Inland Revenue
Te Tari Taake

Annual Report
Pūrongo ā-Tau
2020

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.

This is the Annual Report 2020 for Inland Revenue
Ko tēnei te Pūrongo ā-Tau 2020 a Te Tari Taake

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.

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

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

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

QUICK PRINT
Full report

QUICK PRINT
Our financial statements

Open file with Acrobat to use print functionality

Contents
Ihirangi

A word from the Commissioner
He kupu nā te Kaikōmihana

He aha te mea nui o te ao? He tangata, he tangata, he tangata. What is the most important thing in the world? It is people, it is people, it is people.

E ngā mana, e ngā reo, tēnā koutou katoa

This whakataukī reminds us of the importance of people. This year, more than any other, has reinforced all the reasons I am proud to lead the people of Inland Revenue.

Improving the economic and social wellbeing of New Zealanders through collecting and distributing money is at the heart of what we do. Earlier this year, when New Zealand went into its first lockdown due to COVID-19, Inland Revenue played a key role in supporting the Government's response, introducing new legislation and initiatives under incredibly tight timeframes to support New Zealanders when they needed it most. Not only that but we also delivered the next release of our transformation, with the majority of our people working remotely.

Our people across the organisation worked long hours and went above and beyond to deliver extraordinary service in an unpredictable and constantly shifting environment. They worked tirelessly with their colleagues across the public sector, remaining focused under pressure and demonstrating agility and commitment to delivering the best possible outcomes for New Zealanders.

In short, Inland Revenue could not have achieved what we have this year without our hugely talented, committed and knowledgeable people.

Hei whakamaharatanga tēnei whakatauākī mō tēnei mea te tangata. I tēnei tau kē i whakaūngia ai ngā take e whakahīhī ana ahau ki te ārahi i Te Tari Taake.

Ko te pūtake o ā mātou mahi ko te whakapakari i te ohanga me te hauora ā-iwi o ngā tāngata o Aotearoa mā te kohikohi me te tuari moni. I mua atu, i tēnei tau tonu, i te nohoanga mohoao tuatahi o Aotearoa nā te mate urutā COVID-19, hei pou toko Te Tari Taake i te whakautu a te Kāwanatanga, mā te whakarite ture hou, kaupapa hou hoki i roto i te wā iti, hei tautoko ake i ngā tāngata o Aotearoa i te wā o te taumaha. I tua atu i tēnā kua tutuki hoki te wāhanga hou o tō mātou hurihanga, inā hoki mahi kē mai ai te nuinga o ngā kaimahi i mamao kē.

He kaha kē ō mātou tāngata puta noa i te tari ki te mahi roa kē ki tua atu i ō ia rā hei hāpai tāuke i ngā ratonga i roto i te wā hurihuri. Ka pukumahi rātou ki ō rātou hoa puta noa i ngā tari kāwanatanga, ka tau tonu ngā whakaaro ahakoa te taumaha, ka kitea hoki te raka me te ū kia puta ngā hua mō Aotearoa.

Kāti rā, mei kore ake ngā tāngata pūkenga, tāngata mātau, tāngata ū hoki i tutuki ai ngā mahi a te Tari Taake i tēnei tau.

Naomi Ferguson
Commissioner and Chief Executive of Inland Revenue

We implemented further changes as part of our transformation

Last year we delivered the biggest change to the revenue system for individuals in more than 20 years. We moved every single taxpayer account for income tax and Working for Families into our new tax and revenue technology system, START. We have already seen the benefits of this change. Receiving more detailed and timely data has enabled us to proactively contact customers during the year to ensure they are paying and receiving the right amounts. We have also been able to complete the process for issuing automatic income tax assessments for individual earners quicker this year and have returned $688 million in refunds to over 1 million New Zealanders.

In April 2020, we continued our transformation with Release 4, which brought KiwiSaver, student loans and the end-to-end processing of PAYE into our new system, as well as some improvements to digital services. The changes gave New Zealanders more information and options to manage their taxes and social policy entitlements.

Each new release is a huge undertaking and involves people from across the organisation. Choosing to go ahead with Release 4 during the Alert Level 4 lockdown period meant the vast majority of the go-live process was completed remotely for the first time.

This is a significant achievement made possible by the investment in our transformation to date, which has given us the tools, knowledge and skills needed to work in new ways and respond quickly and flexibly.

We are already seeing the benefits of this new release for our customers. They have told us, for example, that the changes will make filing easier for employers, over 80% of student loan customers find it easy to understand and do what they need to do in myIR, and KiwiSaver customers are finding myIR easy to navigate.

This year was the first full year of income tax and Working for Families in START. It's important to acknowledge that we are still learning to work in our new systems and our customers are still adapting.

We made prioritisation decisions to manage the large and complex requirements to successfully deliver Release 4 and support our customers as they continue to familiarise themselves with our new systems and processes. We also experienced disruptions to both our services and our customers from COVID-19.

COVID-19 created new challenges for our customers, our people and for how we managed our work. We responded rapidly, temporarily reprioritising and adapting our services to support the Government and our customers in the immediate response to COVID-19. It was important that we continued to deliver critical services to our customers. As a result, we achieved 30 out of 45 performance measures.

Arā atu anō ētahi rerekētanga nā tō mātou hurihanga

Nō tērā tau ka oti i a mātou te whakarerekētanga nui rawa o te pūnaha moni tāke mō te tangata takitahi i roto i te 20 tau. Ka nekehia e mātou ngā kaute tāke mahi a ia kaiutu tāke me ō te kaupapa Working for Families ki roto i tā mātou pūnaha hangarau hou o te tāke, me te moni tāke e kīia nei ko START. Kua kitea kētia ngā hua o tēnei whakarerekētanga. Nā te whiwhi wawe i ngā kōrero whakamārama i āhei ai mātou ki te whakapā atu ki ngā kiritaki i roto i te tau kia tika ai ā rātou utu me ā rātou whiwhinga. He tere ake hoki i tēnei tau te tukanga whakatau aunoa mō ia tangata whiwhi utu, kua whakahokia atu anō hoki he $688 miriona tāra hei whakahokinga utu ki ngā tāngata kotahi miriona neke atu rānei o Aotearoa.

Nō te Āperira i te tau 2020, ko te Whakaputanga 4 o tō mātou hurihanga, i uru ai hoki te KiwiSaver, ngā utu tārewa ākonga me te mahinga katoa o te PAYE ki roto i tā mātou pūnaha hou, tae atu hoki ki ētahi whakahoutanga ratonga ā-rorohiko. Nā ngā whakarerekētanga he nui ake te mōhio o ngā tāngata o Aotearoa ki ngā kōrero me ngā whiringa hei whakahaere i ā rātou tāke me ngā whiwhinga kaupapa here ā-iwi.

Mō ia whakaputanga hou he mahi nui nā ngā tāngata maha puta noa i te tari. Nā te whakatau kia puta tonu te Whakaputanga 4 i te wā noho mohoao, ka oti kē mai i mamao te nuinga o ngā whakaritenga mō te wā tuatahi.

He ekenga nui tēnei nā te whakatinana i tō mātou hurihanga tae noa ki tēnei wā, i whiwhi ai mātou i ngā mōhiotanga, i ngā mātauranga, i ngā pūkenga hoki e tika ana mō ngā huarahi hou e kōhiko ai hoki te whakahāngai atu.

Kei te kitea kē ngā hua o tēnei whakaputanga hou ki ō mātou kiritaki. Nāna tonu i kī mai, arā hei tauira, he ngāwari ake mā ngā kaituku mahi hei tāpae kōrero, he ngāwari ake mō te 80% neke atu o ngā kiritaki pūtea tārewa ākonga te mārama te whakatutuki hoki i ā rātou mahi mā te myIR, ā, he ngāwari ake hoki te myIR hei whāwhā atu mā ngā kiritaki KiwiSaver.

Ko tēnei tau te tuatahitanga mō te tāke mahi me te kaupapa Working for Families ki roto i te START. Me whakapuaki hoki kei te ako tonu mātou ki te mahi ki roto i ā mātou pūnaha hou, ā, kei te huri tonu mai hoki ō mātou kiritaki.

Ka whakarārangihia e mātou ngā whakataunga i tutuki ai ngā mahi nui i puta ai te Whakaputanga 4 me te tautoko tonu i ō mātou kiritaki i a rātou e huri mai ana ki ā mātou pūnaha hou me ngā tukanga hou. I pāngia hoki ō mātou ratonga me ō mātou kiritaki e ngā pōraruraru o te mate urutā COVID-19.

He wero hou hoki i puta ake nā te mate urutā COVID-19 ki ō mātou kiritaki, ki ō mātou ake tāngata tonu me te whakahaere i ā mātou mahi. He tere tonu tā mātou urupare, ka whakarerekēhia hoki ō mātou ratonga hei tautoko i te Kāwanatanga me ō mātou kiritaki tonu ki te urupare tika atu i te mate urutā COVID-19. He mea nui te hāpai tonu i ngā ratonga whakaora ki ō mātou kiritaki. Ko ngā hua i puta ake ko te whakatutuki i te 30 o ngā inenga mahi e 45.

We supported the Government's COVID-19 response

Our transformation has meant we were able to respond to changes in Government policy and introduce new internal systems and processes, to deliver a range of support for New Zealanders in response to COVID-19.

Working with our new systems and tools, we were able to introduce the Small Business Cashflow (Loan) Scheme within two weeks of Cabinet signing off on the initiative. Using our online portal, myIR, businesses were able to easily apply for loans, with more than $1.4 billion being paid out to over 85,000 businesses.

We also introduced a range of changes to help businesses with cash flow, and introduced the temporary loss carry-back scheme, which has seen $87 million in refunds to customers.

New Zealanders were also supported through their employers being able to access the wage subsidy, administered by the Ministry of Social Development (MSD). We helped with this through initially taking around 380,000 calls from our MSD colleagues, to verify business details. In order to automate this process, we developed a portal for MSD to securely access this data themselves, while still ensuring safeguards to information were in place.

Ka tautokona e mātou te urupare a te Kāwanatanga ki te mate urutā COVID-19

Nā tō mātou hurihanga i āhei ai mātou ki te urupare i ngā huringa kaupapa here Kāwanatanga, me te whakauru pūnaha hou, tukanga ā-tari hou hoki, hei hāpai i ētahi tautoko katoa mō ngā tāngata o Aotearoa e urupare ana i te mate urutā COVID-19.

Nā te mahi atu ki ā mātou pūnaha hou me ngā taonga hou, i āhei ai mātou ki te whakaputa i te kaupapa umanga iti nei Small Business Cashflow (Loan) Scheme e rua wiki i muri mai i te whakaaetanga a te Rūnanga Kāwanatanga. Mā te whakamahi i tā mātou ipurangi myIR, i ngāwari ai te tono pūtea tārewa a ngā umanga, ina neke atu i te $1.4 piriona tāra i pau ki ngā umanga e 85,000 neke atu.

Ka whakaputaina hoki e mātou ētahi huringa katoa hei āwhina i te whai moni a ngā umanga, ā, ka whakaputaina hoki te kaupapa whakahokinga moni taupua, i eke ai ngā whakahokinga pūtea mā ngā kiritaki ki te $87 miriona tāra.

He mea tautoko hoki ngā tāngata o Aotearoa nā te āhei o ō rātou kaituku mahi kia whiwhi moni āwhina utunga mai i Te Manatū Whakahiato Ora. Ka āwhina atu mātou i tēnei mā te whakautu i ngā waea mai e 380,000 ki ō mātou hoa o Te Manatū Whakahiato Ora, hei whakatūturu i ngā whakamārama umanga. Hei whakaaunoa atu i tēnei tukanga ka hangā e mātou he ipurangi mā Te Manatū Whakahiato Ora e āhei ai rātou ki te totoro muna i ēnei kōrero, me te noho tiaki tonu o aua kōrero.

Helping people to get it right

Maintaining the integrity of the tax system and helping people to meet their tax obligations underpins our work. This is central to the way we work with businesses and individuals who are experiencing challenges in every day or exceptional circumstances.

Our approach to compliance is multi-layered and based on our commitment to making it as easy as possible for customers to get it right from the start, and hard for them to get it wrong. We know most individuals and businesses want to do the right thing, and we want them to understand that, if they get in touch with us when they are struggling, they will get the help they need. We also want the vast majority of New Zealanders who are making the effort to meet their tax obligations to know that we will identify the few who aren't and take enforcement action.

As a result of our transformation, we now have more tools at our disposal to make smarter decisions about where to focus resources to take a more proactive approach to helping people get it right.

We know that compliance activity is better targeted through cost-effective early interventions such as advice and information, giving customers the opportunity to review their tax affairs and either confirm they are in order or submit a voluntary disclosure.

Through our intelligence-led approach, we are now also able to identify customers who are not receiving correct entitlements or paying the right amount, and can take early action to help them.

We use our analytical tools to detect and prevent revenue loss by helping customers to get it right and using our enforcement powers to deal with fraudulent activity.

Voluntary compliance is important and the challenging times brought about by COVID-19 have helped reinforce New Zealanders' understanding that Inland Revenue will help them when they are struggling.

He āwhina tāngata kia tika ai

Ko te kaupapa tonu o ā mātou mahi ko te whakamana i te pūnaha tāke me te āwhina tāngata ki te whakatutuki i ō rātou herenga tāke. Hei mahi matua tēnei mō ā mātou mahi tahi ki ngā umanga ki ngā tāngata hoki e rarurarungia ana ia rā, i ngā wā tāuke anō hoki.

Ko tā mātou whai kia tutuki he mata rau, he mea mahi hoki i runga i te whakapono kia ngāwari te mahi tika a ngā kiritaki mai i te tīmatanga, ā, kia uaua te mahi hē kē. Kei te mōhio mātou e pīrangi ana te nuinga o ngā tāngata me ngā umanga ki te mahi tika, ā, me mārama hoki rātou ina whakapā mai anō i te wā o te raruraru, ka āwhinatia rātou. Kei te pīrangi hoki mātou kia mōhio te nuinga katoa o Aotearoa e ngana nei ki te utu tāke, ka rapua hoki e mātou te tokoiti kāore i te utu ka whakatewhatewhahia atu.

Nā tō mātou hurihanga, he nui atu ngā taonga āwhina kei a mātou e pai ake ā mātou whakataunga mō te whakapau rauemi e tika ake ai te āwhina atu i te tangata kia tika.

Kei te mōhio mātou he pai ake te whakatutuki i ngā mahi ina wawe tonu te āwhina atu pēnei me te tuku tohutohu atu, tuku kōrero atu, ka riro ai hoki mā te kiritaki anō āna ake tāke e arotake ka whakaae mai hoki kei te tika, tērā ka tuku mai rānei i tētahi whakapuakitanga.

Mā ā mātou mahi tātari hōhonu, ka āhei hoki mātou ki te tohu atu i ngā kiritaki kāore i te whiwhi i ngā whiwhinga e tika ana, kāore rānei e utu ana i ngā utu e tika ana, kia wawe ai te āwhina atu.

Ka whakamahia ā mātou taonga tātari hei tohu hei haukoti hoki i te ngaromanga moni tāke, mā te āwhina kiritaki kia tika ai me te whakatewhatewha i ngā mahi hē.

He mea nui te whakatutuki tūao, ā, nā ngā uauatanga o te wā mate urutā COVID-19 kua pū ngā mahara o ngā tāngata o Aotearoa ka āwhina Te Tari Taake i ngā wā taumaha.

Working in partnership

We work closely with our partner agencies across government. As well as sharing information to help MSD deliver the wage subsidy and the COVID-19 Income Relief Payment, we worked with other agencies to bring in a new All-of-Government language assistance service. This means our customers who do not speak English as their first language can now more easily access our services.

Our stakeholders across the tax system are also integral to our work. We have kept tax agents and bookkeepers informed about the changes we have made. Tax agents gave us positive feeback about our COVID-19 response.

We are part of the global tax community. Our work includes participating in the OECD-led effort to develop an agreed solution on cross-border tax policy, including options for taxing the digital economy. We also exchange information with other jurisdictions to improve compliance across international borders.

Ko te mahitahitanga

Ka mahi tahi mātou ki ō mātou hoa tari puta noa i te kāwanatanga. I tua atu i te whakawhitiwhiti kōrero āwhina i Te Manatū Whakahiato Ora ki te tuku moni āwhina utunga me te Pūtea Whakapuru mō te mate urutā COVID-19, ka mahitahi mātou ki ētahi atu tari, i puta ake ai he ratonga āwhina reo hou mā te kāwanatanga katoa. Mā tēnei ka māmā ake mā ngā kiritaki ehara te reo Pākehā i tō rātou reo tuatahi, kia toro mai ki ō mātou ratonga.

He wāhanga nui hoki nō ā mātou mahi ko ō mātou tāngata whai pānga puta noa i te pūnaha tāke. Kua whakamāramahia atu ā mātou whakarerekētanga ki ngā kaimahi tāke me ngā kaitiaki pukapuka moni. He pai hoki ngā whakahokinga kōrero mai a ngā kaimahi tāke mō tā mātou urupare ki te mate urutā COVID-19.

He wāhanga hoki mātou nō te ao tāke whānui. Kei roto i ā mātou mahi ko te uru ki ngā mahi rapu whakataunga whakaaetanga e ārahina nei e te OECD mō te kaupapa here tāke whakawhitinga whenua, tae atu ki ngā whiringa tāke mō te ohanga ā-rorohiko. Ka whakawhitiwhiti kōrero hoki mātou ki ētahi atu wāhi mana ā-ture e pai ake ai te whakatutukitanga puta noa i ngā rohenga whenua o te ao.

We are transforming our organisation

This year, we continued to make changes to our organisation's design so we can better serve our customers and deliver the benefits from our transformation to the Government and people of New Zealand.

We are investing in our people, helping them develop skills that can be applied to capability-based roles. We continue to develop an organisational culture which is customer-centric, intelligence-led, agile and inclusive, to create an environment where people are comfortable being themselves within our workplace.

Te Tiriti o Waitangi (Treaty of Waitangi) commitments matter to us, and one of the ways we are working to meet these is through our Māhutonga work programme. Māhutonga weaves Te Tiriti o Waitangi and Māori principles, concepts and practices into the way everyone at Inland Revenue works every day.

We are progressing elements of both our Diversity and Inclusion Strategy and our Gender Pay Gap Action Plan. This year we refreshed our diversity networks. We supported our Rainbow Network to introduce valuable resources for our people. You can read more about our commitment to diversity and inclusion in this Annual Report.

