Annual Report 2019

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
Ko tā mātou e whai nei kia tutuki

Inland Revenue's corporate strategy is our long-term approach to creating value and how we will contribute to the economic and social wellbeing of New Zealanders.

It provides us with direction and keeps us focused. The six interconnected strands of the strategy are described below.

We keep our customers at the centre of everything we do. We are making tax simpler and more seamless so our customers can meet their obligations and receive the payments they are entitled to. Collaboration is at the heart of this. We work with partners in the private sector and across government to ensure Inland Revenue delivers on its purpose.

CUSTOMER

Putting the customer at the centre of everything we do.

PEOPLE

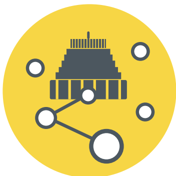
Working as part of Inland Revenue is unique, exciting, fulfilling and career enhancing.

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.

We are the principal steward of New Zealand's revenue system. We play a critical role in maintaining and enhancing the integrity of the tax system by making sure it is clear, consistent and simple. With the Treasury, we provide advice to the Government on tax policy and the social policies we administer. We 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.

The larger koru element reflects the environment and the support and guidance that we provide to our customers. The head of the koru meets the upward sweeping woven strands reflecting the relationships we have with our customers to help us understand their needs.

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

The strands that form the base of the koru represent our work and the interwoven strands reflect the way we deliver our services through developing strong relationships, resources, knowledge, skills and capability.

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Full report

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Our financial statements

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He kupu i tō mātou Kaikōmihana

E ngā mana, e ngā reo, tēnā koutou katoa

As the world changes around us, what doesn't change is Inland Revenue's unique and important role in contributing to the economic and social wellbeing of New Zealand.

This year has been the most significant step in our transformation journey as we ensure we are able to meet our customers' needs now, and in the future. We are already delivering some of the benefits from the transformation of New Zealand's revenue system, for government and for our customers.

Ahakoa te huringa o te ao, ka tū tonu te mahi motuhake, te mahi whakahirahira a Te Tari Taake ki te oranga ā-ōhanga, ā-pāpori hoki o Aotearoa.

Ko tēnei tau te kokenga whakahirahira rawa o tō mātou huringa kia rite katoa mātou kia kawe i ngā hiahia o ā mātou kiritaki o nāianei, ā, haere ake nei. Kua whakaputa kē mātou i ētahi o aua hua i te huringa o tō Aotearoa pūnaha pūtea whiwhi, ki te kāwanatanga, ki ā mātou kiritaki hoki.

Putting our customers at the centre of what we do

In April, we implemented the third release of our transformation. Building on previous releases, policy changes and our earlier organisational design changes, we have fundamentally changed the way in which our revenue system operates. Our revenue system is now operating close to real time.

Individual customers experienced the biggest change made to the revenue system in more than 20 years. Our changes enabled us to automatically calculate income tax assessments for almost 2.5 million customers and put around half a billion dollars back into New Zealanders' pockets. That's just one of the positive differences we are making. You will find many more throughout our Annual Report.

We supported employers to successfully switch to payday filing, working with approximately 200,000 employers before and after April to ensure they and their business systems were ready for this huge change. Receiving employment income information more frequently means we are able to pre-populate individual customers' accounts. This makes tax and entitlements simpler and more certain for millions of salary and wage earners, and is particularly helpful for our Working for Families customers.

In this release, we migrated 19.7 million customer information records into our new system. Migrating all customer information successfully is a huge milestone for our business transformation as we are now operating from a technology platform that is more resilient and agile. This is one of the key benefits of the transformation. We are also demonstrating that the new system will allow us to make policy changes more quickly and effectively.

Through business transformation to date, we have released $60 million in administrative savings, reduced effort for small to medium-sized businesses by nine hours a year and improved compliance outcomes, including additional revenue of $90 million.

Kia whakapūtahitia ā mātou kiritaki i ā mātou mahi

I Āperira, ka whakaritea te putanga tuatoru o tō mātou huringa. He tāpiringa tēnei i ā mātou putanga o mua, i ngā panoni tikanga here me ngā panonitanga anga whakahaere o mua. Nā ēnei kua panonihia ngā tūāpapa o tā tātou pūnaha pūtea whiwhi me ōna whakamahinga katoa. He tata ināianei te whakamahinga o tō tātou pūnaha pūtea whiwhi ki te wā o nāianei tonu.

Kua kitea e tēnā kiritaki, e tēnā kiritaki te panonitanga nui rawa atu o te pūnaha pūtea whiwhi i ngā tau 20 neke atu.

Nā ā mātou panonitanga ka taea te tātai aunoa i ngā aromatawai tāke moni whiwhi mō tōna 2.5 miriona o ngā kiritaki, ā, ka whakahokia kia tata ki te haurua piriona tāra ki ngā pūkoro tāngata o Aotearoa. Koinei tētahi noa iho o ngā rerekētanga e mahia nei e mātou. Ka kitea te maha kē atu puta noa i tā mātou Pūrongo ā-Tau.

Kua tautokona e mātou ngā kaiwhakawhiwhi mahi kia huri tika i ngā whakakōnae ā-rā utu. Kua tata 200,000 ngā kaiwhakawhiwhi mahi i mua, i muri hoki i Āperira i āwhinatia kia rite rātou me ā rātou pūnaha pakihi mō tēnei panonitanga nui. Nā te whiwhinga putuputu o ngā pārongo whiwhinga pūtea ā-mahi ka taea e mātou ngā kaute kiritaki takitahi te whakakī wawe. Nā tēnei ka ngāwari ake, ka tika ake te tāke me ngā whiwhinga mō te tini me te mano o ngā kaiwhiwhi pūtea ā-tau me ngā kaiwhiwhi pūtea ā-wiki, ā, he āwhina nui anō hoki tēnei mō ā mātou kiritaki Working for Families.

I tēnei putanga, kua nukua atu te 19.7 miriona o ngā pārongo kiritaki ki tā mātou pūnaha hou. Ko te nukutanga o te katoa o ngā pārongo kiritaki tētahi tohu nui mō tō mātou huringa ā-pakihi, nā te mea, kei te mahi mātou ināianei i tētahi pūnaha hangarau e kaha kē atu, e kakama kē atu. Ko tēnei tētahi o ngā tino hua o te huringa. Kei te whakaatuhia hoki e mātou ko te pūnaha hou tētahi ara kia tere ake, kia pai kē atu hoki ngā panoni tikanga here ka taea.

Nā te Huringa ā-Pakihi ki tēnei rā, kua whakawāteahia e mātou he $60 miriona i te penapena ā-whakahaere, kua heke iho ngā haora mahi ā-tau mō ngā pakihi iti-ki-te-waenganui te nui kia 9 haora ia tau, ā, kua piki ngā putanga tūtohu, tae atu ki tētahi pūtea whiwhi tāpiri he $90 miriona te nui.

Working together to transform the revenue system

Inland Revenue maintains a strong focus on ensuring that the transformation programme is on track to complete as expected, and to deliver value to our customers and to government. We recognise the important role many different groups play in the revenue system. This year, we have worked even more closely with employers and intermediaries, involving them in co-designing our processes, to ensure that our changes are implemented in the best possible ways.

Given the scale and complexity of what Inland Revenue does, there will be times when we fall short of what is expected of us. This year has been no exception. At each point, we have been open and honest, apologised to those affected, reflected on what happened and learned from our actions to improve our services.

Mahi ngātahi kia hurihia te pūnaha pūtea whiwhi

Ka kaha tonu te aro pū o Te Tari Taake ki te hōtaka huringa kia mau tonu ki tōna ara kia oti pai ai pēnei i te hiahiatanga, ā, kia puta i te uaratanga ki ā mātou kiritaki, ki te kāwanatanga anō hoki. I mōhio nei mātou i te tūranga whakahirahira o ngā tū rōpū maha i te pūnaha pūtea whiwhi. I tēnei tau, kua tata kē atu tā mātou mahi tahi ki ngā kaiwhakawhiwhi mahi me ngā kaitakawaenga. Kua whai wāhi rātou i te whakahoahoa tahi i ā mātou tukanga, kia mau tonu mātou ki ngā ara pai rawa i ā mātou e panoni nei i ā mātou whakahaerenga.

Nā te nui whakaharahara me te whīwhiwhi o ā mātou o Te Tari Taake e mahi nei, he wā tōna kāore mātou i eke ki ngā taumata e hiahiatia nei. I tēnei tau he pēnei anō hoki. Ko tā mātou, i ngā wā katoa, kia tūwhera, kia pono, ā, kia whakapāha ki a rātou e raru ana, kia āta whakaaro i ngā take kua toko ake, ā, kia ako i ā mātou e mahi nei kia pai kē atu ā mātou ratonga.

Supporting our people

We have asked a lot of our staff this year and I'm really proud of the way our people have remained focused on delivering great work to benefit New Zealanders. You can read about our extended support programme, Pou Whirinaki, through which we have been able to successfully help our people to support customers through the most challenging period following this year's changes.

Te tautoko i ā mātou tāngata

He tiketike ā mātou whāinga mō ā mātou kaimahi, nā reira kua poho kererū au i tā rātou ū ki te mahi kia puta ai ngā hua ki ngā tāngata o Aotearoa whānui. Tēnā, pānuitia te kōrero mō tā mātou hōtaka tautoko whānui, mō Pou Whirinaki, nāna mātou i āwhina ki te tautoko i ā mātou kiritaki kia eke panuku, kia eke Tangaroa i tē wā uaua rawa whai muri iho i ngā panoni nui o te tau nei.

Transforming ourselves

Our transformation is supporting us to create an organisation that collaborates to improve outcomes for customers. This year, we have continued our organisation design programme, building on the changes we made to our customer-facing business groups last year. We are investing in the skills and capabilities of our people to support them to work in new, agile and intelligence-led ways.

To truly put our customers at the heart of everything we do, we are committed to creating a diverse and inclusive workforce where people from all walks of life can achieve their full potential, and one which reflects the communities we serve. Our people currently represent around 130 different ethnicities.

This year, we have developed a new organisational approach to how we think about, and work with, Māori as customers and partners. Our Māhutonga approach helps us to have a greater organisational understanding of our te Tiriti o Waitangi obligations. We are using that knowledge to improve outcomes for Māori.

We value our relationships with our unions and have recently signed relationship agreements which set out our commitment to working together in positive ways.

Te huri i ā mātou anō

Kei te tautoko tā mātou huringa i a mātou kia whakatū i tētahi whakahaere ka mahi tahi kia whai hua ake ā mātou kiritaki. I tēnei tau, kua ū tonu mātou ki tā mātou hōtaka whakahoahoa ā-whakahaere, kia whakapakari ake i ngā panonitanga i mahia i tērā tau ki ā mātou rōpū pakihi aronga-kiritaki. Kei te pena mātou i ō ā mātou tāngata pūkenga, āheinga hoki kia tautoko i a rātou kia hou, kia kakama, kia mātau anō hoki i roto i ā rātou mahi.

Kia noho pū ā mātou kiritaki ki te pūtaketanga o ā mātou mahi katoa, kei te pūmau tonu tā mātou whai kia kanorau, kia tūwhera ā mātou kaimahi kia whai wāhi te tangata, ahakoa ko wai, ahakoa nō hea, kia eke ki te taumata o tōna pitomata, ā, kia rite ā mātou kaimahi ki ngā hapori e mahi nei mātou. Ko ā mātou kaimahi ināianei nō ngā mātāwaka 130 rerekē.

I tēnei tau, kua whakaahua e mātou tētahi aronga ā-whakahaere hou kia rerekē ō mātou whakaaro me ā mātou mahi tahi ki te iwi Māori hei kiritaki, hei hoa mahi tahi. Nā tā mātou whainga Māhutonga mātou i tautoko kia mārama pai ake ai ā mātou kawenga ā-whakahaere i ahu mai i te Tiriti o Waiatangi. Kei te whakamahi mātou i aua mōhiotanga kia puta ai ngā hua ki te iwi Māori.

Kei te whakapono mātou i tō mātou hononga ki ngā ūniana, ā, kua waitohua i ngā wā tata nei ētahi whakaaetanga hononga kia whakatau i tā mātou ū kia mahi ngātahi ki a rātou i runga i te tika.

The big picture

Implementing a transformation programme alongside our core business functions required us to make some priority calls. We have been able to balance those priorities to deliver positive performance results and have maintained good levels of customer satisfaction.

We continue to provide strong support to communities in challenging times, being awarded a Distinguished Service Award from Multicultural New Zealand in recognition of our response to members of the community in the aftermath of the Ōtautahi Christchurch attacks.

We have taken an active approach to tackling non-compliance, investigating people who deliberately try to avoid their obligations or claim payments they are not entitled to. This work is supported by additional capabilities in our new system and our new analytics platform. In the past year, we identified total tax differences of $985 million where customers did not get things right. We also maintained our focus on the hidden economy, addressing key risks to the integrity of the New Zealand tax system.

New Zealand is an attractive place for people to do business and invest. Tax from significant enterprises remains a large portion of our revenue base. With the increasing complexities of globalisation, we actively participate in international solutions to facilitate compliance. We share this work with you in our Annual Report.

We take our role as stewards of the tax system seriously. We have continued to develop policy, administrative processes and legislation that protects and sustains the tax system. We have supported the Tax Working Group and Welfare Expert Advisory Group, alongside colleagues from government agencies including the Treasury and the Ministry of Social Development.

Te tirohanga whānui

Nā te whakarite i tētahi hōtaka huringa i a mātou e aro tonu ana ki ā mātou mahi pakihi matua o ia rā, me āta whiriwhiri i ētahi wā he aha te aronga matua. He pai ngā hua o ā mātou mahi nā ā mātou whakaritenga i ēnei aronga matua, ā, kua mau tonu ki ngā taumata e tika ana i ō ngā kiritaki whakaaro.

He kaha tonu tā mātou tautoko i ngā hapori ahakoa ngā aupēhi o te wā. Kua whakawhiwhia mātou ki te Distinguished Service Award i Multicultural New Zealand hei tohu i tā mātou taunaki i ngā tāngata nō te hapori i muri mai i ngā huakitanga i Ōtautahi Christchurch.

Kua kaha tā mātou wero atu ki ngāi aro kore mai, ki te mātai i ngā tāngata e turi nei, e karo nei i ngā whakaritenga, ka tono rātou i ngā pūtea e kore rātou e whai pānga atu. Kua tautokona ēnei mahi e ngā āheinga kua puta mai i tā mātou pūnaha hou, i tā mātou pae tātari hou. I te tau kua pāhemo nei, kua kitea e mātou he rerekēnga tāke $985 miriona te katoa, kāore i tika tā te kiritaki mahi mai. Kei te aro nui tonu mātou ki te ōhanga huna, kia aro hoki ki ērā o ngā tūraru ki te *tūtahitanga o te pūnaha tāke o Aotearoa whānui.*

Ko Aotearoa tētahi wāhi whakamanea ki te tangata, pakihi mai, pena pūtea mai. Ko te tāke mai i ngā hinonga whakaharahara tētahi wāhi nui o tā mātou pūtea whiwhi motuhake. I te whīwhiwhi haere o te ao me tōna whakakotahitanga, kei te kaha whai wāhi mātou i ngā rongoā ā-ao kia ngāwari ake te aronga tika mai. Ka whakaatuhia ēnei mahi ki a koutou i tā mātou Pūrongo ā-Tau.

Ka ū mārika mātou ki tā mātou mahi hei kaitiaki o te pūnaha tāke. Kua whakawhanake tonu mātou i ngā tikanga here, i ngā tukanga whakahaere, i ngā ture hoki kia tiaki, kia tautīnei tonu i te pūnaha tāke. Kua tautoko mātou i te Tax Working Group me te Welfare Expert Advisory Group, i te taha o ō mātou hoa mahi i ngā ratonga kāwanatanga tae ake ana ki Te Pūtea Matua me Te Manatū Whakahiato Ora.

Looking ahead

This year we have made huge steps forward in successfully transforming the revenue system, but we are not finished yet. We will continue our transformation to become a world-class revenue organisation recognised for service and excellence — the kind of revenue organisation that all New Zealanders deserve.

Tirohanga whakamua

I tēnei tau kua nui ake ā mātou kokenga whakamua kia huri pai ai te pūnaha pūtea whiwhi, engari kāore anō kia oti i a mātou. Ka whai tonu mātou i tā mātou huringa kia tū hei whakahaere pūtea whiwhi toa o te ao, i whakanuia whānuitia mō ō matou ratonga, mō tō mātou kounga — te momo whakahaere pūtea whiwhi e tika anō mō Ngāi Aotearoa katoa.

Kia tau ngā manaakitanga ki a koutou katoa

Naomi Ferguson
Commissioner of Inland Revenue
Kaikōmihana o Te Tari Taake

We organise ourselves around our customers
Ka whakaritea ā mātou mahi katoa mō ā mātou kiritaki

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

Inland Revenue is led by Naomi Ferguson, Commissioner and Chief Executive

Naomi Ferguson has been Commissioner and Chief Executive of Inland Revenue since July 2012. She leads our customer-centred business transformation. She chairs the Strategic Governance Board, which is responsible for the strategic management of the organisation.

Naomi is an experienced public sector executive with more than 25 years' experience working in revenue agencies in the United Kingdom and New Zealand. She has successfully delivered major transformational change projects and built effective teams who deliver results.

Customer and Compliance Services—Business (CCS-B)

helps customers to work through complex tax arrangements and compliance issues. CCS-B also uses analytics, forensics and case management to target end-to-end services.

The group connects with a range of private sector, government and international partners to deliver joined-up, cost-effective services.

Gaye Searancke led the group this year. She is an experienced senior leader in the public sector, having led a number of high-profile system-wide programmes.

In August 2019, Gaye took up a new role as Chief Executive, Land Information New Zealand (LINZ).

Customer and Compliance Services—Individuals (CCS-I)

helps customers meet their tax obligations and access entitlements through delivering targeted and efficient services and communications.

The group uses analytics and understanding lifecycle events to design services that are increasingly automated and self-managed.

Sharon Thompson leads CCS-I. Sharon joined Inland Revenue from a career in banking. She brings a depth of experience in leading change, building employee engagement and improving services for customers.

Corporate Integrity and Assurance

provides independent advice, support and assurance, and ensures Inland Revenue is doing the right things in the right way.

Mary Craig leads the group. Her career at Inland Revenue has been extensive and varied since she joined in the early 1990s. Since February 2019, she has led Pou Whirinaki, an approach we put in place to help our customers through the third release of our transformation.

While Mary has led Pou Whirinaki, Simon Mason has been Acting in her role as leader of Corporate Integrity and Assurance. Before this, Simon has led Commercial and Procurement for Inland Revenue since 2016. He has a wealth of commercial and procurement experience covering a wide range of sectors, including the public sector, telecommunications, insurance, financial and technology services.

Information and Intelligence Services

helps Inland Revenue keep customers at the centre of everything we do by using data and intelligence so we understand and can influence customer behaviour.

Mike Cunnington leads the group. He brings a wide range of experience in leading customer-centred change in organisations in New Zealand and internationally.

Information Technology and Change

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

Gary Baird leads the group. He has held executive positions at ANZ Bank and DHL, leading large and complex technology environments. Gary is experienced in leading teams through transformation and integration projects.

The Office of the Chief Tax Counsel

provides technical advice on the interpretation and application of tax law for Inland Revenue and our customers.

Martin Smith leads the Office. Before joining Inland Revenue 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.

People and Culture

enables Inland Revenue to lift organisational performance through focusing on our people.

Mark Daldorf leads the group. He has had an extensive private sector career in senior human resources and change management roles. Mark was General Manager, Human Resources for Foodstuffs North Island, where he led the people workstream of the merger between Foodstuffs Wellington and Foodstuffs Auckland.

Performance, Facilities and Finance

provides facilities for our people, business performance analytics and financial and planning advice and analysis. The group also manages our Crown accounting and reporting obligations.

Lara Ariell leads the group. She brings wide-ranging business performance and financial experience. Before joining us, she was the Deputy Chief Executive—Finance at the Tertiary Education Commission.

Policy and Strategy

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

Cath Atkins led the group until late July 2019, when she became Deputy Commissioner, Customer and Compliance Services—Business after Gaye Searancke took up her new role at LINZ.

Cath has over 25 years of policy experience in the public sector, and held a range of senior leadership positions at the Treasury.

Transformation

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

The group manages robust change processes to ensure we meet stakeholders' needs and to support them to adopt new systems and processes.

Greg James leads the group. He has a wealth of experience in transformation and change and has successfully led a number of large-scale and complex transformation programmes.

We are located throughout New Zealand
Puta noa mātou i Aotearoa

WE HAVE OVER

5,000 STAFF

BASED IN

17 TOWNS & CITIES

We provide services to a wide range of customers
He whakarato mātou i te tini me te mano o ngā kiritaki

We have a wide range of customers. These include 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 2018:

INDIVIDUALS

Over 3.7 million people paid pay-as-you-earn (PAYE) or filed a personal tax return.

EMPLOYERS

Over 212,000 employers filed more than 2.2 million employer returns.

COMPANIES

Over 359,000 company tax returns were filed.

GST FILERS

Over 637,000 customers filed more than 3.0 million goods and services tax returns.

Tax year ended March 2019 figures are not available at time of publication as customers have until April 2020 to file 2019 returns.

In the 2018–19 financial year, we collaborated with our partners to administer:

WORKING FOR FAMILIES TAX CREDITS

With the Ministry of Social Development, we distributed $2.65 billion in entitlements to support working families.

CHILD SUPPORT

We collected $471 million from more than 164,000 parents who pay child support. We distributed $290 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 $7 billion to scheme providers. As at 30 June 2019, there were 3.0 million people enrolled in KiwiSaver.

STUDENT LOANS

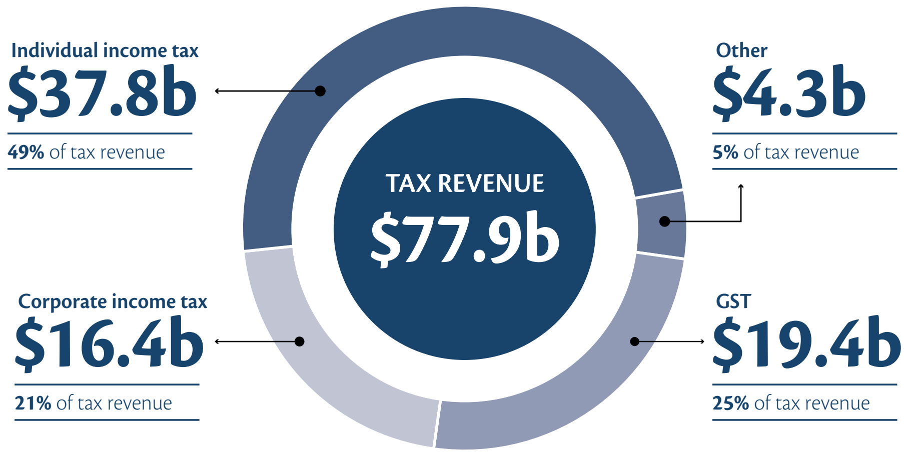
We jointly administer this programme with the Ministries of Education and Social Development (StudyLink). We had more than 708,000 student loan customers and collected $1.4 billion in repayments.

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 $367 million in payments to 66,923 parents.

All New Zealanders benefit from tax
Ka whai hua ngā tāngata katoa o Aotearoa i ngā tāke

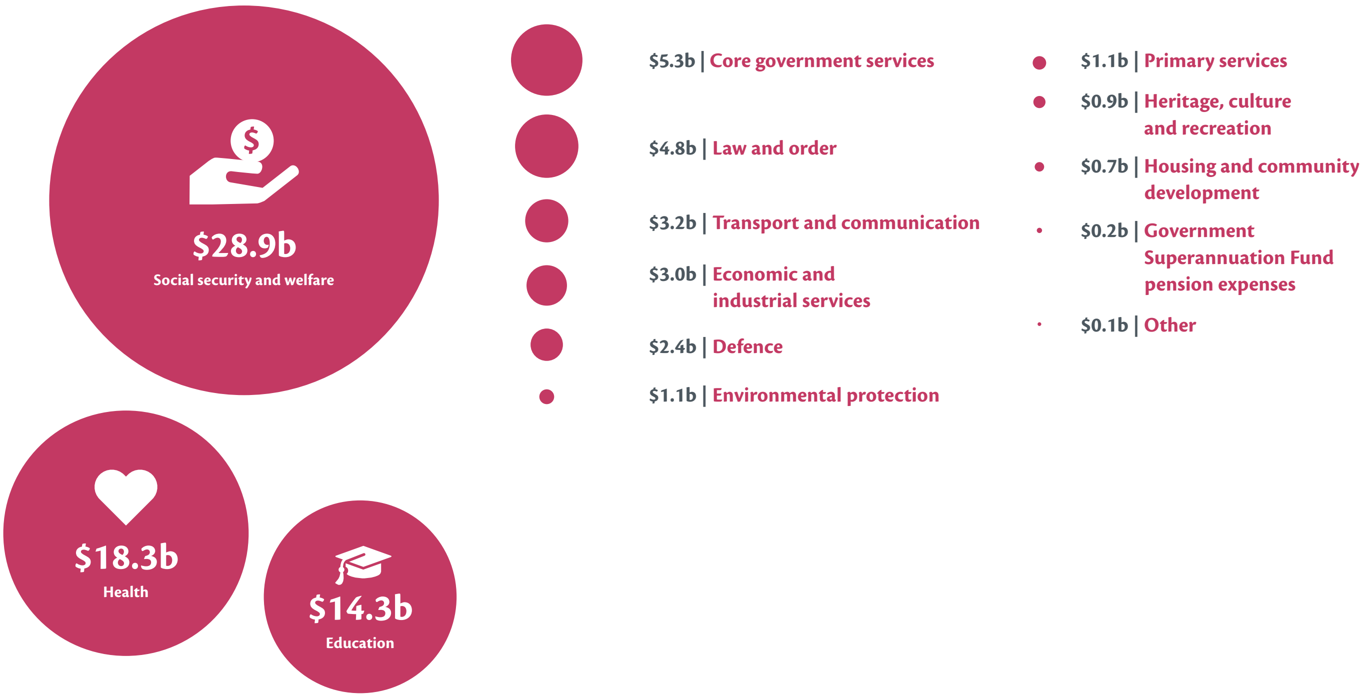
The money we collect helps pay for the public services, like education, roads and healthcare, that all New Zealanders benefit from. One of our responsibilities is to ensure government has funding for these essential services.



In 2018–19, we collected $79.5 billion of revenue to help fund government programmes.

We collected $77.9 billion of tax revenue. Direct (or income) taxation, for example individuals' income tax or corporate income tax, accounts for 70% of tax revenue. GST accounts for 25%. For full details refer to pages 146 to 147.

In 2018–19, the Government expected to spend in the following areas:



For full details see:
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html

Tāmaki Makaurau Auckland, New Zealand.

Our highlights
Ā mātou mahi whakahirahira

We collected

$79.5 BILLION

in revenue to help fund government programmes. This is an increase of $6.5 billion from the $73.0 billion collected last year.

Your refund or tax to pay is worked out for you

If you only earn income that is reported to us, you no longer have to do anything at the end of the year.

We paid

$4.1 BILLION

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

88.8%

of returns were filed electronically, up from 83% in 2017–18.

We automatically issued tax refunds totalling

$392m

to over 868,000 New Zealanders.

Over

180,000

employers have filed 1.7 million payday returns since 1 April.

We helped enact a law that means organisations can now claim

research and development tax credits.

Our people completed

10,000

learning sessions and

90,000

online learning modules while delivering high-quality services for customers.

We maintained an

'A' rating

under the Investor Confidence Rating assessment led by Treasury, showing our leadership in government investment management.

We successfully implemented

Release 3

of our transformation on 26 April 2019.

Independent reviews

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

positive.

We migrated over

19 million records

into our new system, START.

We completed our first

exchange of info

with tax agencies in other countries under the Common Reporting Standard.

New

online services

are available for income tax and Working for Families Tax Credits.

We developed Māhutonga,

a new approach

changing how we work with and for Māori.

There were

16.9 million

logins to the new myIR service from April to June.

We are operating in a changing environment
Kei te mahi mātou i tētahi taiao hurihuri

We continually evaluate our operating environment to identify existing and emerging trends, risks and opportunities. This allows us to be responsive and build resilience. It ensures we sustainably and successfully deliver our services and achieve our mission, vision and outcomes.

Our deep knowledge of the wider operating environment influences the development of Inland Revenue's strategic direction. We consider the effects of ongoing change on the New Zealand economy and society, and any potential impacts on our products, services or operations. We focus on 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 and how whole sectors operate.

MATURING DIGITAL ECOSYSTEM

The cloud, social networks, mobile, big data.

POPULATION GROWTH

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

DEMOGRAPHIC TRANSITION

Ageing populations in many countries and the challenges this poses, along with ethnicity and cultural changes.

POWER SHIFT

Global economic power shifts, and effects on trade and the economy.

CLIMATE CHANGE

Disruptions through drought, flood or extreme weather events and increases in pests and diseases.

URBANISATION

Cities driving economic growth and how urban centres are evolving.

Our research and analysis indicate that these drivers of change continue to be the most relevant. We continually check what is likely to drive change in the future.

Kirikiriroa Hamilton, New Zealand.

Our story 2019
Ā mātou kōrero 2019

We have had another busy year, the most significant in our transformation of New Zealand's revenue system. We took a key step that will allow us to deliver the full value of our transformation in the years ahead.

Throughout the year, we continued to ensure we managed the integrity of the revenue system, served customers with differing needs, responded to events in the community and intervened to manage non-compliance.

A major milestone

We successfully completed the third release of our transformation. Building on the changes that have gone before, we made a fundamental shift to a real-time, customer-centred, agile and intelligence-led revenue system. The changes we have made are already delivering some of the benefits that will flow from our transformation.

We supported approximately 200,000 employers to successfully transition to payday filing, ensuring that they were able to meet their new obligations. We introduced automatic refunds and bills for individual customers — the biggest changes to the revenue system for individuals in more than 20 years.

The changes are making it easier for people whose income are from salary, wages, dividends or interest to pay and receive the right amounts during the year. Over time, most customers will finish the year without large bills to pay or refunds, as they might have in the past.

To support this and other improvements, we delivered the third major rollout of changes to the revenue system (Release 3). Release 3 was far larger and more complex than the first two. We successfully moved every single taxpayer account for income tax and Working for Families into our new tax and revenue technology system, START. All tax products are now in START and we have new online services for customers.

We invested in building the knowledge and capability of our people, so they are confident using our information and systems to help our customers meet their obligations and receive their entitlements. We are helping our people adapt to changes in customer needs and the environment we work in, while maintaining our specialist technical knowledge.

We expected challenges with a change of this scale

Overall, we performed strongly, prioritising our work to put ourselves in the best possible position before the changes under Release 3 went live. We collaborated across the organisation and allocated work differently. Many of our people took on new activities so that our customers were well supported through the change. We made sure we had the right people and skills in the right place at the right time to deliver training, respond to customer queries and clear work on-hand by the go-live in April.

This collaborative effort did affect our performance. Because a stronger focus needed to go on some areas than others to deliver Release 3, we did not achieve some of our performance measures. The volume of contacts we received after we went live with the new system made it difficult for us to respond to customers quickly. This affected our customer satisfaction performance measures. Balanced against this, customers' satisfaction with the quality of our services improved from last year.

Some issues with the new services did affect our customers, and we had processes in place to deal with these quickly, including working with tax agents.

There was confusion with some of our communications with customers. Letters were sent that referred to young children or pensioners as salary and wage earners. When things have not quite gone to plan, our approach has been to acknowledge any problems, fix them, learn from them and make improvements.

An unforeseen challenge that we were quickly required to adjust to was in June, when we had to evacuate our building in Te Papaioea Palmerston North because it was declared earthquake prone. As one of our contact centres is located here, this reduced our capacity to answer calls at a critical time.

On track to deliver the benefits of transformation

Our multi-year business transformation programme remains on track and under budget. Even with two more years of work ahead, we are already delivering benefits. Our systems are now more resilient because our infrastructure is more robust and secure. We can make some policy changes more quickly and cost-effectively than previously as our new systems are configurable.

Since transformation began, we have delivered $60 million of administrative savings and $90 million of assessed additional revenue.

However, the biggest benefits are those for our customers. The new online services are easy to use and we have seen an increase in the number of customers using them.

For the year ended 30 June 2019, 88.8% of returns filed were electronic, an increase of 5.8% since last year. Businesses can interact with us through their software. The majority of employers (98%) are filing digitally, with around 48% of payday returns filed through software.

These changes make it easy for customers to do what they need to do, with 80% saying they find it easy to comply.

Small to medium-sized businesses say they are spending nine fewer hours a year meeting their tax obligations and that new digital services are making a real difference. Since the first changes were made in early 2017, the value of the time saved by these business owners is $280 million.

We continued to serve our customers and the Government

We are achieving our outcomes and making the impacts we seek. Performance against our outcome and impact measures has remained steady. We continued to provide customers with timely refunds and social policy payments and collaborated with other government agencies to make it easier for customers.

Results from our impact measures show that our customers are using our new services, responding to our communications, and are increasingly using our online services.

We achieved 36 out of 48 of our output performance measures and came in under budget, which are considerable achievements in a year of significant change. While we did not achieve all performance measures, we exceeded targets for some core processing activities, including issuing Working for Families and paid parental leave payments, GST returns and assessments for child support. Some measures had higher targets than the previous year. We have kept these goals for next year as we want to keep challenging ourselves. Over time, we expect our performance and customers' experiences to improve as a result of the transformation.

