Financial Capability. There are many individuals, agencies, non-governmental organisations and corporates working on building financial capability across New Zealand, and the National Strategy aims to consolidate these efforts.
Organisation for Economic Co-operation and Development (OECD)	Provides a forum in which the governments of 35 member countries can work together to share experiences and seek solutions to common problems. Promotes policies that will improve the economic and social wellbeing of people around the world. For more information, see www.oecd.org
Organisation for Economic Co-operation and Development's action plan on base erosion and profit shifting	15 actions that equip governments with domestic and international instruments to address tax avoidance, ensuring that profits are taxed where economic activities generating the profits are performed and where value is created. For more information see http://www.oecd.org/tax/beps/beps-actions.htm
people capability	The skills, knowledge, experience and attributes required to achieve our outcomes.
Personal Tax Summary (PTS)	A PTS is for salary and wage earners and shows an individual customer's income and tax deduction details for the year. These details are based on the employment, pension or benefit information provided to us each month by their employer or payer.
Portfolio Investment Entity (PIE)	Eligible entities that elect to become a PIE will generally pay tax on investment income based on the prescribed investor rate of their investors, rather than at the entity's tax rate.
Procurement Capability Index (PCI) tool	This self-assessment tool is part of the Procurement Capability Index Framework, which is managed and run by New Zealand Government Procurement. Agencies can use the tool to map their current procurement capability against 27 capability elements to determine how they are tracking against benchmarks. See www.procurement.govt.nz/procurement/for-agencies/procurement-capability-index for more information.
Tax Information Exchange Agreements (TIEAs)	Tax Information Exchange Agreements are international agreements between New Zealand and other jurisdictions to facilitate the exchange of information for tax purposes.
tax position differences	The differences between the tax position filed by a customer and the position determined by our investigations. We often refer to these as 'discrepancies'.
transfer pricing	Refers to the prices set for a transaction between two enterprises under common ownership and control, such as two subsidiaries of a multinational group. When the trade takes place across national boundaries, the two enterprises can potentially charge an artificially high or low price to minimise the overall tax bill.

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