Kei te hurihia e mātou tō mātou manatū

I tēnei tau, ka haere tonu ā mātou mahi whakapai ake i tō mātou manatū e pai ake ai te tuku ratonga ki ngā kiritaki e whai hua ai hoki tō mātou hurihanga mō te Kāwanatanga me ngā tāngata hoki o Aotearoa.

Kei te whakapakari i ō mātou tāngata, hei āwhina i a rātou ki te whakapakari pūkenga hāngai ki ngā tūranga mahi whakapakari. Kei te whakatupu tonu i te ahurea o te manatū e noho ai ko te kiritaki te aronui, ka ārahina e te mōhiotanga, *he ahurea raka he ahurea whai wāhi mai, he wāhi e tau ai te tangata i tōna anō āhua ki tō mātou wāhi mahi.*

E whai mana ana ki a mātou ngā tūhonotanga o Te Tiriti o Waitangi, ā, ko tētahi ara whakatutuki ko tā mātou hōtaka Māhutonga. Mā Māhutonga e tuitui ngā tikanga Māori me Te Tiriti o Waitangi ki roto ki ngā mahi a te katoa ki Te Tari Taake i ia rā, i ia rā.

Kei te kōkiri hoki mātou i ētahi āhua o tā mātou Rautaki Rerenga Kētanga me te Whai Wāhitanga (Diversity and Inclusion Strategy) me tā mātou mahere Utu Mahi Ōritetanga (Gender Pay Gap). Nō tēnei tau i hohoungia ai ō mātou tūhonohono rerenga kētanga. I tautoko mātou i tō mātou Tūhononga Uenuku (Rainbow Network) ki te whakaputa rauemi whai take mō ō tātou tāngata. Arā atu anō ā mātou mahi rerenga kētanga, whai wāhitanga hoki kei roto i tēnei Pūrongo ā-Tau.

Looking ahead

Inland Revenue has come through this year in a strong position. We have continued on our transformation journey while adapting during the COVID-19 response. We have shown our commitment to being agile and customer-focused. Supporting the Government's response to COVID-19 will continue to be a focus in the coming year.

I am so proud of what we have achieved. I am confident we are in an excellent position to embrace the challenges of the coming year as we steward New Zealand's revenue system into the future. The next 18 months brings the final stages of our transformation. I look forward to achieving our vision of being a world-class revenue organisation that delivers the best service we can for New Zealanders every day.

Titiro whakamua

Kua kaha te puta o Te Tari Taake i tēnei tau. Kua haere tonu tō mātou hurihanga me te whakatika atu mō te urupare ki te mate urutā COVID-19. Kua whakaatuna tō mātou ū tonutanga kia raka kia aronui hoki ki te kiritaki. Ka nui tonu te aro ā te tau e tū mai nei ki te tautoko i te urupare a te Kāwanatanga ki te mate urutā COVID-19.

E poho kererū ana ahau i ā mātou whakatutukitanga. E māia atu ana hoki ahau kua rite mātou mō ngā wero o te tau e tū mai nei, i a mātou ka ārahi atu hoki i te pūnaha moni tāke o Aotearoa ki ngā rā o āpōpō. Hei ngā marama 18 e tū mai nei ka tutuki ngā wāhanga whakamutunga o tō mātou hurihanga. E titiro whakamua atu ana ahau ki te whāinga roa kia eke tēnei tari tāke ki ngā taumata o te ao, e eke ai hoki ki te ratonga pai rawa mō Aotearoa i ia rā, i ia rā.

Kia tau ngā manaakitanga ki a koutou katoa

Naomi Ferguson
Commissioner of Inland Revenue
Kaikōmihana o Te Tari Taake

Our highlights
Ā mātou mahi whakahirahira

We issued
3.1 million
automatic tax assessments to New Zealanders in May and June, with
$688 million in refunds

We paid out
$1.4 billion
through the Small Business Cashflow (Loan) Scheme to
85,248
customers

Most of our people worked remotely during lockdown to deliver a
fourth release of transformation changes and **new COVID-19 initiatives**

Student loan customers are
finding the new services easy to understand
and can do what they need to in myIR

We supported the Ministry of Social Development with the
wage subsidy scheme,
which paid out
$12.7 billion
by 30 June

We achieved key elements of our
Diversity and Inclusion Strategy

KiwiSaver members
now have better information about their contributions in myIR and
can do more online for themselves

We set up
146,557
instalment arrangements so customers can make repayments over time

Our people increasingly reported a
good or very good experience of doing their work
during lockdown

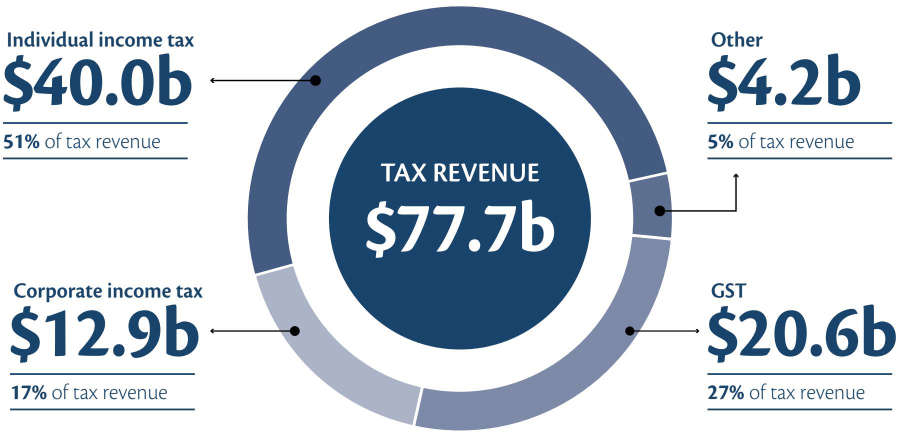
Evolving data and analytics capabilities
are helping us to improve compliance in property and other areas

Investment in transformation
helped us rapidly deliver COVID-19 policy responses and services

We rolled out a new
cloud-based system
for day-to-day administrative services

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

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



In 2019–20, we collected $78.2 billion of revenue to help fund government programmes.

We collected $77.7 billion of tax revenue. Direct (or income) taxation, for example individuals' income tax or corporate tax, accounts for 68% of tax revenue, GST accounts for 27%. For full details refer to pages 150 to 151.

In 2019–20, the Government expected to spend in the following areas:

For full details see:
https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2020-html

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

We serve 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 2019:

INDIVIDUALS

Over 3.9 million people paid pay-as-you-earn (PAYE) or filed a personal tax return.

EMPLOYERS

Over 216,000 employers filed more than 2.3 million employer returns.

COMPANIES

Over 377,000 company tax returns were filed.

GST FILERS

Over 640,000 customers filed more than 3.0 million goods and services tax (GST) returns.

Tax year ended March 2020 figures are not available at the time of publication as customers have until April 2021 to file 2020 returns.

In the 2019–20 financial year, we collaborated with our partners to administer:

WORKING FOR FAMILIES TAX CREDITS

With the Ministry of Social Development, we distributed $3.0 billion in entitlements to support working families.

CHILD SUPPORT

We collected $449 million from more than 161,000 parents who pay child support. We distributed $297 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 $8 billion to scheme providers. As at 30 June 2020, there were 3.1 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 692,000 student loan customers and collected $1.5 billion in repayments.

PAID PARENTAL LEAVE

We administer paid parental leave for the Ministry of Business, Innovation and Employment. Parents taking leave from their jobs or businesses to care for a baby claimed $422 million in entitlements. More than 47,000 parents received paid parental leave.

We are located throughout New Zealand
Puta noa mātou i Aotearoa

WE HAVE OVER

4,800 STAFF

BASED IN

17 TOWNS & CITIES

KEY

- Front-of-house – services provided at our public offices
- Community compliance – services provided in person

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.

Our groups are:

CUSTOMER AND COMPLIANCE SERVICES—BUSINESS

This group provides certainty and accuracy around complex and global tax compliance arrangements with small and medium enterprises, including not-for-profit organisations and significant enterprises. They connect with a range of business and delivery partners, representative bodies and international agencies to deliver joined-up services and reduce costs to customers. They also provide tax technical and legal support for Inland Revenue.

CUSTOMER AND COMPLIANCE SERVICES—INDIVIDUALS

This group makes tax compliance simpler by giving advice and support to individual, families and micro business customers, including not-for-profit organisations. This helps ensure everyone pays and receives the right entitlements and gets it right from the start.

CORPORATE INTEGRITY AND ASSURANCE

This group provides Inland Revenue with advice, support and assurance, making sure we are doing the right things in the right way.

INFORMATION AND INTELLIGENCE SERVICES

This group helps Inland Revenue to keep the customer at the heart of everything we do. They use data insights and intelligence to help understand and influence customer behaviour.

INFORMATION TECHNOLOGY AND CHANGE

Information Technology and Change develops, delivers, improves and supports our IT systems.

PEOPLE AND CULTURE

People and Culture enables Inland Revenue to lift organisational performance through our people.

PERFORMANCE AND FINANCE

This group provides business performance analytics, financial and planning advice and analysis. They also manage our Crown accounting and reporting obligations.

POLICY AND REGULATORY STEWARDSHIP

This group provides tax and social policy advice with the Treasury and leads the development and implementation of our strategy.

TAX COUNSEL OFFICE

The Tax Counsel Office maintains confidence in the tax administration by providing guidance on the correct interpretation of the Inland Revenue Acts and other relevant laws, and by considering case law.

TRANSFORMATION

This group provides professional services to enable the delivery of the tax system for the 21st century. This includes leading our Business Transformation programme, which is working with all parts of Inland Revenue and external stakeholders to completely transform the way we interact with customers.

Our Executive Leadership Team leads and guides us
Mā te Kāhui Āpiha Whakahaere tātou e ārahi

Naomi Ferguson
Commissioner and Chief Executive of Inland Revenue

Naomi was appointed to the role in July 2012.

She brings more than 30 years' experience in revenue agency management to the role, including serving as Deputy Commissioner, Service Delivery at Inland Revenue from 2003 to 2006. Before returning to Inland Revenue, Naomi was Director, Business Customer and Strategy for Her Majesty's Revenue and Customs (HMRC) in the UK, where she earlier led HMRC's compliance division. She has also worked for Inland Revenue in Northern Ireland, and in the UK banking industry.

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

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

Cath Atkins
Deputy Commissioner, Customer and Compliance Services—Business

Cath has over 25 years of policy experience in the public sector. Cath joined Inland Revenue in January 2017 as the Deputy Commissioner of our Policy and Strategy group before taking up her current role leading Customer and Compliance Services—Business.

Cath has also held the position of Deputy Secretary, Macroeconomics and Growth at the New Zealand Treasury where she led their work to promote economic growth and a stable macroeconomic environment. She held other senior leadership positions at the Treasury, including Deputy Secretary, Strategy, Change and Performance.

With a background in economics and international trade, Cath holds a Master's and Bachelor's degree in Economics.

Sharon Thompson
Deputy Commissioner, Customer and Compliance Services—Individuals

Sharon joined us in July 2017 and brings a depth of experience in leading change, building employee engagement and improving services for customers. At Inland Revenue, her role has been focused on the development and implementation of digital customer-focused strategies to lift customer engagement and compliance—for individuals, families, micro-business and not-for-profit customers.

Before joining us, Sharon held senior positions in banking (at Westpac and ASB), where she led strategic change within large customer-facing teams.

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

Simon Mason
Deputy Commissioner, Corporate Integrity and Assurance (acting)

Simon started at Inland Revenue in 2013 as the Commercial Lead on our transformation programme and became Head of Commercial and Procurement in July 2016. He was the acting Deputy Commissioner for Corporate Integrity and Assurance from early 2019 until July 2020 when he joined the Executive Leadership Team at Stats NZ.

Simon has a wealth of commercial and procurement experience covering a wide range of sectors and has successfully led a number of large-scale procurements. Simon has held senior management positions at Telecom New Zealand (now Spark) as the Head of Enterprise Relationship Management. He also led the Infrastructure and Operations team at Insurance Australia Group.

Mike Cunnington
Deputy Commissioner, Information and Intelligence Services

Mike joined Inland Revenue in July 2013. He has led work to develop our approach to compliance, build customer strategies and develop our digital, data analytics and marketing capabilities. He brings experience of leading customer-centric change in a range of organisations.

Prior to joining us, Mike was Chief Marketing Officer for ANZ Bank and has held senior positions in marketing agencies in both New Zealand and the UK.

Mary Craig
Deputy Commissioner, He Kōtuitui

Mary has had an extensive and varied career with Inland Revenue since she joined in the early 1990s.

Throughout 2019–20, Mary has led our across-the-organisation programme—He Kōtuitui—which brings together all the work which we are doing to embed the changes required to become the agile and intelligence-led organisation for the future. This programme includes completing all organisation design work, embedding new ways of working and leading and governing the transformed Inland Revenue.

Mary took on the newly created role of Deputy Commissioner Enterprise Design and Integrity from 1 July 2020.

Gary Baird

Chief Technology Officer and acting Chief People Officer

Gary has held executive positions at ANZ and DHL leading large and complex technology environments and has significant experience leading teams through transformation and integration projects.

He has been the Chief Technology Officer for Inland Revenue, joining us in April 2016. He has led the Information Technology and Change group, a team who are proud to deliver trusted and reliable technology and digital business services to our customers and staff.

From 1 July 2020, Gary took up the newly established role of Deputy Commissioner Enterprise Services.

Mark Daldorf

Chief People Officer

Mark 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.

Mark led our People and Culture group until May 2020 when he left to become Head of People and Capability at Airways New Zealand. Gary Baird has been acting Chief People Officer.

Lara Ariell

Chief Financial Officer

Lara joined Inland Revenue in April 2016. Before joining us, Lara was the Deputy Chief Executive—Finance at the Tertiary Education Commission.

She also worked for the Ministry of Justice, initially as the Chief Financial Officer (CFO) and then as General Manager Performance and Improvement, Courts and Tribunals. She also spent time as the CFO at Te Papa Tongarewa, the Museum of New Zealand, and working in planning and finance teams across the public sector. Lara started her career working in receivership and insolvency with accountancy firm Price Waterhouse and then McCallum Petterson and Co.

David Carrigan

Deputy Commissioner, Policy and Regulatory Stewardship

David has held a number of positions within the tax policy function of Inland Revenue since joining the department in 1996. He became the Deputy Commissioner for Policy and Regulatory Stewardship in 2020.

David has an extensive knowledge of tax policy and a deep understanding of the frameworks that underpin tax systems. David has led a number of reforms, most recently leading the policy work to support our transformation.

With a background in law and languages, David holds BA and LLB degrees from Auckland University.

Martin Smith

Chief Tax Counsel

Before joining Inland Revenue in 1995, Martin was a practising tax lawyer in large law firms in Australia and New Zealand. He was a tax consulting partner in the Sydney office of an international accounting firm, and was Director of Taxation Research for Ernst & Young in New Zealand.

Martin holds a Bachelor of Laws with Honours and Master of Laws degree from the University of Adelaide, a post-graduate Diploma in Financial Management from the University of New England, and a Master of Taxation Studies (Hons) from Auckland University. He is admitted as a barrister and solicitor in Australia and New Zealand and is a member of the International Fiscal Association and a Fellow of the Taxation Institute of Australia.

Greg James

Deputy Commissioner, Transformation

Greg joined Inland Revenue in June 2013. He has a wealth of experience in transformation and change, successfully leading a number of large-scale programmes.

In addition to this, Greg held executive roles at Fonterra as the Director Information Systems, Global Business Process, and Global Procurement. He was also acting CIO of Telecom Retail.

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.

The most significant environmental change and challenge faced by Inland Revenue this year has been responding to, and supporting the Government's response to, the current global COVID-19 pandemic. We have considered a range of likely impacts of COVID-19 on the New Zealand economy and society, and potential short and long-term impacts on our products, services or operations. We have shared our approach and analysis with public sector agencies to support New Zealand's collective response to COVID-19.

We use our eight global drivers of change to assess trends, opportunities and risks and improve our ability to respond:

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 strategy is how we achieve our mission and vision
Ko tā mātou rautaki ko te whakatutuki i tā mātou kaupapa me tā mātou whāinga

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.

Customers are 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. We use new tools and capabilities to focus on where we know people are more likely to get it wrong and act quickly when customers are not meeting their obligations.

The corporate strategy provides us with direction and keeps us focused. Its six interconnected strands are described below.

CUSTOMER

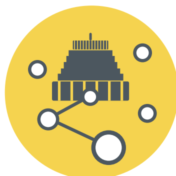
Putting the customer at the centre of everything we do.

DIGITAL

We fully embrace our place in the digitally connected world.

EXTERNAL COLLABORATION

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



POLICY AGILITY

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

INFORMATION AND INTELLIGENCE

Our decisions and actions—for delivering today and shaping our future—are intelligence-led.

PEOPLE

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

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

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

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

Making it easier | **Helping people meet their obligations** | **Supporting our people** | **How we govern and manage** | **Our performance**

We achieve our mission by delivering long-term results, OUR OUTCOMES

Outcome measures are on pages 71 to 75.

Revenue is available to fund government programmes through people meeting payment obligations of their own accord	Making it easier	Helping people meet their obligations	Our performance
People receive payments they are entitled to, enabling them to participate in society	Making it easier	Helping people meet their obligations	Our performance
New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment	Making it easier	Helping people meet their obligations	Our performance

Progress is tracked through OUR IMPACTS, the differences we want to make to help achieve our mission.

Impact measures are on pages 76 to 83.

Customers know what to do	Making it easier	Helping people meet their obligations	Our performance
Customers find it easy	Making it easier	Helping people meet their obligations	Our performance
Customers do what they need to	Making it easier	Helping people meet their obligations	Our performance
We use intelligence and insight to improve customer outcomes and revenue	Making it easier	Helping people meet their obligations	Our performance
We deliver evidence-based policy that is innovative and responsive to customer needs	Making it easier	Supporting our people	Our performance
We work with others to create better results for customers and government	Making it easier	Helping people meet their obligations	Our performance
We protect the integrity of the tax and social policy system, and our stakeholders and the public have trust and confidence in us		How we govern and manage	Our performance
How we use our resources to deliver for our customers is tracked through our organisational health (measures are on pages 84 to 87)		Supporting our people	Our performance

The services we deliver for our customers and Government, OUR OUTPUTS

Output measures are on pages 88 to 103.