Throughout this year of preparation and change, we continued a range of activities targeted at helping people to meet their tax obligations. This included a focus to reduce the level of new debt, collect it sooner and get unfiled returns filed. We also began a targeted approach to increase the collection of company tax returns not filed by the due date.

In 2019, the Tax Working Group and the Welfare Expert Advisory Group released major reports. As the principal steward of New Zealand's tax system, we provided advice and support to both these groups. We will continue to work on any policy changes that the Government chooses to make based on their recommendations.

Looking forward

Next year we will implement Release 4 in our transformation, moving student loans and KiwiSaver to new systems and processes. These changes will make it easier for customers to manage their student loans and/or KiwiSaver accounts. We will also improve Working for Families services, implement research and development tax incentives and finish moving content to our new www.ird.govt.nz website.

We will launch the second release of Ātea, our new enterprise support services system, which will make it easier for us to do our day-to-day administrative work.

Inland Revenue's support services, policy and organisation-wide tax technical business groups will go through a change process to make sure they are fit for the future. Supporting people through this change process is important.

We bring our story and our performance together in this Annual Report
Ka Whakakotahihia ā mātou kōrero me ā mātou whakatutukinga i tēnei Pūrongo ā-Tau

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:** THE LONG-TERM RESULTS WE WANT TO ACHIEVE (Outcome measures are on pages 72 to 75.)

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:** THE DIFFERENCES WE WANT TO MAKE TO HELP ACHIEVE OUR MISSION (Impact measures are on pages 76 to 81.)

- Customers know what to do
- Customers find it easy
- Customers do what they need to
- We use intelligence and insight to improve customer outcomes and revenue

OUR OUTPUTS ARE THE SERVICES WE DELIVER FOR OUR CUSTOMERS AND GOVERNMENT (Output measures are on pages 85 to 98.)

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

We deliver evidence-based policy that is innovative and responsive to customer needs

We work with others to create better results for customers and government

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

How we use our resources to deliver for our customers is tracked through our organisational health (measures are on pages 82 to 84.)

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

- Making it easier
- Helping people meet their obligations
- Managing ourselves well
- Our governance and management
- How we performed

How we performed against our measures
Ā mātou whakatutukinga ki ngā inenga

Outcome measures

Overall, we performed strongly, remaining steady in a year of significant change

- Revenue assessed was **2.7%** above forecast
- **98.8%** of GST refunds were accurate
- **99.5%** of paid parental leave payments were made to customers on time
- We **worked collaboratively** with other organisations to improve services for New Zealanders

Impact measures

We made a difference in areas that helped us achieve our mission

- **87.8%** of customers feel they know what to do
- **85.9%** of customers are satisfied with our overall accessibility and convenience
- **88.8%** of returns were filed digitally—up from 83.0% last year
- **86.8%** of tax payments were made by customers on time—down from 87.9% last year
- **85.2%** of customers filed returns on time—the same as last year
- Proactively engaging with new child support customers made it easier for them
- We quickly implemented research and development tax credits
- We exchanged financial account information with other jurisdictions for the first time
- **88.1%** of customers have trust and confidence in Inland Revenue
- Our Public Sector Reputation Index score improved to **98**
- Staff engagement is **29%** More on this result on page 82
- The gender pay gap at Inland Revenue is **18%**
- We maintained our **'A' Investor Confidence Rating**, demonstrating our leadership in government investment management

Output measures

We achieved 36 out of 48 output performance targets compared to 43 out of 50 last year

36/48 ACHIEVED

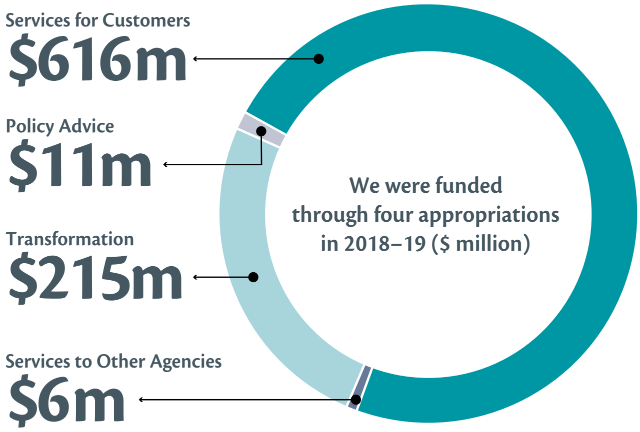
Services for Customers	Services to Other Agencies	Policy Advice	Transformation
28/40 ACHIEVED	2/2 ACHIEVED	3/3 ACHIEVED	3/3 ACHIEVED

Key to our measures

- On track
- Off track

We deliver our services through funding received from the Government
Ka mahi mātou i ā mātou mahi i runga i te pūtea tautoko a te Kāwanatanga

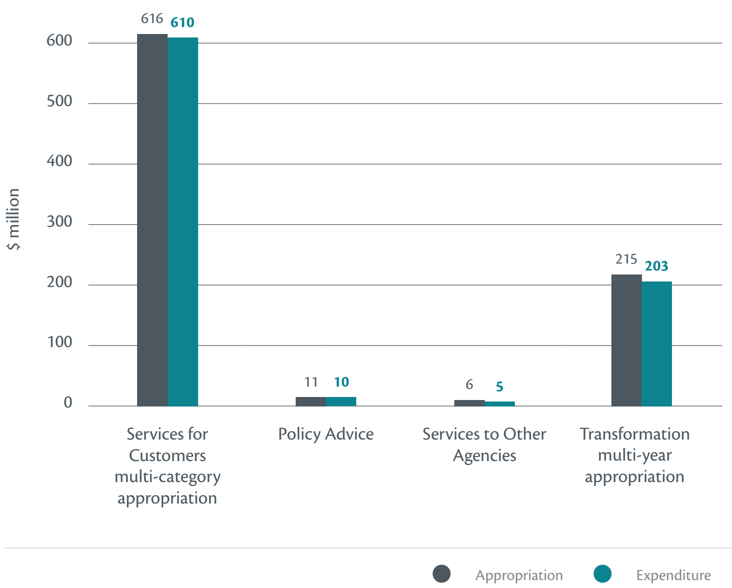
Each year we receive funding from the Government to deliver specific services. This funding is called an appropriation. Our total funding for 2018–19 was $847.5 million.



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.

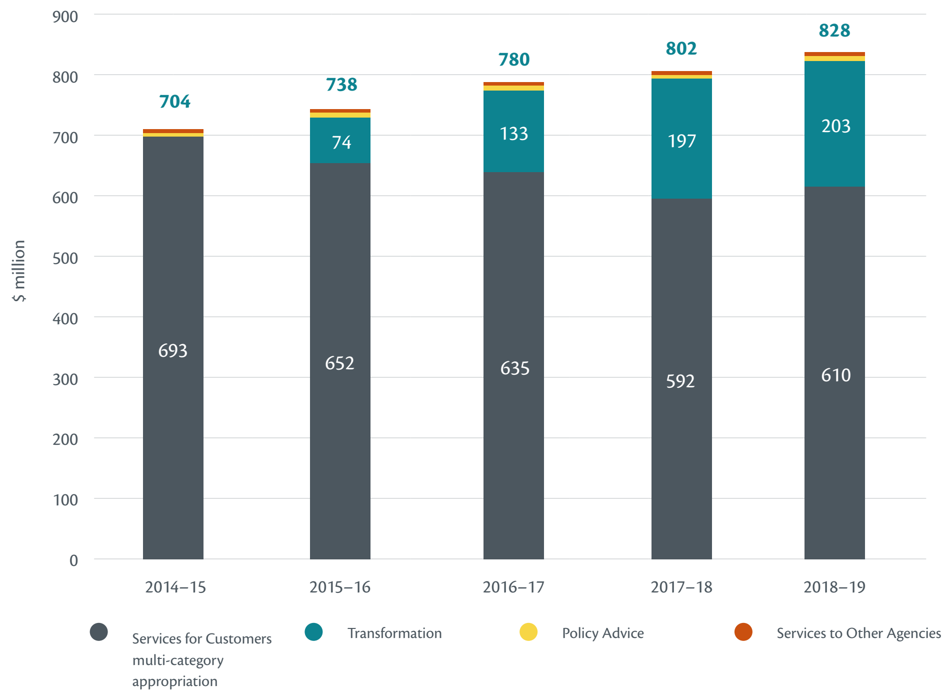
We managed our finances well
He pai ā mātou whakahaerenga pūtea

2018–19 EXPENDITURE AGAINST BUDGET



In 2018–19, our total spend against our operating appropriations was $828 million. 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.

OPERATING EXPENDITURE FROM 2014–15 TO 2018–19 INCURRED AGAINST OPERATING APPROPRIATIONS



Over the past five years, our total spend has increased by $124 million as we transform our business. However, our spend against other operating appropriations has dropped over the same time and we continued to perform highly and deliver services to New Zealanders.

We are making it easier for customers

Kua ngāwari ake ā mātou mahi mō ā mātou kiritaki

We are transforming New Zealand's revenue system to make it easier for customers to manage their tax obligations and receive their social policy entitlements. Changes made in 2018–19 were a major milestone.

Customers have better online services and will get the information they need to feel certain they are getting things right.

At a glance

Hei rarapa noa

Transformation is delivering major changes that are

modernising New Zealand's revenue system

and future proofing it for generations to come

Customers now have

online services

for all taxes

We implemented the

third release

of our transformation on 26 April 2019

Information sharing with other agencies helps to

improve results for customers and government

We automatically issued

$392 million

in refunds to more than 868,000 New Zealanders

180,000 employers have filed

1.7 million

payday returns since April 2019

te reo

A law change allows customers to keep tax records in

te reo Māori

Your refund or tax to pay is

worked out for you

If you only earn income that is reported to us, you no longer have to do anything at the end of the year

We helped implement

research and development tax credits

We supported the

Tax Working Group and Welfare Expert Advisory Group

We are improving services for customers

Inland Revenue is making changes that are transforming New Zealand's revenue system and helping us deliver on our outcomes.

Once our transformation is completed, it will be easier for customers to manage their tax obligations and receive their entitlements with speed and certainty. The Government will be able to make policy changes faster and more cost-effectively.

…as we continue our transformation journey

We are transforming New Zealand's revenue system in four stages in a series of five major releases (see the diagram below). We are part way through. The fundamental changes we have made over the last three years have delivered significant value to New Zealanders.

Policy and legislative settings have changed. Customers and partners interact with us in a completely different way. Our organisation design and capabilities are organised around customers. Supporting all of this are new systems and processes.

While these significant changes have at times put pressure on participants in the revenue system, they are making paying tax and receiving payments simpler and more certain for many New Zealanders.

Release 3 of transformation made some major changes

The changes we made in April with Release 3 affect all tax-paying New Zealanders and people receiving Working for Families payments, and all employers. The scope and complexity of the changes was significant and included:

> migrating income tax and Working for Families to new systems
> introducing a new, automatic year-end process so that people who only earn income which is reported to Inland Revenue no longer need to do anything at the end of the tax year
> new reporting requirements for payday filing and investment income information
> implementing and operating a data and intelligence platform so services are tailored and targeted to customers
> replacing our website and revamping digital channels and services
> implementing and embedding new tool sets and equipment so we can work differently, including networked teams and more remote working.

As a result, more than 868,000 New Zealanders were automatically issued with their tax refunds totalling $392 million as at 30 June 2019. About 180,000 taxpayers received a bill and have until 7 February 2020 to pay it.

Release 3 implemented changes to our online services so that customers can now file and pay all their taxes online, including setting up instalment arrangements. The release also enabled Working for Families customers to do a lot more online.

While there have been some issues, overall the new systems and processes are working well. Customers are using the new myIR service and accessing it from their mobile devices. From 26 April to the end of June 2019, there were 16.9 million logins, an increase of 90% from the same period in 2018, with more than 500,000 logins on the busiest day.

FIGURE 1: WE PLAN TO TRANSFORM NEW ZEALAND'S REVENUE SYSTEM IN FIVE RELEASES

Release 1	Release 2	Release 3	Release 4	Release 5
Delivered **7 February 2017**	**Delivered** **17 April 2018**	**Delivered** **26 April 2019**	**Design underway** **April 2020**	**Scoping underway** **April 2021**
GST	AIM, AEOI, payday reporting, withholding tax, gaming machine duty, fringe benefit tax	Income tax, Working for Families, new year-end process for individuals, investment income reporting	KiwiSaver, Student Loans	Child Support

To achieve this change:

- Two million customers, including 93,000 small-to-medium and micro businesses, were contacted in the lead-up to Release 3
- 3,600 of our people received training in the new systems and processes
- 92,300 system tests were completed
- 19.7 million accounts were migrated to our new system, START
- records of 100 million transactions were migrated
- 8.3 million web account logons were updated
- more than 1,100 separate tasks were completed to move to START
- a core team of 271 people worked over the Easter holiday weekend, with support from a further 50 people as required.

Legislative changes

As part of Release 3, a number of significant legislative changes were implemented.

The Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters) Act was enacted on 18 March 2019. The Act introduced a new year-end process for individual customers:

- Automatic refunds and bills: from 1 April 2019, we automatically issue refunds, or bills for tax to pay of more than $50, to individuals whose only income is from salary, wages and investments.

The Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Act was enacted on 29 March 2018. This enabled employment income and investment income reporting changes:

- Payday reporting: from 1 April 2019, employers have been required to provide employee information to Inland Revenue every payday.
- Investment income: from 1 April 2019, payers of investment income can provide Inland Revenue with detailed recipient information on a more frequent basis if they choose to. This becomes mandatory on 1 April 2020.
- More businesses are now required to file electronically: from 1 April 2019, businesses that withheld more than $50,000 of PAYE and employer superannuation contribution tax (ESCT) in the previous tax year are required to file online.

We are already delivering the benefits of transformation

Less effort for customers

With online services available for all taxes, customers can keep track of everything online. More and more customers are using our online services, with 88.8% of returns filed electronically for the year ending 30 June, an increase of 5.8% over the last year.

Individuals can see their personal details and all the income we pre-populate for them in their online account (myIR). Salary and wage earners now automatically get a refund or bill for tax to pay at the end of the year.

Businesses can interact with us through their software and all of their information is in one place, in myIR. 98% of employers are filing digitally, with around 48% of payday returns filed through software. A wider range of intermediaries can act on their clients' behalf, see the same information as their clients, and do everything online that their clients can do.

These changes make it easy for customers to do what they need to do, with 80% saying they find it easy to comply.

Customers who make charitable donations during the year can upload their receipts to their myIR account at any time. This means they do not need to wait until the end of the tax year. Tax agents will also be able to submit donation claims on behalf of their clients in myIR.

Small to medium-sized businesses say they are spending nine fewer hours a year meeting their tax obligations and say new digital services are making a real difference. Since the first changes were made in early 2017, the value of the time saved by these business owners is $280 million.

We are working more efficiently to collect and distribute money

New analytical capabilities mean we can more easily identify areas that require attention and better prioritise our efforts. This is enabling us to be more responsive in providing support where customers need it and to act more quickly when obligations are being deliberately avoided. Customers can be automatically screened and selected for a targeted, cost-effective intervention based on their compliance profile.

Broader, capability-based roles with more decision-making abilities mean that, increasingly, customers only have to talk to one person to get a query resolved.

New workplace tools and internal systems and processes are enabling our people to do more for themselves and work more flexibly and efficiently.

Since transformation began, we have made savings of $60 million from improved administration. Further efficiencies will follow as a result of increased automation, customers' uptake of digital services and as the legislative changes implemented as part of Release 3 are embedded.

The revenue system is more agile and resilient

It is easier for us to make changes and deliver the outcomes policy-makers are looking for as our new systems are configurable.

The new infrastructure is more robust and secure, with customer-facing online services available 99.4% of the time. More solutions are being provided as-a-service or off-the-shelf, meaning we can scale up quickly when needed.

Greater integration of systems

Employers, government agencies, software developers, business partners and service providers are benefiting from modernised information sharing processes and greater integration between their business systems and our systems.

Making things simpler and more certain for customers

Payday filing benefits all customers

Payday filing has been available since 1 April 2018 and became compulsory on 1 April 2019. It means employers and payroll intermediaries send us information on employees' incomes every payday instead of monthly.

This is designed to fit in with an employer's regular payroll process and is even more seamless when they use an integrated software package.

...the way employers interact with us has changed

To meet their payday filing obligations, employers can send information through their software, and upload files or complete an onscreen form in myIR. They can now change any incorrect information through their software or online instead of having to contact us. Employers only need to include new or changed information as the information we hold is pre-populated. They are also able to pay their deductions each payday.

New employers, employers with small payrolls and those with an exemption can still file paper forms.

Over time, payday filing will better integrate the tax system into businesses' processes. This will save employers time by helping to ensure that tax is a by-product of their normal operations.

...there are many benefits to payday filing

Receiving information more frequently allows us to proactively monitor customers' circumstances during the year. This has many benefits. For example, we will suggest a tailored tax code to customers who have more than one job to help them pay the right amount of tax as they get paid. Working for Families payments will be adjusted more quickly as customers' circumstances change. Customers who are not contributing to their KiwiSaver funds will be able to be identified more quickly.

...we supported employers through the changes

Payday filing is one of the biggest changes to the PAYE system since it was introduced in 1958 and was a significant change for employers. We supported them to make the change successfully.

Through 2018 and early 2019, employers were supported through several direct marketing campaigns. We ran approximately 500 seminars, made hundreds of visits, emailed, wrote to or phoned employers — sometimes all three — and made a lot of information available on our website and in our offices. Advertising helped to build awareness and let them know what they needed to do and when.

To let employers and intermediaries know about their payday filing obligations:

> we visited hundreds of large businesses, industry associations and community associations, and more than 1,800 tax agents

> we contacted approximately 93,000 small to medium-sized businesses and micro-businesses

> we produced webinars, 'how to' videos and step-by-step guides. Over 4,000 tax agents and bookkeepers attended webinars and more than 2,200 tax agents and bookkeepers attended 180 seminars.

...98% of employers are filing electronically

We surveyed approximately 6,000 employers from mid-April to May 2019. Overall, they found payday filing more difficult the first time they did it, with 80% saying they found it easy after that. Employers using software found it easiest.

By the end of February 2019, approximately 41,000 employers had chosen to start payday filing prior to it becoming compulsory on 1 April 2019. All these employers used software or myIR to file during this time. During March 2019, approximately 30,000 employers enrolled to ensure they were ready.

As at 30 June, approximately 180,000 employers have filed 1.7 million payday returns since 1 April 2019. 98% of employers are filing digitally, with around 48% of payday returns filed through software.

Many employers successfully transitioned and thought that they spent less time on providing information through using payroll software. They find the various systems easy to use.

Some smaller businesses with more manual payroll processes found the changes challenging—particularly finding what information needed to be filed and when. They also reported that the changes were time-consuming and meant extra effort was needed. We continue to support these employers by providing how to guides and support.

Our changes mean customers will receive faster refunds

Between 20 May and 30 June 2019, we automatically issued income tax assessments to around two million customers. The assessments advised customers whether more information was required or if they had a tax refund or bill to pay for the previous tax year.

Over this eight-week period, we automatically issued refunds or bills to pay to approximately 1.6 million people. Around:

- 868,000 people were issued with refunds totalling $392 million
- 118,000 customers had very small refunds (less than $1) held on their account to be paid out once the refund amount is greater than $1
- 180,000 bills for tax to pay were issued totalling $70 million
- 431,000 bills for tax to pay were written off as they were under $50.

A further 356,000 customers have been asked to provide more information so that their assessment can be finalised.

For individual customers, it is simpler to pay and receive the right amount

Legislative changes to the collection of employment and investment income information mean that for the 2018–19 tax year, most people who earn salary and wages, or interest from a financial institution, will be able to see it in their account in myIR. From 2020–21, these customers will be able to see a full year of pre-populated income information for all their relevant income.

The changes mean people whose incomes are from salary, wages, dividends or interest do not need to do anything to pay the right amount of tax. The system will work it out for them, and most customers will finish the year without large bills to pay or refunds.

This means we can quickly identify inconsistencies and errors, and work with customers to help them get things right before the amounts involved get too big.

Helping customers get it right during the year also means less errors for employers to deal with.

Working for Families customers now have enhanced online services

Online services for Working for Families customers have been significantly enhanced. Customers can now apply for a myIR account at the same time as applying for Working for Families Tax Credits and give a partner access to their myIR account. Information is pre-populated as much as possible, including income and employment details for the customer and their partner. New customers can register online and all customers can update any change in circumstance through myIR.

Payday filing will also give Inland Revenue more timely and up-to-date income information for many families. We can help customers to update their income estimates during the year.

Some financial institutions are providing investment income information

From 1 April 2019, banks and financial institutions have been able to voluntarily provide investment income information. This will become mandatory from 1 April 2020. We are working with financial institutions to make sure this goes smoothly.

Over time, we will receive more timely and more detailed investment income data. Receiving this will allow us to pre-populate tax returns with investment income information, reducing the effort required by customers.

Prescribed investor rates

START allows us to store a person's income information in one place, which makes it easier for us to associate Portfolio Investment Entity (PIE) income information with individual customers. PIEs are entities such as superannuation funds that invest contributions from their investors. After Release 3, we learned that a lot of people were unaware they were on the wrong prescribed investor rate (PIR). A PIR is the rate used to work out tax on income earned from investments in PIEs.

We estimate that approximately 950,000 people are on a PIR that is too high, which means they have overpaid tax by approximately $42 million for the year ended 31 March 2019. The average amount of overpaid tax is $44. Under current legislation these overpayments cannot be refunded.

We estimate that approximately 550,000 people are on a PIR that is too low and have underpaid their tax by between $45 million and $50 million for the year ended 31 March 2019. The average amount owing is between $82 and $91.

We can now identify people using an incorrect PIR and suggest a more appropriate rate so that they pay the right amount of tax.

We let our customers know about changes to tax

From November 2018 to July 2019, we advertised and sent 5.7 million emails and 2.1 million letters to customers.

We let customers know about the new tax refund process and what to expect between May and July. We encouraged them to update their details, resulting in over 504,000 bank account details being updated in myIR and over 1.77 million visits to www.changingforyou.ird.govt.nz

Pou Whirinaki — how we supported our customers and our people after go-live

Implementing Release 3 meant we needed to close our systems for a week. This included all our contact centres, parts of our website and our customer service counters. Every single taxpayer account for income tax and Working for Families was migrated from our existing system to our new system, START. We reopened as planned on 26 April 2019.

Building on what we learned from previous releases, the size and scale of Release 3 meant we needed to provide a different level of support after the system went live. We put in place an extended support period, Pou Whirinaki, during which issues identified by customers or our people were quickly prioritised and resolved.

We faced some challenges after go-live

Because many customers have not had any contact with Inland Revenue for some time, we expected they would contact us for advice or reassurance after go-live. We received 41% of all calls for the year between April and June 2019. This is over 1.6 million calls compared to 1.4 million for the same period last year.

Our capacity to answer calls was reduced by approximately 10% in June when we unexpectedly had to evacuate our building in Te Papaioea Palmerston North because it was found to be earthquake prone. Some of our contact centre people are located in Te Papaioea Palmerston North. Our priority was to ensure their safety.

We received feedback from customers that they were frustrated with delays in their calls being answered, issues they had when registering and logging into myIR, changes to Working for Families payment dates and issues submitting donation tax credit receipts online.

Some customers who could not get through on the phone visited our offices. Our Manukau office had more than 1,000 customer visits on some days. We extended our office hours in anticipation of the high level of customer demand following go-live.

With Release 3 changes affecting all New Zealand taxpayers, use of the myIR service increased significantly, with most logins taking less than two seconds. Initially, there were some issues with how balances displayed in myIR, which were quickly adjusted based on customer feedback.

We now realise that some of our communications after Release 3 could have been clearer. For example, superannuitants were referred to as salary and wage earners and we sent some letters and notices to children under the age of 17. These letters also referred to the children as salary and wage earners, which caused confusion.

We worked with tax agents to resolve issues

Since go-live we have continued to work closely with the tax agent community to address things that are making it more difficult or time consuming for them.

A dedicated team has worked with tax professional bodies to identify and agreed the top priorities for resolution. We provided help through our account managers, our contact centres, new website pages for our tax agents and our engagement with professional bodies. We are using these channels to get insights from tax agents so that we can put quick fixes in place for them where appropriate.

Supporting our customers

In the lead-up to Release 3, our top priority was to support customers, reduce any impacts on them and ensure go-live went as smoothly as possible. More than1,500 people from across Inland Revenue worked on customer correspondence and processing to ensure it was as up to date as possible before go-live. We also reduced our target times significantly.

FIGURE 2: TARGET TIMES FOR PRIORITY WORK

	Our standard time targets	Targets preparing for Release 3	Targets in the week leading up to go-live
Respond to customer emails and letters	5 days	2 days	1 day
Action income tax account reviews	20 days	10 days	6 days
Action income tax assessment reviews	20 days	2 days	2 days
Process child support applications	85% within 10 days	2 days	2 days
Process family support applications	85% within 10 days	2 days	2 days

After go-live, when we knew demand would be high and many of our customers were likely to contact us, we prioritised supporting customers and our people as they became familiar with the new system and processes. We extended opening hours at 14 of our sites and asked an extra 743 of our people to help meet demand in our contact centres.

We helped customers in times of need

We were recognised for our response to the Ōtautahi Christchurch terror attacks

We were awarded a Distinguished Service Award from Multicultural New Zealand at its Annual Community Awards Gala, in recognition of our response to members of the community in the aftermath of the Ōtautahi Christchurch terror attacks. The awards recognise individuals and organisations who have made a positive impact on New Zealand's ethnic migrant and refugee communities.

Some of the actions we put in place to support our customers included:

> setting up a dedicated 0800 number to make sure we were easily accessible to affected customers, and dedicated liaison officers for victims and families

> making sure all contact with our customers was carefully considered, and suspending all proactive compliance and enforcement activity around the Canterbury region for two weeks.

We supported the community during the Nelson fires

We supported the emergency response to the Pigeon Valley wildfire in February 2019. Five of our people assisted the Nelson-Tasman Civil Defence Emergency Management team in keeping track of people affected and evacuated from their homes. We also worked at the Whakatū Marae, which was a Civil Defence evacuation centre.

Our Community Compliance people worked with other agencies to identify what support could be provided to the community during and after this event. We also allowed late deposits to, and early refunds from, the income equalisation scheme. The scheme allows people to deposit income from farming, fishing or forestry with us. This was also available to customers affected by the droughts in Tasman, Marlborough, Buller and Nelson.

Honouring commitments to te Tiriti o Waitangi

In 1995, a Waitangi Tribunal claim (WAI477) was made against Inland Revenue. The claim sought a change to legislation to remove the requirement to ask the Commissioner's permission to keep tax records in te reo Māori. The Inland Revenue Acts allowed the Commissioner to exercise discretion and permit tax records to be kept in other languages, but on request.

The primary contention in the WAI477 claim was that te reo Māori is an official language and people should not have to seek permission to keep records in te reo Māori. The Inland Revenue Acts were also out of step with the intent of the Te Ture mō Te Reo Māori Act 2016 and other similar legislation that require accounting documents to be held.

Amendments made by the Taxation (Annual Rates for 2019–20, GST Offshore Supplier Registration, and Remedial Matters) Bill allow, from 26 June 2019, tax records to be kept in either English or te reo Māori on the condition that the English terms used in the Goods and Services Tax (GST) Act 1985 and the Tax Administration Act 1994 are still used to support communications between taxpayers, such as on tax invoices or donation receipts.

We work 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 are the principal steward of New Zealand's tax system

We play a crucial role in maintaining and enhancing the integrity of the tax system by making sure the system is clear, consistent and simple. With the Treasury, we develop policy and administer legislation for products including income tax and GST, Working for Families, child support, KiwiSaver and student loans. We are focused on taking a proactive, collaborative approach to the monitoring and care of the legislation, systems and products that we administer.

We supported the Government by providing policy advice

The policy advice we provide is critical to making sure that the tax and social policy systems operate as intended. Our work is guided by the Tax Policy Work Programme that sets out what we will focus on, and which is agreed with Ministers.

In 2018–19 we supported the enactment of the following Bills:

> Taxation (Annual Rates for 2018–19, Modernising Tax Administration, and Remedial Matters), enacted on 18 March 2019

> Taxation (Research and Development Tax Credits), enacted on 7 May 2019

> Taxation (Annual Rates for 2019–20, GST Offshore Supplier Registration, and Remedial Matters), enacted on 26 June 2019.

Research and development tax credits

In October 2017, the Government announced its intention to introduce a research and development tax incentive in the form of a tax credit. The Taxation (Research and Development Tax Credits) Bill was enacted on 7 May 2019.

We worked with Callaghan Innovation and the Ministry of Business, Innovation and Employment to design and deliver the tax credits. Businesses are able to claim tax credits from 1 April 2019.

Tax Working Group

Treasury and Inland Revenue created a cross-agency team that provided a significant amount of advice and support for the Tax Working Group.

Specifically, over 100 advice papers were produced for the Group. The papers covered topics the Group wished to consider for its interim report in September 2018 and final report in January 2019. In some instances, this involved collaboration with other agencies such as Ministry for the Environment for environmental taxes. The papers are available online at:

https://taxworkinggroup.govt.nz/key-documents

Before the publication of the Tax Working Group's final report, and in the months afterwards, Inland Revenue and Treasury officials also provided advice to the Government as it considered the Group's recommendations. This advice can be found at:
http://taxpolicy.ird.govt.nz/publications/2019-ir-tax-working-group/overview

Welfare Expert Advisory Group

We provided information, advice and support to the Welfare Expert Advisory Group, which made recommendations to the Government about the reform of New Zealand's social welfare system. Papers that were prepared for the Group are available online at:
http://weag.govt.nz/weag-report/background-papers/

The Group's report was released in May 2019 and recommended wide-ranging changes to the welfare system. Some of the changes refer to our role in reporting information, debt collection and payment of child support and tax credits.

New legislative modification powers

Sometimes provisions in the Inland Revenue Acts seem to contain errors, do not achieve their intended purpose, are inconsistent with other provisions or are ambiguous. From 26 June 2019, the Minister of Revenue or the Commissioner of Inland Revenue can suspend or modify a section of an Inland Revenue Act for a limited time. Modifications are aimed at helping customers comply with their tax obligations or ensuring that the law has the intended effect while a formal amendment to the Tax Administration Act 1994 is made.

Our contribution to All-of-Government priorities

Alignment with the Government's economic strategy

The Tax Policy Work Programme for 2019–20 was designed to support the Government's economic strategy. For instance, topics that will be worked on include land, business tax, infrastructure, information collection and use, social policy, the environment and international taxation. These will support the Government's objectives to support:

> productive investment and innovative industries

> long-term sustainability and productivity

> the transformation of institutions and regulatory systems

> a skilled and inclusive society

> a sustainable economy in the context of international connections.

We responded to customers' feedback on applying for Best Start

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

Initially, around 17% of eligible customers were not applying for Best Start. Taking feedback from customers into account, we worked with the Department of Internal Affairs to improve the content on the SmartStart website to make it clear that Best Start is a universal payment in the first year. We also simplified the application form, making it easier for people to apply.

More information on Best Start can be found on page 75.

Better understanding Māori customers and their needs

We recognise our responsibility under te Tiriti o Waitangi to work in partnership with Māori and provide services in ways that suit their needs.

This year, we created a Māori Economy Network to help us understand and focus on the needs of our Māori customers. Different parts of our organisation have come together to learn more about our Māori customers and how to better design and provide services for them. We are also working with other agencies such as Te Arawhiti (the Office for Māori Crown Relations) and the Ministry of Business, Innovation and Employment.

We did some initial research and learned about Māori views of the economy and what issues Māori customers face. This research took a kaupapa Māori approach that is informed by tikanga Māori. Through listening to our customers, we were able to recognise knowledge gaps and the need to look at how we interact with Māori individuals, whānau and Māori business.

Te Matatini

In February we had a stall at Te Matatini, the largest Kapa Haka festival in the world. Held in Te Whanganui-a-Tara Wellington, Te Matatini was attended by more than 60,000 people over four days.

We were there to promote Release 3 of our transformation programme. We also supported Te Mita Tini, a strategy promoting the use and normalisation of te reo Māori. Stallholders worked together to create a reo rua (bilingual) experience at the festival.

While we met people from around the world and throughout New Zealand, the biggest value was in strengthening our local networks in Te Whanganui-a-Tara. A member of the Te Whanganui-a-Tara Māori Cultural Network, a sponsor of the festival, thanked us for being there and supporting Māori culture because, 'It was not about taxes but being seen and making ourselves available for face-to-face conversations'.

We are sharing information with other agencies

Under our Approved Information Sharing Agreement (AISA) with the Ministry of Social Development (MSD), we share information to help administer social benefit and superannuation programmes. This year, we continued to work with MSD to improve services including:

> simplifying the child support application process for MSD customers (see the case study on page 79) and ensuring the information sharing agreement is aligned with our Families Strategy and Government Outcomes

> prototyping new ways of working together to make it easier for customers who have debt with both agencies

> developing information sharing processes to make it easy for refugees who have newly settled in New Zealand to get IRD numbers.

In 2018–19, we continued to get good results from AISAs that are already in place:

> Our proactive sharing with MSD identified an estimated $42.8 million in benefit overpayments and arrears.

> Information we shared with the Ministry of Justice enabled collection of more than $6.9 million in overdue fines.

> We shared information three times in response to four requests for information from WorkSafe New Zealand and 58 times in response to 60 requests from the Labour Inspectorate in the Ministry of Business, Innovation and Employment. This is helping these agencies to investigate breaches in workplace legislation.