How well we performed against the services we deliver			Our performance

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

We track our progress towards achieving our mission and vision through our performance measures. Refer to page 67 for our performance this year.

Outcome measures

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

- **85.9%** of tax payments made by customers were on time
- Revenue assessed was **3.9%** below forecast
- **99.3%** of Working for Families Tax Credit payments were made to customers on time
- We are contributing positively to the digital target for the top 20 common public services

Impact measures

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

- **90%** of customers felt confident that they were doing the right thing
- **77%** of customers found it easy to deal with Inland Revenue
- **94%** of customers had their 2020 income tax assessment issued automatically
- **84%** of customers agreed they knew what they needed to do next
- **96.0%** of returns were filed digitally—up from 88.8% last year
- **93.2%** of customers filed returns on time—up from 85.2% last year
- Use of our analytical tools improved property compliance
- We used our new systems and processes and worked with other agencies to support the response to COVID-19
- We introduced the temporary loss carry-back scheme and Small Business Cashflow (Loans) Scheme quickly
- **89%** of customers have trust and confidence in Inland Revenue
- Staff engagement is **25%**
- We finished the year within all departmental appropriations
- Our Public Sector Reputation Index score is **91**
- The gender pay gap at Inland Revenue is **18%**

Output measures

We achieved 30 out of 45 output performance targets compared to 36 out of 48 last year

30/45 ACHIEVED

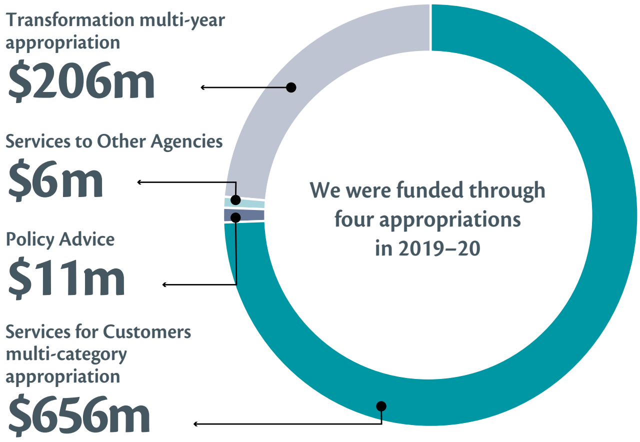
Services for Customers	Policy Advice	Services to Other Agencies	Transformation
24/39 ACHIEVED	2/2 ACHIEVED	2/2 ACHIEVED	2/2 ACHIEVED

Key to our measures

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

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

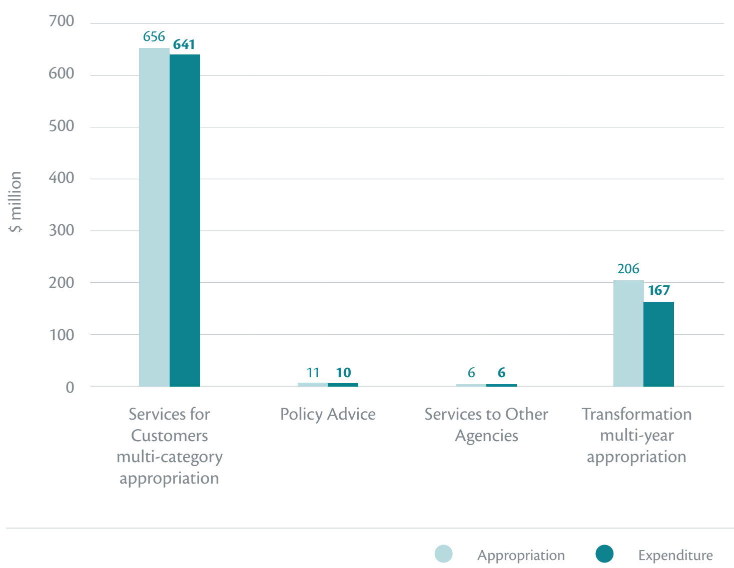
Each year we receive funding from the Government to deliver specific services. This funding is called an appropriation. Our total funding for 2019–20 was $879.1 million.



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.

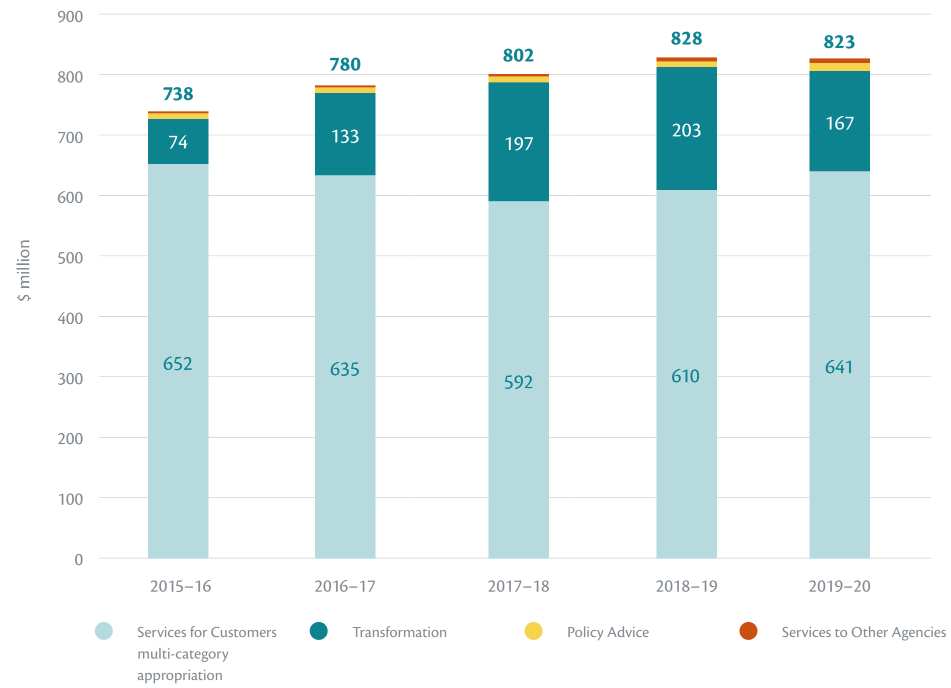
We managed our finances well
He pai ā mātou whakahaerenga pūtea

2019–20 EXPENDITURE AGAINST OPERATING APPROPRIATIONS



In 2019–20, our total spend against our operating appropriations was $823 million. This was $55 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 timing of the organisational change required to deliver the transformation outcomes. Operating funding of $39 million in our Transformation multi-year appropriation will be transferred to 2020–21.

OPERATING EXPENDITURE FROM 2015–16 TO 2019–20



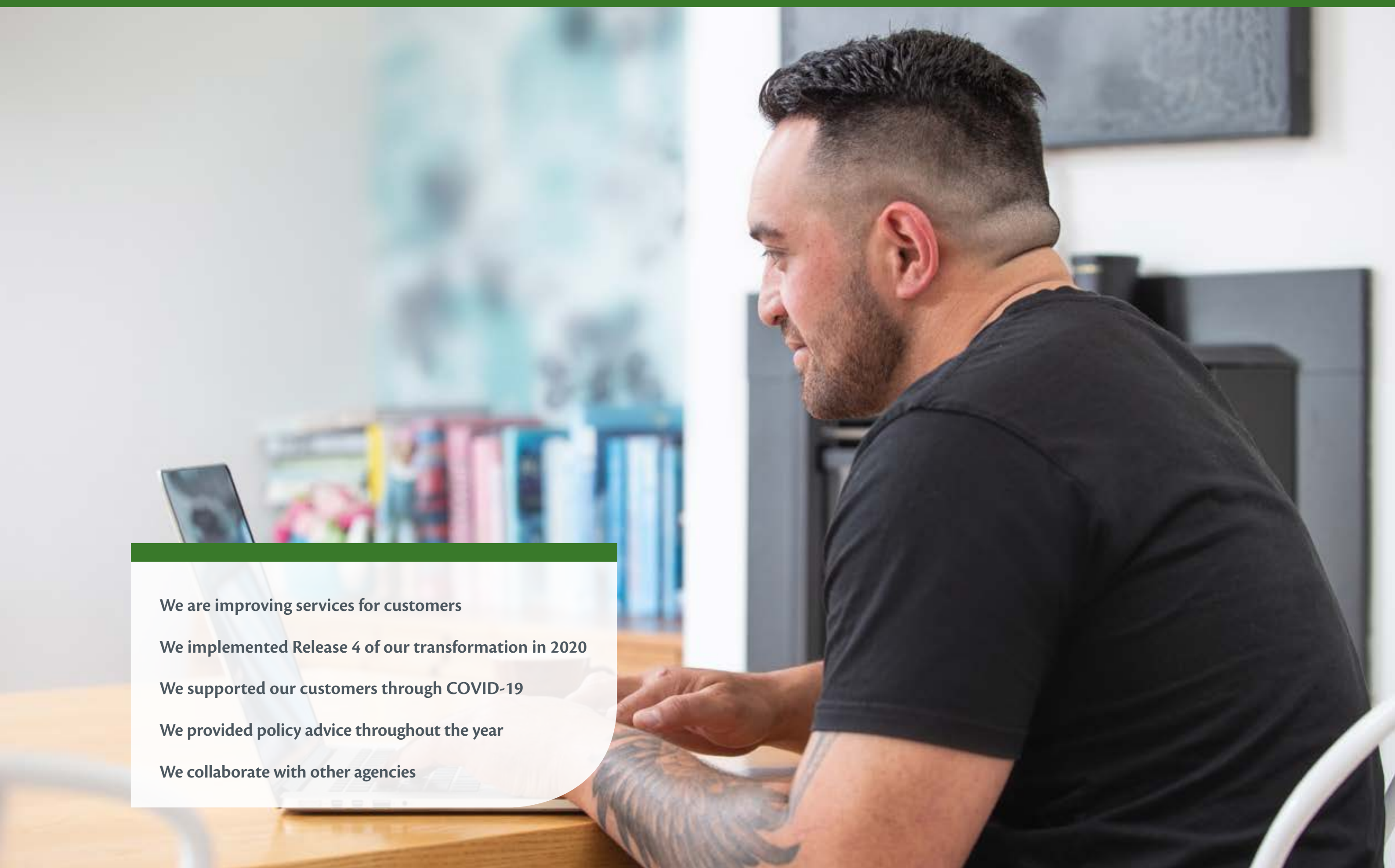
Over the past five years, our total spend has increased by $85 million as we transform our organisation. Our total spend excluding our transformation appropriation has decreased by $8 million over the same period.

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. Improved online services that provide customers with better information are an important part of this.

In 2019–20, we ran the first full tax year in START, our new tax and revenue system, making improvements as we progressed. We delivered Release 4 of our transformation programme, which moved student loans and KiwiSaver into our new systems and processes.

Our new technology and ways of working enabled us to support the Government's response to COVID-19 while most of our people worked remotely.



At a glance

Hei rarapa noa

Release 4
transformed
how we administer
KiwiSaver, student loans and end-to-end PAYE processing

KiwiSaver members
now have better information about their contributions in myIR and
can do more online for themselves

We
automatically issued
3.1 million tax assessments, resulting in customers receiving over
$688 million in refunds and $140 million in tax to pay

Student loan customers are
finding the new services easy to understand
and they can do what they need to in myIR

In response to COVID-19, we implemented a number of policy changes to
support the people of New Zealand

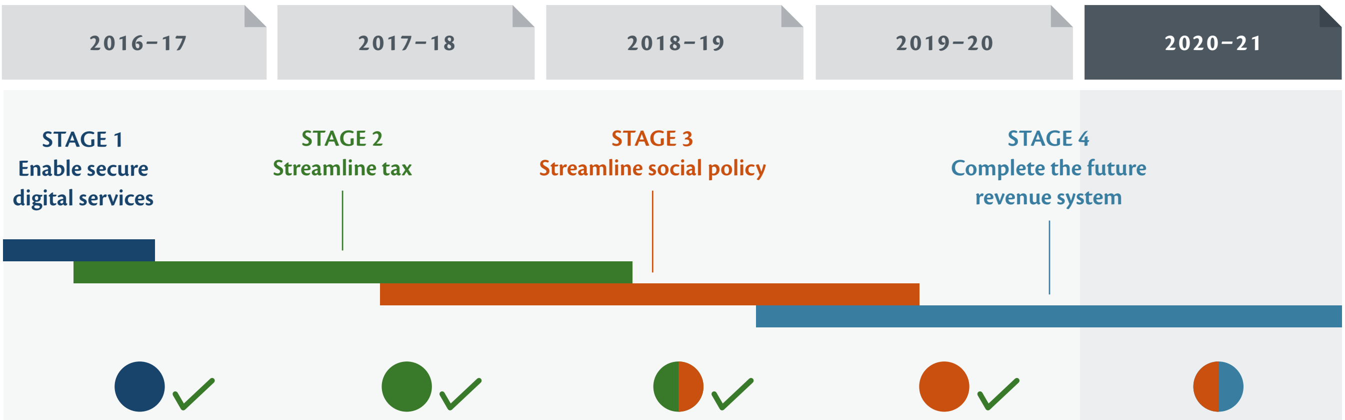
We implemented the
Small Business Cashflow Scheme
which paid out
$1.4 billion
by 30 June

We supported the Ministry of Social Development with the
wage subsidy scheme
which paid out
$12.7 billion
by 30 June

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. Our transformation is making it easier for customers to manage their tax obligations and receive their entitlements with speed and certainty. The Government is now able to make policy changes faster and more cost-effectively.

FIGURE 1: WE ARE TRANSFORMING NEW ZEALAND'S REVENUE SYSTEM IN FOUR STAGES IN A SERIES OF RELEASES



Stage 1

Customer experience
- Self-service for GST

End-to-end solution
- GST
- Foundational technology

Release 2

Policy
- Accounting Income Method (provisional tax)
- Payday reporting (voluntary)

Customer experience
- Digital submission of employer information

End-to-end solution
- Withholding taxes
- Fringe benefit tax
- Payroll subsidy
- Gaming machine duty
- Automatic Exchange of Information

Release 3

Policy
- Payday reporting (mandatory)
- Reduction in PAYE electronic filing threshold
- Investment income filing (voluntary)
- New annual income tax process
- Individuals' income tax

Customer experience
- Digital submission and improved self-service for income tax
- Improved self-service for PAYE

End-to-end solution
- Income tax, including provisional tax
- Imputation taxes
- Working for Families
- Independent earner tax credit

Release 4

Policy
- Investment income filing (mandatory)
- Social policy changes

Customer experience
- Improved digital submissions for KiwiSaver providers
- Improved self-service for KiwiSaver and student loans

End-to-end solution
- PAYE
- KiwiSaver
- Student loans

Stage 4

Policy
- Social policy changes

Customer experience
- Improved self-service for paid parental leave, unclaimed monies, foreign trusts, duties and reserve schemes, and child support
- Full customer view available

End-to-end solution
- Paid parental leave
- Unclaimed monies
- Foreign trusts
- Duties and reserve schemes
- Child support

Our transformation is helping our customers

This year was the first full tax year we operated in our new tax and revenue technology system, START, after Release 3 of our transformation in April 2019. This release was the biggest change to the revenue system for individuals in more than 20 years and moved every taxpayer account for income tax and Working for Families into START.

More information lets us provide better services to our customers

The year ended 31 March 2020 was the first full year that we received employment income information every pay day. It was also the first year we received information about people who receive investment income more often, from payers who chose to provide it. This became mandatory for payers of investment income from 1 April 2020. More detailed and timely data means we can proactively contact customers during the year to ensure they are paying and receiving the right amounts.

We improved our process for automatically issuing income tax assessments

Our second year of issuing automatic income tax assessments included a number of improvements, based on customer feedback. The things we did differently in 2020 included:

> sending the assessments out over a shorter time period so customers had certainty earlier

> using analytical capability to select customers so that refunds were made early to the customer groups who were likely to need it the most

> ensuring that we ran assessments for Working for Families customers as early as possible, so Working for Families customers would have certainty sooner and would not need to call us.

We started to automatically issue income tax assessments on 18 May 2020. As at 30 June 2020, 3.1 million assessments had been issued, with around 90,000 still to go, resulting in over $688 million in refunds and $140 million in tax to pay. At the same time in 2019, we released 1.6 million out of the total of 3.0 million assessments, resulting in $395 million in refunds and $67 million in tax to pay.

The increase in refunds and tax to pay, from the same time in 2019, is a result of more customers receiving automatically calculated assessments this year. We want to decrease the amounts of refunds and tax to pay from the automatic assessment process in future years. To do this, we will continue to support our customers to pay the right amount from the start, for instance by making sure they are on the correct tax code or prescribed investor rate. The threshold for writing off debt from automatic assessments temporarily increased for this year in response to COVID-19. This means fewer people have bills to pay.

We implemented Release 4 of our transformation in 2020

We implemented Release 4 of our transformation programme on 16 April 2020, during COVID-19 Alert Level 4. This release moved KiwiSaver, student loans and the end-to-end processing of PAYE to new systems and processes. Release 4 also made improvements to digital services, income tax and Working for Families.

These changes give New Zealanders more information and options to manage their taxes and social policy entitlements, and make sure their payment obligations reflect their current income. Customers who are experiencing financial difficulties can apply for relief through a new myIR service. Employers can set up their own instalment arrangements online for any debt they owe. Student loan borrowers who are struggling to make repayments can now apply for a special deduction rate online. Previously, customers had to phone or write to us to access these services, which could take several days.

After Release 4 was implemented, we put in place an extended support period, Pou Whirinaki, to ensure issues identified by customers or our people were quickly prioritised and resolved.

Release 4 is helping customers

The benefits of the changes made in Release 4 are already evident. New processes are more efficient, meaning customers' accounts are far more up-to-date and accurate. This is particularly important in the current environment as we help support the recovery from COVID-19.

Since go-live, we have been able to transfer contributions to KiwiSaver scheme providers more quickly. In the weeks immediately after go-live, around three-quarters of members' contributions were transferred to scheme providers within three to seven working days and 99% were transferred within 14 days. Before this, it took, on average, 20 to 23 working days to transfer contributions.

KiwiSaver members now have better information about their contributions in myIR and they can do more online for themselves. We can also identify where a KiwiSaver deduction from an employer is not received into a member's KiwiSaver account. New Zealanders now have their contributions invested far more quickly which, over time, should help their retirement savings.

There have also been significant improvements in the administration of student loans. Loans can now be closed overnight. Before Release 4, closing an account could take up to 42 days due to the amount of manual work involved. Customers often had deductions made from their salary and wages throughout this time. Since Release 4, around 31,000 borrowers have been advised that their loans have been paid off, with $5.9 million refunded to them.

Customer feedback on Release 4

In the weeks immediately after Release 4 and when the 2020 automatic income tax assessments process was underway, we ran a series of surveys to understand customers' experiences. The key findings were:

- Most employers believe the Release 4 changes will make filing easier, especially centralising employer information in myIR and combining the KiwiSaver and new employee forms.
- Changes have been well received by student loan customers, with over 80% finding it easy to understand and do what they need to do in myIR.
- KiwiSaver customers are finding myIR easy to navigate.
- The vast majority of customers like the automatic income tax assessment process because it is straightforward and minimises actions required from them. More than 80% generally trust Inland Revenue to calculate their tax correctly.

We implemented Release 4 remotely

The vast majority of the go-live process for Release 4 was completed remotely for the first time during the lockdown for COVID-19. This was made possible by the investment in tools and technology in recent years, and through building on the good release and change management processes used for previous releases.

During lockdown, when Release 4 products were being moved to new systems and processes, there were a maximum of eight people from the transformation team on site at our offices at any time, compared to a peak of approximately 100 people for previous releases.

Around **270 people** worked on the Release 4 cutover remotely, compared to fewer than 10 people for Release 3 in April 2019.

We migrated:

7 million
accounts

172 million
transactions

38 million
returns

767 million
KiwiSaver contributions

3,800
staff trained

168 hours
to cut over

76,000
tests completed

54 hours
to load data into START

1 million
items of data corrected

More than
1,250
cutover tasks

Our policy work supports transformation

In March 2020, Parliament passed the Taxation (KiwiSaver, Student Loans, and Remedial Matters) Act 2020. The new Act contains measures to simplify and modernise the administration of KiwiSaver and student loans repayments. The changes enabled Release 4.

The Child Support Amendment Bill was introduced to Parliament in March 2020. The proposals in the Bill are aimed at removing obstacles to child support compliance and making it simpler to comply, and cover four important aspects of the child support scheme:

> simplifying the penalty rules
> introducing compulsory employer deductions
> limiting retrospective reassessments by introducing a time bar
> amending the definition of 'income'.

Moving child support to our new systems and processes will happen in the next stage of our transformation.

We helped customers move to other payment options from cheques

In September 2019, we announced, with ACC, that we would not accept cheques after 1 March 2020. The technology we use to process cheques is no longer being supported, so any cheques we receive will have to be processed manually, which takes longer.

We worked with customers to let them know about this change and give them time to adopt other payment options. Though changing to other payment options required some effort from our customers, they benefit through having a faster and more secure way to pay.

We also introduced a self-service phone payment service for credit and debit card payments as part of Release 4.

Where customers had no other option than paying by cheque, we granted exceptions. As at 30 June 2020 we have made 520 exceptions.

In 2013–14, cheque volumes were approximately 2 million, which reduced to 425,000 in 2018–19. Cheque volumes have decreased significantly each month. From 1 March 2020, when we stopped accepting cheques, to 30 June 2020, we received around 9,000 cheques, compared to 150,000 over the same period last year.

We supported our customers through COVID-19

We played a significant role in helping to deliver the Government's response to COVID-19. The capabilities we gained through our transformation—technology and our people's skills—were crucial to our ability to do this quickly.

The flexibility and new functionality in START enabled us to implement the Small Business Cashflow (Loan) Scheme and help the Ministry of Social Development to deliver the wage subsidy. Our analytics tools helped us to detect risk and reduce the likelihood of incorrect claims or payments under the initiatives.

New workplace technology let our people work more flexibly and collaboratively, which meant that we could respond to COVID-19 and support our customers while working remotely. Our new ways of working enabled us to work across teams and departments in an agile way.

We introduced new approaches to support customers

The national response to COVID-19 required us to adapt and innovate. It created new challenges for our customers, our people and in how we managed our workload. We know there will also be changing circumstances for us to respond to in the future, with the risk of further lockdowns and an uncertain economic environment.

We used analytics to quickly identify essential customer contacts, including those related to COVID-19, and to provide timely responses. We also adjusted our priorities to focus on supporting customers through COVID-19, preparing for Release 4, and critical services, particularly payments and disbursements to customers.

As part of this approach, we closed some phone lines on 26 March 2020. The lines that remained open were primarily for social policy customers and employers. Customers who called the lines that were closed were directed to self-service or webmail. Encouraging customers to use these options also allowed us to efficiently respond to customer requests during periods of high customer demand.

We also started trialling some outbound calling where customers were able to ask for a 'call back'. Our ability to answer phone calls reduced by approximately 25% due to the challenges associated with lockdown, such as some of our people being unable to work in our offices.

We implemented the Government's Small Business Cashflow Scheme

The Small Business Cashflow (Loan) Scheme was introduced to provide businesses with cashflow support to cover their non-wage costs. The scheme went live on 12 May 2020, two weeks after Cabinet made the decision to introduce it.

The Commissioner's Care and Management powers were used to help customers

The approach Inland Revenue has taken in response to COVID-19 has had the wider aim of providing, where possible, flexibility in our responses regarding tax issues to assist our customers to continue to meet their obligations.

The Commissioner of Inland Revenue is responsible for the care and management of the tax system, as outlined in the Tax Administration Act 1994. These responsibilities include deciding how to best use her resources to maximise the amount of tax collected, to promote voluntary compliance, and to protect the integrity of the tax system.

To the extent possible under the law, the Commissioner has used her existing powers relating to the care and management of the tax system to provide for more flexibility and certainty for customers.

Recent legislation passed to respond to the COVID-19 crisis also provided the Commissioner with temporary powers to vary timeframes, procedures and administrative requirements, and the ability to remit interest on tax paid late under certain circumstances. These are covered on page 30 along with other measures implemented to assist customers.

As at 30 June 2020, 89,461 applications have been received, 85,248 have been approved and more than $1.4 billion has been paid. Almost all applications—99.9%—were received through myIR. Customers found it easy to use myIR to apply for the scheme, and most did not need to call us to do this.

Working with other agencies to support customers

In response to COVID-19, the Government introduced the wage subsidy to ensure businesses were able to keep employing their staff. We provided support to the Ministry of Social Development (MSD) in policy development for the wage subsidy, and to administer the scheme by verifying the eligibility of applications. This has helped MSD to put in place and then extend the Government's wage subsidy scheme, which paid out $12.7 billion in wage subsidies and leave payment scheme payments to 30 June 2020.

When the subsidy was first introduced, MSD people had to call us to confirm a business's details such as business IRD number and name, and employee IRD numbers. The up-to-date employment information we now get enables us to provide this information. As at 30 June 2020, we had answered more than 380,000 calls from MSD to verify wage subsidy eligibility.

A new information sharing portal delivered by a team made up of key people from across Inland Revenue and MSD streamlined that process. The flexibility of our START system helped us to create the portal so that we could implement government policy quickly.

We implemented other changes to help businesses

Business tax changes to free up cashflow, including an increase to the provisional tax threshold, the reinstatement of building depreciation and writing off interest on the late payment of tax in certain circumstances, have been implemented.

The Government introduced a temporary loss carry-back scheme to support customers in the current uncertain economic environment. The temporary loss carry-back measure provides cashflow relief for businesses in loss during the period affected by COVID-19 and was aimed at businesses that had previously been profitable. Businesses expecting to make a loss in either the 2019–20 or the 2020–21 tax year can use some or all of that loss to offset profits they made the year before.

As at 30 June 2020, customers had received refunds or amendments of $87 million through the scheme. Our new analytical capabilities are helping us administer the scheme by identifying customer errors, both inadvertent and deliberate.

From 8 June 2020, people who lost their job could apply for the COVID-19 Income Relief Payment. Sharing data with MSD through a new information sharing agreement supported 13,904 applicants to receive this payment.

Other information sharing agreements were put in place with the Ministry of Business, Innovation and Employment and the Treasury for COVID-19 purposes. We also created a secure site to share unstructured information with our agency partners, the External Collaboration Hub Online.

More information on the results of our approved information sharing agreements is available on pages 188 to 193.

We led and implemented policy changes in response to COVID-19

On 25 March 2020, the COVID-19 Response (Taxation and Social Assistance Urgent Measures) Bill was passed through all stages under urgency. A second urgent Bill, the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill was introduced and passed on 30 April 2020. The new Acts contained measures to provide cashflow in the near term and to encourage investment. Inland Revenue was the lead agency for these Bills.

We also contributed a Supplementary Order Paper (SOP No.488) to the COVID-19 Response (Further Management Measures) Bill.

The two new Acts included the following measures:

- The provisional tax threshold increased from $2,500 to $5,000. This means customers who expect to have a tax bill of less than $5,000 in the 2020–21 income year do not have to pay instalments through the year. We estimate that 95,000 taxpayers will now not have to pay provisional tax.
- The low-value asset write-off threshold was raised from $500 to $5,000 for property purchased in the period 17 March 2020 to 17 March 2021, and to $1,000 for property purchased from 18 March 2021, to provide cashflow. This measure also aims to encourage investment.
- Depreciation on commercial and industrial buildings is now allowed for the 2020–21 and later tax years. This could reduce this year's tax bill. This permanent measure is intended to support businesses' cashflow in the near term and assist with the broader economic recovery by stimulating business investment in new and existing buildings.
- Broader refundability rules for Research and Development tax credits were brought forward by one year to apply from 2019–20, to provide cashflow for businesses conducting research and development from the start of the scheme.
- For people significantly adversely affected by the crisis, the Government increased Inland Revenue's powers to remit interest on late paid tax due on or after 14 February 2020.
- The Government introduced a new temporary power for the Commissioner to vary a due date, deadline, time period or timeframe, or to modify a procedural or administrative requirement.
- The new legislation also contained an amendment to the In-Work Tax Credit to remove the requirement for recipient families to normally be working at least 20 hours per week as a sole parent, or a combined 30 hours per week as a couple, to receive the In-Work Tax Credit.
- Separately to these two bills, the Tax Administration (Write Off Amount) Order 2020 increased the threshold for the write-off of small amounts of tax owing by taxpayers subject to the auto-calculation process from $50 to $200. This is to provide taxpayers with more funds during the COVID-19 affected period.

We provided policy advice throughout the year

The policy advice we provide is critical to making sure that the tax and social policy systems operate as intended.

In August 2019, the Government unveiled its updated Tax Policy Work Programme. The refreshed work programme reflects the Government's priorities for the tax system and aims to encourage productive investment and ensure the tax system remains sound. The work programme incorporates some recommendations from the Tax Working Group. Our work is guided by the Tax Policy Work Programme.

Our policy effort this year included support for bills to enable Release 4 of our transformation, and as part of the Government's response to COVID-19.

Bills worked on in 2019–20

Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill

COVID-19 Response (Taxation and Social Assistance Urgent Measures) Bill

COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Bill

Child Support Amendment Bill

COVID-19 Response (Further Management Measures) Legislation Bill (we contributed a Supplementary Order Paper (SOP No. 488) to this Bill)

Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Bill.

We collaborate with other agencies

One of our three outcomes is to work collaboratively across our external environment to benefit New Zealanders.

New information sharing agreements are in place

In 2019–20, we implemented new information sharing agreements with other agencies to enable more efficient public services and better customer experience. We started sharing information with:

- the Ministry of Health, to supply information relating to the determination of the problem gambling levy rate, which promotes public health by preventing and minimising harm from gambling
- the Ministry of Social Development, to facilitate providing IRD numbers to former refugees so their benefits are not suspended
- Veterans' Affairs New Zealand, for disclosure of information when consent has been obtained, enabling access to veteran's compensation for qualifying claimants
- Callaghan Innovation, for provision of services and capability to assist with providing the Research and Development (R&D) Tax Incentive and the R&D Tax Losses Scheme to qualifying businesses.

You can find out more about our information sharing agreements on pages 188 to 193.

Tax agents appreciate our response to COVID-19

Tax agents told us they were impressed with our response to COVID-19. A May 2020 Tax Agent Voice of the Customer Survey showed 57% of tax agents were satisfied with our service, up 18% from February–March 2020.

They were pleased with our quick responses to web messages and Small Business Cashflow (Loan) Scheme applications, handling of MSD subsidies and our responses to instalment arrangement requests. We also provided clear information on the tax agents pages on our website, especially the frequently asked questions section and related examples. We closed our tax agents phone line during lockdown, which made it more important to respond quickly and appropriately to online communications.

We helped to create a new All-of-Government translation language line service

We worked with the Ministry of Business, Innovation and Employment and the Department of Internal Affairs to replace the old All-of-Government language line service with a better, cheaper service, which went live on 1 October 2019. The number of languages and dialects available has increased from 44 to 180. The service offers near real-time access to over 2,000 certified translators, enabling us to resolve more customer enquiries the first time they contact us.

A translator is now available on average within 30 seconds from the time we connect to the new language translation service. Previously, appointments had to be booked in advance to ensure a translator was available, resulting in double handling of the call.

Finalists in the 2019 Spirit of Service Awards

Our Policy and Strategy team were finalists in the 2019 Spirit of Service Awards in September. The awards celebrate outstanding public sector leadership that delivers exceptional outcomes for New Zealanders.

Inland Revenue was nominated for the Māori Crown Relationships Award—Te Tohu mō te Tūhonotanga a Ngāi Māori me te Karauna—in recognition of the work we did with the Treasury on Māori engagement with the Tax Working Group.

The partnership between the Treasury and Inland Revenue focused on enhancing tax policy through kaitiakitanga (stewardship), manaakitanga (care), ōhanga (prosperity) and whanaungatanga (relationships).

The year ahead
Ko te tau kei te heke mai

> We will continue to transform as we build our understanding of working in our new systems, such as START, the data and intelligence platform and Ātea, our enterprise support system.

> Our initial thinking on our approach to the final stage of our transformation has changed. We will progressively move the remaining products to new systems and processes in a series of smaller changes over a longer period, rather than as a single, large block of change.

> Paid parental leave, unclaimed monies, duties and foreign trusts will move to new systems and processes in March 2021, and child support will likely move in October 2021.

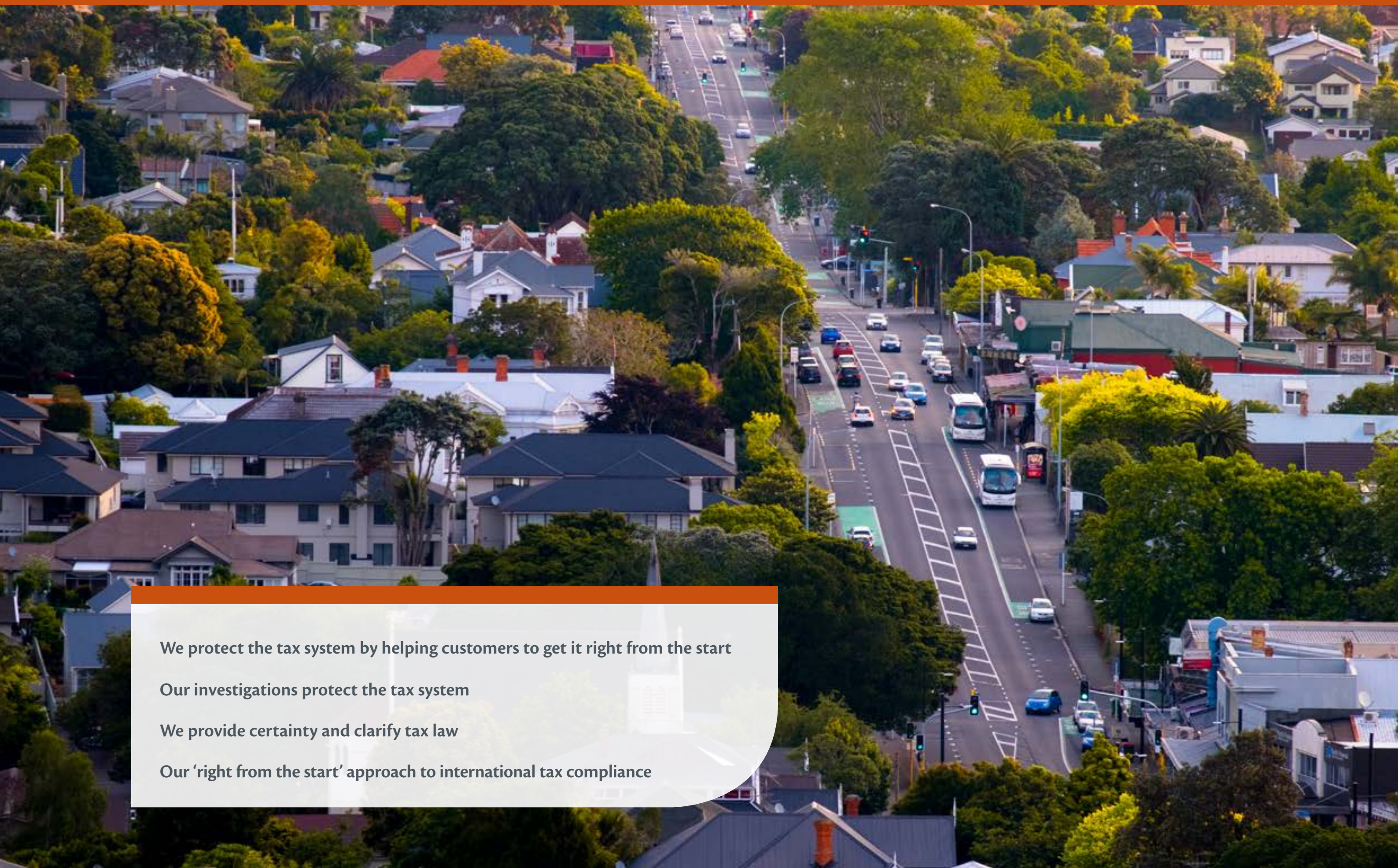
> We will focus on helping customers to get their taxes and social policy entitlements right from the start, and continue with changes to our organisation to help us deliver this.

> We will continue to support the Government's COVID-19 response.

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

Tax helps pay for the public services we all rely on such as education, roads and healthcare. One of our responsibilities is to make sure government has funding for these and other essential services.