More information on the results of some of our other AISAs is available on pages 176 to 181.

New information sharing agreements are in place

An AISA with New Zealand Police and 10 other agencies came into effect in January 2019. It helps facilitate information sharing in the Gang Intelligence Centre to help reduce the harm caused by gangs.

We completed new agreements with the Department of Internal Affairs and New Zealand Police for sharing information from the Foreign Trust Register to enforce compliance with anti-money-laundering laws.

The year ahead
Ko te tau kei te heke mai

> We are planning for Release 4 of our transformation programme to go live in April 2020. It will include:

    > moving student loans and KiwiSaver products and the end-to-end processing of employer obligations (PAYE) into START

    > implementing a number of income tax and Working for Families enhancements

    > making changes to our digital services, giving customers more self-service options and a better experience in e-services.

> A new short process rulings service will be available from 1 October 2019. This service will provide more certainty for any individual or business with an annual gross income below $20 million and a question involving tax below $1 million. Customers will be able to apply, pay and track progress online.

> A memorandum of understanding for us to share information with Veterans' Affairs will be completed in 2019–20, making it easier for injured veterans to get financial support. It will be the first agreement entered into following changes made in April 2019 to the Tax Administration Act 1994 that allow us to share information with customer consent.

> We will provide advice to Ministers to support the Government's response to the Tax Working Group recommendations and contribute to the Government's welfare overhaul work programme.

Helping people meet their obligations
Kia āwhinatia te tangata kia oti pai i āna herenga

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 encourage customers to get it right themselves by providing easy access to information, support and tools.

Sometimes people do not meet their obligations or receive the right entitlements. We take an intelligence-led approach to 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.

At a glance
Hei rarapa noa

Our new technology gives us
improved analytical abilities

We identified
$985 million
in tax position differences

Child support debt has
reduced by $50 million

We completed our first
exchange of information
with other tax agencies

We assessed additional tax revenue of
$109 million
in property compliance

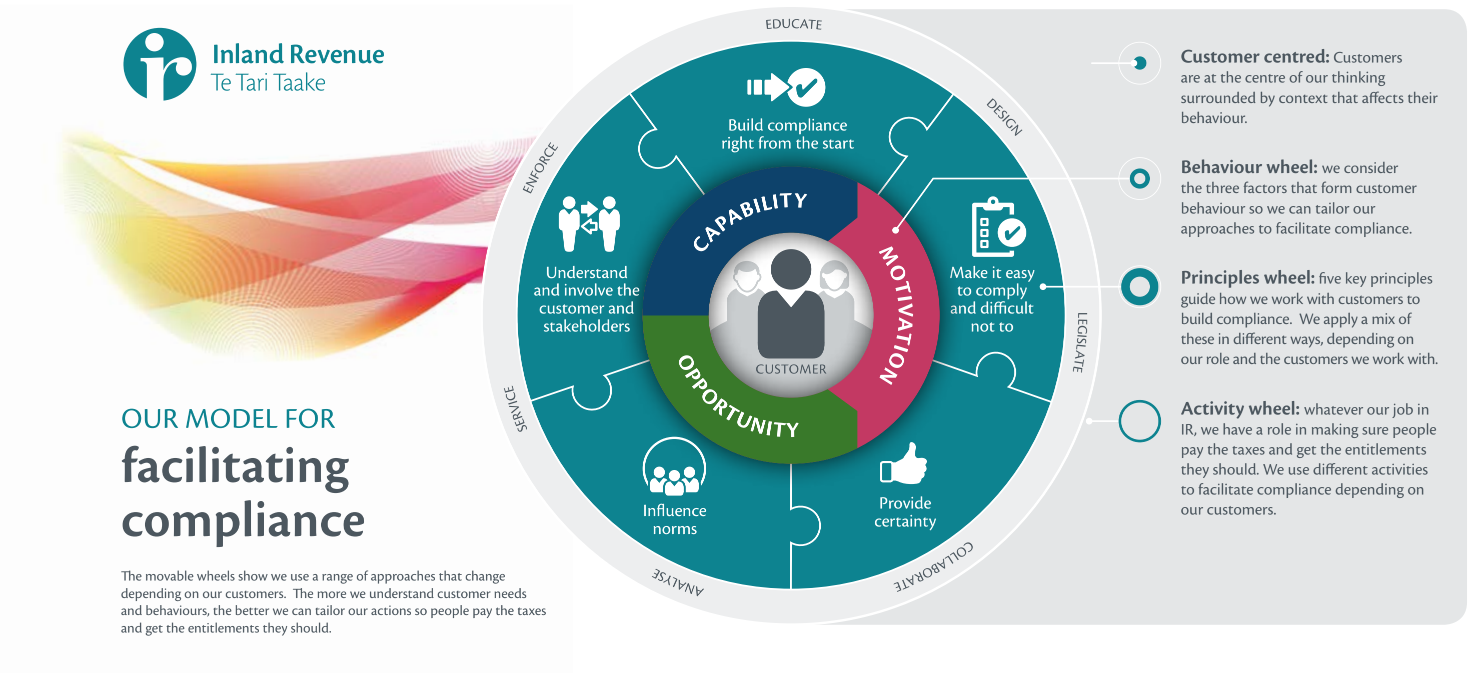
Helping people meet their obligations

It is important for our customers to pay their taxes and get the correct entitlements. As we transform, we are changing how we work with customers. We make paying tax simpler and give people more certainty around their obligations. We know most customers want to get it right, and we want to help them get it right from the start, rather than correcting them when they get it wrong.

Understanding our customers lets us tailor our services and our information. Over their lifetimes, our customers may experience life and business events that may affect their finances. This can mean they need to have different types of interactions with us. By thinking about these different needs, we can give them the support they need in challenging times.

We use the compliance model in figure 3 to help understand customers' behaviour. It has principles to help us tailor our activities to encourage customers to want to get it right themselves.

FIGURE 3: OUR COMPLIANCE MODEL



Reducing debt and unfiled returns

Working with customers to prevent debt and overdue returns

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

We contact customers through a variety of channels. We may call, text, email or meet people in person. We also give priority to returns with social policy elements so we can accurately work out these entitlements.

Since Release 3, customers who meet some criteria have been able to set up their own instalment arrangements for all taxes and Working for Families to pay what they owe. Customers using instalment arrangements they set up themselves are more likely to meet their obligations compared to those we set up arrangements for.

This year, 85.2% of people filed their returns on time, similar to last year, and 86.8% of people paid on time against a target of 85%.

For more information on our performance, refer to pages 70 to 98.

Managing returns not filed by the due date

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

Between July 2018 and April 2019, we focused on IR3 individual tax returns not filed by the due dates.

In 2018–19, we finalised 885,265 unfiled returns. At the end of June 2019, we had 833,006 returns remaining unfiled after the due date, a 10.3% increase from last year. This growth is influenced by returns that were due in previous tax years that have not been filed.

This year, we used predictive modelling, which applies statistical techniques to predict future behaviour, to gain insights that allowed us to focus on higher-value returns, although the total number of returns finalised was lower than last year.

Budget-funded initiatives to reduce unfiled returns have been very successful. Funding from Budgets 2012, 2014 and 2015 for the collection of returns not filed by the due date has helped us achieve additional assessments to date since 2012 totalling $1,030 million.

In November 2018, we began a targeted approach to increase the collection of unfiled company tax returns as well as the returns of associated shareholders. The initiative has resulted in $43.2 million of assessed revenue against a target of $43.4 million in 2018–19. We are on track to achieve our cumulative target of $239 million by 2022.

Refer to page 93 in *How we performed* for more details.

Focusing on tax debt

At 30 June 2019, our tax debt, excluding student loans and child support, was $3.5 billion, up from $3.1 billion at 30 June 2018.

We wrote off $532.6 million of overdue debt in 2018–19. This compares to $613 million written off in 2017–18. Tax debt is written off for a number of reasons, including (but not limited to) serious hardship, bankruptcy, liquidation and the cost of collecting the debt.

TABLE 1: TAX DEBT AS AT 30 JUNE ($ MILLION)

	2015	2016	2017	2018	2019	Change since 2018
Working for Families Tax Credits	334.8	224.6	193.4	140.1	128.8	(8%)
GST	1,527.5	1,387.0	825.6	814.9	1,180.6	45%
Income tax	2,653.0	2,568.5	1,556.2	1,651.3	1,609.8	(3%)
KiwiSaver	29.4	24.9	26.5	42.4	51.2	21%
Other tax	115.9	69.7	80.0	79.8	85.0	7%
PAYE	492.4	428.9	309.7	374.9	465.9	24%
Total debt	**5,153.0**	**4,703.6**	**2,991.3**	**3,103.4**	**3,521.3**	**13%**

The increase in overall debt has been caused by a range of factors including late filing penalties and late payment penalties, interest and default assessments. In preparation for each major transformation release, we also focus on specific areas of debt to make conversion from our old system into START manageable.

Before Release 3, we focused on reducing the amount of debt for income tax and Working for Families so that conversion into START was as successful as possible. As a result, income tax and Working for Families debt reduced in 2018-19.

This had an effect on debt in several other tax types. For example, where a customer had a payment arrangement for PAYE/KiwiSaver or GST as well as income tax leading up to April 2019, we applied many instalment payments received to that customer's income tax and/or Working for Families debt first. As a result, there has been growth in debt for other tax types.

Child support

Helping child support customers meet their obligations

We help parents to pay child support on time by contacting them early, talking to them when they are first assessed and sending a reminder text for their first due date.

We worked with the Ministry of Social Development (MSD) to make our child support application form shorter and more customer-friendly. More detail is provided on this in the *How we performed* section on page 79, along with information on our pilot of a new engagement approach for new child support customers.

Permanent exemptions under the Child Support Act

The Child Support Act was amended in June 2019 to assist victims of a sex offence who have, as a result of the offence, conceived a child who they may be liable to pay child support for. This normally happens when the child is placed in the care of a third party who then applies for child support from the parents. The law now allows us to consider a wider range of information when considering an exemption, and it no longer requires a conviction for the offence.

Faster payments for child support customers

We implemented an option for customers who receive child support payments to be paid their entitlements by the 23rd of the month, rather than waiting until the 7th of the following month. This has proven popular, with around 5,200 of our customers opting to get their payments earlier.

Managing child support debt

At 30 June 2019, child support debt was $2.2 billion, a reduction of 2.3% from this time last year. If a parent falls into debt, early intervention is a priority. We will try to contact the parent as soon as possible after their payment is missed. We set up regular repayments with parents who cannot pay the full amount.

We can reduce or write off penalties for parents who work with us to make payments. We wrote off $244 million in 2018–19 to help parents to get on top of their payments for child support. This trend is down from the $594 million written off in 2017–18, but will increase again in 2020 and 2021 as we focus more on resolving historical debt cases to minimise the impacts of converting data to go into our new system, START.

With our continued focus on addressing debt early, the total value of new debt cases has reduced by 5.5% from July 2018 to June 2019. The value of new debt cases for parents who live overseas reduced by 17% in this same period.

TABLE 2: CHILD SUPPORT DEBT AS AT 30 JUNE ($ BILLION)

	2015	2016	2017	2018	2019
Total debt value	3.276	3.311	2.736	2.259	2.208
Penalties only	2.605	2.661	2.119	1.662	1.608

In 2018–19, we took the following action through the court after we could not arrange payments for child support debt:

- Four arrest warrants were granted by the courts, with one arrest warrant executed. To date, these have resulted in lump sums totalling $11,000 and one continuing arrangement.
- Fourteen summonses for examination of financial means were granted.
- Twenty charging orders against property and warrants to seize property were granted by the courts.

Finding overseas parents who owe child support

About 15,700 parents with a child support debt live overseas, with 11,520 in Australia. Under a reciprocal agreement, New Zealand collects child support for Australia and vice versa. We received $46.4 million from Australia in 2018–19 compared to $51 million last year. We sent $14.7 million to Australia this year compared to $14.6 million in 2017–18.

Working with the New Zealand Customs Service means we can match people entering or leaving New Zealand who have not made arrangements to pay their child support debt. In 2018–19, there were 10,259 matches made compared to 11,947 in the prior year.

We have a passport information-sharing programme with the Department of Internal Affairs. This resulted in 1,409 contact records matched for parents who had a child support debt in 2018–19 and 669 successful contacts. These contacts resulted in 120 customers making payments totalling $234,541.

Student loans

Helping student loan customers meet their obligations

We jointly administer the student loan 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 2019, we had:

- 708,518 student loan customers
- collected $1.37 billion in repayments during the year, up 1.7% from last year. Of the total repayments, $996.2 million came through PAYE, up 3.7% from last year, and $374.5 million directly from customers, down 3.3% from last year.

During the year, student loan repayments increased by 1.7% ($22.6 million) compared to 2017–18. Repayments from New Zealand-based customers via their employers were up by 3.7% ($35.5 million) and direct repayments from New Zealand-based customers increased by 1.3% ($2.1 million). Repayments directly from overseas-based customers were 6.8% down ($15.0 million) compared to last year.

TABLE 3: OVERSEAS–BASED CUSTOMER NET REPAYMENTS ($ MILLION)

2014–15	2015–16	2016–17	2017–18	2018–19
184.7	216.1	214.8	221.3	206.3

Throughout September and March when repayments were due, we sent specific emails and texts to customers based on their previous payment history. This approach will continue next year. A representative control group is used to measure the effectiveness of these communications. We saw good results from the campaign in September 2018:

- 44.8% of customers who received our messages made a repayment compared to 36.0% of the control group
- average repayments from customers who received the messages were 22% higher than the control group
- 5% more student loan customers living overseas made repayments than in the same period last year, with payments from these customers increasing to $35.9 million from $32.7 million.

Exchanging information with the Australian Taxation Office

Student loan customers living overseas make up 15% of the total student loan population, but owe 91% of the total overdue debt.

About 70% of all overseas-based customers with overdue repayments are based in Australia. We have an information-sharing agreement with the Australian Taxation Office, which continues to identify those customers who have had no contact with us for several years.

In 2018–19, we sent records for 149,031 customers for matching. Of these, a form of contact information was found for 81,875 customers. We work with these customers to get payment in full or repayment over time.

Collecting student loan repayments and managing debt

As at 30 June 2019, overdue student loan debt was $1.48 billion. This is a 12.1% increase from the previous year, driven by overseas-based customers.

Overseas-based customers' overdue debt continues to grow due to interest on overall loan balances and late payment interest charges. We continue to contact defaulting overseas-based customers to negotiate repayment and let them know what their obligations are.

New Zealand-based customers' overdue debt is also increasing. This increase is driven by overseas-based customers who return to New Zealand with overdue debt. When these customers remain in New Zealand for more than 183 days, their overdue amount is recorded as New Zealand-based.

Arrest warrants

In 2018–19, we sought two arrest warrants for unpaid student loan default. Both warrants resulted in the customer being arrested. Each arrest resulted in a lump sum payment or instalment arrangement. We negotiate payment amounts or arrangements with the customer based on their personal and financial circumstances.

Addressing integrity risks and non-compliant activities

Our investigations activity plays an important part in protecting the integrity of the tax system and is one of the ways we address non-compliant activities. 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. By using intelligence-led insight and analysis and managing our investigations well, we provide assurance to New Zealanders that we will take appropriate action to address non-compliant activities.

For 2018–19, our overall return on investment for our investigations activity was $7.54:$1 against the performance measure target of $7.00:$1. We identified $985 million in tax position differences this year and closed 12,305 cases.

Our Budget-funded initiatives contributed $200.4 million to the total tax differences identified. These initiatives focus on additional investigations into complex technical issues, property compliance, fraud and the hidden economy.

For more information on our performance for the year, refer to page 94.

New analytical capabilities help get it right from the start

Release 3 moved income tax and donation tax credits into our new system, START, which has analytical capabilities.

Our new technologies enable us to:

- review 100% of the returns we have received and identify potentially inaccurate information including customers on incorrect tax codes. This helped us find that many customers were on the wrong Prescribed Investor Rate for their income from Portfolio Investment Entities. Refer to page 31 for more information on this.
- stop assessments and refunds where there is a high likelihood they are wrong or fraudulent. These new processes and systems have helped us to identify customers who do not meet their obligations—either deliberately or through genuine mistakes. Our new technology has stopped a large number of returns where customers had claimed false non-business expenses or manipulated their income.

More sophisticated analytical capabilities let us identify errors earlier and tailor our approach to customers. We can track customers' movements through myIR, and alerts are built in to let us know when anyone is trying to do anything untoward. How we respond depends on what we find. For example, in early June 2019, we were able to quickly shut down a scam where bank accounts appeared to have been misused to create fraudulent transactions.

We continue to investigate people who deliberately try to avoid their obligations or claim payments to which they are not entitled. Our work also includes identifying ineligible and potentially fraudulent refunds and claims, as well as attempts to inappropriately access entitlements. Examples of this include claims for false business expenses or private expenses, false receipts used to support a donation tax credit rebate, or claims made for Working for Families Tax Credits for a child that has not been in care.

GST is an example of how we are blending technologies, START and our Data and Intelligence Platform (DIP), into a single analytics capability that delivers results for us and our customers.

Currently, a number of GST refund requests are identified as risky by START and flagged for a review by our staff. Reviews can take up to 15 days and will result in a refund or referral for further investigation or audit.

We can now use the DIP to analyse patterns of low-risk cases that may mistakenly end up in the 'manual intervention' queue. Using these insights, we can refine the risk rules in START and reduce the number of manual interventions. As a result, we can focus on higher-impact cases and make faster GST refunds to customers.

Complex technical issues including aggressive tax planning

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

Investigations of aggressive tax positions have often resulted in large tax adjustments. In this financial year, complex technical issues contributed around 30% of the total tax position differences identified. Much of this was from a small number of long-term cases.

Our investigations into aggressive tax planning and other complex technical issues resulted in tax position differences of $298 million in 2018–19. Of this, $87.8 million came from work funded through Budget-specific initiatives.

Helping and ensuring high-wealth individual customers comply with their obligations

High-wealth individual customers and their respective groups pay more than $700 million income tax and collect in excess of $1 billion PAYE each year. Because their activities and tax affairs are complex in nature, we have a dedicated team who provide tailored services to help them get it right from the start.

The majority of these customers meet their tax obligations. We analyse information including international investments, financing arrangements and wealth gains that are currently untaxed, for example capital gains from start-up ventures or land banking. We use intelligence in real time so that we can follow up and work along-side customers to help them pay the right amount of tax.

When customers get it wrong, we take action. Our investigations in this area resulted in tax position differences of $44.1 million in 2018–19.

High-wealth individuals are classified as having assets of more than $50 million, and on average have more than 30 associated entities. Some are significant shareholders in public companies.

We have developed close working relationships with New Zealand's major tax treaty partners and exchange information in relation to high-wealth individual customers who are operating internationally. International partnerships provide earlier insight into schemes that are developed abroad and subsequently marketed in New Zealand.

Targeting New Zealand's hidden economy

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 their income or attempting to receive refunds and entitlements they are not eligible for. Where we find this, we take appropriate action.

Our work on the hidden economy focuses on:

- specific parts of the hospitality and construction sectors
- those operating partially or totally outside the tax system
- emerging risk areas, including the sharing and digital economies that include new business models such as Uber and Airbnb, and alternative payment methods and cryptocurrencies such as Bitcoin.

To June 2019, our work has assessed additional tax revenue of $108.8 million. Of this, $34.8 million relates to work funded by the Government through Budget initiatives. The return on investment has been $5.65:$1 against a target of $4.59:$1.

Our work to identify and prevent fraudulent refunds and entitlements assessed additional tax revenue of $30.0 million. Of this, $10.1 million relates to work funded by the Government through Budget initiatives. We have also continued to work with partner agencies to support enhanced information sharing as part of a wider Government focus on reducing fraud and organised criminal activity.

Improving compliance in the hospitality sector

In our experience, the hospitality sector has many complex compliance issues including high volumes of cash transactions and poor record-keeping. Our primary focus is on restaurants, cafes and bakeries, takeaways and liquor outlets.

We can now match information we already hold with data from payment intermediaries. This has improved our ability to provide support to new businesses, accurately identify non-compliance and increase revenue through audit outcomes.

Our 'SLEEP:EASY' communication campaign from May to late July 2018 encouraged hospitality businesses to meet their GST obligations. We contacted over 22,000 customers, and visited over 3,150 businesses in July 2018. Over 41% of the customers who were contacted increased their declared income by more than 3%. Almost 32% of these customers also increased the GST they have to pay by a similar amount.

Helping customers in the construction industry comply

We have continued our focus on residential building, electrical and plumbing services to improve compliance with registration, reporting, filing and payment.

In 2018–19, we received the results from surveys conducted in November 2017 and May 2018 on our earlier 'No grey areas—it's tax crime' and 'Every undeclared cash job leaves a trail' campaigns. These noted:

> the proportion of people saying they participated in cash jobs is relatively consistent with previous years (27%), and is below the initial measure in 2011 of 34%

> fewer people said they were likely to ask for a cash price knowing that tax is less likely to be paid on it—from 27% in 2011 to 16% in 2018

> the proportion of people who report themselves as being likely to participate in cash jobs (19%) remained consistent with 2018

> 49% of people agreed in 2018 that cash jobs are acceptable (it was 72% in 2011).

Helping and ensuring customers comply with property obligations

We have continued to work on addressing risks posed by the incorrect tax treatment of property transactions. We are also assisting the implementation of property-related law changes.

The bright-line period has been extended from two years to five years. This means that customers selling a house other than their main home within five years of buying it have to pay income tax on any profits they make. Residential rental losses are now ring-fenced, which means they cannot be used to offset other income.

We have focused our property compliance work in four key areas: property speculation and bright-line compliance, GST, developers and builders, and emerging risks.

In 2018–19, we assessed additional tax revenue of $109 million. Our Budget-funded work on property tax compliance had a return on investment of $9.58:$1 against a target of $6.42:$1.

We are working with other government agencies to raise awareness of property tax compliance and better help customers get it right from the start. We worked with Land Information New Zealand (LINZ) and Statistics New Zealand to make the LINZ tax statement more user-friendly and provided clearer information to rental property owners through the www.business.govt.nz portal. We also provided feedback to the Tax Working Group and the Government on potential property tax measures.

Helping customers to meet their bright-line obligations

We have worked to help our customers meet their bright-line obligations. The actions we take include reminder letters, customer visits and audit activities.

This year, we called or visited over 1,000 customers with possible bright-line sales in the 2017 income tax year to determine if bright-line applied and to help them understand their obligations and comply with the legislation.

Where necessary we follow up with those who choose not to comply. Before audit activity begins, we send a letter to the customer as a last prompt for voluntary compliance. The first of these letters were sent in March 2019 to customers who were previously contacted, but who have not taken action to meet their obligations. We will continue to audit and follow up with customers who remain non-compliant.

Through our Data Intelligence Platform, we continue to develop and improve our ability to identify whether an individual property transaction is taxable under the bright-line rules for a customer.

We provide certainty and clarify tax law

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

This year, we developed guidance covering the tax aspects of providing short-stay accommodation through platforms such as Airbnb. Because of the topic we tried a slightly different approach and tailored the information and guidance to people providing the accommodation.

We published guidance for employers that pay their employees' salary, wages or bonuses in cryptocurrency. We also clarified when sales of lifestyle blocks and subdivided sections were excluded from the five-year bright-line test.

We 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 $6.4 billion worth of arrangements, where the associated tax at issue was more than $1.02 billion. Compared to last year, the total headline value in tax at stake was lower. This was primarily due to a ruling on a significant one-off transaction in a previous year.

The demand for rulings was still high this year, with significant transactions ruled on involving insurance, infrastructure and housing. A larger proportion of our applications than usual concerned GST and we have started to receive requests for rulings on the new base erosion and profit shifting provisions.

In 2018–19, 100% of customers who returned surveys were very satisfied with our rulings service, with customers generally very happy with the timing and the quality of our work.

We prosecute when necessary

We completed 68 prosecutions for tax evasion, knowledge and Crimes Act 1961 offences. This compares with 94 in 2017–18. As at 30 June 2019, there were 92 prosecution cases before the courts compared with 121 at 30 June last year.

Facilitating international tax compliance

Tax from significant enterprises makes up a large portion of our revenue base. With the increasing complexities of globalisation, we need to actively participate in international solutions that facilitate compliance.

Facilitating international tax transparency through effective exchange of information

The Common Reporting Standard (CRS), also known as automatic exchange of information (AEOI), is an initiative to address offshore tax evasion led by the Organisation for Economic Co-operation and Development (OECD).

We have implemented the CRS, completing our first exchanges in 2018. We were one of 85 jurisdictions that exchanged financial account information. We sent more than 600,000 account reports and received over 700,000 in return. We started to analyse this information in order to be able to match these reports with individual customer records.

Inland Revenue continues to play an important part in raising international standards on tax transparency. In June 2019, our Manager of International Revenue Strategy was appointed Chair of the Co-ordinating Body of the Convention on Mutual Administrative Assistance in Tax Matters.

International engagement—our contribution to international capacity building

We facilitated training on the Common Reporting Standard (CRS)

In January 2019, we helped facilitate the first ever CRS Appreciation Workshop, hosted by the OECD and the Inland Revenue Authority of Singapore. There were 40 participants from the Study Group on Asian Tax Administration and Research and Commonwealth Association of Tax Administrators jurisdictions, and a range of experiences with implementation.

We also delivered a tailored exchange of information training programme in Kuala Lumpur, which has helped strengthen our standing in Asia and our relationships with Singapore and Malaysia.

In October 2018 and May 2019, we presented on tax to developing countries as part of the OECD Global Relations Programme.

We also took part in the development of the Asia Region Funds Passport. This is an arrangement between New Zealand, Australia, Japan, Korea and Thailand that allows a managed fund based in one country to be offered more easily to investors in other participating countries.

Providing training on tax avoidance and evasion

In June 2019, we helped lead a workshop for members of the Pacific Islands Tax Administrators Association and Commonwealth Association of Tax Administrators (CATA). We presented on a wide range of topics such as the differences between avoidance and evasion, base erosion and profit shifting minimum standards and all forms of exchange of information. Some of the training was aimed at raising awareness given the varying levels of development. We also gave one-on-one training on more complex matters.

International tax and the digital economy

Implementation of base erosion and profit shifting initiatives

The OECD's base erosion and profit shifting (BEPS) project arose out of significant global media and political concern about evidence suggesting that some multinationals paid little or no tax anywhere in the world. This problem is referred to as base erosion and profit shifting or 'BEPS'. BEPS tax-planning strategies exploit gaps and mismatches in countries' domestic tax rules to avoid tax.

The recently enacted Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 prevents multinationals from using:

- artificially high interest rates on loans from related parties to shift profits out of New Zealand
- hybrid mismatch arrangements that exploit differences between countries' tax rules to achieve an advantageous tax position
- artificial arrangements to avoid having a taxable presence (a permanent establishment) in New Zealand
- related-party transactions (transfer pricing) to shift profits into offshore group members in a manner that does not reflect the actual economic activities undertaken in New Zealand and offshore
- certain tactics to stymie an Inland Revenue investigation, such as withholding relevant information that is held by an offshore group member.

The BEPS legislation is effective from 1 July 2018. The impact of the measures will emerge in 2020 and 2021 following filing of affected returns. However, there is evidence that taxpayers are responding to the new legislation by reducing related-party debt, removing hybrid instruments (and entities) and restructuring their business operations in New Zealand. There is also some evidence of enterprises booking sales in New Zealand instead of offshore. Overall, it is moving in the right direction.

We take a comprehensive risk-based approach to BEPS, with one-to-one compliance management of our top 58 corporate groups and a strong focus on all foreign-owned multinationals with group turnover above $30m per annum. Enhanced disclosure requirements, combined with an annual international questionnaire issued to over 600 groups supplemented by additional intelligence derived from treaty partners, support our compliance approach. In addition, we will continue to provide guidance and binding rulings/advance pricing agreements where requested to support compliance with the new law.

Taxing the digital economy

There has also been concern with the taxation of the digital economy in New Zealand and globally. The BEPS measures described above do not directly address the problem of taxing the digital economy. These measures only prevent multinationals from avoiding the current international tax rules. However, taxing the digital economy requires a fundamental change to those rules.

It is possible for internet-based companies to derive significant income from a country without being liable for income tax there. The OECD is trying to achieve an internationally agreed solution to the problem, which would involve changing the current international income tax framework.

Some countries have adopted a separate digital services tax to address the problem in the interim. New Zealand is taking part in the OECD discussions on this issue. The Government supports an internationally agreed solution, if one can be reached.

As a small, open economy, New Zealand generally tries to keep its tax policy settings within international norms to provide a stable and certain environment for cross-border investment. However, the Government will consider a digital services tax if an international solution cannot be reached in a reasonable timeframe.

Double tax agreements

Our general approach to double tax agreements (DTA) is to maintain a targeted and up-to-date network with key investment and trading partners, with the flexibility to negotiate new treaties as appropriate. New Zealand has 40 current DTAs. A new DTA with China, replacing the 1986 agreement, was concluded in 2017 and signed in April 2019. Other key updates in progress are with Korea, Hungary, Portugal and Austria.

The year ahead

Ko te tau kei te heke mai

- We are working towards ratifying the Hague Convention for Child Support for April 2021, which will improve our ability to collect child support from parents living abroad. We will also work to resolve older child support debt cases before child support moves into START in 2021.
- We will continue to focus on unfiled returns.
- We will continue with our multi-year programmes of work on complex technical issues, the hidden economy, fraud and property compliance.
- We are working with the Ministry of Justice and other agencies to prepare for the upcoming Financial Action Task Force mutual evaluation. This review will look at New Zealand's approach to reducing the likelihood and impact of money laundering activities. The review is planned to start in September 2019.
- We will issue rulings on the tax treatment of crypto-assets, including the implications for customers who receive their regular wages or salary in crypto-assets.

Managing ourselves well
Kia tika ā mātou mahi whakahaere i ā mātou anō

Our organisation is changing and we are supporting our people through this process. Inland Revenue is working together better, so we can ensure we really do contribute to improving all New Zealanders' economic and social wellbeing.

We invest in our workforce to build knowledge and capability in areas such as tax technical expertise and digital skills so that we can meet customers' current and future needs. There is a strong focus on having a diverse workforce and an inclusive culture.

Supporting our people to be successful

At a glance

Hei rarapa noa

We invested in
building our people's capability and **supporting them to work differently**

Te Kōhure,
our approach to leadership development, won an international award

We refreshed how we recognise
the great work our people do

We developed the
Māhutonga approach
setting out the changes we will make in how we work with and for Māori

We launched our new
Diversity and Inclusion
Implementation Plan

We improved our support for
people's wellbeing
during organisational change

We refreshed and progressed our
Gender Pay Gap
Action Plan

Supporting our people to be successful

We recognised in 2015 that transforming the revenue system required a change in how we work, as well as updating our technologies and processes. Lifting our capability as an organisation is essential to the success of transforming Inland Revenue for the future as an agile, intelligence-led organisation.

The significant investment we have made in our people over the past three years has continued this year. This year, we supported our people through significant change, implementing lessons learned from last year. We developed a new approach for how we will engage with te Tiriti o Waitangi and how we work with Māori. We shaped plans for a more diverse and inclusive organisation, and focused on our people's health and safety.

Since 2015, we have focused on developing 12 people capabilities. These represent the mix of skills, experience, knowledge and attitudes our people need. They were developed with the digital world in mind.

This year, we have continued to move to capability-based roles focused on delivering to customers and on outcomes rather than tasks and processes. We are maintaining our specialist technical knowledge while at the same time supporting our people to adapt to changes in customer needs and a changing environment.

We are making a substantial investment in capability development via our transformation programme. This includes leadership, coaching, decision making, training in the START systems, and Agile and design thinking. Agile and design thinking help our people to support design, deliver and integrate solutions for our customers.

Our performance approach, Whanake (meaning to grow/develop), is another example of our continuing focus on building capability across Inland Revenue. Whanake encourages regular, high-quality development conversations between our people and their leaders. Supporting this is an online MyCapabilities tool which helps our people to assess their own career needs and develop plans to build their capabilities.

FIGURE 4: INLAND REVENUE'S 12 PEOPLE CAPABILITIES

Our people capabilities approach received national recognition

We were finalists in the innovation category of the 2019 New Zealand Human Resources awards for our people capabilities approach, including the online MyCapabilities assessment tool.

The Christian Dahmen Memorial Award for HR Innovation or Technology recognises organisations that have introduced a new product, service, human resources practice or technology not previously seen in New Zealand. We are proud to be recognised as a workplace where people can grow, adapt and evolve.

Each release of our transformation is driving new skills and capabilities

Ahead of Release 3, our people completed training programmes that focused on learning new tools, systems and processes.

Between July 2018 and June 2019, our people attended over 10,000 face-to-face learning sessions and completed over 90,000 online learning modules in areas such as tax technical and social policy training.

We value our people's technical skills and experience

We have stayed focused on retaining tax technical expertise as well as lifting technical capability while we transform. Our Technical Specialist Network has provided regular training across the organisation on a broad range of tax technical subjects, social policy and emerging issues via internal roadshows, conferences, videos, e-learning, partnering and one-to-one coaching. Our people maintain appropriately high standards of continuing professional development as part of their memberships of professional associations.

This year, the proportion of the organisation that has tax technical experience has remained relatively stable. Turnover for this area (7.4%) is lower than the overall Inland Revenue average (9.6%).

We support the Aotearoa New Zealand Skills Pledge

On 7 May 2019, the Prime Minister announced the Aotearoa New Zealand Skills Pledge, inviting New Zealand employers to commit to doubling their training and re-skilling hours by 2025 and to publicly disclose this investment in their annual reports.

We worked closely with the State Services Commission and other agencies to explore how the Aotearoa New Zealand Skills Pledge could be implemented consistently in the public sector. We have pledged to continue investing in lifting our people's skills and capabilities as part of our People Strategy and transformation programme.

New tools and technology are helping us work smarter

We have been rolling out technology and tools such as Office 365 and our knowledge management system, STAX. These tools help to modernise how we work and enable us to work in a more collaborative and joined-up way, so we can better support our customers.

International award for leadership development approach

Inland Revenue has put a strong focus on leadership development enabling our leaders to coach their people through change and to lift capability.

Our leadership development approach, Te Kōhure, won gold in the Best Advance in Leadership Development category of the Brandon Hall Human Capital Management Excellence Awards in the United States.

Developed with our design partners Inspire Group, Te Kōhure received an overall rating of extraordinary for blending different types of learning, experiences and modes. It includes leadership coaching, accelerated leadership programmes, and tools for leading teams through organisational change.

Making Inland Revenue a great place to work

We want to make working at Inland Revenue unique, exciting, fulfilling and career-enhancing, and we want to support our people through this period of significant change.

Supporting our people through change

In July 2018, we received the results of a review we commissioned into the change process that set up three new business groups in February 2018. The review found that we could have supported our people better. We have learned from this and have:

- made our communications more timely and transparent
- involved our people as we develop the future operating model

- increased opportunities for senior leaders to talk with people about the changes
- held networking events to enable our leaders to connect and work cohesively towards our desired culture.

Our desired culture

Inland Revenue's culture shapes our relationships with each other, our work with customers, the decisions we make and the actions we take. We want an inclusive culture that is customer-centric, agile and intelligence-led.

FIGURE 5: OUR CULTURE ANCHORS

Customer centric

Together we understand the many influences on each customer, and decide how we will work with them to get the best outcomes for New Zealand.

Intelligence-led

We're confident that we make good decisions based on quality information and analysis. We continually test and learn to know what the best approaches will be.

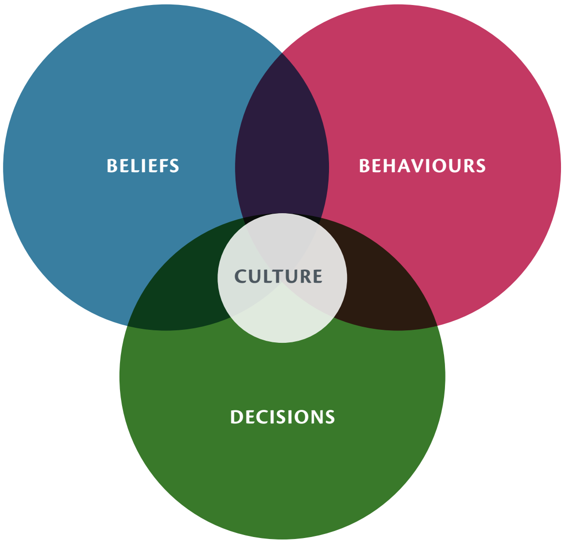
Agile

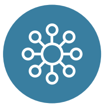
We work at pace, pulling together the right people to make good decisions quickly, focusing on the things that matter most.

Inclusive

We have an inclusive culture where people from all walks of life can achieve their full potential. As a truly inclusive organisation, our people and customers will feel valued and respected, and they will see themselves reflected in our people, our processes, our values and behaviours.

FIGURE 6: OUR DESIRED ORGANISATIONAL CULTURE





Beliefs
- Proactive
- Partner with customer
- Externally focused
- Innovative

Behaviours
- Open/transparent
- People oriented
- Collaborative
- Empowered

Decisions
- Whole of Inland Revenue
- Outcomes oriented
- Risk tolerant

Focused on engagement

We measure employee engagement and perceptions of our culture through our culture and engagement surveys Kōrero Mai. We run full surveys every two years.

This year, we ran three short Kōrero Mai surveys, which resulted in engagement scores of 28%, 31% and 29%. We are seeing the high level of change continue to impact on levels of employee engagement.

We know our success depends on our people and we are committed to improving employee engagement. This includes continuing our focus on:

- listening to, and connecting with, our people
- embedding our performance approach, coaching and recognition
- learning and development and building capability
- supporting leaders and teams to work differently.

The next survey will run in October 2019.

We recognise the great work our people do

Our recognition approach focuses on our people's contributions, the great work they do every day and how they do it. We have a range of options for recognising our people. This year we updated our Commissioner's Awards. The awards acknowledge people who embrace our culture, values and behaviours and make Inland Revenue a great place to work. The Awards recognise people who:

> consistently strive to make a difference for our customers (Toitū te Tangata—Spirit of Service award)

> demonstrate exceptional ability to collaborate and role model new approaches or ways of working (Mahi Tahi—Collaboration award)

> motivate and inspire others to succeed (Tū Rangatira—Leadership award)

> help build an inclusive culture (He Waka Eke Noa—Diversity and Inclusion award)

> make our working environment a better, happier and a more welcoming place to work (Tū Tangata—Our People award).

We are preparing ourselves for the future

In February 2018, we established three new business groups (Customer and Compliance Services—Individuals, Customer and Compliance Services—Business, and Information and Intelligence Services). Since then, we have been looking at the future operating model for the rest of the organisation, starting with a focus on how we do our policy and organisation-wide tax technical work.

Learning from the review of our earlier phase of organisational change, we are including our people in thinking about what the future operating model is going to be. Our people, unions and other key stakeholders are involved as we progress this work.

We are working with our unions

Our three unions—the Public Service Association (PSA), Taxpro and the National Union of Public Employees—play an important role representing their members' voices and we are committed to working with them.

During the 2018 negotiations with the PSA for the new collective agreement, the union's members took industrial action in support of their claims, which included a significant pay claim. We reached an agreement on 16 August 2018, which was ratified by PSA members.

Inland Revenue and each union have been jointly developing relationship agreements in 2019. The agreement with Taxpro was signed in May. Relationship agreements establish the agreed relationship principles and provide practical guidelines on how we will work together to provide a positive workplace for our people.

The three collective agreements negotiated in 2018 are due to expire on 30 September 2019.

We will continue to work alongside our three unions as we work on our future operating model.

We are committed to our responsibilities under te Tiriti o Waitangi, the Treaty of Waitangi

We understand the importance of meeting our Tiriti o Waitangi obligations as a government agency. This year, we introduced a new approach to how we engage with te Tiriti o Waitangi and how we work with Māori. Our approach is called Māhutonga (the Southern Cross constellation). Under Māhutonga, we are looking at how we can integrate the Principles of the Treaty and Māori perspectives, processes and practices into everything that we do.

In addition to a focus on the Principles of te Tiriti o Waitangi, we have also taken opportunities to form stronger relationships with several hapū and iwi. This has occurred primarily in those areas where we have changed our accommodation, including Kirikiriroa Hamilton and Ngāmotu New Plymouth. In doing so, we have created new opportunities for engaging and working with those Māori groups. This in part recognises the Treaty partnership in practice and is helping to build our cultural integrity and capabilities.

Māhutonga, our approach to our Tiriti o Waitangi obligations

The decision to introduce the Māhutonga approach is aligned with our broader transformational goals and the changing nature of the external operating environment.

Traditionally, our focus on Māori has been through the delivery of generic services, supplemented by tailored services delivered through our community compliance area. We also focus on building our internal Māori cultural capability, mostly te reo Māori and support for cultural events.

Māhutonga is a long-term approach. It focuses on building and maintaining our:

> Māori cultural integrity, which is important if we want to work credibly with Māori as a Tiriti partner

> Māori cultural capability, which is necessary to deliver services to Māori customers and improve their outcomes.

This year, Māhutonga activities focused on our people and included:

> Reviewing our Māori Language Plan

We continued to review our Māori Language Plan with the assistance of Te Taura Whiri i te Reo Māori. We are aligning our organisational focus with the direction set out in Maihi Karauna, the Government's Māori language strategy.

Our focus will be tailored to deliver services to Māori customers, while also contributing to the overall goals sought by Maihi Karauna. We will finalise our review of the Māori Language Plan in 2019–20.

> Developing senior leader capability

During 2018–19, our senior leaders invested time to engage with Māori concepts and perspectives in recognition that leadership is critical to the development of our Māori cultural integrity and capability. This work contributes to a Māori conceptual frame to help our senior leaders think differently about making decisions.

We value diversity and inclusion in our workforce

Naomi Ferguson, our Commissioner, co-leads Papa Pounamu, a steering group of 12 public sector chief executives who are driving a collaborative programme of diversity and inclusion across the public service.

In addition to the work we do to support the public sector's programme, Inland Revenue's Diversity and Inclusion strategy and programme of work is designed to address our specific diversity and inclusion goals.

To best serve and reflect our communities, diversity across our workforce is critical. We aim to have an inclusive culture where people from all walks of life achieve their full potential. We value diversity of thought, beliefs, backgrounds and capabilities.

Diverse perspectives help us understand our customers' challenges. Understanding our customers, how they see the world and the life events they are experiencing, means we can help customers get their interactions with us right from the start. To support this, we have introduced initiatives such as 'Every Story Matters' and 'This is Us', which encourage our people to use empathy and help them recognise unconscious bias.

As at 30 June 2019, our people represented 131 different ethnicities, broadly in line with the ethnic make-up of New Zealand. However, our diversity decreases as job complexity increases.

Table 4 below summarises the ethnic make-up of Inland Revenue. Because each employee can identify with up to three ethnicities, figures may add up to over 100%.

TABLE 4: ETHNICITIES AT INLAND REVENUE

	New Zealand (2013 Census)	**Inland Revenue** (Human Resource Capability Report 2019)	**Public sector** (Human Resource Capability Report 2018)
European	74.0%	63.3%	69.2%
Māori	15.0%	12.3%	16.0%
Asian	12.0%	16.0%	10.1%
Pasifika	7.0%	8.2%	9.2%

The main goals of our Diversity and Inclusion Strategy and three-year Implementation Plan are:

> Create a safer and more open working environment where all people feel able to grow and do their best work without fear of embarrassment or retaliation.

> Break down barriers to inclusion, and celebrate, retain, develop and attract a truly diverse workforce that is representative of the communities we serve.

> Actively demonstrate our commitment to an inclusive culture through our leadership and hold ourselves accountable for our progress.

During 2018–19, we:

> focused on inclusion in the design of our office facilities by starting to introduce parenting rooms, reflection rooms, gender-neutral bathrooms and visual design elements that reflect our people's diversity

> sought advice and diverse perspectives from our advisory group, Te Manu Korihi, which has internal and external membership. The group provided advice on things such as our diversity and inclusion strategy and implementation plan, inclusive learning and the diversity and inclusion maturity assessment.

> supported public sector initiatives such as committing to the All-of-Government Accessibility Charter, the public sector LGBTQIA+ WeCount survey and the He Taurangi Panel Pledge for balanced representation at conferences and on panels

> became a support partner of TupuToa, the internship programme for Māori and Pasifika students

- provided training for a number of our people who have varying degrees of vision loss and disability so they can use the new technology, processes and functions delivered as part of our transformation.

Our diversity networks support and develop our people

We support our people to create and nurture a sense of belonging through a range of diversity networks, including Māori, Pasifika, multi-cultural, LGBTQIA+ and Women's networks.

This year, we established a new organisation-wide Rainbow/LGBTQIA+ network, two new multi-cultural networks in two of our Ōtautahi Christchurch offices, and a new disability network is being developed.

During the year, our people organised cultural events, invited guest speakers, made videos and shared food and languages to raise awareness about their cultures. We actively participated in Gumboot Friday, a nationwide fundraising event to raise awareness of mental health.

Our workforce profile

Our workforce profile is changing as we transform. During the year, the number of permanent full-time equivalent (FTE) staff reduced by 307, and the number of fixed-term staff and contractors increased. The demographic makeup of our people has stayed relatively stable over the past five years.

Turnover is decreasing, reflecting the period of significant organisational change that occurred in 2017–18. As we work through further changes to reach our future operating model, we expect turnover is likely to increase.

Workforce statistics table

TABLE 5: OUR WORKFORCE PROFILE

Metric	2015	2016	2017	2018	2019
Headcount	5,820	5,789	5,519	5,250	**5,009**
Full-time equivalent	5,679	5,662	5,401	5,134	**4,888**
Average age	43.0	43.3	44.0	43.7	**44.6**
Full time	91%	91%	91%	91%	**90%**
Part time	9%	9%	9%	9%	**10%**
Permanent	98%	97%	95%	89%	**87%**
Fixed term	2%	3%	5%	11%	**13%**
Female staff overall	64%	64%	64%	64%	**65%**
Female all people leaders	55%	57%	57%	58%	**61%**
Female managers	46%	47%	50%	47%	**50%**
Male staff overall	36%	36%	36%	36%	**35%**
Male all people leaders	45%	43%	43%	42%	**39%**
Male managers	54%	53%	50%	53%	**50%**
New hires	737	558	400	604	**425**
Exits	675	658	670	938	**693**
Unplanned turnover	10.0%	10.0%	10.7%	12.1%	**9.1%**
Total turnover	10.6%	10.5%	11.1%	15.4%	**9.6%**
Average length of service (years)	11.3	11.5	12.8	13.6	**14.5**

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

We provide Equal Employment Opportunities for everyone

We are committed to treating our people fairly and properly in all aspects of their employment, including valuing diversity and providing equal employment opportunities.

Our Equal Employment Opportunities (EEO) policy and practices ensure equality in the workplace. We work to remove barriers so 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

We are committed to eliminating the gender pay gap—the difference between women's and men's salaries. In early 2019, we refreshed our Gender Pay Gap Action Plan and engaged with unions on this.

Between 30 June 2016 and 30 June 2019, our average gender pay gap decreased from 20.3% to 18.0%.

When we compare salaries of men and women in the same roles, most roles have a 0% pay gap. Our gender pay gap is largely explained by there being fewer women in higher-paid roles and more women in lower-paid roles. Women make up 46% of the people who earn over $100,000, while they make up 69% of the people who earn under $100,000.

Representation of women in management and senior management has increased in recent years. Management increased from 51% to 52% and senior management from 22% to 40% between June 2016 and June 2019. We will continue to build on this success through implementing the Gender Pay Gap Action Plan.

We are achieving our goal of having a minimum of 40% women and 40% men in senior leadership roles.

TABLE 6: PERCENTAGE OF WOMEN IN LEADERSHIP ROLES

Financial year	Team leader	Management	Senior management
2018–19	68%	52%	40%
2017–18	66%	51%	31%
2016–17	60%	53%	30%
2015–16	63%	51%	22%

The data includes fixed-term and permanent employees.

We are supporting gender balance in tax administrations globally

Our Commissioner Naomi Ferguson is leading a Gender Balance Network, which was launched at the Organisation for Economic Co-operation and Development Forum on Tax Administration in March 2019.

The aim of the network is to create positive change and improve the gender balance in leadership positions across tax administrations. They will also provide a support network to look at how to help people through areas such as mentoring and short-term secondments between administrations.

Keeping our people healthy, safe and well

We believe our workplace and culture should promote safe work practices and encourage wellbeing. We encourage everyone to show manaakitanga (care and respect) and kaitiakitanga (guardianship), and we integrate health and safety into all of our work activities.

We focus on keeping our people safe at our sites and during visits in the community

This year, we upgraded the security aspects of front-of-house service areas in six of our sites and set up self-reporting for contractors doing physical works.

We have a number of activities planned or underway in 2019 to improve how we manage risks to our people, including:

- roll out of 'lone worker duress' alarms
- training for people leaders to help them to create great working environments and support those experiencing mental health challenges
- training for all our people to help them understand mental health and mental illness
- risk assessment for people who often drive our vehicles
- working with areas going through change to encourage them to design roles for healthy and satisfying work.

Empowering our Health and Safety Representatives

We continued to invest in training and resources to help our Health and Safety Representatives support our leaders to manage health and safety risks to their people.

This year, around 80 Health and Safety Representatives completed external training, and 30 attended the All-of-Government Health and Safety Representatives conference. We introduced updated tools to help our representatives ask the right questions when they are talking with our people about risk.

Raising the profile of health, safety and wellbeing

We have continued to promote the importance of health, safety and wellbeing among our people:

- Our National Health and Safety Governance Committee is chaired by our Chief People Officer and includes representatives from our senior management and unions.
- We ran awareness campaigns and training to foster a culture where our people know how to manage risks to themselves and others.

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

TABLE 7: HEALTH AND SAFETY REPORTS 2018–19

Type	2017–18	2018–19
Incident reports related to our key risks	139	179
Discomfort reports	481	482
Events with superficial/no injuries	862	696
Work-related Accident Compensation Corporation (ACC) claims	61	41
Incidents requiring notification to WorkSafe New Zealand under the Health and Safety at Work Act 2015	1	1
Other reports	401	375
Total reports during reporting period	**1,945**	**1,774**

The year ahead

Ko te tau kei te heke mai

- We will launch new learning and development guides
- We will review our approach to Kōrero Mai, our engagement survey
- We will continue to invest in our people's capability and technical skills and training ahead of Release 4
- We will progress our Diversity and Inclusion Implementation Plan
- We will continue to address the gender pay gap through our Gender Pay Gap Action Plan
- We will further define our Māhutonga work programme
- We will complete our review of our Māori Language Plan
- We will be negotiating collective agreements with each of our three unions.

Our governance and management
Ko ā mātou mahi mana whakahaere, whakahaere mahi hoki

We have a well-established governance system that guides us as we work to achieve our outcomes. Our policies and frameworks ensure we act appropriately and meet public expectations. Independent groups regularly review how we are doing, and we use this advice to improve. Effective risk management ensures our operations are adaptive and resilient.

We also ensure our technology systems are current and that our property portfolio provides the work spaces and facilities we need. We focus on getting the best value possible from goods and services.

At a glance
Hei rarapa noa

Our governance
structure
continues to serve us well

Independent reviews of our transformation and performance confirm our organisation is
well-managed

We completed
three significant property projects
with new sites in Kirikiriroa Hamilton, Ahuriri Napier and Ngāmotu New Plymouth

We reduced our
general waste by 31%

We established a
social procurement strategy
to increase our focus on
achieving better social outcomes
when we buy goods and services

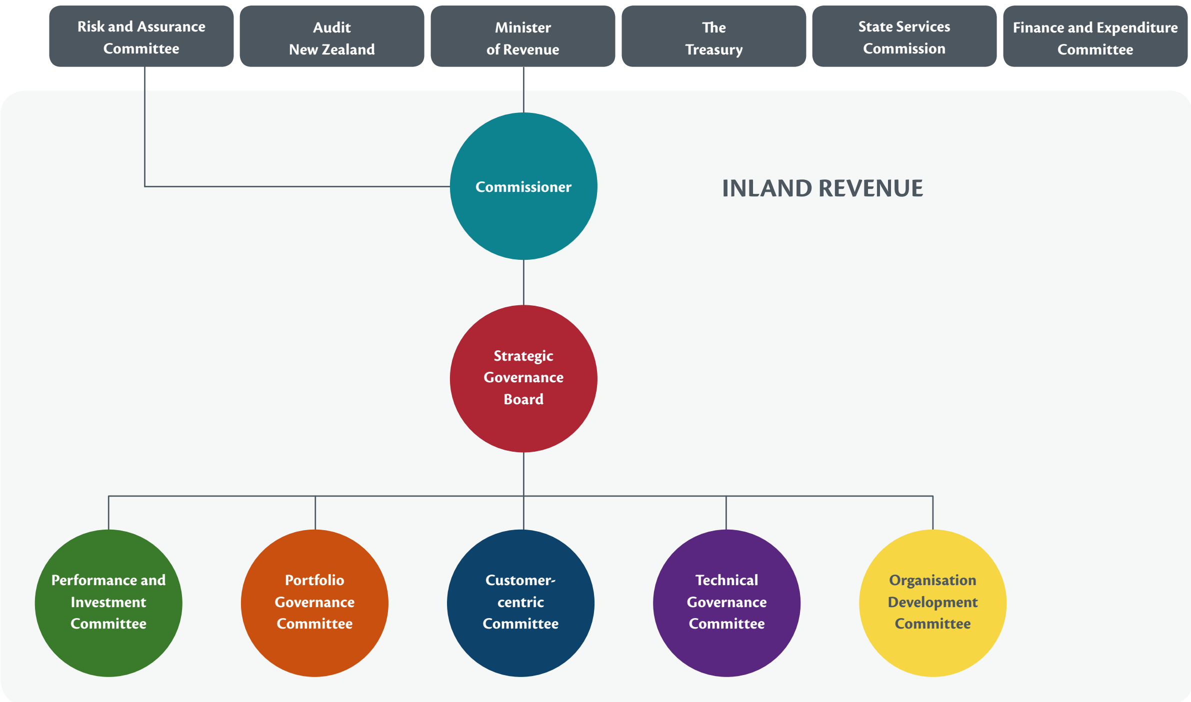
Our governance system guides us

Our governance system ensures we are doing the right things in the right way to achieve our strategic direction, manage risks and meet Government expectations.

The system is made up of the Strategic Governance Board and five committees. The Board is chaired by the Commissioner and the members are our Executive Leadership Team. Membership of the other committees is based on having the right expertise from across the organisation. It is a mix of executive leaders, senior leaders and external advisors.

We regularly review our governance structure to make sure it is fit for purpose.

FIGURE 7: OUR GOVERNANCE AND ACCOUNTABILITY STRUCTURE



The Strategic Governance Board provides our overall strategic direction and approach to risk management. The Board ensures all the elements of our transformation come together and decides where we need to speed up or slow down.

The Performance and Investment Committee governs our organisational health and performance and investment decisions. The Committee's role is to understand and balance investment choices and trade-offs, make sure we meet investment objectives, govern benefits realisation, and make sure organisational performance is in line with our strategic direction.

The Portfolio Governance Committee governs the projects and programmes in our investment portfolio, ensuring they deliver as intended and stay within parameters set by the Performance and Investment Committee, including scope, schedule and budget. Significant issues are escalated to the Performance and Investment Committee.

The Customer-centric Committee helps to shape the way we think about putting the customer at the centre of everything we do and how we can help them to get it right from the start.

The Technical Governance Committee ensures there is effective coordination and management of our legal/technical business and significant tax technical issues.

The Organisation Development Committee governs the development of our organisation and workforce, ensuring there is alignment with our overall strategic direction.

Governing our transformation

Our transformation is large, complex and challenging. Our operating environment is dynamic. Given the broad impact of Inland Revenue's transformation, oversight of it is integrated into the wider governance system shown in figure 7 on page 61. This means decisions made within the transformation programme are right for our customers and New Zealand's revenue system.

The Portfolio Governance Committee, along with the duties described above, has governance oversight of the programme driving the transformation changes. It ensures milestones are delivered and monitors the general health of programme finances, schedule and quality.

The Commissioner, in her role as Senior Responsible Owner of the programme, ensures the programme meets its investment objectives and is reviewed at appropriate stages.

The Deputy Commissioner Transformation is responsible for ensuring transformation is introduced successfully, and that robust change management processes are in place to meet customers' and stakeholders' needs.

Regular reviews provide assurance that our transformation is well managed and governed

Regular independent reviews are essential to our governance and provide us with useful information and comfort that we are on track.

The assurance management plan for the transformation programme incorporates Independent Quality Assurance (IQA), Technical Quality Assurance (TQA) and Gateway reviews.

KPMG completed two IQA and TQA reviews this year, which assessed our governance and management practices for the programme. KMPG also reviewed our progress towards goals. In its December 2018 review, KPMG noted 'overall the Programme is consistently among the best performing in our team's global IQA experience'.

Two Gateway reviews have been done, focusing on our readiness for Release 3 of our transformation. Gateway is an independent and confidential peer review process facilitated by the Treasury. The review team noted in its March 2019 review that '…the Inland Revenue Business Transformation Programme continues to be strongly led and is firmly embraced by the leadership as the new normal'.

The Ministers of Finance and Revenue met with the independent reviewers and were briefed on the results. Ministers receive regular monthly briefings on the transformation programme, and progress is reported to Cabinet twice during the year.

More information on these reviews is available on our website: www.ird.govt.nz

Independent assurance

Our Risk and Assurance Committee provides 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 as well as 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 met five times in 2018–19.

The members are:

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

Michael Ahie | Michael is an experienced director and senior executive with diverse domestic and international experience in the private and public sectors. Michael has a strong background in strategic planning and change management.

Sandi Beatie QSO | Sandi brings wide experience as an executive to governance roles. Before retiring in 2015, she was the statutory Deputy State Services Commissioner. Sandi has undertaken a number of Performance Improvement Framework reviews within the public sector.

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

Melanie Templeton | Melanie has been an Executive Director with agtech company Regen, Group Executive for Rabobank Group and General Manager for RaboDirect New Zealand and Australia. She is an independent director working in the technology, data products and financial services sectors.

Our performance and finances have external review and regulation

We continue to manage our assets and investments well

Treasury leads the Investor Confidence Rating (ICR) process. The rating provides an indication of the level of confidence that investors such as Cabinet and Ministers can have in an agency's ability to manage investments and assets.

Following the A rating we received in 2016, we were assessed for a second time in 2018–19 and have retained the A rating. Treasury acknowledges that maintaining an A rating is difficult and demonstrates our leadership in investment management among investment-intensive agencies.

Our annual reporting and performance is audited and reviewed

In keeping with the Public Finance Act 1989, the financial statements and performance information in our Annual Report are audited by the Office of the Auditor-General or an auditor acting on their behalf, in our case typically Audit New Zealand.

In June 2018, the Finance and Expenditure Committee reviewed and accepted our planned spending and goals for the 2018–19 financial year. In February 2019, the Committee reviewed our performance for 2017–18.

The outcomes of these hearings are published on the Parliament website: https://www.parliament.nz

We manage risks and keep our business running

Risk management is an integral part of our governance and management

We aim for a risk management approach that integrates strategic planning, performance and risk management and assurance practices. This approach relies on the support and participation of all of our people. Each business unit is responsible for identifying, monitoring and mitigating risks in their area.

We keep our risk management focused on our objectives, and with our values in mind, which helps ensure:

> risk management and assurance efforts are effective and efficient

> we can achieve our objectives while preserving our values such as being customer-centric and maintaining trust and integrity.

We have strengthened our risk management capability

While we have strong risk management practices in place, there is more to do to ensure we keep pace with our increasingly complex and volatile environment.

This year, we progressed a refresh of our risk management approach across Inland Revenue. Our aim is to improve the visibility of key risks across Inland Revenue, clarify ownership and strengthen the accountability for remediation or mitigation plans.

Our Internal Assurance and Advice team provides independent assurance to the Commissioner and the Risk and Assurance Committee that our risks are being managed effectively. They reviewed a number of areas this year, including how well we are monitoring and providing support for our people's mental health or meeting the Privacy Commissioner's expectations for information matching and sharing.

The Internal Assurance and Advice team won the Team Excellence Award at the 2018 Institute of Internal Auditors New Zealand Awards.

Enterprise risks

Our seven enterprise risks have assigned risk stewards, all members of the Executive Leadership Team. These risks are reviewed on an ongoing basis including reassessing their overall triggers, consequences and ratings.

TABLE 8: OUR SEVEN ENTERPRISE RISKS

Enterprise risk
Failure to meet expectations of Government, delivering: core business, Government Priorities, business transformation
Failure to provide appropriate stewardship of the tax and social policy system
The levels of voluntary compliance are reduced to the point of having a material impact on revenue collection for the Crown
Unexpected negative customer reaction to the transformation changes
Unable to ensure continuity of business services
Insufficient people capability and capacity to deliver outcomes
Inland Revenue's approach to data and information governance is sub-optimal

Preserving our values of integrity, honesty and professionalism is essential

We aim to ensure issues and complaints relating to our integrity and conduct are properly examined and resolved through independent and fair processes. Minimising the risk of any coverup or collusion is critical so New Zealanders can remain confident in our management of wrongdoing in the workplace.

This year, we reviewed our fraud and corruption control policy and guidelines to make sure they keep pace with transformation and changing business practices. We also enhanced how we audit high-risk fraud areas such as discretionary expenditure.

We take our customers' privacy seriously

We are committed to looking after customers' information. However, occasionally mistakes happen that can result in privacy breaches.

This year, 112 privacy breaches were reported, compared to 160 in 2017–18. Most breaches happen when emails or letters are sent to the wrong customer with information about another person. None of the breaches this year resulted in harm to any individual.

When things do go wrong, our approach is to fix the issue and learn from it. Having an organisational culture that is focused on being able to work through issues, and is able to adapt and improve, is key to this.

Keeping information safe is important

We hold a large amount of information and it is important we keep it secure. We continue to improve our technology and processes to safeguard the integrity of information systems and lift the security awareness culture within Inland Revenue.
Improvements this year included:

- increasing our ability to detect security events
- continued improvement of our incident response processes to meet good practice
- new security tools to improve our capability in the prevention of vulnerabilities to our systems
- more than 20 compliance reviews of our cybersecurity, including the compliance of the third stage in our transformation changes.

Independent review of survey questions

As part of a research project into the key factors that influenced New Zealanders' trust in Inland Revenue and the tax system, we published an online survey containing a question about the political leanings of respondents. We accepted that the question was inappropriate.

We commissioned an independent review of the survey by Martin Jenkins. It found no evidence of political motivation at any point. Martin Jenkins also found that we had all the policies and procedures related to ethics, internal control, risk management and project management that they expected to see. However, on this occasion the application of the checks and balances to the process did not happen in the way it should.

We accepted all of the review's recommendations and are implementing them.

Effective business continuity and emergency response is in place

To meet our commitments to the Government and our customers, we must be able to maintain core services during disruptive events such as earthquakes or technology outages. To achieve this, we follow international best practice in planning for, and practising our responses to, business disruptions.

In June 2019, we evacuated our 220 Inland Revenue people at our Te Papaioea Palmerston North site after investigations found the building was earthquake prone. Our people worked from different locations, including sharing offices with the Ministry of Social Development.

Before the evacuation, work had begun on a new building. We will share it with Palmerston North City Council and Horizons Regional Council. We plan to move in September 2019.

Artist impression of our new premises in Te Papaioea Palmerston North

Our systems and assets are well managed

We have completed the third of five major releases of new systems and processes under our transformation programme. Our infrastructure has been significantly strengthened through our investment in two new data centres and a leading-edge security and identity access management system, among other improvements.

We are simplifying our technology environment by retiring historical applications, databases and intranet sites and archiving old files.

This year, we completed the move from our old workplace technology and management arrangements to a new environment that is less complex, significantly more secure, and which lets our people work more flexibly.

We are managing key technology risks as we transform

While our new infrastructure has been implemented, the old infrastructure is still in place and supports some services. Running multiple systems in parallel adds complexity. We will continue to manage this until our transformation is complete.

Our secure online service for customers, myIR, is now running in START. As outlined on page 32, some customers experienced issues with myIR after the go-live for Release 3. However, these were primarily teething issues that were quickly resolved. Overall, myIR has coped well with the significantly increased load of customer logins since go-live in April.

We tested our ability to work in a disaster

Inland Revenue has two data centres holding all customer records and online channel information. When customer information is updated in the primary data centre in Tāmaki Makaurau Auckland, it is also updated in realtime in our backup centre in Te Whanganui-a-Tara Wellington. Two identical data centres mean extra security and greater resilience if a disaster happens.

To check the resilience of our base technology and the START system, we did a full disaster recovery test in November 2018. This test involved switching to the backup data centre in Te Whanganui-a-Tara Wellington and operating from there for a week before switching back to the primary centre in Tāmaki Makaurau Auckland. We also moved our systems between data centres as part of this test. The switchovers went well and customers were not affected.

Ātea is our new enterprise support services system

Ātea is a set of tools that will make it easier for us to do our day-to-day administrative work. It covers our support systems and business processes for human resources, procurement, finance and asset management. The long-term goal is to help simplify, streamline and—in some cases—automate a number of internal business processes.

We moved our budgeting and forecasting into Ātea in February 2019 and are now focused on human resources, asset management, finance and procurement.

We are working with other government agencies to determine how the underlying business process model for Ātea can be shared across government.

Ātea will also help us to meet the requirement that we include New Zealand Business Numbers (NZBN) in our financial systems. NZBN is a globally unique identifier available to all New Zealand businesses.

Managing our property portfolio

By 2021, we will be a smaller organisation. We are building greater flexibility into our property leases so that we can give up space we do not need. We are also looking for opportunities to sublease or co-locate with other agencies to ensure efficiency within the Crown's property portfolio.

Working with other government agencies on office accommodation

Our accommodation decisions take into account the Government Office Accommodation Programme set up in 2018. The programme focuses on regional growth, enabling co-location and collaboration, improving workplaces and providing value to customers.

The programme is overseen by the Government Property Group within the Ministry of Business, Innovation and Employment, and is governed by a group of public sector chief executives, including Inland Revenue's Commissioner.

We already co-locate with other agencies at several sites across New Zealand. Under the programme, we are looking for more opportunities to co-locate or sub-lease properties.

Significant property projects in 2018-19

We completed three significant property projects this year.

In October 2018, we opened the new Home Straight building in Te Rapa, Kirikiriroa Hamilton.

In June 2017, we evacuated 75 staff from our building in Ahuriri Napier when we were advised it was earthquake prone. Our people worked from home and then moved into temporary accommodation while we completed the fit-out of the new office. We moved into the new building in late October 2018.

The expiry of our lease in Ngāmotu New Plymouth provided an opportunity to refresh the working environment. We moved into our new building in June 2019.