Inland Revenue does this by helping our customers to get it right from the start. We provide easy access to information and support. We use new tools and capabilities to focus on where we know people are more likely to get it wrong and act quickly when customers are not meeting their obligations.



At a glance

Hei rarapa noa

86%
of customers agreed Inland Revenue helps people who are trying to get things right

We set up
146,557
instalment arrangements so customers can make repayments over time

We located
11,728
hard-to-find child support customers who had credits and refunded money to them

A streamlined donation tax credit process stopped
$23 million
in ineligible claims

We identified
$959 million
in total tax differences from our investigations

We assessed additional tax revenue of
$87 million
as a result of investigations into property tax compliance

We gave taxpayer rulings on
$11.9 billion
worth of arrangements, where the associated tax was more than
$1.18 billion

Our updated compliance approach for multinationals provides
certainty and transparency
around their tax obligations

We protect the tax system by helping customers to get it right from the start

Inland Revenue is the regulatory steward of New Zealand's tax system. We protect its integrity through helping our customers to meet their obligations voluntarily. We know there are three fundamental beliefs that underpin voluntary compliance and that are vital to the integrity of the tax system. It is important that New Zealanders believe that:

- when I pay my tax, I'm doing a good thing (and that's what people like me do)
- when I'm trying to do the right things, Inland Revenue will help me
- when someone else is trying to do the wrong thing, Inland Revenue will find them.

We carry out a range of compliance activities to make it easy for customers to get things right and hard for them to get it wrong. These activities range across informing, assisting, enabling and enforcing compliance.

Compliance is about making sure all customers pay the right amounts, accurately file the right information and correctly receive the right amounts or entitlements. It covers everything we do from helping customers get things right from the start through to enforcement where necessary.

Taking a 'right from the start' approach means supporting customers before issues arise. We:

> act early
> make it easy to meet obligations and difficult not to
> make our processes easy for customers
> actively involve and engage customers and other stakeholders.

Our new systems enable us to design processes to make it easier for our customers to meet their obligations. We also build in automatic risk indicators and rules that protect the integrity of the tax system and help us to better detect potential fraud across all customer groups.

New analytical tools and capabilities allow us to make smarter decisions and approach compliance in a more strategic way. We can understand our customers better and their reasons for not getting it right, develop more tailored and efficient interventions and respond faster when we see deliberate non-compliance. We take firm action to address deliberate non-compliance through a range of enforcement activities, including audit, litigation and prosecution activity.

Supporting customers impacted by COVID-19 is a priority

Inland Revenue has been helping customers to manage their obligations and understand the options available to them.

Since New Zealand went into lockdown under COVID-19 Alert Level 4 in March 2020, we have:

- set up more than 76,056 instalment arrangements to help customers pay their tax or child support over time
- located 8,535 parents who had made overpayments in child support, or carers with money owed to them, and refunded over $4.3 million
- adjusted the income levels for 8,500 customers whose yearly income decreased by 15% to reduce child support assessments and help with payment plans
- advised customers of a number of relief measures as outlined on pages 28 to 30.

During this period, we focused on supporting customers, providing relief where appropriate and, therefore, deferred or delayed some audits, disputes and debt activities. This ultimately helps to maintain people's voluntary compliance over time. We did progress fraud cases, court proceedings and voluntary disclosures that were important to maintaining the integrity of the tax system.

Our approach has impacted some performance results for the year in our management of unfiled returns and debt, cash collection, investigations and tax technical measures. More information is available in the *Our performance* section from page 68.

We let our customers know, through a number of ways, how we can help them get it right from the start.

It is easier to get tax right and harder to get it wrong

Our new systems, processes and analytical capabilities all help to make tax simpler and more certain for our customers. During the year, we informed customers about their obligations, helped resolve issues early on and improved the efficiency of processes such as the issuing of automatic income tax assessments.

Information is tailored for new customers

An important focus in our 'right from the start' compliance approach is informing customers about their obligations. Transformation has made it much easier to tailor our information to their needs.

For instance, we used our analytics and information tools to identify the best way to support the 54,529 customers who registered for GST and 22,128 customers who registered for the employer deduction code this year. We determined that many did not need help, while others would benefit from attending a seminar or receiving a visit from us.

As part of Release 4, all processing of PAYE moved into START, our new tax and revenue technology system, so we can now take the same tailored approach with customers new to PAYE.

Our systems are designed to help customers get it right from the start

Our systems and processes are designed to minimise the ability for customers to make mistakes and to help us intervene early to ensure they pay and receive the right amounts. Increased automation of our processes means we can do this a lot more efficiently, and are better able to prevent fraud. This allows our people to focus on more complex work to help our customers who need it.

For example, we recently streamlined the donation tax credit process to reduce the volume of donation receipts requiring manual review. We built a number of risk indicators into START so that most receipts can now be automatically approved. This results in customers getting their refunds sooner.

Automated risk indicators also mean that we are more efficient at stopping refunds that look incorrect. For the year ending 30 June 2020, we reviewed 480,000 donation tax credit claims and disallowed 6% of them, valued at over $23 million.

What our customers are saying

This year:

> **77%** of customers said they found it easy to deal with us

> **86%** agreed Inland Revenue helps people who are trying to get things right

Checks are built into our new COVID-19 initiatives

We also built checks and balances into our systems to reduce the likelihood of incorrect claims or payments under the new COVID-19 initiatives.

For the Small Business Cashflow (Loan) Scheme, we built in up-front checks to prevent people who were not entitled from obtaining a loan. By 30 June 2020, we had carried out 9,630 manual reviews resulting in us declining 4,097 applications (totalling $67.67 million). A further 556 applications were declined based on the automated system checks.

We have also been using the analytics and discovery tools to review all loans that were paid out. As at 30 June, we had 51 open audits and 232 more cases requiring audit and any associated collection of loans.

Customers who opted into the new loss carry-back scheme could get refunds within 48 hours. Our systems carried out a range of checks and we reviewed any cases where the system identified an error or potential fraud. This resulted in us helping customers, correcting customer records or taking further action where potential fraud was identified.

Active monitoring reduces opportunities for getting it wrong

We actively monitor customer behaviour and risks to the integrity of the tax system. When a customer makes an error, we review what they have done and sometimes contact them to determine if we can change something to make it easier for them. This could be a change to myIR or to the help provided on our website.

We evaluated 3,130,790 GST returns automatically this year. After risk-based checks, 40,992 returns were identified for further review, and of these:

> 84.6% were released with no action required

> 5.2% were identified for audit action

> 5.9% required an adjustment

> 4.3% remained under review at 30 June 2020.

These further actions stopped $106.8 million in refunds from 3,432 GST returns. We monitor the activity of customers who have attempted to obtain fraudulent refunds.

Our ability to monitor and take action early increases with each transformation release of improvements to systems, processes and our people's capabilities.

We act quickly to address issues

We aim to make customers' experiences easier. For instance, in the lead-up to this year's automatic income tax assessments, we contacted 15,000 business customers who had unfiled employer information returns. We supported them to file or update their details even if they were unable to make payments because of the impacts of COVID-19 on their businesses.

We contacted employers with the largest number of employees first, because we wanted to get correct information for as many individuals as possible before issuing automatic income tax assessments.

We engaged early on GST on low-value imported goods

Offshore suppliers are now required to register, collect and return GST on goods valued at or below $1,000 that are supplied to New Zealand consumers. This helps to ensure offshore suppliers are on a level playing field with domestic retailers.

We engaged early with offshore suppliers to help them meet their obligations and ensure processes will work for them. More than 590 offshore suppliers registered by 30 June 2020 and $62.8 million in GST was returned.

Connecting information to better support customers

Making better use of SMS text capabilities to contact customers is an area where we have strengthened our support options via technology.

In a pilot, we identified customers who needed support, for example those who had an outstanding debt. Typically, one of our people would contact a customer in this situation.

By combining our analytics tools, we could send a group of customers a text, and track their subsequent actions such as whether they had contacted us back or logged onto myIR. This capability means we can help more customers without a one-on-one contact and free up time for our people to focus on those who need more support or are choosing not to comply.

Under the hood with our data and intelligence tools

Data and analytics are helping Inland Revenue to improve our services, act early so people pay the right amount of tax, target our activities more effectively and make better informed decisions.

Within START, the Discovery Manager tool looks at returns received and other information we hold to 'discover' errors and issues requiring action.

START's Integrity Manager tool stops assessments and refunds from being issued if there is a high likelihood they are wrong or fraudulent, based on risk indicators built into the system.

We have also implemented a data and intelligence platform that complements START's analytical capabilities. It brings together multiple data sets, both ours and external ones, to identify patterns, understand more about our customers and prioritise areas where they may need help or guidance.

Our end-to-end capabilities that will maximise the value from these tools are still maturing. However, we have made big advances in integrating tools and systems to trial interventions and develop insights.

For example, we used these capabilities to help the 2020 process for automatic issuing of assessments run faster and with less customer contact. The process took three months in 2019 and two months this year.

As outlined on page 41, analytics are also driving innovations in our property compliance activities.

We manage debt and unfiled returns

Inland Revenue's approach is to prevent customers getting into debt and having penalties and interest added to what they owe. In response to COVID-19, we increased our support to ensure customers knew what help and options were available.

During 2019–20, 146,557 instalment arrangements were set up for customers to repay debt. In particular, we have encouraged customers experiencing a sudden and significant drop in income as a result of COVID-19 to set up an arrangement to pay amounts owing. Instalment arrangements are very effective in helping people to meet their tax obligations.

Customers can set up their own arrangements through myIR for all products except child support. This year in START, 37.5% of instalment arrangements (excluding child support) were created by customers. We find those who do so are more likely to meet payments.

This year, 93.2% of returns were filed on time, compared to 85.2% last year. This reflects the high volume of payday filing returns we now receive from employers, which provides us with more timely and accurate information. 85.9% of tax payments were made on time against a target of 85%.

Budget initiatives targeted aged debt and unfiled returns

Inland Revenue concluded highly successful initiatives that used specific Budget funding:

- We collected $345 million in aged debt over five years against a five-year target of $191 million.
- We assessed over $770 million over five years through work on unfiled returns against a five-year target of $539 million.

You can read more about the results we achieved from additional Budget funding on page 97.

Focusing on tax debt

Excluding debts owed by student loans and child support customers, tax debt at 30 June 2020 was $4.2 billion, up from $3.5 billion at 30 June 2019.

Inland Revenue wrote off $411.6 million of overdue debt in 2019–20, compared to $532.6 million in 2018–19. Tax debt is written off for several legislative reasons, including (but not limited to) serious hardship, bankruptcy, liquidation and the cost of collecting the debt when it is uneconomic to do so.

The increase in overall debt has been caused by a range of factors:

- The last quarter of 2019–20 saw a significant increase in debt growth, as customers experienced the effects of COVID-19. 72% of the GST debt increase this year occurred between April and June 2020.
- This year we prioritised ensuring that payday filing of employment information was accurate and timely rather than collecting associated debt.
- Our new 2019 automatic assessments for individual income tax brought more customers with debt into the system, including those receiving Working for Families Tax Credits. This has contributed to growth in both income tax and, in particular, Working for Families Tax Credit debt.
- Our focus since 2019 on supporting customers through the largest and most complex of our transformation changes, and COVID-19, meant less proactive follow-up on unfiled returns and outstanding debt.

Transformation changes implemented in April 2020 mean our systems consolidated all employer deductions—such as KiwiSaver contributions or PAYE—into a single employer account. This makes it easier for employers to track transactions and payments and allows for a single payment covering all their deduction types.

As shown in Table 1, this consolidation into an 'employment activities' account does change how we group tax debt. The lines marked with an asterisk are those tax types where we are unable to compare debt with previous years.

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

	2016	2017	2018	2019	2020	Change since 2019
Working for Families Tax Credits	224.6	193.4	140.1	128.8	167.2	30%
GST	1,387.0	825.6	814.9	1,180.6	1,550.0	31%
Income tax	2,568.5	1,556.2	1,651.3	1,609.8	1,742.6	8%
Employment activities*	–	–	–	–	741.3	
PAYE and KiwiSaver*	453.8	336.2	417.3	517.1	–	31%
Other tax*	69.7	80.0	79.8	85.0	45.8	
Total debt	**4,703.6**	**2,991.4**	**3,103.4**	**3,521.3**	**4,246.9**	**21%**

Helping child support customers to meet their obligations

This year, Inland Revenue continued our targeted approaches for helping child support customers to get it right from the start and address debt early.

We have been preparing for changes in 2021 that will move child support services into START. We located 11,728 customers with historical credits they did not know about. Feedback from customers was of financial relief and a sense of closure—a few customers had given up hope of ever getting the money.

We also resolved historical debt for 81,950 customers through collection of their child support liabilities and writing off penalties where appropriate.

We set up 84,320 arrangements for customers to pay their child support in instalments.

New Zealand and Australia continued to collect child support for each other under a reciprocal agreement. We received $43.2 million and sent $14.2 million. We are also working to ratify the Hague Convention on the International Recovery of Child Support and Other Forms of Family Maintenance, which will make it easier to collect child support from parents living overseas.

Managing child support debt

At 30 June 2020, child support debt was $2.2 billion, a decrease of 2.6% from this time last year. We wrote off $249 million to encourage payments from customers and resolve historical debt. This compares to $244 million in 2018–19.

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

	2016	2017	2018	2019	2020
Total debt value	3.311	2.736	2.259	2.208	2.151
Penalties only	2.661	2.119	1.662	1.608	1.553

Debt is pursued through the courts when necessary

As a last resort, Inland Revenue takes action through the courts if we cannot arrange child support debt payments.

This year, the courts granted four arrest warrants, two people were arrested and two chose not to leave the country. These resulted in lump sum payments and one payment arrangement to ensure they comply with future obligations.

The courts also granted nine summons for the examination of a liable parent's financial means, six charging orders against property and five warrants to seize property.

Making student loan repayments is easier

Moving student loans into START makes it easy for customers to make repayments online, and identify their loan balance, overdue amounts and upcoming obligations.

Customers who are struggling to make repayments can also easily apply online for special deduction rates and interest exemptions.

This year, we continued to send targeted emails and SMS text messages to overseas-based borrowers. From March 2020, we assured customers that we are aware of the impact COVID-19 may be having on them and let them know how we could assist if they are struggling.

We collected $1.48 billion in repayments this year, up 7.8% from last year.

Of the total repayments, $1.09 billion came through PAYE, up 9.7% from last year, and $384.4 million directly from customers, up 2.7% from last year.

At 30 June 2020, overdue debt was $1.58 billion, compared to $1.48 billion in 2018–19. This increase was driven by overseas-based customers.

TABLE 3: NET REPAYMENTS BY OVERSEAS-BASED CUSTOMERS ($ MILLION)

2015–16	2016–17	2017–18	2018–19	2019–20
216.1	214.8	221.3	206.3	211.6

We enforce when necessary

Since student loan arrest provisions were introduced on 8 March 2014, 16 arrest warrants for unpaid student loans have been sought, resulting in 10 arrests.

Two borrowers were arrested this year, resulting in them making lump sum payments and payment arrangements to ensure they comply with future obligations.

Our investigations protect the tax system

Inland Revenue's investigation activities play an important part in protecting the integrity of the tax system. This assures the vast majority of New Zealanders who do the right thing that we will catch those few who don't.

We use intelligence and data tools to identify customers who are not getting it right, to better focus interventions such as audits and reduce their duration.

From March 2020, we contacted customers and tax agents to assure them we would support them through any current audits or disputes. We recognised many customers would be under pressure and feeling uncertain because of COVID-19, and we let people know we would consider delaying an audit or dispute for a time.

We did progress work on cases that put the integrity of the tax system at risk. We also continued our focus on increasing compliance in the hidden economy and on property transactions, while at the same time ensuring the validity of refunds and claims.

Overall, investigations this year identified $959 million differences in tax positions, a return on investment (ROI) of $8.75:$1 against a target of $7:$1. Fourteen audits with tax adjustments over $10 million were closed.

Refer to page 99 in *Our performance* for more details.

We helped customers buying and selling property to meet their obligations

Inland Revenue has continued to address risks related to the incorrect tax treatment of property transactions. We assessed additional tax revenue of $87 million in 2019–20 as a result of investigations into property tax compliance.

Helping customers to meet their bright-line obligations

Under the bright-line rule, customers are required to pay income tax on any profits made from selling a house other than their main home within five years of purchase. We have been working to improve compliance, starting with ensuring that customers have every opportunity to meet

their obligations. This is followed up with enforcement for those that choose not to.

Using information generated by our intelligence tools, we contacted 3,204 customers about their potential tax obligations. 569 customers were referred for audit and 231 people provided a voluntary disclosure. Voluntary disclosures totalling $1.01 million in additional income tax were assessed during 2019–20.

IRD numbers are now required when buying and selling property

From 1 January 2020, most people who buy and sell properties have been required to supply their IRD number on land transfer documentation. We have been communicating this change with customer groups such as conveyancers and have updated our website.

Before this, up to one third of land transfers were made without a record of the IRD number of the buyer or seller. The change provides us with a more complete picture of property transactions to ensure compliance with tax rules.

Residential rental losses can no longer be used to offset other income

From 1 April 2019, landlords can no longer generally offset residential property deductions against their other income. We redesigned income tax returns so customers can provide residential income and deduction information and work out excess deductions that are ring-fenced.

We reviewed tax returns filed by customers that claimed residential rental losses. As a result, we protected tax revenue of $2.15 million this year.

Complex technical issues

Some people deliberately 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.

Our investigations this year into aggressive tax planning and other technical issues resulted in tax position differences of $295 million.

Data and analytics drive innovations in property tax compliance

Our analytics and intelligence tools are helping drive innovations and efficiencies in activities around bright-line obligations. As noted above, our customer teams contacted 3,204 people related to bright-line obligations and could quickly feed back to us on whether a property sale they looked into is subject to this rule or not.

Our data and intelligence platform (DIP) was used to bring together multiple data sets to analyse property sales and better target our efforts. The analytics improved our ability to identify sales that are indeed subject to the bright-line rule. A sample set of 100 potential bright-line cases were selected by the DIP and provided to our audit teams. Of the 100, 54 were recommended for audit, a significantly better success rate compared to using our previous systems and processes.

The DIP also shortens the time we need to review bright-line cases before an audit from hours to minutes.