Kirikiriroa Hamilton

Ahuriri Napier

Our taonga, Te Kai Ārahi, was reawakened by iwi representatives and welcomed to its new home in Ngāmotu New Plymouth in June 2019.

Bringing tikanga Māori into managing our spaces

This year, we worked with local iwi and hapū on some of the design elements of our new buildings and to ensure we observed appropriate tikanga at their opening ceremonies. This included providing blessings for the removal and reinstatement of our taonga and opening ceremonies.

The new building in Kirikiriroa Hamilton was blessed by local iwi, Ngāti Māhanga. Kaumātua from the Ngāti Te Whiti hapū of Te Āti Awa and Taranaki whānui opened the new building in Ngāmotu New Plymouth. Kaumātua from Ngāti Kahungunu blessed the new building in Ahuriri Napier.

Involving local iwi in ceremonial aspects adds value to these events and builds important relationships with our community.

We are working to incorporate te reo Māori and tikanga Māori into our work and organisational culture. It is part of Māhutonga, our approach to weaving te Tiriti o Waitangi and Māori perspectives, processes and practices into everything we do, including our property work programme.

More detail on Māhutonga is outlined on page 54.

We are focused on environmental sustainability

Improving energy performance and reducing waste

We apply the Government Property Group's principles, standards and guidelines for office design, which include options for managing and reducing energy consumption. We also leverage modern standards to reduce energy to heat, light and operate our buildings.

In 2018-19, our energy consumption dropped by 10% compared to the previous year. We saved more than $110,000 in annual energy costs from moving into more energy efficient buildings in Kirikiriroa Hamilton, Tauranga and Ahuriri Napier. We also saved approximately $58,000 through changing our fixed monthly charges and other savings initiatives.

Compared to the previous year, we achieved a 47% reduction in the tonnes of recycling waste disposed of and a 31% reduction in the tonnes of general waste. We will be targeting initiatives to further reduce waste through an improved recycling programme, which includes rolling out user education and awareness to increase the level of recycling and providing a better range of bins.

Reducing print and looking at alternatives to air travel

We provide laptops and tablets to many of our people, reducing the need to print. Printing levels reduced by 25% in 2018–19, saving approximately $427,000 in paper and photocopier costs. This contributes to the Government priority to build a clean, sustainable, low-carbon economy.

As an alternative to air travel, we are looking at how we can better use our workplace tools and technology, including Office 365, to meet and work together virtually. We are rolling out a Working Smarter initiative to make better use of these tools.

Our procurement approach

We focus on getting better value for money by looking for improvements and efficiencies in our procurement processes and market engagement.

We have an established supplier management framework for our key transformation partners to strengthen our relationships, monitor performance and encourage continuous improvement. We are part of more than 20 All-of-Government, syndicated and common capability contract arrangements.

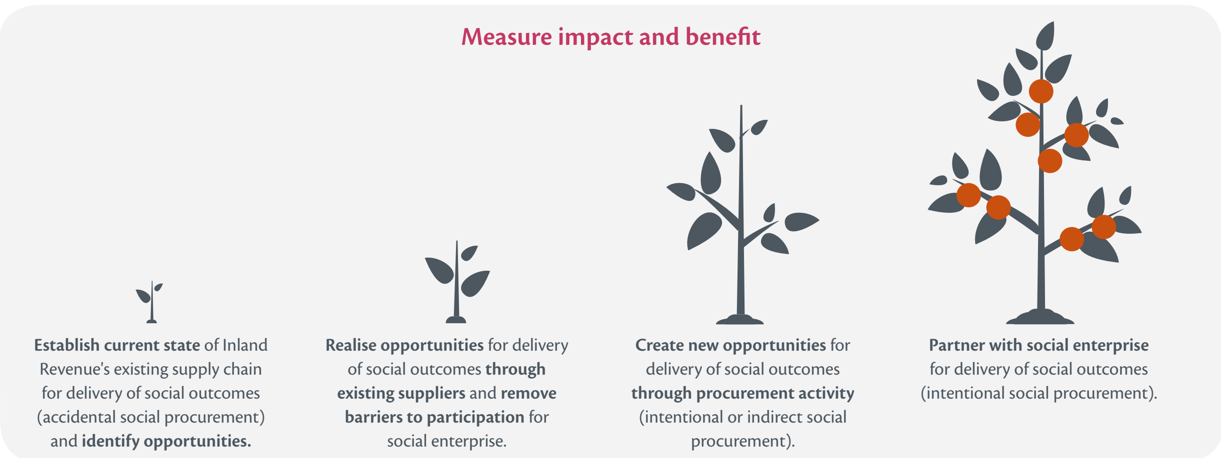
This year, we assessed our capability using the Government Procurement Capability Index tool, with moderation from an outside reviewer. Our overall score is ahead of the generally expected capability level. This evaluation was part of the Investor Confidence Rating assessment completed in 2018-19 (outlined on page 84).

Audit New Zealand followed up on previous recommendations it has made on our procurement practices and confirmed that we have implemented some changes to improve compliance and effectiveness. These changes include increasing our people's awareness of our procurement policy and improving record-keeping.

Buying for better outcomes

This year we established our *Buying for Better Outcomes* social procurement strategy. The strategy aligns with the changes in the Government Procurement Rules that followed the Government's 'Broader Outcomes' policy shift for procurement.

FIGURE 8: OUR ROADMAP FOR BUYING BETTER OUTCOMES



The strategy aims to get better public value by focusing our suppliers—existing and future—on delivering social, environmental and cultural outcomes at the same time as they supply us with goods and services. Under the strategy, we will be:

- structuring our future procurement to encourage and enable social enterprises to take part
- highlighting the social outcomes already being delivered via our partners, such as sustainable employment opportunities or buy-one-give-one contributions.

The year ahead
Ko te tau kei te heke mai

- We will continue to evolve our governance and risk management so that it stays fit for purpose
- Release 2 of Ātea, our new enterprise support services system, will be implemented
- We will roll out new software that helps us continue to improve our business continuity and disaster recovery planning and management
- We will move into new premises in Te Papaioea Palmerston North and finish security upgrades of our front-of-house facilities at two other sites
- We will bring in new performance measures to monitor printing, and emissions from air travel, vehicles and energy use in our premises
- We will look to incorporate broader outcomes such as sustainability into our new contracts and key areas covered by existing contracts.

How we performed
Ko ā mātou whakatutukinga

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

We track the performance of our outcome and impact measures over time. These measures do not have targets. We include commentary where appropriate to help explain our results. In most cases our performance in 2018–19 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.

Our measures are either percentages, values or case studies. Our case studies allow us to provide background and additional context around a result. We evaluate our case study measures by comparing results to previous years where available, and by highlighting the differences we made.

Our financial and asset performance and organisational health measures show how effectively and efficiently we managed our resources to deliver our services.

Our performance in 2018–19

Our outcome performance has remained steady in a year of significant change. We continued to provide customers with timely refunds and social policy payments. Our collaboration with other government agencies helped to make it easier for customers to apply for Best Start payments and Working for Families Tax Credits.

Results from our impact measures show us that our customers are using our new services, responding to our communications, and are increasingly using our online services. The measures also show that while our customers have adapted to the changes from Release 3, they are still getting used to our new systems and processes.

We achieved 36 out of 48 of our output performance targets, exceeding some targets in core processing activities, debt management and returns and investigations, while successfully delivering Release 3 of our transformation.

Working with external partners allowed us to respond quickly to ensure research and development tax credits could be claimed by businesses from 1 April 2019.

We maintained our 'A' Investor Confidence Rating, demonstrating our leadership in investment management among investment-intensive agencies.

Working collaboratively ensured we had the right people and skills in the right place at the right time to deliver during a year in which the third major release of changes to the revenue system affected all taxpaying New Zealanders.

We managed our finances well during 2018–19, finishing the year within budget.

We continue to manage our assets, achieving 6 out of 10 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 2019 and the forecast financial statements reflect the financial position and operations of the department for the year ending 30 June 2020.

Naomi Ferguson

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue
30 September 2019

Countersigned by:

L Ariell

Lara Ariell
Chief Financial Officer
30 September 2019

How we performed against our measures
Ā mātou whakatutukinga ki ngā inenga

Outcome measures

Overall, we performed strongly, remaining steady in a year of significant change

- Revenue assessed was **2.7%** above forecast
- **98.8%** of GST refunds were accurate
- **99.5%** of paid parental leave payments were made to customers on time
- We **worked collaboratively** with other organisations to improve services for New Zealanders

Impact measures

We made a difference in areas that helped us achieve our mission

- **87.8%** of customers feel they know what to do
- **85.9%** of customers are satisfied with our overall accessibility and convenience
- **88.8%** of returns were filed digitally—up from 83.0% last year
- **86.8%** of tax payments were made by customers on time—down from 87.9% last year
- **85.2%** of customers filed returns on time—the same as last year
- Proactively engaging with new child support customers made it easier for them
- We quickly implemented research and development tax credits
- We exchanged financial account information with other jurisdictions for the first time
- **88.1%** of customers have trust and confidence in Inland Revenue
- Our Public Sector Reputation Index score improved to **98**
- Staff engagement is **29%**
  More on this result on page 82
- The gender pay gap at Inland Revenue is **18%**
- We maintained our **'A' Investor Confidence Rating**, demonstrating our leadership in government investment management

Output measures

We achieved 36 out of 48 output performance targets compared to 43 out of 50 last year

36/48 ACHIEVED

Services for Customers	Services to Other Agencies	Policy Advice	Transformation
28/40 ACHIEVED	2/2 ACHIEVED	3/3 ACHIEVED	3/3 ACHIEVED

Key to our measures

- On track
- Off track
- Change is less than 0.5%
- Change is greater than 0.5%

Our outcome measures show what we have achieved

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 to track our performance in delivering our outcomes, which allows us to achieve our mission. Our three outcomes and the measures for each are discussed below.

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

The tax revenue we collect is used by the government to help pay for the public services, like education, roads and healthcare, that all New Zealanders benefit from.
We have two measures for this outcome.

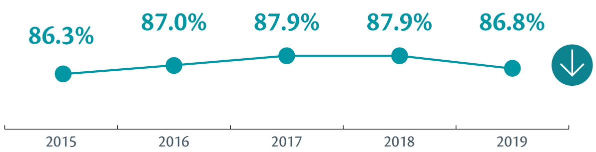
Percentage of tax payments made by customers on time

This measure relates to timely and cooperative behaviour of our customers, resulting in tax obligations being paid. This in turn contributes to revenue being collected to fund government programmes.

The percentage of tax payments for income tax, PAYE and GST made by customers in full and on time has decreased slightly. We expect performance to return to previous levels next year as customers become familiar with our new systems and processes. This is also an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 85%.

86.8%

of tax payments were made by customers in full on time

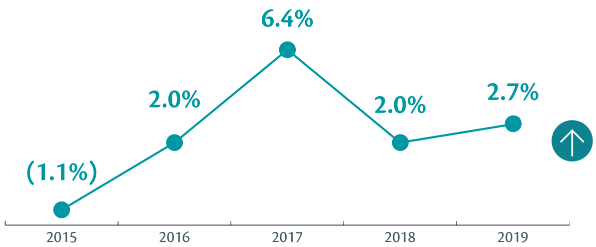


Total revenue assessed and forecast

This is the amount of revenue assessed compared with the total revenue the Government expects to receive. Higher than forecast tax revenue within the individuals and companies tax categories helped to contribute to the increase.
Refer to pages 146–147 in our financial schedules for a breakdown of total revenue.

2.7% more

revenue was assessed compared to forecast



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

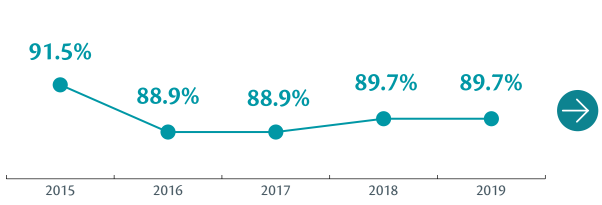
We are responsible for making sure people receive their payments in a timely manner so they can participate in society. We have eight measures for this outcome.

Percentage of tax refunds paid to customers on time

Changes made through Release 3 in April 2019 resulted in us automatically issuing tax refunds totalling $392 million to more than 868,000 New Zealanders as at 30 June 2019.

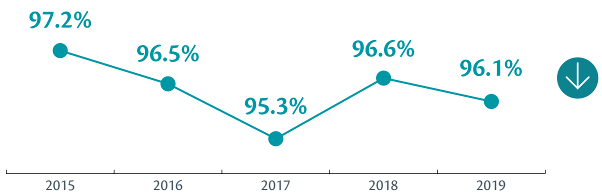
89.7%

of income tax refunds were paid to customers on time



96.1%

of GST refunds were paid to customers on time



This is also an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 95%.

Percentage of tax refunds which are accurate

We have an indicator for the accuracy of GST refunds, and we are developing an indicator for the accuracy of income tax refunds. We will continue work to develop accuracy indicators for social policy payments, using information from our new system starting from April 2019.

98.8%

*of GST refunds had no amendment after the initial refund**

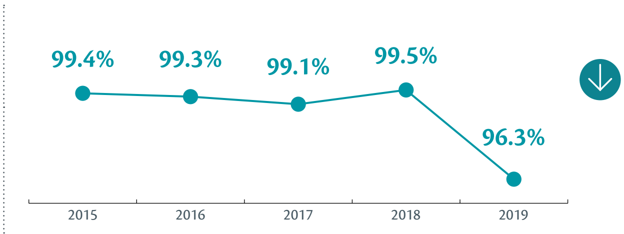
The result is for the period 1 April 2018 to 31 March 2019.

* Result for 1 April 2017 to 31 March 2018 was 98.1%.

Percentage of social policy payments made to customers on time

96.3%

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

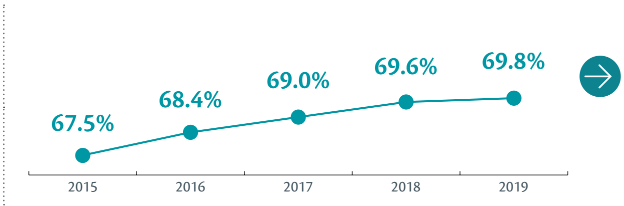


This indicator is an output measure within our *Services for Customers* multi-category appropriation and we have exceeded the target of 95%.

Preparing for Release 3 changes meant we prioritised our work to put us in the best position before the changes in April, which has impacted this year's result.

69.8%

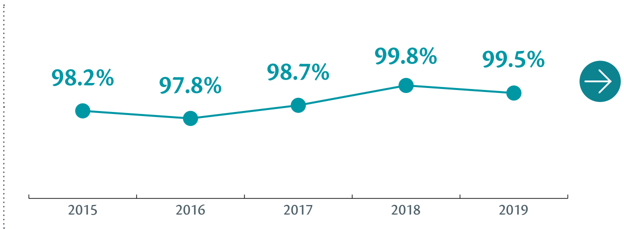
of child support assessments were paid on time



With the introduction of payday filing we now have more information available to help support customers to make payments on time.

99.5%

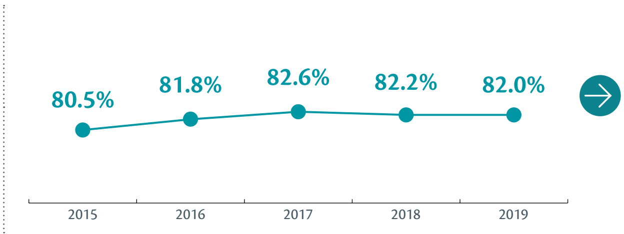
of paid parental leave payments were made to customers on time



This is also an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 97%.

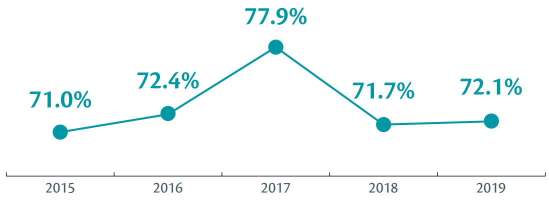
Percentage of customers who perceive that Inland Revenue does enough to inform them of their obligations and entitlements

82.0%



Percentage of customers who believe Inland Revenue takes appropriate action to ensure New Zealanders receive their social support entitlements

72.1%



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

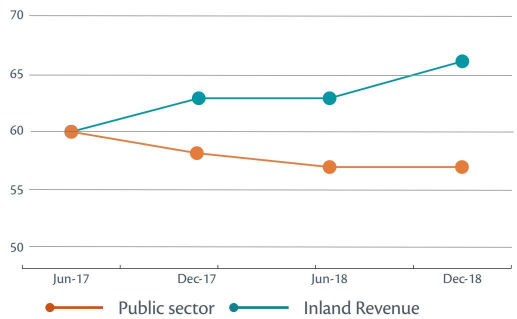
This outcome has two measures. The first is how customers view their experience when dealing with Inland Revenue and the second is how we worked with others to make applying for Best Start easier.

Business customers gain value from easy and seamless dealings with Government

66

Customer experience index score

Better for Business



The Better for Business programme runs ongoing research for 10 agencies including Inland Revenue, giving insights into how we can improve our dealings with business. Our customer experience index score of 66 in December 2018 was an increase from 63 in December 2017. The overall score for the public sector is 57.

The customer experience index score measures how businesses rate their experience of dealing with government services.

Results from working with others to deliver services for New Zealanders

Best Start is a weekly payment of $60 per child, available to eligible parents with a baby due on or after 1 July 2018, no matter what their household income. Over $52 million has been paid to New Zealand families supporting over 47,000 children. Approximately 91% of customers are applying for Best Start through the SmartStart site, managed by the Department of Internal Affairs (DIA).

We carried out a case study on the implementation of Best Start. Initially, around 17% of eligible customers were not applying for Best Start. A survey was sent to these customers to understand their reasons for not applying. The survey found that the majority were eligible for the payment, but they either thought their income was too high or did not understand the information provided to them and were concerned it may affect their other entitlements or benefits.

We worked with DIA to improve the content on the SmartStart website to make it clear that Best Start is a universal payment in the first year, and to simplify the application form wording, making it easier for people to apply.

We have seen the number of Working for Families Tax Credit registrations more than double as more customers applied for the Best Start payment.

Our impact measures show the difference we have made

Our impact statements outline the difference we want to make to help achieve our mission. Our impact measures help us to understand our performance against these impacts. Making a difference in these areas helps us achieve our mission.

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.

We have been supporting our customers to help them understand what the changes from Release 3 mean for them. Customers are using our new services, are responding to our communications and are increasingly using our online services. While our customers have adapted to these changes, they are still getting used to our new systems and processes.

We aim to support our customers so they know what to do, find it easy and do what they need to. Our performance for each impact statement is discussed below.

Customers know what to do

We report on two measures for this impact.

Percentage of customers who feel that they know what to do

87.8%

of customers feel they know what to do

Results of campaigns, events and new products designed to improve customer awareness

Helping customers understand payday filing

Payday filing became mandatory for businesses from April 2019. We have been talking to our customers about the changes and what they need to do. As a result of our communications, by May 2019, 92% of businesses were aware of the changes we were making. Approximately 180,000 employers have filed 1.7 million payday returns since 1 April 2019. By 30 June 2019 around 90% of employers had filed a payday return.

In February, we restarted our communication campaign to encourage individuals to find out what the changes in Release 3 meant for them. This was a continuation of the Changing for You campaign activity which began in November 2018. Over the course of the campaign, our Changing for You website had over 1.77 million visits, and customers updated over 500,000 bank accounts in myIR. A survey in July 2019 found that 84% of people were aware that any tax refunds would be paid automatically.

Customers setting up their own instalment arrangements

We completed a case study to look at the behaviour of customers who have set up instalment arrangements themselves compared to customers who have arrangements set up for them by Inland Revenue.

From February 2017, customers could set up an instalment arrangement themselves online and have it automatically accepted. Customers who set up their own arrangements are more likely to comply with their obligations than customers who have had arrangements set up for them. From implementation to October 2018, 54% of customers who set up an instalment arrangement themselves had paid their debt in full, compared to 27% of customers who had an arrangement set up for them.

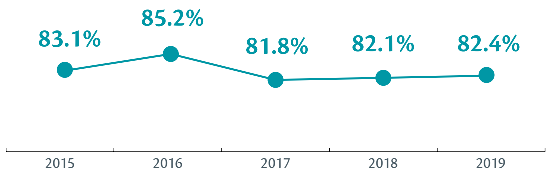
Customers find it easy

We report on four measures for this impact.

Percentage of customers that find it easy to deal with Inland Revenue

82.4%

of customers find it easy to deal with Inland Revenue

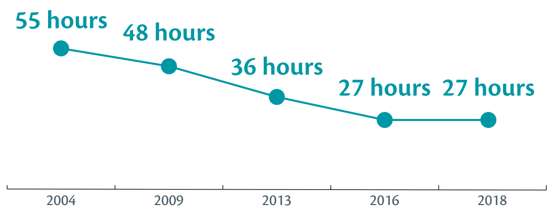


This result has increased in 2018–19 as customers become more familiar with our new online processes.

Customer time spent on tax compliance

27 hours

is the median time small and medium-sized businesses spent on tax compliance activities

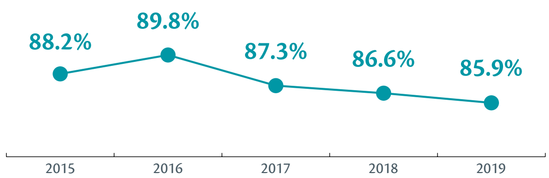


In late 2018 we conducted an online survey of 6,003 small businesses to estimate the time and cost of complying with tax requirements. Reducing compliance costs is one of the benefits of transformation that Inland Revenue has committed to delivering. Small to medium-sized businesses estimated they spent 27 hours each year meeting their tax obligations in 2018. This is unchanged since 2016 and is nine hours fewer than the estimate these businesses made in 2013, which is the baseline for measuring progress against.

Percentage of customers satisfied with Inland Revenue's overall accessibility and convenience

85.9%

of customers were satisfied with our overall accessibility and convenience



Customers' satisfaction with the overall accessibility and convenience remains high. Our customers are adapting to the changes under Release 3 and we have experienced high demand for our services across all channels.

While there have been some issues, overall the new systems and processes are working well. Customers are using the new myIR service. From 26 April to the end of June 2019, there were 16.9 million logins to myIR, an increase of 90% from the same period in 2018, with more than 500,000 on the busiest day.

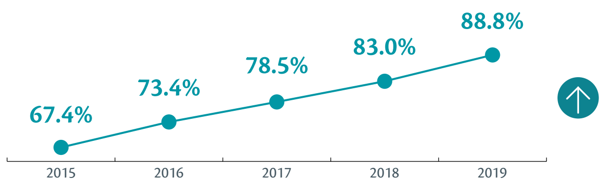
We received 41% of all calls for the year between April and June. To manage the high volume of customer calls, we increased our temporary resources, worked overtime and moved as many people as possible from across our Customer and Compliance Services group to help answer phones.

Digital uptake

In 2018–19 we introduced new digital uptake indicators to track if customers were shifting from paper to completing their activities online. As well as filing and paying online, customers can now set up payment plans and include attachments online.

88.8%

of returns were filed electronically (income tax, GST and employer monthly schedules)



As at 30 June 2019, 108,321 small to medium-sized enterprises and tax agents have used business accounting or payroll software to manage their obligations.

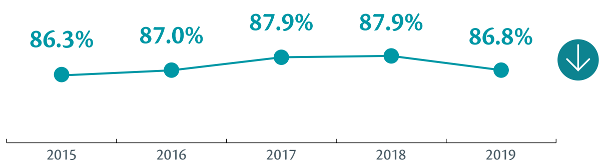
Customers do what they need to

We report on two measures for this impact.

Percentage of tax payments made by customers on time

86.8%

of tax payments were made by customers on time

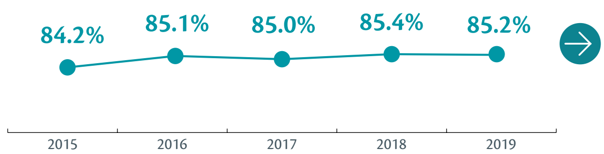


The percentage of tax payments for income tax, PAYE and GST made by customers in full and on time has decreased slightly. We expect performance to return to previous levels next year as customers become familiar with our new systems and processes. This is also an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 85%.

Percentage of customers that provide information on time

85.2%

of customers filed on time



This year's result is similar to last year as we continue to take a proactive approach to help customers file on time. This is also an output measure within our *Services for Customers* multi-category appropriation, and we have met the target of 85%.

We use intelligence and insight to improve customer outcomes and revenue

We report on two measures for this impact.

Improved customer outcomes

Child support proactive engagement pilot

From December 2017, we piloted a proactive approach to help new child support customers during their first four months. Our customer service officers provided information and advice to new child support customers, including follow-up calls before their first payment was due and referrals to other government services. Customers who helped us test this new service reported less effort, less emotional and financial stress and better attitudes towards paying child support. As a result of the pilot, there was a: 16% improvement in payments per assessment; 5% improvement in compliance; and a 40% improvement in our cost-effectiveness.

We have now rolled out this proactive approach to all new child support customers.

Reducing the stress of applying for child support

During the year, we worked with the Ministry of Social Development (MSD) to help make applying for child support easier for MSD customers. We reduced our application form from eight pages to two. This means that parents applying for child support when they apply for a benefit now provide us with less information. Our original form asked for details that we already held through our information sharing agreement with MSD.

Working with MSD, our project team piloted the new two-page form with customers from the Tauranga region. A new scanning process was implemented so that applications no longer need to be posted to us. We also updated the Child Support Administration Match agreement, which allows us to share and validate ad hoc information.

We made the form easier for customers to complete by removing questions that asked for information which was already available. Our processing time has reduced by up to ten minutes. The shortened form will be released nationwide from late July 2019.

Customer maturity score

In 2016, we used the Forrester maturity framework to benchmark the extent to which we have put the customer at the centre of our plans (how customer-centric we were). We reassessed our customer-centric maturity score in 2018. We maintained an overall score of 3 out of 5 ('understood') on the Forrester scale. The Forrester scale for customer-centric maturity ranges from 'ignored' (a score of 1) to 'passionate' (a score of 5). The assessment is based on an internal survey.

While this is the same score as in 2016, we know more about what it means to be customer-centric so our current score is a more accurate reflection of our maturity.

We deliver evidence-based policy that is innovative and responsive to customer needs

We report on two measures for this impact.

Increased policy capability

This year, we used the Policy Maturity Matrix developed by the 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 out of 4.0. We have identified key capabilities that we aspire to have. We will focus on improving:

- engagement with other agencies and stakeholders
- the quality of policy advice with enhanced planning and project management and quality assurance
- policy outcomes and building capability for the future.

Reduction in time and costs to implement policy

Research and Development Tax Credits

In October 2018, the Government announced a research and development tax incentive to encourage businesses to invest in more research and development. Legislation for this was introduced in February 2019 and was enacted on 7 May 2019, with businesses able to claim tax credits from 1 April 2019. Implementation needed to begin before the legislation was passed so that agencies could support potential applicants. We worked in an agile and collaborative way with Callaghan Innovation and the Ministry of Business, Innovation and Employment to achieve the outcomes in the timeframe required.

Implementing the accounting income method

From April 2018, small businesses with a turnover of less than $5 million a year can work out their provisional tax using the accounting income method (AIM). AIM is a method for calculating provisional tax that was introduced in 2017.

We adopted a pragmatic approach to developing and implementing AIM. By working closely with the accounting software providers who develop software for AIM, and by using a variety of communication channels to reach the widest number of people, we were able to implement AIM at a low cost to us. Because this was implemented in START, which is configurable, changes could be made later in the process than has previously been the case.

We work with others to create better results for customers and government

We report on two measures for this impact. Results are presented as case studies to demonstrate the outcomes from information sharing to improve results for customers and government.

Results achieved through information sharing

Since 2014, we have had an approved information sharing agreement (AISA) with New Zealand Police. It allows information to be shared about people or organisations such as companies or trusts. The information shared is used for the prevention, detection, investigation and providing evidence of, serious crimes. Approximately 67% of the information shared relates to individual people and 33% to others.

For the 2019 financial year, information shared from the AISA resulted in 54 prosecutions, 73 ongoing investigations and 21 instances where no offence was found to be committed.

The Gang Intelligence Centre AISA came into effect on 4 January 2019. It enables information and intelligence to be shared to reduce the harm caused by gangs, both to the public and within gang families. We are participating with 11 other agencies.

Results of international collaboration

Automatic Exchange of Information (AEOI) with international tax treaty partners

We have implemented the Common Reporting Standard, completing our first exchanges in 2018. We were one of 85 jurisdictions who exchanged financial account information. We sent financial account information to 52 jurisdictions and received information from 61 jurisdictions.

The jurisdictions exchanging information in 2018 were required to ensure that all high-value and new accounts were reported on. We sent more than 600,000 account reports and received over 700,000 in return.

We expect the number of accounts to increase significantly in 2019 when jurisdictions are required to report on pre-existing accounts. The account information we have received relates mainly to the 2017 calendar year. We are matching it with tax returns received for the 2018 fiscal year and to inform the design of compliance activities during 2019–20.

Following Release 3, information about customers' incomes, whether earned in New Zealand or overseas, is now held in one place. This will enable us to more effectively match the data received through AEOIs with information already held by us about customers.

For more information on how we have contributed towards international capacity building, refer to page 47.

Our integrity measures show how we protect the integrity of the tax and social policy system

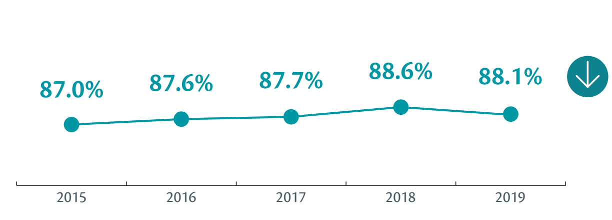
We protect the integrity of the tax and social policy system, and our stakeholders and the public have trust and confidence in us

We report on two measures for integrity.

Percentage of customers that have trust and confidence in us

88.1%

of customers have trust and confidence in Inland Revenue

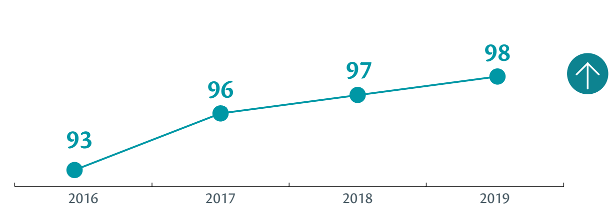


The percentage of customers who have trust and confidence in us continues to stay steady.

Comparative results and benchmarking

Our RepZ score is

98



The Public Sector Reputation Index (RepZ) measures the reputation of public sector organisations across four areas: trust, fairness, social responsibility and leadership. Our latest result of 98 is an increase by one point from the previous year. Our score has consistently improved from 93 in 2016.

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 organisational health measures show how we use our resources to deliver for our customers

Engagement

Staff engagement is

29%

We measure employee engagement and perceptions of our culture through our culture and engagement surveys known as Kōrero Mai. We ran three short surveys this year, which went to a sample of people across the organisation.

We are seeing the high level of change continue to impact on levels of employee engagement. Engagement is not where we want it to be. We know our success depends on our people, and we are committed to improving employee engagement. This includes continuing our focus on:

- listening to, and connecting with, our people
- embedding our performance approach, coaching and recognition
- learning and development and capability uplift
- supporting leaders and teams to work differently.

The next full survey will run in October 2019.

Diversity and inclusion

We use two measures, representation and pay equity, to track our progress for diversity and inclusion at Inland Revenue.

We intended to measure representation by comparing Inland Revenue's ethnicities to the New Zealand working population. In the absence of New Zealand working population statistics we have compared our results against the public sector.

Ethnicities at Inland Revenue

	New Zealand (2013 Census)	**Inland Revenue** (Human Resource Capability Report 2019)	**Public sector** (Human Resource Capability Report 2018)
European	74.0%	63.3%	69.2%
Māori	15.0%	12.3%	16.0%
Asian	12.0%	16.0%	10.1%
Pasifika	7.0%	8.2%	9.2%

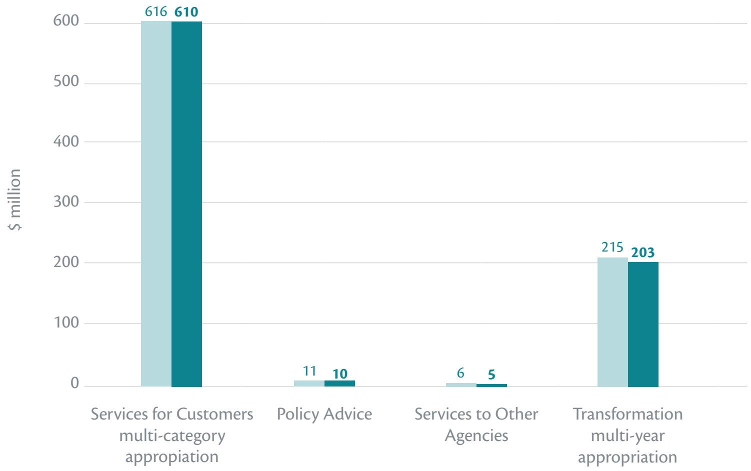
Pay equity: the pay gap for gender at Inland Revenue

Between 30 June 2016 and 30 June 2019, our average gender pay gap decreased from 20.3% to 18.0%. Our gender pay gap is largely explained by there being fewer women in higher-paid roles and more women in lower-paid roles. Women only make up 46% of the people who earn over $100,000, while they make up 69% of the people who earn under $100,000.