The intelligence gathered from these 3,204 customers has been used to enhance the code in the DIP to better identify non-compliance at early stages. Our aim is to automate this process of 'test and learn' so that we can develop and deliver targeted interventions at scale for other compliance areas.

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 by answering specific, discrete questions we have been asked.

This year, we provided guidance on a range of income tax and GST matters and several issues related to the impact of and response to COVID-19, including:

- the tax implications of providing short-stay accommodation in a property owned by a family trust
- the implications of receiving an amount from a foreign trust
- what are business premises for the purposes of the land tax rules.

Inland Revenue issued a determination to assist employers with the tax treatment of allowances paid to employees to cover their costs of working from home due to COVID-19. We also issued advice about the new loss carry-back rules.

Rulings help customers interpret the law

Taxpayer rulings give Inland Revenue's interpretation of how the law applies in specific circumstances. This year, we ruled on $11.9 billion worth of arrangements, where the associated tax at issue was more than $1.18 billion.

Significant transactions ruled on included company group restructures, insurance and the new base erosion and profit shifting provisions, which concern tax avoidance strategies exploiting gaps and mismatches in tax rules to minimise tax.

Our new tax technical website makes it easy to find all our technical publications

www.taxtechnical.ird.govt.nz

Inland Revenue's Rochelle Bouterey honoured for frontline excellence

Rochelle (on the left) received her commendation from the Minister of State Services Chris Hipkins (middle) and Public Service Commissioner Peter Hughes (right) at an awards ceremony in November 2019.

In November 2019, Customer Compliance Specialist Rochelle Bouterey received a commendation for frontline excellence from the Public Service Commissioner Peter Hughes.

The commendation comes under the Te Tohu Amorangi a Te Kawa Mataaho Public Service Day Awards, which honour the great work public servants do to make a difference for New Zealanders.

Rochelle's award recognised her work to investigate suspected income suppression by a chain of 28 restaurants, which led to one of the most significant prosecutions taken by us in the past decade.

We prosecute when necessary

For exceptional cases involving a clear and material risk to the integrity of the revenue system, we continued to take enforcement action. We completed 58 prosecutions this year for tax evasion, knowledge and Crimes Act 1961 offences. This compares with 68 in 2018–19. As at 30 June 2020, there were 85 prosecutions before the courts compared with 92 at 30 June 2019.

A number of the prosecutions were high profile, reflecting the public's concern about appropriate action being taken when customers break the law. For example, two co-owners of a restaurant chain were jailed in February 2020 for hiding $6.5 million in cash and laundering the proceeds of their offending. Their offending spanned six years beginning in 2008.

We assist significant enterprises to help make interactions easier and faster

Inland Revenue continues to work with organisations whose turnover is more than $30 million—we call these customers significant enterprises. This group paid $7.4 billion in income tax for the 2019 tax year and billions more in GST and PAYE collected on behalf of employees and the Crown.

We provided dedicated compliance and account management to the top 59 customers in this group, as well as account management to some other enterprises with turnover over $100 million. We reviewed the tax returns of approximately 1,100 significant enterprise groups. This provides assurance to customers that the Commissioner is generally satisfied with their returns or is the basis for determining if any customers need further risk review.

A big focus earlier this year was to help significant enterprises prepare for the Release 4 changes implemented to employer information filings, KiwiSaver and student loans, which impacted on them as large employers and financial intermediaries. In addition, the impact of COVID-19 meant we shifted from compliance activities to providing a greater amount of assistance. Feedback from these customers has been positive, especially about the speed of our responses.

We are helping and assuring high-wealth customers meet their obligations

High-wealth customers and their respective groups paid more than $1.1 billion income tax in the 2019 tax year and collected in excess of $1.925 billion in PAYE. They include individuals or family groups who control more than $50 million in wealth.

Because their activities and tax affairs are complex in nature, we have a dedicated team who provide tailored services for them. Our aim is to help customers pay the right amount of tax, which most do.

Sometimes customers get it wrong, whether deliberately or by genuine mistake. In 2019–20, we identified tax position differences of $143.2 million. The amounts identified from year to year can vary significantly due to the timing for the conclusion of long-running cases.

Our 'right from the start' approach to international tax compliance

We work proactively to help multinational enterprises get it right from the start. Working together provides assurance to us and greater certainty for multinationals, which also makes New Zealand an attractive place to do business.

Read the Multinational Enterprises Compliance Focus 2019 document at

www.ird.govt.nz/international

Increased transparency and certainty for multinationals

Multinationals are a significant group in New Zealand's economic environment. Protecting tax revenue means we need to look at compliance internationally as well as domestically.

In November 2019, Inland Revenue published an updated compliance focus for multinationals. It reinforces the importance we place on transparency and providing greater certainty for the corporate sector. It also provides assurance to the public that significant enterprises are paying the right amount of tax, and we will take action if that is not the case.

The update outlines the objective of our international compliance approach, which is to collect 'the right amount of tax at the right time through the right channels'. It also includes New Zealand's response to the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting Action Plan and our forward programme of work.

Providing certainty upfront

Inland Revenue operates a programme of advance pricing agreements. These agreements provide customers with certainty on tax for specific transfer pricing arrangements, typically for an agreed period of five years. The programme provides us with a level of certainty that these businesses are paying the right tax over a period of time and potential future revenue benefits, with less time required than adversarial audits.

46% of the customers have been in this programme for more than 10 years, and 20% for more than 15 years. As at 30 June 2020, we had 65 customers with active advance pricing agreements, representing tax assured of approximately $200 million a year.

All the customers within the programme are required to file an annual compliance report to confirm their tax position.

We actively monitor multinationals

As part of our increased move to a 'right from the start' approach, we operate several active monitoring programmes. We annually monitor and review significant enterprise customers as outlined on the opposite page and collect further intelligence on all multinationals.

For the last five years we have assured over $6 billion of New Zealand's tax base through this monitoring programme.

We commenced targeted enforcement campaigns this year, the first one focused on 375 wholesaler/distributor corporates. The campaign reinforced our view of a strong compliance culture in New Zealand, with most corporates performing within expectations. Only 7% warranted a further review. An additional 5% require ongoing monitoring. This approach provides us with further assurance on almost $500 million of the $6 billion tax base noted above.

We facilitate international tax transparency through effective exchange of information

Inland Revenue takes part in Automatic Exchange of Information with other jurisdictions, an initiative led by the OECD to address offshore tax evasion. In our second year of these exchanges, 74 jurisdictions sent us almost one million account records on New Zealand residents with offshore investments.

We matched all the records with our information and risk assessed these against a set of criteria. Based on our analysis, we piloted compliance campaigns ranging from education to enforcement. More than 3,500 customers with multiple offshore accounts were contacted and by 30 June 2020, we had received and processed 307 voluntary disclosures. These voluntary disclosures resulted in a total tax shortfall of almost $6 million and led to greater customer awareness about their obligations.

If all of these customers continue to meet their obligations, and there is no negative change in their circumstances, we expect to collect an approximate $2 million in additional tax a year.

Contributing to international tax policy

This year, we worked on a number of aspects of cross-border tax policy, including options for taxing the digital economy. New Zealand continued to take part in an OECD-led effort to develop an internationally agreed solution in this area.

We also maintain a network of double tax agreements (DTAs) and tax information exchange agreements, which are important for trade relations and help to ensure the integrity of the tax system.

This year, a new DTA with China came into force. It contains provisions to ensure people doing business between China and New Zealand do not have to pay tax in both countries for the same transaction.

Carmel Peters receives global recognition for leadership in tax

The year 2019 marked 100 years of women being allowed to practice in law and accountancy—and therefore tax—in many countries. In recognition, the women's network of the International Fiscal Association announced the leading women in the tax community worldwide.

Inland Revenue Strategic Policy Advisor Carmel Peters was recognised for her considerable contribution to international and domestic tax policy in New Zealand. She has managed the delivery of a range of domestic reforms such as our response to base erosion and profit shifting and the digital economy, and has negotiated double tax agreements.

Carmel co-chairs the United Nations (UN) Committee of Experts on International Cooperation in Tax Matters and OECD's Working Party No. 1 on Tax Conventions and Related Questions. She is the Convenor of the UN's subcommittee on an update to the United Nations Model Taxation Convention.

The year ahead

Ko te tau kei te heke mai

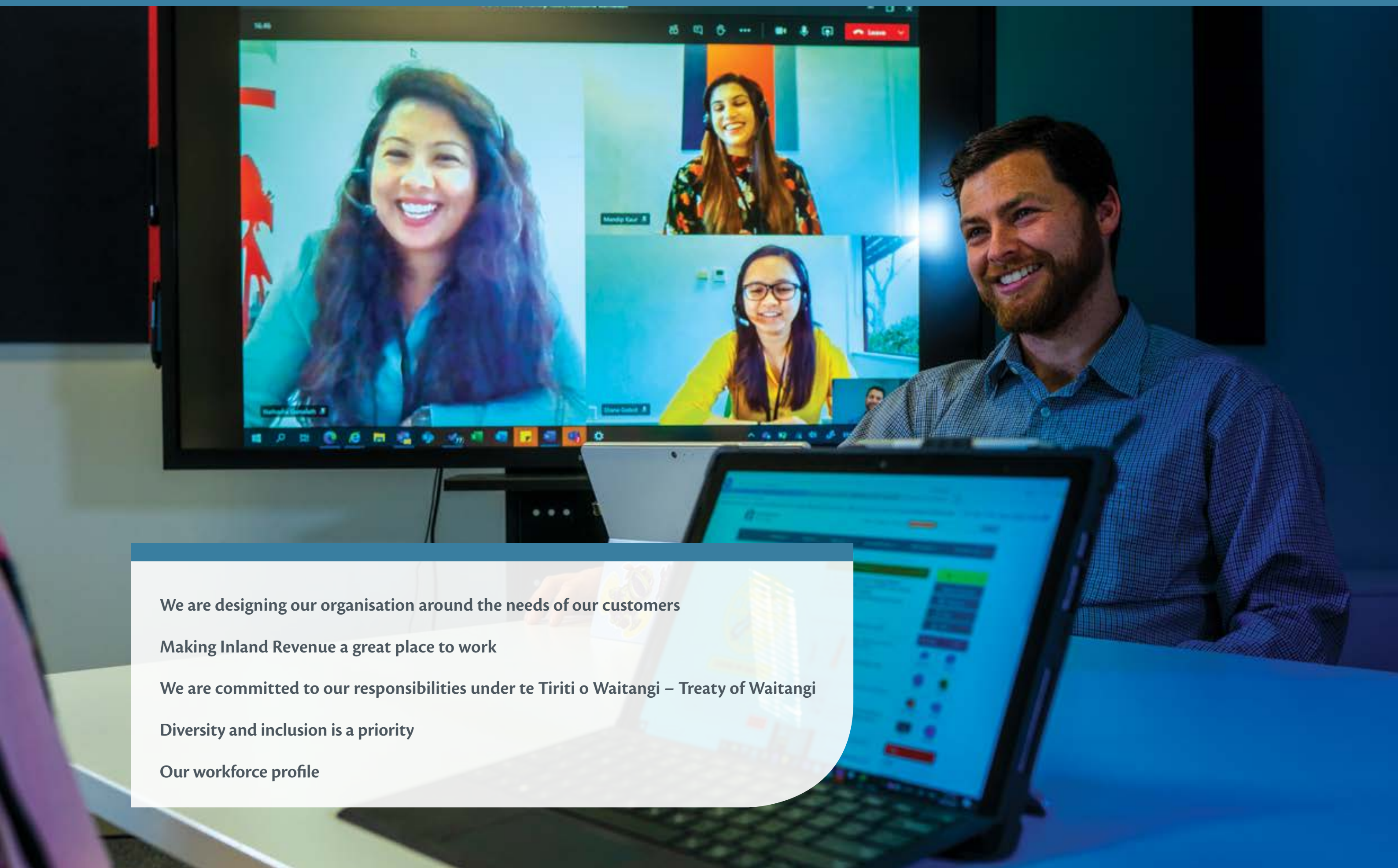
- In 2020–21, Inland Revenue will continue to support and assist customers to meet their tax obligations and help those adversely affected by COVID-19 to understand the relief options available.
- We will continue to mature our analytics and information capabilities to:
  - identify potential and actual non-compliance earlier
  - take more effective action through informing, assisting, enabling and enforcement activities
  - prevent customers getting into debt and having penalties and interest added to what they owe, and increase repayments towards debt.
- We will maximise the improvements implemented through our transformation to match more information with customers and identify errors and inconsistencies.
- We will also continue to prepare for child support processing to move into START.
- We will keep working with multinational enterprises to gain a clearer view of the impact of the new anti-base erosion and profit shifting measures and any pockets of potential non-compliance.
- We will continue to run compliance campaigns as we exchange more financial account data on New Zealand tax residents and build on what we and our tax treaty partners have learned.

Supporting our people
He tautoko i ō mātou Tāngata

We are investing in our people by building their knowledge and capability in areas such as policy agility, tax technical expertise and digital skills, so that we can more quickly meet our customers' current and future needs.

Our continued move to capability-based roles, combined with new tools and technology, is enabling us to be more agile, more resilient and to work more efficiently. Our people were able to develop and implement initiatives quickly, while working remotely to support the Government's response to COVID-19.

We are focused on creating a diverse workforce and an inclusive culture to best serve our communities.



At a glance

Hei rarapa noa

We
changed how three of our business groups operate

We supported our people's wellbeing
through the
COVID-19 lockdown

We progressed
Māhutonga,
our programme to weave te Tiriti o Waitangi (Treaty of Waitangi) and Māori principles, concepts and practices into our work

We achieved key elements of our
Diversity and Inclusion Strategy

We negotiated
collective agreements
with each of our three unions

We progressed our
Gender Pay Gap Action Plan

We
launched mental health training
for all our people

Our people increasingly reported a
good or very good experience of doing their work
during lockdown

We are designing our organisation around the needs of our customers

Our transformation is about more than introducing new systems and technology. It is about creating an organisation that works better together to improve outcomes for our customers. We are continuing to create an agile, resilient, intelligence-led organisation built around the needs of our customers.

This year, we made changes to our operating model for our Policy, Information Technology and Change, and Tax Counsel groups. We created new capability-based roles, larger and more flexible teams, fewer leadership roles and new leadership models.

Changes this year aimed to:

> ensure our policy advice achieves the intended results and improves overall outcomes across government, by supporting the Government's broader economic and social objectives

> maintain our high standards of tax technical work while enabling greater flexibility and integration of work across our organisation

> simplify our information technology services and drive business innovation to deliver improved experiences and outcomes for our customers.

We are progressing the design of the rest of our organisation, focusing on the capabilities needed in the future. New Deputy Commissioner roles have been established within the Executive Leadership Team to lead two new groups—Enterprise Design and Integrity, and Enterprise Services. These groups will cover functions such as finance, facilities, technology, people, integrity and assurance, and change. Our people, unions and other key stakeholders are involved as we progress this work.

Investing in our people to be successful

We have invested significantly in the foundations for a transformed and future fit workforce by building our capability both on the job and through formal training. Our performance approach, Whanake (meaning to grow/develop), focuses on building capability across Inland Revenue through regular coaching conversations with all of our people.

We invest in our people's development

We are focused on developing our people's capabilities in twelve key areas that represent the mix of skills, experience, knowledge and attitudes we believe we need to better serve our customers.

We have made significant investment in our people by supporting them to apply and grow their capabilities in different work situations and environments. For example, in April and May this year, around 20 of our people helped other agencies at the COVID-19 Operations Command Centre and National Crisis Management Centre.

Our leadership development programmes include a combination of workshops, peer-to-peer learning, networking and opportunities to work through real life leadership challenges. This year, 75 leaders and aspiring leaders took part in these programmes.

Our 'Working Smarter' learning pathways strengthen our people's digital literacy skills, helping them to get the best from our new tools and technology. This enabled them to effectively work remotely during the lockdown period of COVID-19.

FIGURE 2: INLAND REVENUE'S 12 PEOPLE CAPABILITIES

Investment in training

Between July 2019 and June 2020, our people attended over 13,000 face-to-face learning sessions and completed over 120,000 online learning modules. Over 3,000 people completed over 40,000 training hours in total to learn how to use our new processes in START, our new tax and revenue technology system.

We continue to provide high-quality professional development for our tax professionals at all levels. Our people have completed 35,000 training hours in tax and social policy learning this year, through internal roadshows, conferences, videos, e-learning, partnering and one-on-one coaching.

Using data and analytics to support our decision-making will enable Inland Revenue to deliver greater value for our customers and the wider public sector. We are building our people's data and analytical skills as we teach them how to use the customer insights provided through our new data and intelligence platform.

We support the public sector Skills Pledge

In May 2019, Inland Revenue signed up to the public sector Skills Pledge. The Skills Pledge is a commitment to significantly increase investment in upskilling our people, to prepare for the rapidly changing future of work.

Inland Revenue pledged to continue investment in training to build the capability of all our people.

This year, we spent $10.8 million on our business-as-usual upskilling, and $8.1 million on upskilling through our transformation programme. This covers all costs relating to upskilling, including procurement and administrative costs and our people's time.

Making Inland Revenue a great place to work

We want working at Inland Revenue to be challenging and rewarding, and we want to support our people through this period of significant change.

Our desired culture

We are building a culture around the needs of our customers in an intelligence-led, agile and inclusive way. We contribute to this through the way we work, the decisions we make and the actions we take. This is also influenced through our beliefs, behaviours and the relationships we have with each other.

FIGURE 3: 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.

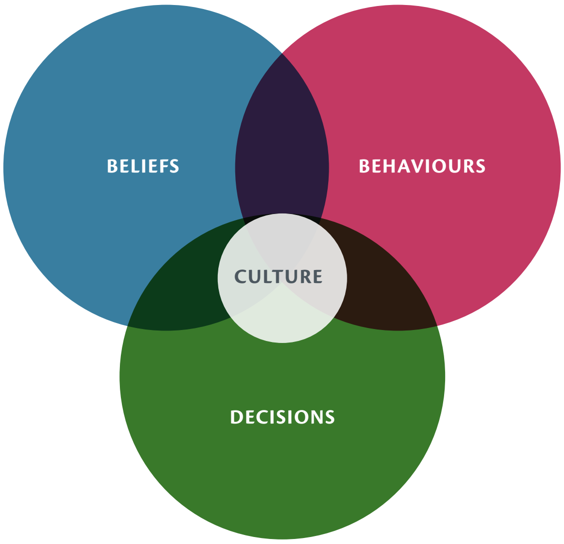
Agile

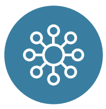
We work at pace, pulling together the right people to make good decisions quickly, focusing on the things that matter most.

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 4: 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

Our people's engagement and wellbeing is important to us

In October 2019, we ran Kōrero Mai, our culture and engagement survey. This is an opportunity for our people to say 'what it's like to work here' and how well we are moving towards the type of culture we need to support our transformation goals.

The results showed that the gap between our current and desired culture is closing, with positive shifts in the areas of diversity and inclusion, people leadership and collaboration. Despite this, levels of engagement continued to be low (25%). Through the survey, our people indicated that the main driver for this is where we are in our transformation journey. This included going through organisation structural changes, dealing with co-existence of systems and processes as we implement new ways of doing things, and a desire for more open and transparent communication.

We know Inland Revenue's success depends on our people, and we remain committed to improving engagement. We will continue to explore and implement new ways to ensure we are actively listening and responding to our people.

The rapidly evolving COVID-19 situation in early 2020 created new challenges for our people and in how we managed our workload. Approximately 77% of our people worked from home during the lockdown period. We explored new ways of working and staying connected to ensure our people were keeping well and engaged. Our investment in technology helped our people to manage their work alongside other commitments.

From early April, we ran regular wellbeing surveys to see how our people were feeling and provide the support they needed. As we got used to working differently our people increasingly reported a good or very good experience of doing their work (78% by June, up from 61% in early April). We will continue to run these surveys to get feedback from our people as part of our engagement approach.

Keeping our people healthy, safe and well

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

Our National Health and Safety Steering Committee includes representatives from our senior management and unions. We have active participation in health and safety at all of our sites, through elected and trained Health and Safety Representatives. Our focus on health and safety engagement helps ensure we are working effectively to manage risks to our people.

In February, we launched a mental health training programme. Its aim is to support our people in looking after their own, and their team's, mental health. By the end of June, over half of our people had accessed the training.

This year, we also updated our front of house design in several sites to better protect our people and customers, and provided Lone Worker Device training for over 400 of our people.

TABLE 4: HEALTH AND SAFETY REPORTS 2019–20

Type	2018–19	2019–20
Incident reports related to our key risks	179	91
Discomfort reports	482	444
Events with superficial/no injuries	696	911
Work-related Accident Compensation Corporation (ACC) claims	41	43
Incidents requiring notification to WorkSafe New Zealand under the Health and Safety at Work Act 2015	1	0
Other reports	375	n/a
Total reports during reporting period	**1,774**	**1,489**

Keeping our people safe and well during COVID-19 alert levels:

- We sent out over 6,500 pieces of office equipment and provided virtual work-station assessments to give staff a safe and comfortable work environment at home.
- We organised daily cleaning of all our occupied buildings, additional cleaning of high-touch surfaces during Alert Levels 4 to 2, and deep-cleaned all our buildings before re-opening.
- To assist with contact tracing, we monitored swipe card access in our buildings.
- 346 leaders and union representatives and delegates attended short online seminars on supporting mental health during alert levels and when working from home.
- We ran a challenge to help our people keep active when working from home.
- Regular wellbeing pulse surveys helped to ensure support was in place for our people. Leaders accessed the results through near real-time dashboards, enabling them to follow up quickly with people who felt that their wellbeing was 'not good at all'. Our people increasingly reported a good or very good experience of doing their work (78% by June, up from 61% in early April).

We continue to proactively engage with our unions

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

Engagement with our unions extends across business groups, the transformation programme, health and safety and a range of organisational initiatives. Unions are involved at local, national and programme levels and we regularly share information with them.

This year, we negotiated collective agreements with each of our three unions. Each agreement is for three years.

We will continue to work with our three unions as we design and implement our future operating model.

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 know that different people value different things.

Our Commissioner's Awards celebrate our people who do a great job and embrace our culture, values and behaviours, making Inland Revenue a better place to work. At the end of each year we recognise the best of the best from our Commissioner's Award winners with our Stellar Achievement Awards.

We also recognise our people in other ways, including sending eCards, printed cards and digital Praise badges.

The Ria McBride Public Service Management Award – Theresse Ioaba

The Ria McBride Public Service Management Award, sponsored by Te Kawa Mataaho Public Service Commission, supports women to study as part of their development towards senior management positions in the Public Service.

The 2019 award went to Theresse Ioaba, a Team Leader in our Significant Enterprises team, who Inland Revenue nominated for her incredible resilience and determination to achieve.

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

We understand the importance of meeting our te Tiriti o Waitangi (Treaty of Waitangi) commitments as a government agency. Our Māhutonga approach is designed to help Inland Revenue achieve its Treaty commitments by integrating te Tiriti o Waitangi and Māori principles, concepts and practices into the way we work. Our approach aligns with work happening across the public service to improve the Māori Crown relationship.

This year we:

> continued to develop our Māhutonga approach and the refresh of our te reo Māori language plan. As part of this, we held a series of hui around the country, attended by 150 of our people, to talk about the Treaty principles (Partnership, Participation and Protection) and how to ensure that Inland Revenue maintains the cultural integrity of any tikanga Māori it practices.

> began developing a Māori customer strategy, Mauri Ora Te Whānau. This strategy builds on the research work undertaken for our Māori customer landscape, which was developed using kaupapa Māori research principles. Mauri Ora Te Whānau focuses on building a customer environment that is mana enhancing, mauri inducing and whānau focused. Through these, we will develop our people's capability to understand Māori and improve the way we deliver services to Māori customers.

> created a workstream focused on outcomes for our Māori customers, developing self-help resources for Māori and supporting our national Kaitakawaenga Māori team to deliver services in a whānau, hapū and iwi-centric way. We worked with Auckland Tourism, Events and Economic Development to develop a webinar for the Māori Business Collab. The webinar was aimed at helping businesses and individuals impacted by COVID-19 so they knew what help was available. Where alert levels allowed, we continued Marae visits to help communities with their taxes.

> worked with the PSA to introduce a new te reo Māori allowance which recognises Māori language ability. The allowance is accessible to all our employees who have the appropriate certified proficiency. It encourages them to upskill in, and actively use, te reo Māori.

Our new tukutuku panels show our journey with te Tiriti o Waitangi - Treaty of Waitangi

In September, we unveiled six new tukutuku panels which will be permanently displayed in the Asteron Centre in Wellington. They tell the story of our journey with te Tiriti o Waitangi. The tukutuku panels were made by Inland Revenue people, past and present, and are a visible commitment to our bicultural heritage and history.

Diversity and inclusion is a priority

Diversity and inclusion across our organisation is critical to helping us understand and meet the needs of our communities. We want diversity of thought, beliefs, background and capabilities. Understanding how our customers see the world and the life events they are experiencing, helps us to put them at the centre of how we design our services and interactions so they can get it right from the start.

Our Diversity and Inclusion Strategy is designed to:

> 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

> 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.

Over the last year, we achieved key elements of our strategy, progressing from a 'reactive' to a 'proactive' organisation against the Global Diversity and Inclusion Benchmarks.

This year we:

- participated in the TupuToa Internship Programme, hosting interns in our Policy and People and Culture groups. The programme is designed to grow the future generation of Māori and Pasifika leaders by creating pathways for students into careers in corporate and professional sectors
- empowered our diversity networks to lead ambitious work programmes, supported by executive sponsors and funding, to raise awareness and encourage everyone to value and embrace our diversity. Our networks help us leverage the rich diversity of our people to improve our services and deliver great outcomes for our customers
- established two new diversity networks, Multi-Cultural and Diversability (supporting the diverse needs of disabled people), and recognised and celebrated more than 55 diversity and inclusion events
- ran regular awareness campaigns and training on accessibility, and developed toolkits to create content (for example documents, emails, videos) which is accessible for everyone, including disabled people
- continued to support our leaders to embed inclusive approaches into their work practices and behaviours, through regular communications, resources and training
- completed stage 1 of Rainbow Tick accreditation, to show our commitment to being an inclusive and supportive workplace
- continued to introduce more diverse facilities and visual designs into our workplaces around the country. This included parenting and reflection rooms, gender-neutral bathrooms, Māori cultural designs and a rainbow wall
- designed our new online modules for mental health training to ensure that there was a strong diversity element, with the use of them/their pronouns and diversity of situations and characters for the storylines.

Our diversity networks are helping us to improve our services to customers

Our Tagata Pasifika Network has helped teams across our organisation to understand the challenges and opportunities for the Pasifika community when interacting with Inland Revenue. The network is working with our customer-facing teams to help Pasifika customers who are claiming donations tax credits, by developing resources and content for community radio to support digital self-service.

Our Diversability Network is helping to raise awareness of opportunities to make it easier for our customers with disabilities (such as vision, hearing or cognitive impairments) to get what they need from Inland Revenue.

Our Rainbow Network led the development of a guide to support our people in navigating the process of gender transitioning at work. They also created an LGBTQIA+ Inclusive Language Guide which aims to improve conversations and build respectful relationships between our people and with our customers.

"We serve diverse communities in New Zealand so it's important that we take every opportunity to learn as much as we can and make sure we're communicating well with our customers." Sharon Thompson, Deputy Commissioner, Customer and Compliance Services—Individuals and ELT sponsor for the Rainbow Network.

The network is part of the Cross Agency Rainbow Network (CARN), and led a cross-agency initiative promoting the use of pronouns throughout the Public Service. Pronouns are words used to refer to people (for example, she/her, he/him, or they/them) and getting them right is critical to inclusion in our workplaces and delivery of services.

We promote diversity and inclusion in the public service

Our Commissioner, Naomi Ferguson, is Functional Co-Lead for Diversity and Inclusion in the Public Service, and co-leads Papa Pounamu, a steering group of 12 public sector chief executives driving a programme of diversity and inclusion across the public service. She also sponsors the Government Women's Network and leads the Advisory Group for the OECD Forum on Tax Administration gender balance network. The Network was established in 2019 to help improve gender balance in leadership positions across tax administrations.

Inland Revenue is committed to a number of public sector diversity and inclusion initiatives, including:

- the All-of-Government Accessibility Charter
- Lead toolkit for employing and retaining disabled people within the State Sector
- the He Taurangi Panel Pledge for balanced representation on panels at conferences
- publishing our Gender Pay Gap Action Plan and reporting on progress against it.

Our flexible working practices support diversity and inclusion

We support flexible working. This is reflected in our capability-based approach, investment in workplace tools and technology, and performance approach (Whanake). Flexible working helps us create a more diverse and inclusive workplace where everyone can contribute to Inland Revenue's success.

In 2019, we began working with Te Kawa Mataaho Public Service Commission (formerly the State Services Commission) on guidance for flexible-by-default working practices. 'Flexible-by-default' means treating all roles as flexible unless there is good reason for any role not to be, and ensuring flexible options are equally available to everyone without undermining career progression or pay. Flexibility includes the ability to work from home, differing start and finish times, part-time work and job sharing, and phased retirement.

We have incorporated Te Kawa Mataaho flexible-by-default milestones into our approach to flexible working.

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. Our Gender Pay Gap Action Plan is published on our website. It describes our current pay gaps, the drivers behind them and the actions we are taking to close them.

As part of the plan, this year we:

- analysed employee profiles from the point of gender and ethnicity
- examined pay and career movements from 2015 to 2020
- looked at the ethnicity and gender breakdown of roles across business areas
- identified job segments with a gender imbalance
- engaged an external provider to run workshops on unconscious bias and how to remove bias from the recruitment process
- monitored interview outcomes using documented panel summaries.

Between 30 June 2016 and 30 June 2020, our average gender pay gap decreased from 20.6% to 18.0%. Inland Revenue has changed the way in which the gender pay gap is calculated to align with sector guidance. The pay gap calculation is based on a person's substantive role. Previously the calculation was based on a person's current position including temporary role changes.

When we compare salaries of men and women in the same roles, on average there is a close to 0% pay gap. Our gender pay gap is largely explained by the over-representation of women in less complex roles, and under-representation of women in senior and highly complex roles.

Across our organisation, women currently make up 49% of the people who earn over $100,000, while they make up 70% of the people who earn under $100,000.

Representation of women in senior management has increased in recent years, from 22% to 45% between June 2016 and June 2020.

We are achieving our goal of having a minimum of 40% of senior leadership roles held by women.

We are addressing the imbalance in ethnic representation

We are committed to addressing the imbalance in ethnic representation at Inland Revenue. Across the public sector, Māori, Pacific and Asian women experience bigger pay gaps than European women.

As at 30 June 2020, our people represented 130 different ethnicities, broadly in line with the ethnic make-up of New Zealand. However, our diversity decreases as job complexity increases. Our Gender Pay Gap Action Plan aims to reduce ethnic pay gaps and includes strategies to attract, develop and retain people and create a more flexible and whānau-friendly workplace.

We will continue to analyse our gender and ethnic pay gaps and work with our people and unions to understand the barriers to career movement and how we can address them.

The tables to the right summarise the ethnicity of Inland Revenue's people. Because they can identify with multiple ethnicities, figures may add up to over 100%.

TABLE 5: ETHNICITIES AT INLAND REVENUE

Ethnicity	**New Zealand** (2018 Census)	**Inland Revenue** (as at 30 June 2020)	**Public sector** (Human Resource Capability Report 2019)
European	70%	68%	67%
Māori	17%	12%	12%
Asian	15%	16%	16%
Pacific Peoples	8%	8%	9%

TABLE 6: PERCENTAGE OF LEADERSHIP ROLES BY ETHNICITY

Ethnicity	**Team leader**	**Management**	**Senior management**
European	75%	89%	94%
Māori	13%	6%	6%
Asian	8%	5%	3%
Pacific Peoples	8%	3%	3%

The data includes fixed-term and permanent employees.

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 301, 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.

TABLE 7: OUR WORKFORCE PROFILE

Measure	2016	2017	2018	2019	2020
Headcount	5,789	5,519	5,250	5,009	**4,831**
Full-time equivalent	5,662	5,401	5,134	4,888	**4,724**
Average age	43.3	44.0	43.7	44.6	**44.9**
Full time	91%	91%	91%	90%	**90%**
Part time	9%	9%	9%	10%	**10%**
Permanent	97%	95%	89%	87%	**84%**
Fixed term	3%	5%	11%	13%	**16%**
Female staff overall	64%	64%	64%	65%	**65%**
Female all people leaders	57%	57%	58%	61%	**59%**
Female managers	47%	50%	47%	50%	**49%**
Male staff overall	36%	36%	36%	35%	**35%**
Male all people leaders	43%	43%	42%	39%	**41%**
Male managers	53%	50%	53%	50%	**51%**
New hires	558	400	604	425	**540**
Exits	658	670	938	693	**763**
Unplanned turnover	10.0%	10.7%	12.1%	9.1%	**8.1%**
Total turnover (annual)	10.5%	11.1%	15.4%	9.6%	**10.5%**
Average length of service (years)	11.5	12.8	13.6	14.5	**15.4**

The year ahead

Ko te tau kei te heke mai

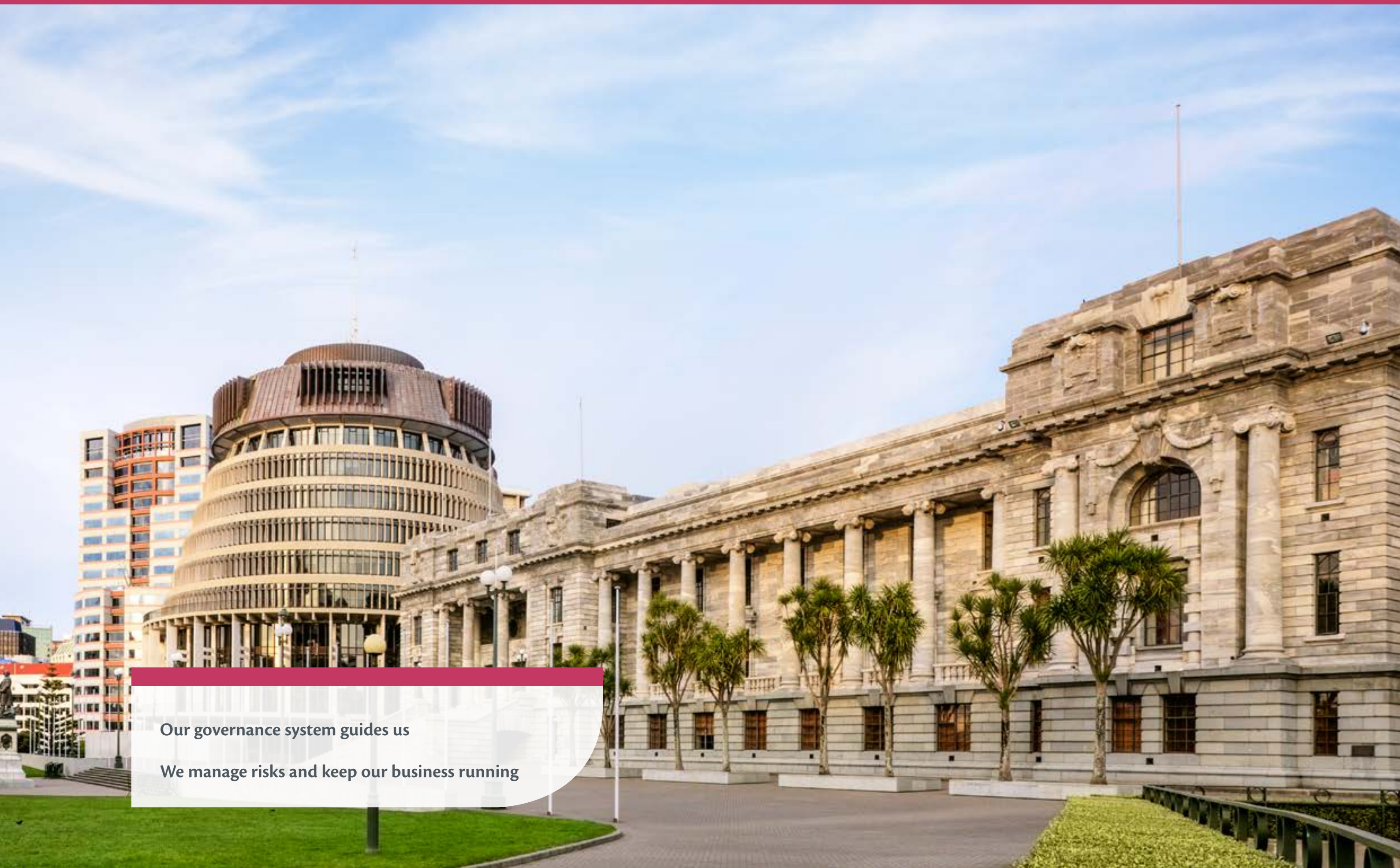
- We will complete the design of our two new business groups. We will continue to look at the size and shape of our organisation to ensure we have the right capabilities to meet our customer needs and deliver value for the government now and in the future.
- We will update our policies to meet Te Kawa Mataaho Public Service Commission bias and discrimination milestones and flexible-by-default working arrangements.
- We will complete our Customer Strategy and Road Map to improve how we work with our Māori customers.
- We will continue the focus on lifting our people's capability in the areas of diversity and inclusion, and data and analytics.
- We aim to achieve 'Progressive' in the Global Diversity and Inclusion Benchmarks and gain Rainbow Tick accreditation.
- We will refresh our approach to leadership development, including increasing the focus on inclusive leadership.
- We will continue to explore new ways to actively listen and respond to our people, as part of our engagement approach.
- We will launch our new learning tool in Ātea (our enterprise support system) to simplify, streamline and, in some cases, automate our internal business processes.