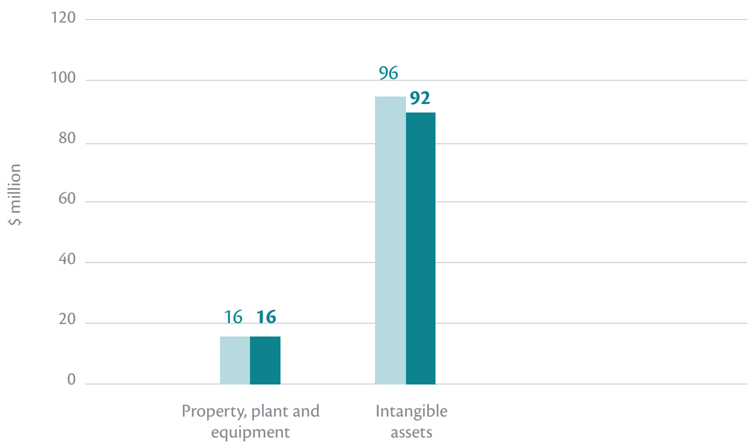
Expenditure incurred against departmental appropriations

Our work is funded through operating appropriations. We finished the 2018–19 year within all appropriations.

2018–19 OPERATING EXPENDITURE AGAINST BUDGET



BREAKDOWN OF 2018–19 CAPITAL EXPENDITURE AGAINST APPROPRIATIONS



Overall Investor Confidence Rating

The 2019 Investor Confidence Rating for Inland Revenue is:

A

The Investor Confidence Rating (ICR) is a three-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.

The assessment looks at several elements, including how we manage assets, projects, long-term investment planning, procurement and change. The results are scored A to E (high to low). The rating provides an indication of the level of confidence that investors (such as Cabinet and Ministers) can have in an agency's ability to manage investments and assets.

Following the A rating we received in 2016, we were assessed for the second time during 2018–19 and have retained the A rating. There were improvements to the assessment process between rounds which made it more rigorous. The Treasury acknowledged that maintaining an A rating is difficult and demonstrates our leadership in investment management amongst investment-intensive agencies.

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 2019* https://treasury.govt.nz/sites/default/files/2018-05/est18-v5-reven.pdf 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 2017–18. Our performance targets for 2019–20 are also included to provide context to the 2018–19 results. We explain measures where we 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 86 to 98 are not subject to audit.

Review of 2018–19 output performance measures and targets

We have two categories of performance measures: primary and supporting. 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.

We review our output measures each year to update or create new measures to reflect changes in our operating environment. In February 2018, the Ministers of Finance and Revenue approved a multi-category appropriation for our customer-centric services. This took effect from 1 July 2018 and reduced the number of departmental appropriations to four.

We have lifted two of our customer satisfaction and perception measures as overarching measures within the *Services for Customers* multi-category appropriation because they reflect our overall performance, not just our performance in any one category.

We retired one debt measure and updated our transformation programme milestones to reflect the agreed key programme milestones for 2018–19. This reduced the overall number of output measures from 50 in 2017–18 to 48 in 2018–19.

Our services for customers

The services we offer customers are covered by four categories within a multi-category appropriation:

- 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 for Customers

28/40
ACHIEVED

The single overarching purpose of this appropriation is to deliver a customer-centric, integrated tax and entitlement service experience for New Zealanders that is agile and intelligence-led.

What we intend to achieve

This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they are entitled to.

How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
87.5%	Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue#	90%	88.0%	90%
	Not achieved—Our customers' satisfaction with the quality of our services has improved from last year, narrowly missing this year's target. We are responding to customer feedback and working with them to improve their experiences while they become more familiar with the new online system and processes.			
79.5%	Percentage of customers who feel Inland Revenue makes it easy for people to get it right#	80%	79.7%	80%
	Not achieved—We increased our 2018–19 target by 5% to challenge ourselves to deliver a high level of customer services and illustrate the benefits of the new system and processes. Our year-end result improved from last year, but we came in just under target.			

What it cost

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
605,547	Revenue from the Crown	590,740	590,740	623,240	598,562
23,423	Other revenue	24,069	25,639	24,419	24,639
628,970	**Total revenue**	**614,809**	**616,379**	**647,659**	**623,201**
591,586	**Total expenses**	**610,097**	**616,379**	**647,659**	**623,201**
37,384	**Net surplus/(deficit)**	**4,712**	**–**	**–**	**–**

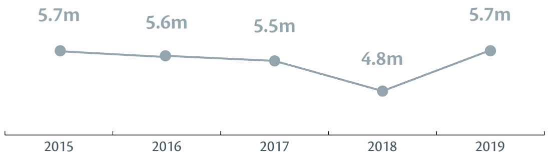
We came within budget for the *Services for Customers* multi-category appropriation. There are four categories within the appropriation and the individual results are shown separately on pages 89, 91, 94 and 95.

Services to Inform the Public About Entitlements and Meeting Obligations

This category covers the provision of 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.

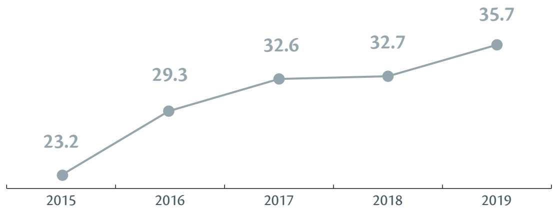
5.7 million

customer service contacts



35.7 million

self-help service contacts



How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
82.2%	Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations#	85%	82.0%	85%
—	*Not achieved—Our performance decreased slightly from last year. We increased our 2018–19 target by 5% to challenge ourselves to deliver a higher level of customer service and illustrate the benefits of the new system and processes.*			
78.6%	Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort#	80%	79.1%	80%
—	*Not achieved—Our customers' perception that resolving issues requires low effort has improved from last year. We continued to work closely with our customers to understand the challenges with the new system and make improvements based on their feedback throughout the year.*			
	Supporting measures			
$39.05	Average cost of a customer-initiated contact	$35.00	$48.47	$35.00
—	*Not achieved—The cost of a customer-initiated contact has increased from last year. Customer-initiated contact includes all inbound calls, paper and email correspondence and visits in person. To help our customers through Release 3 changes, we hired additional staff and worked overtime to ease the transition. We have seen an increase in customers using our self-help channels for their more straightforward transactions and contacting us directly for complex and comprehensive issues. Self-help customer contacts are not included in this measure.* *We are also focused on resolving customers' issues at their first contact with us and being proactive in discussing customers' broader business with them. Because of this, the calls we are receiving take longer and this is contributing to an increase in the average time and cost of each contact.*			
63.5%	Percentage of telephone calls answered within two minutes	75%	57.2%	Measure retired
—	*Not achieved— Call volumes were very high throughout the year and at times we were not able to answer all calls received. We answered fewer calls within two minutes compared to last year. We received a high number of calls from customers between April and June following Release 3.* *We are replacing this measure with the average speed to answer calls in 2019–20.*			
100%	Percentage of all rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation and practicality standards	100%	100%	100%
28	Number of published or finalised public items that give the Commissioner's interpretation of the law	25	28	25
100%	Percentage of adjudication cases completed within three months of receipt	90%	100%	90% within 10 weeks
100%	Percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt	90%	98.9%	90% within 10 weeks
100%	Percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt	90%	100%	90%
88.9%	Percentage of public items (including relevant public consultation) completed within 18 months of allocation	85%	96.4%	85%
96.9%	Percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	100%	90%

Actual performance measured using a sample of the customer population.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2019

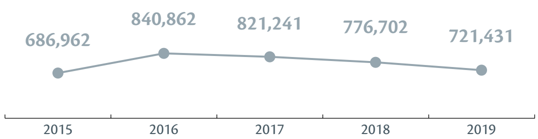
Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
230,971	Revenue from the Crown	228,971	228,971	206,671	231,909
1,107	Other revenue	1,272	1,759	1,278	1,363
232,078	**Total revenue**	**230,243**	**230,730**	**207,949**	**233,272**
222,663	**Total expenses**	**243,182**	**230,730**	**207,949**	**233,272**
9,415	**Net surplus/(deficit)**	**(12,939)**	**–**	**–**	**–**

Services to Process Obligations and Entitlements

This category covers 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.

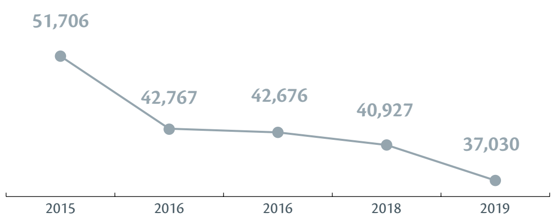
721,431

tax and social policy registrations (excluding child support) were received



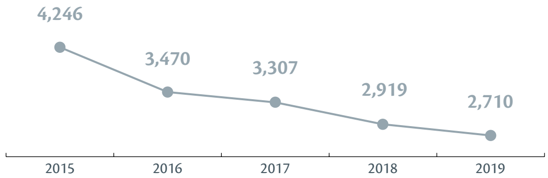
37,030

child support applications were received



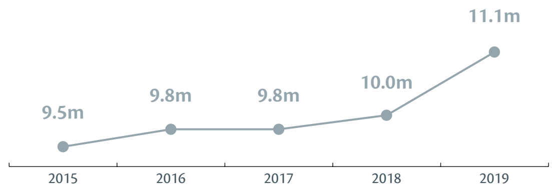
2,710

applications for administrative review of child support assessments were received



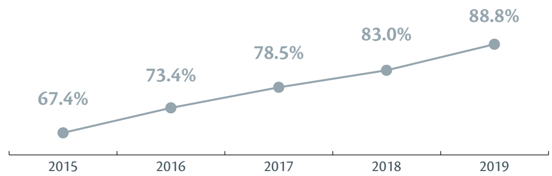
11.1 million

returns were received



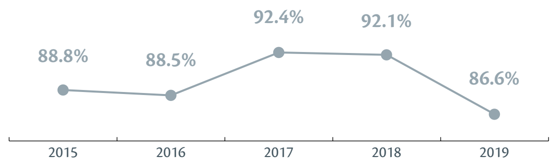
88.8%

of returns were filed electronically



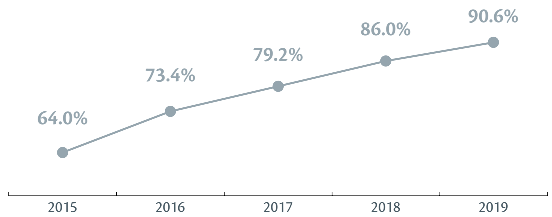
86.6%

of income tax returns were filed electronically



90.6%

of GST returns were filed electronically



How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
93.6%	Percentage of social policy and tax registrations processed within five working days	85%	92.8%	85%
89.7%	Percentage of income tax disbursements issued within six weeks	85%	89.7%	85% within five weeks
96.6%	Percentage of GST disbursements issued within four weeks*	95%	96.1%	95%
	Supporting measures			
92.9%	Percentage of income tax returns finalised within four weeks	90%	96.4%	90% within three weeks
99.6%	Percentage of GST returns finalised within three weeks	95%	99.9%	98%
99.7%	Percentage of employer monthly schedule employee deductions finalised within four weeks	95%	98.8%	95%
$2.17	Average cost of processing income tax returns, GST returns and employer monthly schedules	$4.00	$2.92	$4.00

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	The cost of processing each return is consistent with the past three years. The strong performance reflects the increased number of customers filing their returns online.			
99.6%	Percentage of notices and statements produced without error#	99.8%	N/A	Measure retired
	Not achieved—We are unable to report a full year result. In April, all tax types moved into our new system, START. We now screen our customer notices and statements automatically in START rather than through a manual sample. This means we cannot provide a result for the last three months of the year. We achieved a result of 99.4% up to March 2019.			
92.9%	Percentage of tax credit claim payments made within three weeks	90%	81.7%	90%
	Not achieved—In preparation for Release 3 we stopped processing claim forms from 1 to 26 April. Most of the claims received in the final quarter of this year were paper based, requiring additional manual processing. We increased our temporary workforce and have since entered the backlog of claim forms in START. Despite our additional efforts we did not meet our year-end target.			
99.5%	Percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	96.3%	95%
99.8%	Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	99.5%	97%
89.7%	Percentage of child support administrative review decisions issued within seven weeks	90%	90.1%	90%
78.5%	Percentage of child support assessments issued within two weeks	80%	84.9%	80%

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 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
84,241	Revenue from the Crown	92,337	92,337	94,657	93,795
20,754	Other revenue	20,830	20,993	20,815	20,846
104,995	**Total revenue**	**113,167**	**113,330**	**115,472**	**114,641**
97,134	**Total expenses**	**112,951**	**113,330**	**115,472**	**114,641**
7,861	**Net surplus/(deficit)**	**216**	**–**	**–**	**–**

Management of Debt and Outstanding Returns

This category covers 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.

How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
85.4%	Percentage of returns filed by customers on time	85%	85.2%	85%
$96.02	Value of assessed revenue for every outstanding return dollar spent	$45.00	$56.27	$45.00
	This measure demonstrates the cost-effectiveness of our work on returns not filed by the due date. We used predictive modelling to gain insights that allowed us to focus on returns that had a higher value.			
87.9%	Percentage of tax payments made by customers on time	85%	86.8%	85%
$66.10	Cash collected for every debt dollar spent	$30.00	$51.35	$30.00
	This measure demonstrates the cost-effectiveness of our debt collection activities. The cash collected for every dollar spent fell from last year as the amount of cash collected was 31.5% lower than last year. The overall costs of collecting overdue debt reduced.			
69.6%	Percentage of child support assessments paid on time	70%	69.8%	70%
	Not achieved—We have seen an improvement in customer behaviour towards paying child support assessments on time and increased the target from 65% to 70% this year. With the introduction of payday filing, we now have more information available to help support customers to make payments on time.			
	Supporting measures			
$16.48	Average cost of finalising an outstanding return	$18.00–$20.00	$24.04	$18.00–$20.00
	Not achieved—We use predictive modelling to gain insights that allow us to focus on higher-value returns. These high-value returns often take longer to finalise, contributing to the increase in average cost of finalising an unfiled return.			
15.4%	Percentage growth in outstanding returns	0%	10.3%	Measure retired
	Not achieved—We focused on clearing unfiled returns after the go-live of Release 3, significantly decreasing the number of unfiled returns by 242,209. As at the end of June, we have 833,006 returns remaining unfiled after the due date, a 10.3% increase from last year. *We are replacing this measure in 2019–20 with the percentage of unfiled returns that are finalised within six months. This new measure focuses on early intervention.*			

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
44.3%	Percentage of collectable debt value over two years old	55%	47.0%	50%
81.5%	Percentage of new customer debt resolved within six months	80%	81.3%	80%
78.0%	Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	79.2%	75%

All targets are unaudited.

Additional funding received from the Government for initiatives

We used funds allocated in Budget 2012, Budget 2014 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.

2017–18 Unaudited ROI Actual		2018–19 Unaudited ROI Actual
$7.50	Ageing debt	$5.60
$5.15	Unfiled returns	$3.73
$2.87	Child support compliance	$2.23

We have exceeded the ageing debt cash collected and unfiled returns revenue assessed targets for these programmes of work. This funding will end in 2020.

Funding for the collection of unfiled returns received in Budget 2012, 2014 and 2015 has helped us achieve additional assessments to date totalling $1,030 million. As expected, the revenue collected in 2018–19 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 $130 million to $218 million. We collected $119 million.

What it cost

Output statement

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
137,922	Revenue from the Crown	127,433	127,433	150,233	129,197
1,298	Other revenue	1,773	2,313	2,022	2,074
139,220	**Total revenue**	**129,206**	**129,746**	**152,255**	**131,271**
131,625	**Total expenses**	**119,258**	**129,746**	**152,255**	**131,271**
7,595	**Net surplus/(deficit)**	**9,948**	**–**	**–**	**–**

Investigations

This category covers undertaking investigation, audit and litigation activities administered by Inland Revenue.

How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
80.0%	Percentage of customers whose compliance behaviour improves after receiving an audit intervention#	85%	87.0%	85%
$7.86	Discrepancy identified for every output dollar spent	$7.00	$7.54	$7.00
89.1%	Percentage of litigation judgments found in favour of the Commissioner	75%	78.0%	75%
	Supporting measures			
70.5%	Percentage of audited customers who are satisfied with their experience#	75%	67.4%	75%

Not achieved—The main themes from the customers surveyed for the decrease in the result for this year were around communication and timeliness. Our ability to finish audits within our usual timeframes may have been affected while our people were becoming more familiar with our new systems and processes.

Actual performance measured using a sample of audit cases.
All targets are unaudited.

Additional funding received from Government for initiatives

We used funds allocated in Budget 2012, Budget 2014 and Budget 2015 to carry out additional investigations focused on the hidden economy, property compliance and complex technical issues, including aggressive tax planning. Details on overall Budget-specific initiatives are available on pages 43–45.

2017–18 Unaudited ROI Actual		2018–19 Unaudited ROI Actual
$6.19	Hidden economy	$5.65
$7.10	Complex technical issues (including aggressive tax planning)	$7.22
$3.35	Fraud	$2.57
$8.30	Property compliance	$9.58
$6.74	**Investigations total from Budget-specific initiatives**	**$6.89**

Additional investigations return on investment result of $6.89 this year is below the annual target of $7.68 as we had fewer complex technical cases. So far we have achieved 95% of the $1.062 billion discrepancies target and are well on track to achieve the outcomes for investigations by 2020.

What it cost

Output statement

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
152,413	Revenue from the Crown	141,999	141,999	171,679	143,661
264	Other revenue	194	574	304	356
152,677	**Total revenue**	**142,193**	**142,573**	**171,983**	**144,017**
140,164	**Total expenses**	**134,706**	**142,573**	**171,983**	**144,017**
12,513	**Net surplus/(deficit)**	**7,487**	–	–	–

Our services to the Government

02. Policy Advice

3/3
ACHIEVED

This appropriation covers 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.

More information on our policy work is available on pages 28 and 34.

How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
	Primary measures			
95.0%	Percentage of sampled reports that meet quality standards	80%	80.0%	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 developed by the Department of the Prime Minister and Cabinet-led Policy Project to assess our policy quality.			
92.0%	Percentage of ministerial satisfaction for policy advice	90%	96.9%	90%
$139.35	Average cost per hour of producing policy advice outputs	$150.00	$130.85	$150

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
9,384	Revenue from the Crown	10,595	10,595	10,595	10,547
11	Other revenue	14	17	13	17
9,395	**Total revenue**	**10,609**	**10,612**	**10,608**	**10,564**
8,864	**Total expenses**	**9,977**	**10,612**	**10,608**	**10,564**
531	**Net surplus/(deficit)**	**632**	**–**	**–**	**–**

Our services to other agencies

03. Services to Other Agencies

2/2
ACHIEVED

This appropriation covers 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.

How we performed

2017–18 Actual		2018–19 Target	2018–19 Actual	2019–20 Target
81.6%	Minimum percentage of satisfaction of the Department of Internal Affairs for services provided	75%	76%	75%
92.5%	Minimum percentage of satisfaction of the New Zealand Productivity Commission for services provided	90%	100%	90%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
4,361	Other revenue	5,157	5,862	4,684	3,962
4,361	**Total revenue**	**5,157**	**5,862**	**4,684**	**3,962**
	Expenses				
4,191	Annual appropriations	5,103	5,862	4,684	3,962
4,191	**Total expenses**	**5,103**	**5,862**	**4,684**	**3,962**
170	**Net surplus/(deficit)**	**54**	**–**	**–**	**–**

Our transformation

04. Transformation

3/3 ACHIEVED

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

More information is also available on our website at:
https://www.classic.ird.govt.nz/transformation/

How we performed

	2018–19 Milestone	2018–19 Actual
Income tax is administered in START	30/06/2019	Achieved
Employers are able to send their PAYE information to Inland Revenue on a payday basis (subject to legislation being enacted)	30/06/2019	Achieved
Working for Families is administered in START	30/06/2019	Achieved

All targets are unaudited.

What it cost

Other expenses statement

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Revenue				
220,168	Revenue from the Crown	214,665	214,665	320,876	239,086
4,273	Other revenue	385	–	–	–
224,441	**Total revenue**	**215,050**	**214,665**	**320,876**	**239,086**
196,774	**Total expenses**	**203,358**	**214,665**	**320,876**	**239,086**
27,667	**Net surplus/(deficit)**	**11,692**	**–**	**–**	**–**

Our asset performance

Our assets have been grouped into two portfolios:

- property
- information, communications and technology.

The following measures apply to both owned and leased assets.

Our asset performance measures are unaudited.

Property

Our property asset performance measures tell us how our property portfolio is performing against organisational goals and government guidelines. We want to measure and ensure we are consistently achieving:

- a building portfolio which is compliant with Health and Safety and Building Act legislation
- a comfortable, modern workplace and front-of-house environment for our people and customers
- Government Property expectations and initiatives
- a cost-effective and safe vehicle fleet.

Unaudited 2017–18 Actual	Performance measures	How we measure it	Unaudited 2018–19 Target	Unaudited 2018–19 Actual
N/A	Our building environment is healthy, safe and secure for our people—legislative checks	Percentage of premises which are compliant with legislative requirements	100%	100%
N/A	Our building environment is healthy, safe and secure for our people—non-legislative checks	Percentage of premises which are compliant with non-legislative compliance requirements	100%	100%
N/A	Our buildings are managed in a cost-effective manner	Percentage of metro buildings where the square metre utilisation is no more than the New Zealand Government Property Procurement guidelines	100%	100%
32%	Our fleet is operated in a cost-effective manner	Percentage utilisation of bookable vehicles	45%	36%
—	*Not achieved—In the lead-up to Release 3, our people were redeployed on work to support customers through Release 3. More of our people were focused on correspondence and processing activities.*			
N/A	Our vehicles are safe to drive—warrant of fitness and Inland Revenue safety checks	Percentage of bookable vehicles that have a warrant of fitness and have had safety checks completed every two months	100%	100%

Information, communications and technology

Our Information, communications and technology (ICT) performance measures are important as they reflect how both our internal and customer-facing operational systems are performing.

Unaudited 2017–18 Actual	Performance measures	How we measure it	Unaudited 2018–19 Target	Unaudited 2018–19 Actual
99.6%	Availability of systems	Percentage of service hours that systems are available to users	99.5%	99.7%
2.6	Outages for systems	Average number of priority 1 outage incidents per month	2.0	3.6
	Not achieved—After a stable first half of the year, we experienced multiple incidents in February, March and May 2019 when myIR was unavailable or login times were longer than acceptable. These incidents were resolved very quickly. We are constantly monitoring and fine-tuning the performance of our infrastructure.			
4.27	Supplier performance	Average monthly score for supplier reporting based on available data points	4.00	4.64
83%	Condition of systems	Condition of systems using heatmap scores	81%	N/A

During the year we transitioned a range of our services to new Business Transformation designed and implemented services such as myIR/e-services and our as-a-service approach for telecommunications and workplace. This has resulted in significant improvements to the condition measures for these services. The following table provides results for the periods through the year when these systems were active.

	Unaudited 2018–19 target	Unaudited Jul–Sep 2018 result	Unaudited Oct–Dec 2018 result	Unaudited Jan–Mar 2019 result	Unaudited Apr–Jun 2019 result
Overall	**81%**	**n/a**	**n/a**	**91.1%**	**97.9%**
eChannel	75%	n/a	n/a	66.3%	100%
FIRST	75%	n/a	100%	100%	100%
Voice	85%	n/a	n/a	89.4%	89.4%
Back office	75%	n/a	n/a	100%	100%
START	95%	n/a	100%	100%	100%

84%	Utilisation of infrastructure	Average of various asset utilisation indicators for components of the ICT infrastructure	71%	N/A

As we migrated to new as-a-service models and implemented Business Transformation services during the year, the original measures for voice and back office are no longer available and we are unable to report an overall full-year result.

	Unaudited 2018–19 target	Unaudited Jul–Sep 2018 result	Unaudited Oct–Dec 2018 result	Unaudited Jan–Mar 2019 result	Unaudited Apr–Jun 2019 result
Overall	**71%**	**83.2%**	**n/a**	**n/a**	**n/a**
eChannel	95%	99.6%	99.3%	98.5%	94.9%
FIRST	80%	36.9%	33.6%	33.1%	27.3%
Voice	60%	35.0%	n/a	n/a	n/a
Back office	25%	12.0%	10.1%	9.3%	n/a
START	95%	100%	100%	100%	100%

Our capital expenditure

This appropriation covers 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.

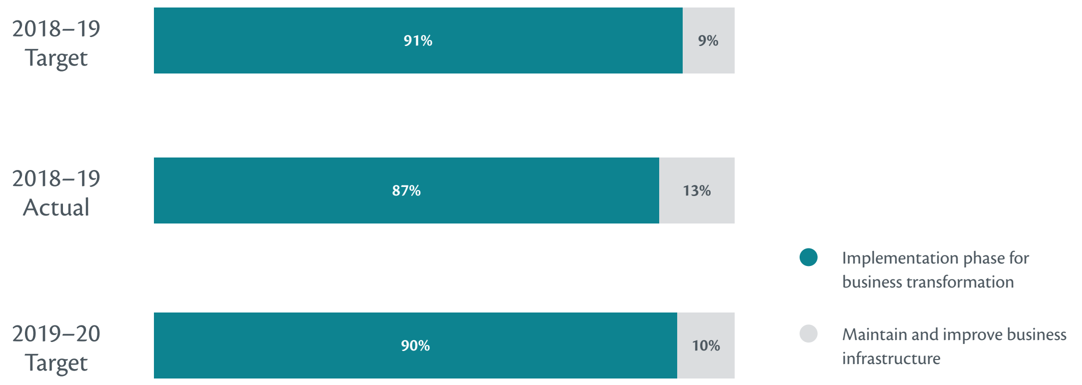
Our capital asset management priorities for 2018–19 are:

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

More information on our capital expenditure can be found throughout this report, particularly on page 105.

How we performed

This year, our capital expenditure supported the delivery of our capital asset management priorities.



All targets are unaudited.

What it cost

For details of departmental capital expenditure incurred against appropriations, please refer to the *Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations*, on page 105.

For details of departmental capital injections, please refer to page 106.

Our financial summary

In 2018–19, we completed Release 3 of our transformation programme and managed our finances well.

Operating expenditure

In 2018–19, we spent $830.9 million to operate our organisation. This was $14.8 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 and the organisational change required to deliver the transformation outcomes.

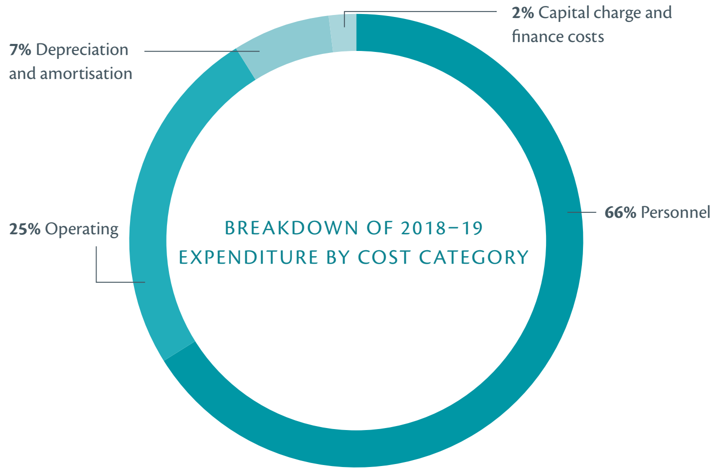
Operating funding of $11.3 million in our *Transformation* multi-year appropriation will be transferred to 2019–20.

Operating expenditure by cost categories

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

Our total personnel costs for 2018–19 were $548.0 million. Approximately 76% of these costs were directly related to our employees' remuneration costs.

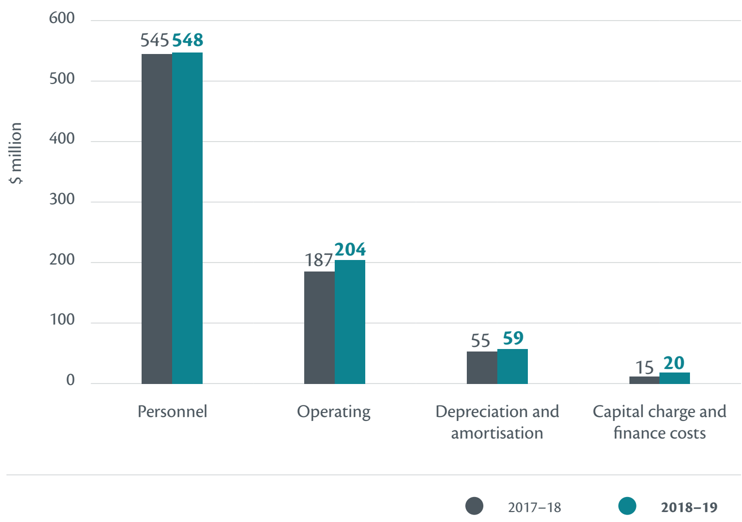
Operating costs for the year were $204.5 million. Approximately 76% of these operating costs relate to information technology, rental, communications and printing and postage.



Comparing 2018–19 to 2017–18

Our personnel and operating costs were $20.3 million higher in 2018–19 than in 2017–18, mostly driven by increased activities for Release 3 of our transformation.

BREAKDOWN OF EXPENDITURE BY COST CATEGORY



Capital expenditure

We spent $107.8 million in capital investment in 2018–19. This was lower than our revised capital budget of $111.8 million, mainly due to savings in the delivery of our transformation programme. Also contributing to the lower spend are information technology initiatives now planned for 2019–20, savings in construction of our new sites in Ahuriri Napier and Kirikiriroa Hamilton, and the re-phasing of the construction of our new Te Papaioea Palmerston North site and our Manukau front-of-house service area. Unused capital funding will be carried forward into our 2019–20 capital reserve.

Future outlook

Our operating and capital expenditure are forecast to increase in 2019–20 to align with the phasing and delivery of our business transformation. Operating expenditure for 2019–20 is forecast to be $876.8 million, an increase of $46.0 million from 2018–19. Capital expenditure for 2019–20 is forecast to be $150.0 million, an increase of $42.1 million. The capital investment contributes to the growth of our net assets to $483.5 million from $382.3 million in 2018–19, 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 2019.

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

For the year ended 30 June 2019

Actual[1] 2018 $000		Actual[1] 2019 $000	Unaudited revised budget[6] 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Vote: Revenue				
	Output expenses				
8,864	Policy Advice	9,977	10,612	10,608	10,564
222,663	Services to Inform the Public about Entitlements and Meeting Obligations	–	–	–	–
97,134	Services to Process Obligations and Entitlements	–	–	–	–
131,625	Management of Debt and Outstanding returns	–	–	–	–
140,164	Investigations	–	–	–	–
	Services for Customers—MCA[2]				
–	Services to Inform the Public about Entitlements and Meeting Obligations	243,182	230,730	207,949	233,272
–	Services to Process Obligations and Entitlements	112,951	113,330	115,472	114,641
–	Management of Debt and Outstanding Returns	119,258	129,746	152,255	131,271
–	Investigations	134,706	142,573	171,983	144,017
600,450	**Total departmental output expenses**	**620,074**	**626,991**	**658,267**	**633,765**
4,191	Services to Other Agencies RDA[3]	5,103	5,862	4,684	3,962
604,641	**Total output expenses**	**625,177**	**632,853**	**662,951**	**637,727**
	Other expenses				
196,774	Transformation[4]	203,358	214,665	320,876	239,086
196,774	**Total other expenses**	**203,358**	**214,665**	**320,876**	**239,086**
801,415	**Total expenses**	**828,535**	**847,518**	**983,827**	**876,813**
	Capital Expenditure PLA[5]				
6,749	Property, plant and equipment	16,144	16,000	13,000	8,000
96,933	Intangible assets	91,706	95,832	130,200	142,000
103,682	**Total Capital Expenditure PLA**	**107,850**	**111,832**	**143,200**	**150,000**

[1] Excludes remeasurement of $2,317,560 (2017–18: $585,740). 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 2018–19 *Transformation* funding has been re-phased into 2019–20 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 2018–19 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2019*.

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 2018–19 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 2019

In the 2018–19 financial year, there were no instances of:

- expenses and capital expenditure incurred in excess of appropriation (2017–18: $nil)
- expenses and capital expenditure incurred without appropriation or other authority or outside the scope or period of appropriation (2017–18: $nil).

Statement of departmental capital injections

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget 2019 $000	Unaudited forecast 2020 $000
	Vote: Revenue			
58,600	Capital injections	63,832	63,832	103,000

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2017–18: $nil).

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

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited revised budget[1] 2019 $000	Unaudited budget 2019 $000	Unaudited forecast 2020 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
–	Best Start tax credit PLA	47,588	52,000	80,000	231,000
287,639	Child support payments PLA	290,572	302,000	300,000	317,000
773	Child tax credit PLA	106	600	600	400
1,639,099	Family tax credit PLA	2,130,709	2,271,000	2,628,000	2,195,000
515,118	In-work tax credit PLA	612,942	525,000	540,000	521,000
5,454	KiwiSaver: interest	6,509	9,000	10,000	9,000
801,808	KiwiSaver: tax credit	859,897	873,000	850,000	906,000
11,597	Minimum family tax credit PLA	14,005	14,000	14,000	15,000
288,174	Paid parental leave payments	369,354	375,000	360,000	400,000
28,027	Parental tax credit PLA	7,883	3,000	5,000	–
7,134	Payroll subsidy PLA	6,460	6,500	6,500	3,900
–	Research and development tax incentive[2]	40,000	40,000	–	158,000
3,584,823	**Total benefits and other unrequited expenses**	**4,386,025**	**4,471,100**	**4,794,100**	**4,756,300**
	Borrowing expenses				
1	Adverse event interest PLA	48	20	10	10
1,636	Environmental restoration account interest PLA	1,516	1,500	2,000	1,500
4,565	Income equalisation interest PLA	4,960	6,000	10,000	6,000
6,202	**Total borrowing expenses**	**6,524**	**7,520**	**12,010**	**7,510**
	Other expenses				
616,221	Impairment of debt and debt write-offs[3]	828,664	850,000	680,000	680,000
–	Impairment of debt relating to child support	–	5,000	–	–
594,314	Initial fair value write-down—student loans	563,354	592,000	610,000	576,000
1,210,535	**Total other expenses**	**1,392,018**	**1,447,000**	**1,290,000**	**1,256,000**
4,801,560	**Total appropriations**	**5,784,567**	**5,925,620**	**6,096,110**	**6,019,810**

[1] The revised budget figures for 2018–19 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2019*.

[2] The research and development tax incentive is a new appropriation commencing 1 April 2019.

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

PLA refers to appropriations established under a permanent legislative authority.

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 Statement of the Government of New Zealand for the year ended 30 June 2019*.

Statement of non-departmental unappropriated expenditure

In the 2018–19 financial year there were no instances of:

- expenditure incurred outside of appropriation (2017–18: $nil)
- expenditure incurred in excess of appropriation (2017–18: $nil).

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Ā-Tari

Contents

Statement of comprehensive revenue and expense

For the year ended 30 June 2019

Actual 2018 $000		Notes	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Revenue				
835,099	Revenue from the Crown	2	816,000	954,711	848,195
32,068	Other revenue	2	29,625	29,116	28,618
867,167	**Total revenue**		**845,625**	**983,827**	**876,813**
	Expenses				
545,150	Personnel	3	547,996	691,432	582,165
187,017	Operating	4	204,515	205,410	204,917
54,602	Amortisation, depreciation and impairment	9, 10	58,812	67,118	65,763
15,216	Capital charge	6	19,525	19,867	23,968
16	Finance		5	–	–
802,001	**Total expenses**		**830,853**	**983,827**	**876,813**
65,166	**Net surplus and total comprehensive revenue and expense**		**14,772**	**–**	**–**

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 2019

Actual 2018 $000		Notes	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Current assets				
55,263	Cash and cash equivalents		66,984	30,000	45,000
187,147	Debtor Crown	11	136,476	139,739	160,923
14,262	Debtors and prepayments	11	17,060	12,122	12,122
485	Inventories held for distribution		–	500	500
257,157	**Total current assets**		**220,520**	**182,361**	**218,545**
	Non-current assets				
272	Prepayments	11	1,862	–	–
36,374	Property, plant and equipment	9	38,901	42,762	33,722
231,154	Intangible assets	10	277,373	320,433	370,675
–	Derivative financial instruments		5	–	–
267,800	**Total non-current assets**		**318,141**	**363,195**	**404,397**
524,957	**Total assets**		**538,661**	**545,556**	**622,942**
	Current liabilities				
67,403	Creditors and other payables	12	60,423	50,600	50,600
59,565	Surplus payable to the Crown	8	13,606	–	–
48,385	Employee entitlements	13	48,709	42,308	47,076
43	Provision for other liabilities	14	661	–	–
1,027	Derivative financial instruments	17	1,497	–	–
57	Finance leases		–	–	–
274	Other financial liabilities	14	210	230	114
176,754	**Total current liabilities**		**125,106**	**93,138**	**97,790**
	Non-current liabilities				
28,393	Employee entitlements	13	30,684	42,129	41,387
45	Provision for other liabilities	14	59	92	76
1,631	Derivative financial instruments	17	–	–	–
811	Other financial liabilities	14	491	275	161
30,880	**Total non-current liabilities**		**31,234**	**42,496**	**41,624**
207,634	**Total liabilities**		**156,340**	**135,634**	**139,414**
317,323	**Net assets**		**382,321**	**409,922**	**483,528**
317,323	Taxpayers' funds		382,321	409,922	483,528
317,323	**Total taxpayers' funds**	7	**382,321**	**409,922**	**483,528**

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 2019

Actual 2018 $000		Notes	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
253,605	Opening balance at 1 July		317,323	311,722	381,155
65,166	Total comprehensive revenue and expense		14,772	–	–
(59,565)	Repayment of surplus to the Crown	8	(13,606)	–	–
58,600	Capital injections		63,832	98,200	103,000
(483)	Capital withdrawal		–	–	(627)
317,323	**Closing balance at 30 June**	7	**382,321**	**409,922**	**483,528**

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

Statement of cash flows

For the year ended 30 June 2019

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Cash flows from operating activities				
826,403	Receipts from the Crown		866,672	977,070	823,748
31,421	Receipts from other revenue		29,193	29,328	28,612
(552,978)	Payments to employees		(545,381)	(690,370)	(565,831)
(190,638)	Payments to suppliers		(214,829)	(223,980)	(217,093)
(15,216)	Payments for capital charge		(19,525)	(19,867)	(23,968)
2,334	Goods and services tax (net)		(4,821)	(2,927)	3,106
101,326	**Net cash flow from operating activities**		**111,309**	**69,254**	**48,574**
	Cash flows from investing activities				
–	Receipts from sale of property, plant and equipment		24	–	–
(7,598)	Purchases of property, plant and equipment		(15,537)	(13,240)	(8,000)
(97,490)	Purchases of intangible assets		(88,282)	(129,961)	(142,000)
(105,088)	**Net cash flow from investing activities**		**(103,795)**	**(143,201)**	**(150,000)**
	Cash flows from financing activities				
58,600	Capital injections		63,832	98,200	103,000
(33,863)	Repayment of surplus to the Crown	8	(59,565)	(30,900)	(6,815)
(483)	Capital withdrawals		–	–	(627)
(60)	Payments of finance leases		(60)	(57)	–
24,194	**Net cash flow from financing activities**		**4,207**	**67,243**	**95,558**
20,432	Net increase/(decrease) in cash and cash equivalents		11,721	(6,704)	(5,868)
34,831	Cash and cash equivalents at the beginning of the year		55,263	36,704	50,868
55,263	**Cash and cash equivalents at the end of the year**		**66,984**	**30,000**	**45,000**

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

Statement of cash flows (continued)

For the year ended 30 June 2019

Actual 2018 $000		Note	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
65,166	Net surplus	8	14,772	–	–
	Add/(less) non-cash items				
54,602	Amortisation, depreciation and impairment		58,812	67,118	65,763
(5,601)	Net unrealised foreign exchange gains		(1,166)	–	–
49,001	**Total non-cash items**		**57,646**	**67,118**	**65,763**
	Add items classified as investing or financing activities				
96	Net loss/(gain) on disposal of property, plant and equipment		153	–	–
327	Net loss/(gain) on disposal of intangible assets		113	–	–
423	**Total items classified as investing or financing activities**		**266**	–	–
	Add/(less) working capital movements				
(8,695)	(Increase)/decrease in debtor Crown		50,671	22,359	(24,447)
(1,844)	(Increase)/decrease in debtors and prepayments		(4,388)	(3,914)	(2,268)
75	(Increase)/decrease in inventories held for distribution		485	–	(15)
5,686	Increase/(decrease) in creditors and other payables		(11,006)	(17,227)	(6,531)
(6,385)	Increase/(decrease) in employee entitlements		2,615	1,062	16,334
(2,118)	Increase/(decrease) in provision for other liabilities		632	(54)	31
17	Increase/(decrease) in other financial liabilities		(384)	(90)	(293)
(13,264)	**Net movements in working capital items**		**38,625**	**2,136**	**(17,189)**
101,326	**Net cash flow from operating activities**		**111,309**	**69,254**	**48,574**

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

Statement of commitments

As at 30 June 2019

Actual 2018 $000		Actual 2019 $000
	Capital commitments	
9,587	Intangible assets	6,053
2,098	Leasehold improvements	122
24	IT equipment	–
11,709	**Total capital commitments**	**6,175**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
53,293	Not later than one year	34,326
106,253	Later than one year and not later than five years	76,286
15,952	Later than five years	14,788
175,498	**Total non-cancellable operating commitments**	**125,400**
187,207	**Total commitments**	**131,575**

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).

Non-cancellable 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 $3.261 million (2018: $6.310 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 2019

Actual 2018 $000		Actual 2019 $000
	Contingent liabilities	
70	Employee grievances	147
560	Legal proceedings and disputes—taxpayer	465
630	**Total contingent liabilities**	**612**
	Contingent assets	
2,238	Legal proceedings and disputes—taxpayer	1,860
2,238	**Total contingent assets**	**1,860**

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 152). 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 152). 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 2019

These financial statements are for the year ended 30 June 2019 and include forecast financial statements for the year ending 30 June 2020.

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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 2019. The forecast financial statements are for the year ending 30 June 2020.

The Chief Executive and Commissioner of Inland Revenue authorised these financial statements on 30 September 2019.

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 2019 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 adopted early

In line with the Financial Statements of the Government, Inland Revenue has elected to adopt PBE IFRS 9 Financial Instruments early. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. Information about the adoption of PBE IFRS 9 is provided in note 20.

Accounting standards issued and not yet effective

Standards and amendments, issued but not yet effective, that have not been adopted early are:

PBE IPSAS 2 Statement of Cash Flows

The amendments to PBE IPSAS 2 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after 1 January 2021, with early application permitted. Inland Revenue does not intend to adopt the amendments early.

PBE IPSAS 41 Financial Instruments

The External Reporting Board issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Inland Revenue does not intend to adopt PBE IPSAS 41 early. When this standard is adopted, Inland Revenue does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods beginning on or after 1 January 2021. Inland Revenue has not yet determined how the application of PBE FRS 48 will affect its statement of performance and does not intend to adopt PBE FRS 48 early.

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) and note 13 (Employee entitlements).

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 is a change to the accounting policy relating to the estimate of the allowance for credit losses as set out in note 11.

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 2018–19 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

The revised budget figures for 2018–19 (refer to the *Statements of budgeted and actual expenses and capital expenditure incurred against appropriations* on page 105) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

The forecast figures for 2019–20 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020*.

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 1 May 2019.
While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2020 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 delivery of our services and the Business Transformation programme.
- Estimated year-end information for 2018–19 is used as the opening position for the 2019–20 forecasts.

Any changes to budgets during 2019–20 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020.*

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.

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 from the Crown is considered equivalent to the funding entitlement.

Explanation of major variance from budget

Revenue from the Crown was lower than budget by $138.711 million. The variance is due to the 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 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000
20,500	Accident Compensation Corporation—agency fees	20,500	20,500
2,717	Services and information provided to other agencies	2,515	3,423
–	Recovery of secondees salaries	1,760	–
2,415	Rental revenue from sub-leases	1,764	1,906
1,210	Court costs recovered	1,595	2,199
828	Revenue from rulings	956	1,088
4,272	Unrealised foreign exchange gain	385	–
126	Foreign trust administration fees	150	–
32,068	**Total other revenue**	**29,625**	**29,116**

Costs incurred in achieving our goals

Note 3. Personnel

Salaries and wages

Personnel costs are recognised as an expense 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 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000
391,030	Salaries and wages	389,877	472,600
124,155	Contractors and temporary staff	130,502	184,681
12,436	Employer contributions to defined contribution schemes	12,359	12,664
(9,267)	Retiring, long-service and sick leave	5,457	3,000
161	Annual leave	1,419	607
21,071	Termination benefits	1,250	15,000
1,209	ACC levies	896	884
339	Bonuses	337	393
4,016	Other	5,899	1,603
545,150	**Total personnel**	**547,996**	**691,432**

Explanation of major variances against budget

Personnel costs were lower than budget by $143.436 million. The variance is due to the change in both the phasing and delivery of the transformation programme, and organisational change required to deliver the programme outcomes.

Note 4. Operating

Operating expenses are recognised as an expense 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 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000
69,440	Information technology costs	82,630	77,386
36,688	Accommodation lease rentals	35,341	33,803
21,250	Advertising, communication and publicity	24,241	30,501
10,547	Printing and postage	12,324	11,437
8,804	Travel and transport	11,012	9,778
9,613	Office supplies and operating costs	9,219	8,327
9,384	Consultants	7,743	9,120
6,238	Staff development	5,993	8,621
5,478	Legal expenses	4,575	6,109
2,348	Bank fees	2,402	2,356
1,084	Audit fees for audit of the financial statements	1,178	1,135
84	Disbursements for audit of the financial statements	25	–
1,195	Equipment maintenance	1,080	1,169
423	Net loss on disposal of assets	266	–
(2,103)	Onerous leases	174	(54)
3	Debt expected credit losses and write off	142	–
53	Net realised and unrealised foreign exchange losses	116	–
6,488	Other operating expenses	6,054	5,722
187,017	**Total operating**	**204,515**	**205,410**

Note 5. Contractors and consultants

Inland Revenue uses contractors and consultants to provide backfill for vacant positions or cover short-term demand, where specialist skills or independent external advice are needed (such as specialist skills needed for our Business Transformation programme), and in periods of peak demand.

A contractor is a person who is not considered an employee, providing backfill or extra capacity in a role that exists within Inland Revenue, or acts as an additional resource for a time-limited piece of work.

A consultant is a person or firm who is not considered a contractor or employee, engaged to perform a piece of work with a clearly defined scope and provide expertise, in a particular field, not readily available from within Inland Revenue.

Inland Revenue has elected to disclose contractors and consultants information separately as below in accordance with the State Services Commission (SSC) guidance:

Actual 2018 $000		Actual 2019 $000
115,046	Contractors	130,716
9,656	Consultants	6,126
124,702	**Total contractors and consultants—operating**	**136,842**
70,257	Contractors and consultants—capital	69,134
194,959	**Total contractors and consultants**	**205,976**

The difference between the amounts in the table above, and the contractors and consultants expense in notes 3 and 4 respectively, is because the financial statement definitions vary slightly to the SSC definitions. For example, fees paid for legal services and amounts paid to other government agencies are excluded for SSC purposes.

Note 6. Capital charge

Inland Revenue pays a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year. This is recognised as an expense in the period to which the charge relates.

The capital charge rate for the year ended 30 June 2019 was 6.0% (2018: 6.0%).

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 2018 $000		Actual 2019 $000
65,166	Net surplus	14,772
(5,601)	Less unrealised gains in relation to forward foreign exchange contracts	(1,166)
59,565	**Total surplus payable to the Crown**	**13,606**

The net surplus includes a timing related underspend for business transformation of $11.3 million which will be transferred to 2019–20 as part of the multi-year appropriation. In 2017–18, the underspend for business transformation of $23.4 million was transferred to 2020–21.

Assets used to deliver our services

Note 9. Property, plant and equipment

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.

2019	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction —leasehold $000	Total tangible assets $000
Cost						
Opening balance as at 1 July 2018	37,827	22,905	3,440	58,924	2,384	125,480
Additions by purchase	6,423	2,247	–	4,987	2,420	16,077
Transfers between category	–	–	–	2,006	(2,006)	–
Disposals	(11,341)	(219)	(125)	(2,600)	–	(14,285)
Closing balance as at 30 June 2019	**32,909**	**24,933**	**3,315**	**63,317**	**2,798**	**127,272**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2018	29,341	18,497	2,240	39,008	20	89,106
Depreciation expense	5,314	1,434	376	6,315	–	13,439
Depreciation capitalised[1]	(46)	–	–	(2)	–	(48)
Disposals	(11,312)	(216)	(90)	(2,508)	–	(14,126)
Closing balance as at 30 June 2019	**23,297**	**19,715**	**2,526**	**42,813**	**20**	**88,371**
Carrying amount as at 30 June 2019	**9,612**	**5,218**	**789**	**20,504**	**2,778**	**38,901**

2018	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction —leasehold $000	Total tangible assets $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 expense	3,829	1,386	385	6,291	–	11,891
Depreciation 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**

[1]Refers to the depreciation expense for existing assets that are used in the development of intangible assets.

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 and any reversal of impairment loss are recognised in the surplus or deficit.

Note 10. Intangible assets

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.

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 forms part of the surplus or deficit.

Impairment

Intangible 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.

2019	Internally generated intangible assets $000	Software licences $000	Assets under construction —intangibles $000	Total intangible assets $000
Cost				
Opening balance as at 1 July 2018	654,969	106,611	44,112	805,692
Additions by purchase	59,405	842	21,274	81,521
Additions internally developed	7,316	–	2,874	10,190
Transfers between category	34,899	–	(34,899)	–
Disposals	(53,741)	(5,976)	–	(59,717)
Closing balance as at 30 June 2019	**702,848**	**101,477**	**33,361**	**837,686**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2018	489,299	81,622	3,617	574,538
Amortisation expense	39,096	4,973	–	44,069
Amortisation capitalised[1]	6	–	–	6
Impairment losses	1,304	–	–	1,304
Disposals	(53,650)	(5,954)	–	(59,604)
Closing balance as at 30 June 2019	**476,055**	**80,641**	**3,617**	**560,313**
Carrying amount as at 30 June 2019	**226,793**	**20,836**	**29,744**	**277,373**

2018				
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 expense	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**

[1]Refers to the amortisation expense 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 and supporting infrastructure. Of the $277.373 million carrying value for intangibles $229.012 million relates to the development of the START tax and social policy management system and supporting infrastructure assets. The estimated remaining period for the START assets is 13 years.

Explanation of major variances against budget

Intangible assets are $43.060 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.

Note 11. Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions.

Allowance for credit losses

Debtors and receivables are recorded at their face value, less an allowance for credit losses. Inland Revenue applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring credit losses, receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Previous accounting for allowance for credit losses

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

Actual 2018 $000		Actual 2019 $000
	Current assets—exchange transactions	
	Debtors	
3,928	Accounts receivable	4,202
(4)	Less allowance for credit losses	(125)
388	Other debtors	665
4,312	Net debtors	4,742
9,950	Prepayments	12,318
14,262	**Total current assets—exchange transactions**	**17,060**
	Non-current assets—exchange transactions	
272	Prepayments	1,862
272	**Total non-current assets—exchange transactions**	**1,862**
14,534	**Total debtors and prepayments—exchange transactions**	**18,922**

Explanation of major variances against budget

Debtors and prepayments were $6.800 million higher than budget mostly due to the additional prepayment of some maintenance contracts for the Business Transformation programme.

The expected credit loss rates for accounts receivable at 30 June 2019 and 1 July 2018 are based on the payment profile of receivables over the previous periods and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking economic factors that might affect the recoverability of receivables.

There have been no changes during the reporting period in the estimation techniques or significant assumptions used in measuring the expected credit loss allowance.

The allowance for credit losses at 30 June 2019 and 1 July 2018 was determined as follows:

	Expected credit loss rate	Gross carrying amount	Lifetime expected credit loss
2019		**$000**	**$000**
Not past due	0.08%	2,535	2
Past due 1 to 30 days	–	72	–
Past due 31 to 60 days	–	64	–
Past due 61 to 90 days	–	89	–
Past due > 90 days	8.52%	1,442	123
Total	**n/a**	**4,202**	**125**
1 July 2018			
Not past due	–	3,002	–
Past due 1 to 30 days	–	78	–
Past due 31 to 60 days	–	99	–
Past due 61 to 90 days	–	120	–
Past due > 90 days	0.40%	1,017	4
Total	**n/a**	**4,316**	**4**

No adjustments were made to the prior year allowance for credit losses.

Movements in the allowance for credit losses are as follows:

Actual 2018 $000		Actual 2019 $000
6	Opening balance as at 1 July	4
1	Increase in allowance for credit losses recognised during the year	122
(3)	Receivables written off during the year	(1)
4	**Closing balance as at 30 June**	**125**

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 2018 $000		Actual 2019 $000
	Creditors and other payables—exchange transactions	
10,294	Accounts payable	11,582
44,260	Accrued expenses—other	40,810
54,554	**Total creditors and other payables—exchange transactions**	**52,392**
	Creditors and other payables—non-exchange transactions	
12,849	GST payable	8,031
12,849	**Total creditors and other payables—non-exchange transactions**	**8,031**
67,403	**Total creditors and other payables**	**60,423**

Creditors and other payables are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

Explanation of major variances against budget

Creditors and other payables were $9.823 million above budget due to the timing of suppliers' payments for the Business Transformation programme.

Note 13. Employee entitlements

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 2018 $000		Actual 2019 $000
	Current liabilities—exchange transactions	
27,128	Annual leave	28,066
8,677	Accrued salaries and wages	8,774
3,565	Retiring leave	3,830
2,018	Other provision	2,571
4,178	Termination benefits	2,487
1,339	Sick leave	1,539
1,478	Long-service leave	1,440
2	Time off in lieu	2
48,385	**Total current liabilities—exchange transactions**	**48,709**
	Non-current liabilities—exchange transactions	
20,948	Retiring leave	22,530
6,021	Long-service leave	6,570
1,424	Other provision	1,584
28,393	**Total non-current liabilities—exchange transactions**	**30,684**
76,778	**Total employee entitlements**	**79,393**

Explanation of major variances against budget

Provisions for employee entitlements were $5.044 million lower than budget. The decrease is mainly due to the forecast reduction in our workforce as we transform our business, offset by the market changes to valuation assumptions.

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 2018 $000		Actual 2019 $000
	Termination benefits	
119	Opening balance as at 1 July	4,178
14,641	Additional provisions made	853
(10,463)	Amounts used	(2,443)
(119)	Unused amounts reversed	(101)
4,178	**Closing balance as at 30 June 2019**	**2,487**

Movements in the provisions for other employee entitlements are as follows:

Actual 2018 $000		Actual 2019 $000
	Other employee entitlements provision	
3,442	Opening balance as at 1 July	3,442
–	Additional provisions made	713
3,442	**Closing balance as at 30 June 2019**	**4,155**

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. 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 2019. 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 2019 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 2.34% (2018: 2.50%).

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%
2019							
Long-service leave	6,570	426	(379)	(162)	426	1,680	(1,290)
Retiring leave	22,530	1,780	(1,590)	(51)	1,800	6,980	(4,800)

	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. Other liabilities

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 2018 $000		Actual 2019 $000
	Current liabilities	
43	Onerous contracts	221
–	Lease make-good	440
43	**Total current liabilities**	**661**
	Non-current liabilities	
3	Onerous contracts	–
42	Lease make-good	59
45	**Total non-current liabilities**	**59**
88	**Total provision for other liabilities**	**720**

Other financial liabilities

Other financial liabilities 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.

Other financial liabilities relate to unexpired lease incentives with a carrying amount of $0.701 million at 30 June 2019 (2018: $1.085 million). Refer to note 4 for the accounting policy on lease incentives.

Other disclosures

Note 15. 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 where 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 2019 (2018: nil).

Remuneration to key management personnel

The remuneration of key management personnel during the year was as follows:

	Remuneration 2019 $000	Remuneration 2018 $000	Full-time Equivalents 2019	Full-time Equivalents 2018
Leadership team, including the Chief Executive (Commissioner)	4,742	4,673	11	11.3

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 16. 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 2018 $000		Actual 2019 $000
	Financial assets measured at amortised cost (2018: Loans and receivables)	
55,263	Cash and cash equivalents	66,984
187,147	Debtor Crown	136,476
4,312	Net debtors	4,742
246,722	**Total financial assets measured at amortised cost**	**208,202**
	Financial assets measured at fair value through surplus or deficit	
–	Derivative financial instrument assets	5
–	**Total financial assets measured at fair value through surplus or deficit**	**5**
	Financial liabilities measured at amortised cost	
54,554	Creditors and other payables	52,392
1,085	Other financial liabilities	701
57	Finance lease liabilities	–
55,696	**Total financial liabilities measured at amortised cost**	**53,093**
	Financial liabilities measured at fair value through surplus or deficit	
2,658	Derivative financial instrument liabilities	1,497
2,658	**Total financial liabilities measured at fair value through surplus or deficit**	**1,497**

Note 17. 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 net fair value of derivative financial instruments is $1.492 million as at 30 June 2019 (2018: $2.658 million).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2019 was NZ $23.819 million (2018: NZ $49.877 million). The contracts consisted of the purchase of US $14.979 million (2018: US $31.858 million). The unrealised gain on the forward exchange contract derivatives was NZ $1.166 million at 30 June 2019 (2018: unrealised gain of $5.601 million). The majority of the forward exchange contracts relate to future expenditure requirements for the Business Transformation programme.

Note 18. 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.

Actual 2018 $000	Valuation technique Level 2—observable inputs	Actual 2019 $000
	Financial liabilities	
2,658	Forward foreign exchange contracts (net)	1,492

The fair value of derivative financial instruments has been determined using discounted cash flows based on quoted market prices.

Note 19. 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 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 2019 would be a $1.448 million decrease and a $1.601 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 receivables is concentrated with the Crown and other government agencies but not with any individual 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 $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2019					
Creditors and other payables	52,392	52,392	52,392	–	–
Other financial liabilities	701	701	210	373	118
Total	**53,093**	**53,093**	**52,602**	**373**	**118**
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**

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.

	Derivative financial instruments net carrying amount $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2019					
Gross settled forward foreign exchange contracts	1,492	–	–	–	–
Outflow	–	23,819	11,468	12,282	69
Total	**1,492**	**23,819**	**11,468**	**12,282**	**69**
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**

Note 20. Adoption of PBE IFRS 9 Financial Instruments

Accounting policies have been updated to comply with PBE IFRS 9. The main change is described in note 11, debtors and prepayments to reflect that the impairment of receivables is now determined by applying an expected credit loss model. Prior year amounts remain unchanged.

Note 21. Events after balance date

There have been no significant events after balance date.

Financial Schedules Non-departmental
Hōtaka pūtea Wāhi kē

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 2018–19 we collected $79.5 billion of revenue on behalf of New Zealand to fund government programmes. We paid $5.5 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 a 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 2019*.

Contents

Schedule of non-departmental revenue

For the year ended 30 June 2019

Actual 2018 $000		Note 2	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Direct taxation				
	Income tax				
	Individuals				
29,921,838	Source deductions (PAYE)		32,022,657	31,388,000	33,766,000
6,819,205	Other persons		7,663,149	6,968,000	7,149,000
(2,102,414)	Refunds		(2,428,720)	(1,764,000)	(1,937,000)
558,531	Fringe benefit tax		585,498	572,000	585,000
35,197,160	**Total individuals**		**37,842,584**	**37,164,000**	**39,563,000**
	Corporate tax				
13,779,246	Gross companies tax		16,067,492	14,660,000	15,538,000
(157,050)	Refunds		(343,017)	(207,000)	(218,000)
626,561	Non-resident withholding tax		650,367	669,000	648,000
3,159	Foreign-source dividend withholding payments		(252)	–	–
14,251,916	**Total corporate tax**		**16,374,590**	**15,122,000**	**15,968,000**
	Other direct income tax				
1,530,871	Resident withholding tax on interest income		1,659,239	1,737,000	1,675,000
752,790	Resident withholding tax on dividend income		838,149	769,000	796,000
1,295,906	Employer superannuation contribution tax		1,351,203	1,360,000	1,430,000
3,579,567	**Total other direct income tax**		**3,848,591**	**3,866,000**	**3,901,000**
53,028,643	**Total direct taxation**		**58,065,765**	**56,152,000**	**59,432,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2019

Actual 2018 $000		Note 2	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Indirect taxation				
	Goods and services tax				
31,774,795	Gross goods and services tax		33,397,969	33,360,000	35,256,000
(13,086,351)	Refunds		(14,004,865)	(13,370,000)	(14,334,000)
18,688,444	**Total goods and services tax**		**19,393,104**	**19,990,000**	**20,922,000**
	Other indirect taxation				
107,255	Approved issuer levy		105,097	98,000	101,000
317,007	Gaming duties		313,579	312,000	307,000
1,341	Other indirect taxation		2,108	7,000	5,000
425,603	**Total other indirect taxation**		**420,784**	**417,000**	**413,000**
19,114,047	**Total indirect taxation**		**19,813,888**	**20,407,000**	**21,335,000**
72,142,690	**Total taxation**		**77,879,653**	**76,559,000**	**80,767,000**
	Other revenue				
181,466	Child support		179,337	181,000	180,000
–	Fair value remeasurement—student loans[1]		981,000	–	34,000
603,685	Interest unwind—student loans		393,900	584,000	415,000
49,796	Other revenue		45,390	46,000	44,500
834,947	**Total other revenue**		**1,599,627**	**811,000**	**673,500**
72,977,637	**Total revenue**		**79,479,280**	**77,370,000**	**81,440,500**

The accompanying accounting policies and notes form part of these financial schedules.
For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019.*

1. The new Fair value remeasurement—student loans disclosure is due to the adoption of PBE IFRS 9 Financial Instruments. Refer to notes 2 and 5 for further information.

Schedule of non-departmental expenditure

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Benefits and other unrequited expenses			
–	Best Start tax credit[1]	47,588	80,000	231,000
773	Child tax credit	106	600	400
1,639,099	Family tax credit	2,130,709	2,628,000	2,195,000
515,118	In-work tax credit	612,942	540,000	521,000
(4)	KiwiSaver: Fee subsidy	(3)	–	–
5,454	KiwiSaver: Interest	6,509	10,000	9,000
801,808	KiwiSaver: Tax credit	859,897	850,000	906,000
11,597	Minimum family tax credit	14,005	14,000	15,000
288,174	Paid parental leave payments	369,354	360,000	400,000
28,027	Parental tax credit	7,883	5,000	–
7,134	Payroll subsidy	6,460	6,500	3,900
3,297,180	**Total benefits and other unrequited expenses**	**4,055,450**	**4,494,100**	**4,281,300**
	Borrowing expenses			
1	Adverse event interest	48	10	10
1,636	Environmental restoration account interest	1,516	2,000	1,500
4,565	Income equalisation interest	4,960	10,000	6,000
6,202	**Total borrowing expenses**	**6,524**	**12,010**	**7,510**
	Other expenses			
616,221	Impairment of debt and debt write offs	828,664	680,000	680,000
(106,000)	Impairment reversal of debt relating to student loans[2]	–	–	–
594,314	Initial fair value write down—student loans	563,354	610,000	576,000
1,104,535	**Total other expenses**	**1,392,018**	**1,290,000**	**1,256,000**
4,407,917	**Total expenditure**	**5,453,992**	**5,796,110**	**5,544,810**

The accompanying accounting policies and notes form part of these financial schedules.
For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019*.

1. The Best Start tax credit came into effect from 1 July 2018.

2. The separate disclosure of Impairment reversal of debt relating to student loans is no longer required with the adoption of PBE IFRS 9 Financial Instruments. Refer to note 5 for further information.

Schedule of non-departmental assets

As at 30 June 2019

Actual 2018 $000		Notes	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Current assets				
1,659,071	Cash and cash equivalents		3,767,279	2,400,000	1,500,000
10,419,313	Receivables	3	13,466,127	10,356,138	11,595,313
10,662	Receivables—child support	4	8,820	11,124	10,662
133,495	Receivables—other		157,265	102,903	137,495
1,310,000	Student loans	5	1,372,000	1,535,000	1,480,000
13,532,541	**Total current assets**		**18,771,491**	**14,405,165**	**14,723,470**
	Non-current assets				
312,700	Receivables	3	544,931	312,700	312,700
71,375	Receivables—child support	4	74,174	60,793	60,375
7,991,623	Student loans	5	9,358,696	7,681,681	8,403,623
8,375,698	**Total non-current assets**		**9,977,801**	**8,055,174**	**8,776,698**
21,908,239	**Total assets**		**28,749,292**	**22,460,339**	**23,500,168**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019.*

Schedule of non-departmental liabilities

As at 30 June 2019

Actual 2018 $000		Notes	Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
	Current liabilities				
8,599	Child support		25,798	45,460	8,599
5,191,928	Refundables and payables	6	6,271,327	4,291,687	5,255,928
19,947	Unclaimed monies	7	21,509	18,206	19,947
5,220,474	**Total current liabilities**		**6,318,634**	**4,355,353**	**5,284,474**
	Non-current liabilities				
227,577	Reserve schemes	8	251,881	210,107	220,207
227,577	**Total non-current liabilities**		**251,881**	**210,107**	**220,207**
5,448,051	**Total liabilities**		**6,570,515**	**4,565,460**	**5,504,681**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019*.

Schedule of movements between other government departments

For the year ended 30 June 2019

Actual 2018 $000		Actual 2019 $000	Unaudited Budget 2019 $000	Unaudited Forecast 2020 $000
16,745,719	Opening balance	16,460,188	16,477,913	19,853,397
–	Adjustment for the adoption of PBE IFRS 9	628,000	–	–
16,745,719	Adjusted balance 1 July 2018	17,088,188	–	–
68,569,720	Net result from operating activities	74,025,288	71,573,890	75,895,690
	Asset transfer between departments			
1,337,523	Ministry of Social Development—student loans	1,360,201	1,374,566	1,391,000
(70,192,774)	New Zealand Debt Management Office	(70,294,900)	(71,531,490)	(79,144,600)
16,460,188	**Closing balance**	**22,178,777**	**17,894,879**	**17,995,487**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019.*

Schedule of non-departmental commitments

As at 30 June 2019

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2018: $nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2019

Actual 2018 $000		Note	Actual 2019 $000
	Quantifiable contingent liabilities	9	
146,041	Legal proceedings and disputes—assessed		134,105
161,390	Unclaimed monies		174,029
307,431	**Total quantifiable contingent liabilities**		**308,134**
	Quantifiable contingent assets		
48,950	Disputes—non-assessed		35,176
48,950	**Total quantifiable contingent assets**		**35,176**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019.*

Schedule of non-departmental trust money

For the year ended 30 June 2019

Actual 2018 $000		Contributions 2019 $000	Distributions 2019 $000	Total 2019 $000
	Child support			
38,122	Child support trust account	263,737	(278,564)	23,295
537	Reciprocal child support agreement trust account	14,670	(14,691)	516
38,659	**Total child support**	**278,407**	**(293,255)**	**23,811**
	KiwiSaver			
143	KiwiSaver returned transactions trust account	147,003	(147,011)	135
143	**Total KiwiSaver**	**147,003**	**(147,011)**	**135**
38,802	**Total trust money**	**425,410**	**(440,266)**	**23,946**

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 the custodial persons.

The KiwiSaver trust account was established in accordance with section 74(4) of the KiwiSaver Act 2006. Inland Revenue administers this account to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, pending the completion of the financial transaction.

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government for the year ended 30 June 2019*.

Notes to the financial schedules

For the year ended 30 June 2019

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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 2019*. 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 2019*.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2019. The forecast financial schedules are for the year ending 30 June 2020.

The Chief Executive and Commissioner of Inland Revenue authorised these financial schedules on 30 September 2019.

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 2019 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.

Accounting standard adopted early

In line with the Financial Statements of the Government, Inland Revenue has elected to adopt PBE IFRS 9 Financial Instruments early. PBE IFRS 9 replaces PBE IPSAS 29 Financial Instruments: Recognition and Measurement. Information about the adoption of PBE IFRS 9 is provided in note 5.

Accounting standard issued and not yet effective

The standard issued but not yet effective, that has not been adopted early is:

PBE IPSAS 41 Financial Instruments

The External Reporting Board issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Inland Revenue does not intend to adopt PBE IPSAS 41 early. When this standard is adopted, Inland Revenue does not expect any significant changes as the requirements are similar to PBE IFRS 9.

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

Income tax

Further refinements have been achieved as a result of the business transformation programme. This year Inland Revenue has applied a new process for the estimation of income tax. The improvements include that income tax is now recognised for all taxpayers every month based on current year provisional tax assessments, prior year assessments and payments in excess of assessments. Previously income tax was recognised based on provisional tax due and forecast provisional tax payments. The process change has had the effect of bringing forward the recognition of some tax revenue for the 2018–19 fiscal year.

Due to the fundamental differences between the models, it is not practical to estimate the effect of the change on current and future years. The current process to estimate income tax is disclosed in note 2.

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. The accounting policies have been applied consistently throughout the year. The process to estimate the value of student loans is disclosed in note 5.

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 2018–19 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

The revised budget figures for 2018–19 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations* on page 107) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2019*.

The forecast figures for 2019–20 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020*.

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 1 May 2019.

While Inland Revenue regularly updates forecasts, updated forecast schedules for the year ending 30 June 2020 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 fair value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the fair 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 wages inflation and discount rates. Any change in these assumptions would affect the present fiscal forecast.
- Estimated year-end information for 2018–19 is used as the opening position for the 2019–20 forecasts.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2019* (https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2019-html)[1].

Any changes to budgets during 2019–20 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020.*

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.

[1] This link leads to information not covered by the audit opinion on page 172.

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 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. It is deemed to accrue evenly over the period to which it relates.

Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year provisional or terminal assessments. Tax revenue is recognised proportionally based on the balance date of the taxpayer. 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 income tax accruals requires significant estimates, judgements and assumptions and have a number of uncertainties. 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 recognised as revenue based on the provisional tax method adopted by the taxpayer. Provisional assessments are based on 105% of the prior year terminal tax.
- Where taxpayers have chosen to estimate their provisional tax, income tax revenue is recognised based on the most recent estimate provided to Inland Revenue.
- Where the taxpayers have made payments for more than the provisional tax assessment submitted, their credit balance is also accrued as revenue.
- Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, an estimate is made based on the payments.
- For taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable at year end based on prior year terminal assessments.
- For taxpayers subject to provisional tax who have not filed their tax return for the previous period, an estimate is made of the tax revenues receivable and refundable at year end based on prior year provisional tax assessments.

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 are used
- for customers who have not filed a return, the estimate is based on the most recently assessed GST return.

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 PAYE return 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.

Fair value remeasurement—student loans

Fair value remeasurement is the change in the value in the student loan portfolio over the year. Student loans are initially measured at fair value. The changes to fair value between periods are recognised as a gain or loss in the net surplus or deficit. More information is provided in note 5.

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.

The valuation of student loans changed with the adoption of PBE IFRS 9. Effective from 1 July 2018, the interest unwind has been calculated using the official cash rate plus a risk premium calculated by the consulting actuaries. Prior to this, the interest unwind was calculated using the effective interest method based on the interest rates allocated in the year loans were drawn down.

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. These are non-contractual sovereign receivables. 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 does not 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 2018 $000		Actual 2019 $000
	Receivables	
12,745,990	Gross receivables	16,321,058
(2,013,977)	Impairment	(2,310,000)
10,732,013	**Carrying value receivables**	**14,011,058**
	Current and non-current apportionment	
10,419,313	Receivables—current	13,466,127
312,700	Receivables—non-current	544,931
10,732,013	**Carrying value receivables**	**14,011,058**
	Ageing profile of gross receivables	
9,642,555	Not due[1]	12,799,796
	Past due[2]	
812,507	Less than 6 months	951,796
331,235	6–12 months	419,501
710,098	1–2 years	631,809
1,249,595	Greater than 2 years	1,518,156
3,103,435	**Total past due**	**3,521,262**
12,745,990	**Total gross receivables**	**16,321,058**
24%	% Past due	22%
	Receivables—impairment	
2,011,169	Opening balance	2,013,977
616,221	Impairment losses recognised	828,664
(613,413)	Amounts written off as uncollectable	(532,641)
2,013,977	**Closing balance**	**2,310,000**

[1]Not due receivables comprise estimations for tax where the tax has been earned but is not yet due to be paid.

[2]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 carrying value receivables are shown below:

Actual 2018		Actual 2019
9,621,070	Recoverable amount of receivables not due ($000)	12,763,914
1,110,943	Recoverable amount of receivables past due ($000)	1,247,144
10,732,013	**Total carrying value ($000)**	**14,011,058**
8.22%	Use-of-money-interest rate	8.22%
5.00%	Discount rate	5.00%
(21,508)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(27,988)
27,859	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	30,027

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 do not 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, increased the Commissioner's ability to write off child support penalty debt. As a result of these legislative changes, the nominal value of child support debt will reduce 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 2018 $000		Actual 2019 $000
	Receivables—child support	
1,661,670	Gross receivables	1,608,329
(1,579,633)	Impairment	(1,525,335)
82,037	**Carrying value receivables**	**82,994**
	Current and non-current apportionment	
10,662	Receivables—current	8,820
71,375	Receivables—non-current	74,174
82,037	**Carrying value receivables**	**82,994**
	Ageing profile of gross receivables	
–	Not due	–
	Past due	
141,666	Less than 12 months	165,842
132,814	1–2 years	141,666
1,387,190	Greater than 2 years	1,300,821
1,661,670	**Total past due**	**1,608,329**
1,661,670	**Total gross receivables**	**1,608,329**
100%	% Past due	100%
	Receivables—impairment	
2,036,066	Opening balance	1,579,633
137,416	Impairment losses recognised	160,867
(593,849)	Amounts written off as uncollectable	(215,165)
1,579,633	**Closing balance**	**1,525,335**

Note 5. Student loans

(References to surplus and deficit in this note refer to the surplus and deficit of the *Financial Statements of the Government of New Zealand*).

StudyLink (Ministry of Social Development) administers the initial capital lending and issues student loans which are then transferred to Inland Revenue. Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent fair value adjustments, and is also responsible for the collection of debt.

Student loans are designated at fair value through surplus or deficit under PBE IFRS 9 Financial Instruments.

The difference between the amount of the student loan and the fair value on initial recognition is recognised as an expense. The initial fair value is lower than the amount of the initial student loan for a number of reasons including that:

- some borrowers will never earn enough to repay their loans
- some overseas borrowers will default on their payment obligations
- because there is no interest charged on New Zealand-based borrowers' balances, the time value of money will erode the value of future repayments.

At the end of the year, actuarial models are used to compare the carrying value to the fair value of the student loan portfolio and the difference is recognised in the surplus and deficit of the *Financial Statements of the Government of New Zealand.* Details of the models are provided later in this note.

Previous accounting policy under PBE IPSAS 29 Financial Instruments

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 of the loan 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. An effective interest rate of 6.77% was used in 2018.

We use the following key terms to help us define student loan values:

Fair value	The market value of student loans if they could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Nominal value	The total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties.

The nominal and fair values of student loans are shown below. The 2018 comparative information for fair value in the table below is provided for information only and does not align to the *Schedule of non-departmental assets* for that year.

PBE IFRS 9 Equivalent Actual 2018 $000		Actual 2019 $000
9,812,623	Opening fair value	9,929,623
(1,348,071)	Repayments	(1,370,674)
1,337,523	Borrowings transferred from the Ministry of Social Development	1,360,201
(594,314)	Fair value write down on new borrowings	(563,354)
328,000	Fair value remeasurements	981,000
393,862	Interest unwind	393,900
9,929,623	**Closing fair value**	**10,730,696**
	Current and non-current apportionment	
1,310,000	Student loans—current	1,372,000
8,619,623	Student loans—non-current	9,358,696
9,929,623	**Fair value student loans**	**10,730,696**
15,734,905	Opening nominal value	15,868,628
1,337,523	Borrowings transferred from the Ministry of Social Development	1,360,201
(1,348,071)	Repayments	(1,370,674)
111,165	Interest on overseas-based borrowers	110,416
22,804	Administration and establishment fees	22,821
73,760	Penalties	92,226
(63,411)	Death and bankruptcies	(49,825)
(47)	Voluntary repayment bonus	(18)
15,868,628	**Closing nominal value**	**16,033,775**

Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the *Schedule of non-departmental assets*, 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 *Schedule of non-departmental assets*. The 2018 comparative information in the table below is provided for information only and does not align to the *Schedule of non-departmental assets* for that year.

PBE IFRS 9 Equivalent Actual 2018 $000	Valuation technique Level 3—Significant non-observable inputs	Actual 2019 $000
	Financial assets	
9,929,623	Student loans	10,730,696

The next section provides details on the model, and the table on page 167 outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Student loan valuation model

At the end of the year, the student loan portfolio is revalued to fair value using actuarial models. Statistics New Zealand collates most of the data for the actuarial valuation model from Inland Revenue, the Ministry of Education and Ministry of Social Development. The data is made up of borrowings, repayments, income, educational factors and socio-economic factors. It is current up to 31 March 2018. In addition supplementary data from Inland Revenue and the New Zealand Customs Service, about loan transactions and borrowers' cross-border movements for the period up to 31 March 2019 is also included.

The fair value movement, recognised in the surplus and deficit, relates to changes in discount rate and a reassessment of the expected repayments of loans.

In 2019 the discount rate adjustment has increased the value of the student loan portfolio by $734 million (2018: $190 million). The discount rates used for determining the fair value are equal to Treasury's prescribed risk free rates for accounting valuations plus a risk premium. Since 30 June 2018, risk free rates have fallen significantly, which has increased the fair value of the student loan portfolio. The 2.34% risk premium has not been changed for 2019 in line with market data.

In 2019, the expected repayment adjustment has increased the value of the student loan portfolio by $211 million (2018: $102 million).

The main factors that contributed to this increase in value include:

- Updated modelling assumptions increased the value overall by $230 million. This was driven by four main significant movements and a number of small changes:
  - Definitions for ethnicity data used for the valuation have been updated, increasing the number of borrowers projected to return to New Zealand. When borrowers return to New Zealand, they tend to make significant repayments. This data change has increased the fair value by $71 million.
  - Continuing positive net migration trends is seeing more borrowers return to New Zealand. Transition assumptions have been updated to increase domestic repayments, increase repayments on return to New Zealand and decrease overseas repayments. This data change increased the fair value by $69 million.
  - Increasing trends in overseas-based borrowers' making repayments increased the fair value by $41 million.
  - Other modelling changes, including the roll forward of data, increased the impaired value by $49 million.
- The 2018 provision for write offs is no longer required as at 30 June 2019. This increased the fair value by $50 million.
- Macroeconomic effects: updated future loan interest rate assumptions, wages inflation assumptions and repayment threshold inflation assumptions decreased the fair value by $37 million.
- This year there has been a 40% increase in assumed bankruptcy rates, in line with recent experience. This has decreased the fair value by $30 million.

A breakdown of the fair value remeasurement—student loans reported in the *Schedule of non-departmental revenue* is set out on the next page. The 2018 comparative information in the table is provided for information only and does not align to the *Schedule of non-departmental revenue* for that year.

PBE IFRS 9 Equivalent Actual 2018 $000		Actual 2019 $000
36,000	Repayment collection allowance	36,000
284,000	Risk free rates	734,000
(94,000)	Risk premium	–
190,000	Discount rate adjustment	734,000
	Expected repayment adjustment	
106,000	Data and modelling changes	230,000
80,000	Macroeconomic effects	(37,000)
11,000	Experience variance	5,000
(50,000)	Provision for write offs	50,000
(34,000)	Policy changes	(37,000)
(11,000)	Adjustments for improvements	–
328,000	**Total fair value remeasurement—student loans**	**981,000**

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. The fair value 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. For these reasons, the valuation has a high degree of inherent uncertainty and there is a significant risk of material adjustment to the fair 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 a decrease in fair value 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 a decrease in fair value 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 a decrease in fair value may result.
- The model assumes an increase in the projected number of borrowers returning to New Zealand and a considerable number of them making large repayments on their return. If the number of borrowers returning to New Zealand decreases then a decrease in fair value may result.

The significant assumptions and sensitivities behind the fair value are:

2018		2019
9,929,623	Fair value ($000)	10,730,696
5.56%	Discount rate	4.40%
3.7%–5.5%	Interest rate applied to loans for overseas-based borrowers	2.6%–5.0%
1.0%–2.0%	Consumer Price Index	1.4%–2.1%
2.9%–3.3%	Future salary inflation	3.0%–3.5%
Not available	Impact on fair value of a 1% increase in average wage earnings inflation over five years ($000)	91,000
Not available	Impact on fair value of a 1% decrease in average wage earnings inflation over five years ($000)	(110,000)
Not available	Impact on fair value of a 2.5% increase in overseas-based borrowers making repayments ($000)	140,000
Not available	Impact on fair value of a 2.5% decrease in overseas-based borrowers making repayments ($000)	(147,000)
(520,000)	Impact on fair value of a 1% increase in discount rate ($000)	(580,000)
579,000	Impact on fair value of a 1% decrease in discount rate ($000)	648,000

The student loan portfolio is exposed to a variety of financial instrument risks, including credit risk and interest rate risk.

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 risk of death or default can not be quantified.

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. Many New Zealand-based borrowers earning over the income threshold have compulsory deductions from salary and wages to repay their loans. Overseas-based borrowers are required to make repayments twice a year based on their loan balance. Inland Revenue uses a variety of communications and campaigns to reduce the risk of non-payment of obligations.

Loans are written off on death, for hardship, bankruptcies and in other special circumstances.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates.

Changes in interest rates impact discount rates. The risk is that if interest rates rise the value of the scheme will significantly decrease as the discount rates applied to the expected future repayments will be higher, decreasing their value.

Changes in interest rates could also 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.

Adoption of PBE IFRS 9 Financial Instruments

In accordance with the transitional provisions of PBE IFRS 9 and Treasury instructions, Inland Revenue has elected not to restate the information from previous years to comply with PBE IFRS 9. Adjustments rising from the adoption of PBE IFRS 9 are recognised in the *Schedule of movements between other government departments* at 1 July 2018.

Accounting policies have been updated to comply with PBE IFRS 9. The main update is:

- Note 5 Student loans: This has been updated to explain that after initial recognition, loans are subsequently measured at fair value through surplus and deficit using the appropriate discount rate. This policy has been updated to remove references to subsequent measurement of loans being at amortised cost being calculated using the effective interest method.

On the date of initial application of PBE IFRS 9 (1 July 2018) the classification of financial instruments under PBE IPSAS 29 and PBE IFRS 9 is as follows:

	Measurement category		Carrying amount		
	Original PBE IPSAS 29 category	New PBE IPSAS 29 category	Closing balance 30 June 2018 (PBE IPSAS 29) $000	Adoption of PBE IFRS 9 adjustments $000	Opening balance 1 July 2018 (PBE IFRS 9) $000
Student Loans—current assets	Amortised cost	Fair value through surplus or deficit	1,310,000	–	1,310,000
Student Loans—non-current assets	Amortised cost	Fair value through surplus or deficit	7,991,623	628,000	8,619,623
Total financial assets			**9,301,623**	**628,000**	**9,929,623**

When adopting PBE IFRS 9, Inland Revenue has determined that the characteristics of student loans did not fully meet the requirements of PBE IFRS 9 for financial assets designated at amortised cost. Therefore, from 1 July 2018, the classification of this financial asset has been changed from amortised cost to fair value through surplus or deficit.

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 2018 $000		Actual 2019 $000
4,109,206	Taxes refundable	5,096,387
1,077,929	KiwiSaver payable	1,167,366
4,793	Paid parental leave payable	7,574
5,191,928	**Total refundables and payables**	**6,271,327**

Note 7. Unclaimed monies

Under the Unclaimed Money Act 1971, entities (for example, financial institutions and 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 2018 $000		Actual 2019 $000
172,650	Income equalisation	204,024
54,927	Environmental restoration	47,271
–	Adverse event income equalisation	586
227,577	**Total reserve schemes**	**251,881**

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 probable and can be reasonably estimated. Contingent liabilities are disclosed if it is probable that they will occur. 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, Inland Revenue has 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 cash likely 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 2018 $000		Actual 2019 $000
1,645,400	Earner levy	1,671,379
1,645,400	**Total collection of earner levy**	**1,671,379**

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
Pūrongo Kaitātari Pūtea Tōkeke

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Inland Revenue – Te Tari Taake annual report for the year ended 30 June 2019

The Auditor-General is the auditor of Inland Revenue – Te Tari Taake (Inland Revenue). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of Inland Revenue on pages 111 to 142, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2019, 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 Inland Revenue for the year ended 30 June 2019 on pages 71 to 98;
- the statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations;
- the statement of expenses and capital expenditure incurred without, or in excess of, appropriation or other authority for the year ended 30 June 2019;
- the statement of departmental capital injections;
- the statement of non-departmental budgeted and actual expenditure incurred against appropriations for the year ended 30 June 2019;
- the statement of non-departmental unappropriated expenditure; and
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 146 to 170 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and contingent assets as at 30 June 2019;
  - the schedules of expenses; and revenue for the year ended 30 June 2019;
  - the schedule of movements between other government departments;
  - the schedule of trust money for the year ended 30 June 2019; and
  - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of Inland Revenue on pages 111 to 142:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; 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 Inland Revenue on pages 71 to 98:
  - presents fairly, in all material respects, for the year ended 30 June 2019:
    - 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 Inland Revenue on pages 105 to 108 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 Inland Revenue on behalf of the Crown on pages 146 to 170 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 2019; and
  - expenses; and revenue for the year ended 30 June 2019; and
  - the schedule of trust money for the year ended 30 June 2019.

Our audit was completed on 30 September 2019. 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 Inland Revenue for preparing:

- financial statements that present fairly Inland Revenue'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 Inland Revenue, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by Inland Revenue on behalf of the Crown.

The Commissioner is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Commissioner is responsible on behalf of Inland Revenue for assessing Inland Revenue'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 Inland Revenue, 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 Inland Revenue's Statement of Intent 2018-2022, the relevant Estimates and Supplementary Estimates of Appropriations 2018/19, and the 2018/19 forecast financial figures included in Inland Revenue's 2017/18 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 Inland Revenue'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 Inland Revenue'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 Inland Revenue'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 Inland Revenue 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 70, 99 to 110, and 176 to 191, 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 Inland Revenue 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 Inland Revenue.

Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Additional information
Taipitopito anō

Information sharing with the Department of Internal Affairs

Under information sharing regulations, Inland Revenue must report annually, for this approved information sharing agreement (AISA), on actions taken during the financial year.

In July 2019, the operation of this AISA was reviewed. The review assessed the adequacy of controls in place to ensure compliance with section 11 of the most current AISA. The review found that Inland Revenue had not implemented measures to ensure Department of Internal Affairs data was made inaccessible to our staff as agreed in the 2018 amendments to the AISA. This has now been addressed. In all other respects the review confirmed that we are operating in accordance with the terms and conditions of the current AISA and the Memorandum of Understanding.

A copy of the approved AISA 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 2019

Contact records received from DIA	429,174
Contact records not matched to a corresponding Inland Revenue record for:	418,048
• overseas-based child support debtors	
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	
• overseas-based student loan defaulters	
Contact records matched to corresponding Inland Revenue records for:	
• overseas-based child support debtors	1,409
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	71
• overseas-based student loan defaulters	7,578
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	1,978
Ongoing programme operating costs	$1,728
Individuals successfully contacted[1] using contact records matched to:	
• overseas-based child support debtors (47%)	669
• overseas-based child support non-debtors who do not appear to the up-to-date contact information (15%)	11
• overseas-based student loan defaulters (37%)	2,788
• overseas-based student loan non-debtors who do not appear to the up-to-date contact information (38%)	756
Payments received from individuals as a result of successful contact with:	
• overseas-based child support debtors (120 payments)	$234,541
• overseas-based student loan defaulters (2,261 payments)	$4.8 million
Percentage of individuals who have addressed[2] their debt as a result of being successfully contacted by Inland Revenue:	
• overseas-based child support debtors (504)	36%
• overseas-based student loan defaulters (2,174)	29%

[1] We have made attempts to contact all 11,036 matched individuals. 4,224 have passed our identity verification process.

[2] Individual no longer has payments overdue or has made a payment arrangement with us.

Information sharing with New Zealand Police

Our approved information sharing agreement (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 New Zealand Police to Inland Revenue	170
Number of responses with information provided by Inland Revenue to New Zealand Police	150
Number of occasions Inland Revenue proactively provided information to New Zealand Police	5

Costs

The estimated cost of the sharing agreement with New Zealand Police is $8,495 for the year ended 30 June 2019.

Benefits

The number of times information provided by Inland Revenue has been used in a case with a resolution of:

No offence	21
Prosecution	54
Warning	0
Still under investigation	73
No response received	2
Total	**150**

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 all instances where we proactively provided information to New Zealand Police, the information was used in an investigation.

Assurance

An internal Critical Task Assurance review is applied across a selection of information requests and proposed responses. There have been no instances identified of information being shared contrary to the AISA.

Amendments

No amendments have been made in the reporting period.

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:

Scale

Metric	Shares derived from:	2018–19
Administration of shared services:		
Number of records disclosed (MSD to Inland Revenue)	Commencement/cessation benefits/students	2,610
	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	1,787,371
	Commencement/cessation benefits/students	2,610
	Proactive Information Share—benefits and students	556,683
	Housing Share	Note[1]
	Child support administration	402,047[2]
	Student Loan Programme	15,700[2]

Benefits (Qualitative)

- 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 under the AISA.
- Note that results are down for the Proactive Information Share—benefits and students and Commencement/cessation benefits/students share. These reduced volumes can be attributed to the introduction of a Winter Energy Payment in June 2018 and again in May 2019. This meant MSD results from the Customs Arrivals and Departures share increased dramatically and FTE resources were reprioritised across the business to manage this spike. The net effect of this means that a reduced number of overall records were processed throughout the year impacting overpayment numbers and values.
- Following Release 3 of Inland Revenue's transformation in April 2019, MSD has been unable to process the Inland Revenue data from the Proactive Information Share, which reflects in the number of records disclosed to MSD from Inland Revenue. We expect this issue will be resolved early in 2019–20.
- There were no other difficulties sharing information under the AISA.

Benefits (Quantitative)

Metric	Shares derived from:	2018–19
Administration of shared services (Inland Revenue) (excluding child support and student loans):		
Number of services automatically transferred	Working for Families Tax Credits (WfFTC) administration	12,684
Value of services stopped (overpayments)	WfFTC double payment (number)	902
	WfFTC double payment (value)	$282,725
Administration of social assistance (MSD) (across product range):		
Services offered or renewed (number)	Community Services Card	376,672
Service cancellations (number)	Proactive Information Share—benefits and students	1,378
	Housing Share	Note[1]
Adverse action notices (number sent)	Community Services Card	12,517
	Commencement/cessation benefits/students	50
	Proactive Information Share—benefits and students	67,844
	Housing Share	Note[1]
Challenges (number received and number upheld)	Community Services Card (received)	10
	Community Services Card (upheld)	5
	Commencement/cessation benefits/students (received)	0
	Commencement/cessation benefits/students (upheld)	0
	Proactive Information Share—benefits and students (received)	393
	Proactive Information Share—benefits and students (upheld)	200
	Housing Share (received)	Note[1]
	Housing Share (upheld)	Note[1]

Benefits (Quantitative) cont.

Metric	Shares derived from:	2018–19
Overpayments established (number and value)	Commencement/cessation benefits/students (number)	14
	Commencement/cessation benefits/students (value)	$24,248
	Proactive Information Share—benefits and students (number)	21,597
	Proactive Information Share—benefits and students (value)	$42,796,460
	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)	25
	Proactive Information Share—benefits and students (value)	$4,199
	Housing Share (number)	Note[1]
	Housing Share (value)	Note[1]
Referrals for suspected fraud (number)	Proactive Information Share—benefits and students	0
	Housing Share	Note[1]
Prosecutions successful (number)	Proactive Information Share—benefits and students	26
	Housing Share	Note[1]

Notes

[1] Housing shares not yet commenced – MSD's intention was to improve how it delivers services to customers by expanding information sharing with Inland Revenue in this area. Due to other Ministry priorities, resources to implement these changes have not been available, but have been placed on MSD'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 2018–19:

- 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, an audit was completed after the AISA had been in operation for a year. There were no significant findings.
- Since the Order in Council came into force there have been minor amendments made to the AISA in September 2018. These changes introduced flexibility to the extent of audit carried out annually. Also, to accommodate the new Best Start Tax Credit introduced as part of MSD's Families Package, a reference to the Income Tax Act 2007 was added. As these changes were minor in nature, it was agreed by all parties that public consultation was not required, and no change was required to the Order in Council.

A copy of the AISA is available to view at:
https://www.classic.ird.govt.nz/aboutir/agreements/agreements-msd/

Information sharing with approved credit reporting agencies

In the tax year ended 31 March 2019:

- the Commissioner formally notified seven taxpayers that they had reportable unpaid tax and that Inland Revenue might give an approved credit reporting agency information in relation to them and any amount of reportable unpaid tax to an approved credit reporting agency; and
- the Commissioner did not communicate information to an approved credit reporting agency in relation to any taxpayers; and
- the Commissioner has not formally notified or communicated information to an approved credit reporting agency in relation to any taxpayers who paid the total relevant amount of reportable unpaid tax.

Customer Satisfaction

Customer satisfaction (all channels)*

	Satisfied	Very satisfied
National results—all recent contact customers	88%	75%
Individuals (overall)	88%	75%
Working for Families Tax Credits	88%	75%
Child support	84%	66%
KiwiSaver	90%	77%
Student loan	92%	79%
Business (overall)	88%	75%
Small and medium enterprises	88%	75%
Significant enterprises	88%	76%
Tax agents	86%	69%
Not for profits	88%	78%

*No statistically significant increases/decreases at the 95% confidence level between 2018 and 2019 for this table.

Customer satisfaction with our voice and correspondence channels

	Satisfied	Very satisfied
National results—All recent contact customers	84%	68%
Individuals (overall)	85%	68%
Working for Families Tax Credits	86%	71%
Child support	80%	59%
KiwiSaver	87%	72%
Student loan	90%	75%
Business (overall)	82%*	67%
Small and medium enterprises	84%	69%
Significant enterprises	77%*	62%*
Tax agents	85%	65%
Not for profits	75%	69%

*Indicates a statistically significant decrease at the 95% confidence level between 2018 and 2019.

Customer satisfaction with our online services*

	Satisfied	Very satisfied
National results—All recent contact customers	90%	77%
Individuals (overall)	89%	77%
Working for Families Tax Credits	88%	75%
Child support	87%	72%
KiwiSaver	91%	79%
Student loan	92%	81%
Business (overall)	90%	77%
Small and medium enterprises	90%	76%
Significant enterprises	92%	81%
Tax agents	85%	70%
Not for profits	91%	81%

*No statistically significant increases/decreases at the 95% confidence level between 2018 and 2019 for this table.

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List of figures and tables

Appendix 1: Glossary

Term	Definition
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.
Agile	An iterative approach to planning and guiding project processes. This project methodology breaks down projects into small pieces that are completed in work sessions that run from the design phase to testing and quality assurance.
appropriation	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.
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. See: https://privacy.org.nz/privacy-for-agencies/information-sharing
Ātea	Our new cloud-based enterprise support services system, consisting of a set of new tools that helps to simplify, streamline and, in some cases, automate our internal business processes, particularly in our human resources, finance and purchasing areas.
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.
Best Start	A new weekly payment of $60 per child, available to eligible parents who have a baby due on or after 1 July 2018.
bright-line period	People who sell a residential property within five years of buying it must pay income tax on any gains, unless the property was their main home or another exemption applies.
Cabinet	The group of Government Ministers who make the Government's significant decisions. Cabinet is chaired by the Prime Minister.
Crown	All Ministers and all departments, the State as a whole.
customer-centric	Putting our customer at the centre of everything we do. This gives us a better approach to designing new and existing services, and guides us on where to focus effort and resources and ways to reach customers in an appropriate manner.
Double tax agreements (DTAs)	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.)
FIRST	Our legacy integrated and generic tax processing engine, which is being replaced by the START system.
Gang Intelligence Centre	A multi-agency centre, hosted by New Zealand Police, that draws on information from several government agencies to build detailed intelligence about the activity of gang members and prospects. See: www.police.govt.nz/about-us/publication/gang-intelligence-centre
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.
intelligence-led	Means our people can access the right information at the right time, use and share it efficiently and work in collaborative and flexible ways.
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. See: www.treasury.govt.nz/statesector/investmentmanagement/review/icr
LGBTQIA+	The LGBTQIA+ is a community and includes people who identify as takatāpui, lesbian, gay, bisexual, queer, heterosexual, intersex, female, male, transsexual or transgender.
Māhutonga	Our new strategic approach to how we engage with te Tiriti o Waitangi and how we work with Māori.
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.
myIR	Our online customer service portal that enables our customers to access and review their tax information online.
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. See: www.oecd.org
people capability	The skills, knowledge, experience and attributes required to achieve our outcomes.
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.

Pou Whirinaki	Pou Whirinaki, meaning 'support you can depend on', is the extended support period that we put in place to deliver additional guidance and support to our customers, stakeholders and our people.
Prescribed Investor Rate (PIR)	The tax rate that a multi-rate PIE (MRP) uses to work out tax on income from an investment. PIRs are only provided when investing in an MRP.
Procurement Capability Index (PCI) tool	Self-assessment tool that 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
Public rulings	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, we are bound by it and must apply the tax consequences per the ruling.
SmartStart	An online tool that offers expectant parents and caregivers step-by-step information to help them get all the information they need about pregnancy, childbirth and parenting.
START	An acronym for Simplified Tax and Revenue Technology—our new taxation and revenue system.
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'.
Tax Working Group	A group created by the Government to consider the future of the tax system. It provided recommendations to Government in February 2019. See: www.taxworkinggroup.govt.nz
Whanake	Our performance approach. It is designed to support our people to develop and perform to their potential in our transforming organisation, and to help us create the culture we want for Inland Revenue.
Welfare Expert Advisory Group (WEAG)	The Government established this group in May 2018 to provide advice on the future of New Zealand's welfare system.

How to contact us

ONLINE

Visit **www.ird.govt.nz**

SOCIAL MEDIA

- www.facebook.com/IRDNZ
- twitter.com/NZInlandRevenue
- www.linkedin.com/company/inland-revenue-nz
- www.linkedin.com/showcase/inland-revenue-nz-for-tax-professionals
- www.youtube.com/user/InlandRevenueNZ

IN PERSON OR IN WRITING

Please refer to **www.ird.govt.nz/contact-us/** for options

NZ RELAY SERVICES

If you are deaf, hearing impaired, deaf-blind or speech-impaired, you can use the New Zealand Relay Services (NZ Relay) to contact us. All NZ Relay calls are strictly private, so information is safe and secure.

Visit **nzrelay.co.nz** for more information

TELEPHONE

General individual enquiries	0800 775 247
General business enquiries	0800 377 774
Child support (individual enquiries)	0800 221 221
Child support (employer enquiries)	0800 220 222
KiwiSaver	0800 549 472
Working for Families Tax Credits	0800 227 773

8am to 8pm, Monday to Friday | 9am to 1pm, Saturday

Child support (individual enquiries) 8am to 5pm, Monday to Friday
Child support (employer enquiries) 8am to 4.30pm, Monday to Friday

INTERPRETER SERVICES

We cater for people of all backgrounds. Please call:

General enquiries	0800 775 247
Child support (individual enquiries)	0800 221 221
Child support (employer enquiries)	0800 220 222
KiwiSaver	0800 549 472
Working for Families Tax Credits	0800 227 773

Visit **ezispeak.nz** for more about this service

HEARING-IMPAIRED SERVICE (FAX)

All enquiries—fax within New Zealand 0800 447 755

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