How we govern and manage
Ko ō mātou mana whakahaere me ā mātou mahi whakahaere

Our governance system is well-established. It 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.



Our governance system guides us

We manage risks and keep our business running

At a glance
Hei rarapa noa

We
streamlined our governance system

We adopted a
new intelligence-led risk management strategy

We
governed and led successfully through COVID-19

We used technology to
adapt to the changing environment

We are
optimising our physical and environmental footprint

Our governance system guides us

Our governance system ensures we do the right things in the right way to deliver our transformation programme, manage enterprise risks and meet Government expectations.

At the centre of this system is the Strategic Governance Board. The Board is chaired by the Commissioner of Inland Revenue and the members are our Executive Leadership Team. Between July 2019 and January 2020, the Board was supported by five committees.

Early in February 2020, the Performance and Investment Committee, the Organisation Development Committee and the Customer-centric Committee were placed on hiatus. This was done to streamline our governance system so that we could make the best use of our executive leaders' time and ensure timely, agile decision-making. The governance decisions that were made at these committees were redistributed to the remaining committees, and a newly formed He Kōtuitui Executive Governance Committee. In June 2020 these changes were made permanent.

Membership of our governance 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 will continue to learn from and adjust our governance structure, as we consider what our future governance system will be.

The Strategic Governance Board provides our overall strategic direction and approach and determines our enterprise risks and our strategic 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 He Kōtuitui Executive Governance Committee is responsible for approving the detailed design for our future operating model and for monitoring the implementation of that design, ensuring alignment with the strategic direction set by the Strategic Governance Board.

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

The Portfolio Governance Committee governs the projects and programmes in our investment portfolio, ensuring they deliver as intended and stay within parameters set, including scope, schedule and budget. Significant issues are escalated to the Strategic Governance Board or the He Kōtuitui Executive Governance Committee.

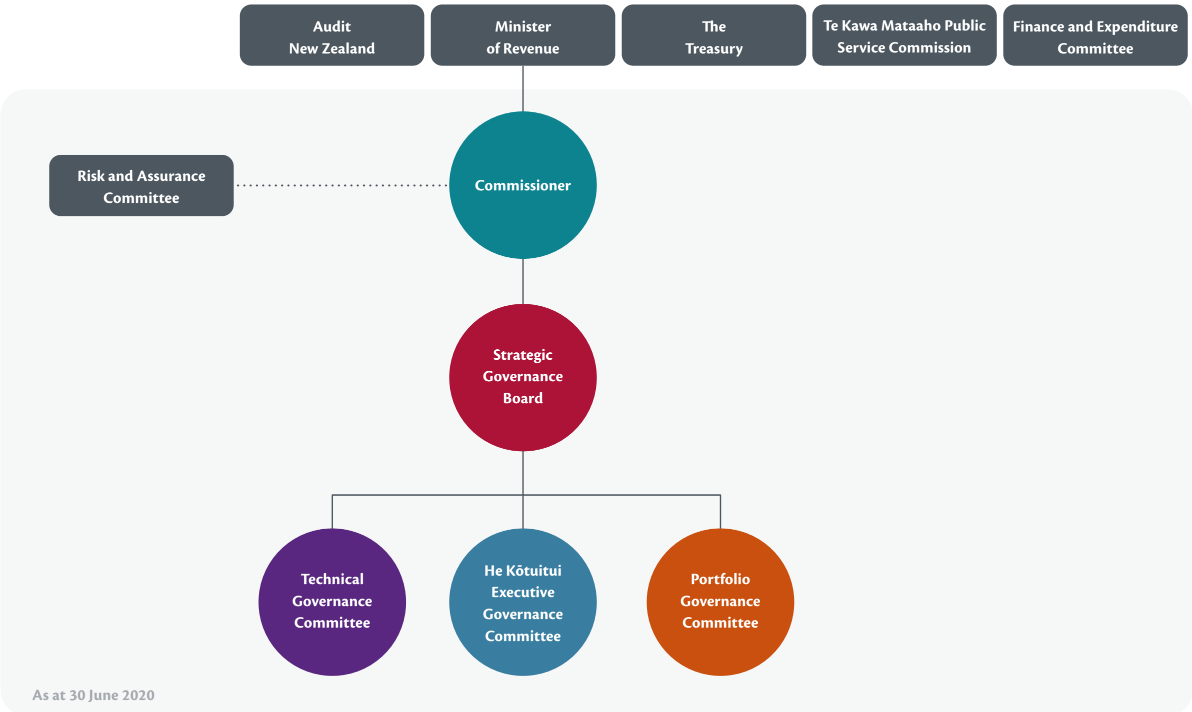
The Performance and Investment Committee governed our organisational health and performance and investment decisions until January 2020. The Committee's role was to understand and balance investment choices and trade-offs, make sure we met investment objectives, govern benefits realisation, and make sure organisational performance was in line with our strategic direction. From February 2020, these responsibilities passed to the He Kōtuitui Executive Governance Committee.

The Organisation Development Committee governed the development of our organisation and workforce until January 2020, ensuring there was alignment with our overall strategic direction. From February 2020, these responsibilities passed to the He Kōtuitui Executive Governance Committee.

The Customer-centric Committee helped 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. From February 2020, these responsibilities passed to the He Kōtuitui Executive Governance Committee.

The following page has a diagram of our governance and accountability structure as at 30 June 2020.

FIGURE 5: OUR GOVERNANCE AND ACCOUNTABILITY STRUCTURE



Independent reviews are essential to good governance of our transformation

Inland Revenue continues to make good progress in realising the benefits of transformation. In particular, the non-financial benefits, agility, resilience and making things easier for customers, are well-advanced as has been demonstrated by our response to COVID-19. To date we are also under budget for transformation.

Four independent assurance reviews were carried out on the transformation programme throughout the year. We provide responses to each recommendation the reviewers suggested. The outcomes of these reviews are reported to Ministers and information about them is published on Inland Revenue's website. www.ird.govt.nz

In addition to these reviews, the Auditor-General conducted a review into the benefit management practices of the Business Transformation programme. The report found we have made good progress to date towards realising the programme's benefits and are well placed to manage, measure and monitor these in the future. It noted, however, that we must continue to monitor risks and put in place mitigations to ensure benefits are fully realised.

More information about this review can be found on website of the Office of the Auditor-General. www.oag.parliament.nz

We manage risks and keep our business running

Risk management is integral to governance and management

Our risk management approach helps ensure we maintain a current, accurate and comprehensive understanding of our risks and the measures in place to treat and mitigate them.

Business groups are responsible for identifying, monitoring and mitigating risks in their area, with support and advice from centralised risk services and internal assurance teams.

This year, we adopted a strategy to refresh our approach to risk management across the organisation, promoting an intelligence-led risk culture and upgrading our tools and guidance. Business groups began a refresh of their individual risks, linking these into the enterprise risks in Table 8. This work will continue into 2020–21.

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.

We manage key risks that could impact on our mission, outcomes and values

Inland Revenue has seven enterprise risks, which are discussed regularly by our Executive Leadership Team and periodically reviewed at our Strategic Governance Board and Risk and Assurance Committee meetings.

The possibility of a pandemic or natural disaster was included in our enterprise risk assessments and we were prepared, with suitable mitigating controls in place such as our Crisis Management Team and incident response process. These were activated and effective in response to COVID-19.

TABLE 8: A SUMMARY OF OUR ENTERPRISE RISKS

Risk 1	Failure to meet expectations of Government, delivering: core business, Government priorities, Business Transformation
Risk 2	The levels of voluntary compliance are reduced to the point of having a material impact on revenue collection for the Crown
Risk 3	Unable to ensure continuity of business services
Risk 4	Insufficient people capability and capacity to deliver outcomes
Risk 5	Inland Revenue's approach to data and information governance is sub-optimal
Risk 6	Unexpected negative customer reaction to the transformation changes
Risk 7	Failure to provide appropriate stewardship of the tax and social policy system

Good governance and business continuity planning pays off in the COVID-19 crisis

Our strong governance and business continuity planning means we can respond effectively during a crisis.

We activated the Crisis Management Team (CMT) in mid-March 2020 to respond to the COVID-19 pandemic. The team prioritised activities and resources to ensure the health and safety of our people as we maintained services, contributed to the Government's COVID-19 response initiatives and delivered Release 4 of our transformation.

The CMT used our crisis management plan and ensured we had protocols in place to respond to each change in COVID-19 alert levels.

As the pandemic escalated, we reviewed our business continuity plans to ensure teams could manage their work with reduced personnel or site access. We temporarily closed nine of our offices during the Alert Level 4 and 3 lockdowns and floors in our other buildings.

Independent review of how we managed our COVID-19 response

In May, we commissioned an independent review of our response to COVID-19 to help us learn what had gone well and what improvements we could make in managing any future crises. The review commended our response for several reasons, including:

- leadership shown by the Crisis Management Team resulted in a well-managed response
- our ability to adapt to different methods of working quickly and under stressful conditions meant we were able to respond to COVID-19, continue delivering on our transformation and deliver services to customers effectively
- we had the technology and infrastructure for most people to work from home effectively
- our communications with customers, and wellness checks with our people, were frequent across a range of platforms and channels
- the use of 'site leads' was identified as a significant difference in ensuring the response at each of the sites was centrally managed and provided a single point of contact
- engagement with unions was open, frequent and enabled immediate issues to be managed.

The review noted that while the areas for improvement were "...mostly attributed to the unprecedented nature of the event and the requirements for the majority of staff to work from home", these were not of a substantive nature and did not result in any failure of Inland Revenue to meet its obligations to the Government and customers.

Our Risk and Assurance Committee provides an independent view

Inland Revenue benefits from our Risk and Assurance Committee, which provides independent advice and insight to the Commissioner on risk oversight and management as well as our system of internal controls.

Committee members, who met seven times in 2019–20, are independent external experts, with a mixture of skills in assurance, financial management, risk management and organisational change.

The following are members of the Risk and Assurance Committee:

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

His current governance roles include Chair of Cigna Life Insurance NZ Ltd and the Red Cross Foundation, and Trustee of the Victoria University of Wellington Foundation and Sky Stadium. Steven is a member of the Risk and Assurance Committee at the Ministry for Primary Industries and the FMA's Auditor Oversight Group.

Michael Ahie is an experienced director with diverse domestic and international experience in both the private and state sectors. He has a strong background in strategic planning and change management. He is Chancellor of Massey University, Chair of the Board of Spring Sheep Milk, Chair of the Plant Market Access Council and is a director of FMG.

Sandi Beatie chairs the Board of Education Payroll Ltd, is a member of the Risk and Assurance Committee for the Department of the Prime Minister and Cabinet and is an independent member of the Department of Internal Affairs' Te Ara Manaaki Programme Board. Sandi also undertakes review and advisory work within the public sector.

She previously chaired the Archives Council, was a Director for IQANZ Ltd and was a member of a Ministerial Advisory Group on Public Media.

Sandi came to governance roles from a background of executive positions in the private and public sectors including as the Deputy State Services Commissioner until 2015.

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

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

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

Melanie Templeton is an independent director currently working in the technology, data products and financial services sectors. Melanie is currently Chair of financial technology crowdfunding platform PledgeMe, a Director with the data products company Xerra Ltd and a member of NZ Tech AI Forum.

Melanie was previously Executive Director with agriculture technology company Regen, Group Executive for Rabobank Group and General Manager RaboDirect New Zealand and Australia.

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

Cath Atkins is also a formal member of the Committee representing Inland Revenue's Executive Leadership Team.

We act with integrity, honesty and professionalism

Inland Revenue plays a unique role in administering New Zealand's tax and social policy and specific obligations under the Tax Administration Act 1994. This includes the requirement to protect the integrity of the tax system and keep information confidential.

We have strict rules and restrictions on integrity matters such as accessing customer information or assisting friends or family. Routine monitoring is in place to look for potential wrongdoing and ensure incidents are properly and fairly investigated.

Our Code of Conduct helps us make the right decisions every time

We launched a refreshed Code of Conduct Tikanga Whanonga in late 2019, to reflect the changes in workplace culture, technology and ways of working. The Code has the State Service Standards of Integrity and Conduct at its core, and reinforces the importance of high standards of integrity and conduct. It provides an ethical decision-making checklist that helps our people make the right decision every time.

We also revamped our fraud and corruption control policy and guidelines to better reflect the changing environment we now work in.

Privacy breaches are minimised

There were 118 privacy breaches reported this year, compared to 112 in 2018–19 and 160 in 2017–18. We attribute the lower numbers for the last two years to better quality assurance processes and controls in START, our new tax and revenue technology system, that prevent unauthorised actions and access. None of the breaches resulted in harm to any individual.

We completed the annual self-assessment against the Government Chief Privacy Officer's 10 core expectations for privacy management. We met seven of 10 expectations and continue to report strong maturity in culture, breach and incident management.

We aim to minimise threats to cyber security

Inland Revenue is seeing increased cyber security threats but has not found any overt unauthorised hacking attempts resulting in a loss of customer data or systems breach.

Our assessment of cyber threats has remained at high, which is in line with New Zealand's national threat level. We monitor our systems and assets for vulnerabilities and risks and continuously improve our detective controls for unauthorised activity such as hacking or non-compliance with our Code of Conduct. During the year we grew the capacity of the Cyber Operations team and continue to invest in them and in our processes to detect and act on potential malicious activity.

We detect and block multiple attempts daily, and there have continued to be numerous 'spam' and 'phishing' attempts to elicit customers' details. We communicate with customers about the safety and security of their information so they can protect themselves, and we do what we can to mitigate such attempts.

We are continually reviewing and improving our cyber processes and procedures.

We communicate with our customers around protecting their information.

Our systems and assets are well managed

Transformation has improved our agility to make changes to the tax system quickly

You can find more information on our technology asset performance on page 105

Before implementing START, our heritage systems and processes were the greatest constraint on our agility to improve services to customers and Government. They were complex, time-consuming and expensive to change.

Business transformation has introduced new technologies including:

- a new workplace technology environment that is less complex, significantly more secure and lets our people work more flexibly and collaboratively
- a new leading-edge security and identity access management system
- migrating all our tax products and some social policies into START, which has greatly improved the resilience of our systems
- creating self-service digital channels and high levels of automation and improved voice capability to serve our customers
- a new information knowledge management system that has modernised how we work and that enables us to work in a more collaborative, joined-up way so we can better support customers
- moving to an IT operating model that is as-a-service and cloud-based
- investments in new data centres, greatly improved disaster recovery, and in data analytics and capability.

The result of these changes is that system constraints are no longer an issue, provided exceptions are minimised, requirements are clear and a good fit with our capabilities, and data sources are well understood.

Ātea is helping us to work more efficiently and productively

As part of our transformation, Ātea is a set of tools that is making it easier for us to do our day-to-day administrative work. It is a modern cloud-based platform used for performing enterprise support services (ESS or back-office).

In October 2019, we rolled out functionality for carrying out core transactions in human resources, finance and purchasing. Ātea provides greater self-service to our people in areas such as travel booking and financial management. It also provides a single source of truth for data and makes business information more visible and available to our teams.

Ātea supports a common process model that we adapted to be fit for New Zealand's public sector and which gives us international best-practice processes.

Using cloud technology has enabled our teams to continue providing day-to-day enterprise support services including annual budgeting and forecasting remotely during the lockdown. We also successfully released a new set of Ātea tools remotely. These included workforce compensation, which helps to manage the pay review process, and a financial control module to help identify fraud and errors.

Over the year, we provided 32 other agencies with access to the New Zealand common process model. We are also supporting several agencies that have chosen to implement the same cloud-based technology as we use.

We reached the Government's target for paying our suppliers

We are meeting the Government target of paying 95% of domestic invoices within 10 working days

On the back of our investment in more efficient services, we reached a target set by Government to pay 95% of domestic invoices within 10 working days from March 2020. Our teams are working hard to sustain this performance because we understand how essential cashflow is to New Zealand businesses, especially now.

We introduced e-Invoicing

This year we introduced e-Invoicing, the first New Zealand government agency to do so. We are ready to pay invoices this way with any suppliers that have also set up this capability.

E-Invoicing is the direct exchange of invoice data between suppliers' and buyers' financial systems. We pay approximately 20,000 invoices to suppliers each year. With e-Invoicing, businesses no longer need to generate paper or PDF invoices that have to be printed, posted or emailed, and buyers no longer need to manually enter or scan these into their financial systems. This results in fewer errors in re-keying information, time savings for both suppliers and buyers and, ultimately, faster payments.

We are focused on efficiency and environmental sustainability

Inland Revenue is transforming into a smaller and more efficient organisation, with a workforce that we expect to be 25% to 30% smaller by 2023–24 than in 2014–15. The space we occupy, our vehicle fleet and use of environmental resources are changing to reflect this.

We are optimising our property portfolio

Over the past few years, we have completed several major property projects to optimise space and reduce our accommodation footprint. We have built greater flexibility into our leases to be able to give up space we do not need. We have also relocated, where opportunities have allowed, to buildings that take less energy to operate.

We moved to a new site—Te Ao Nui—in Te Papaioea Palmerston North, exited two of our three sites in Te Whanganui-a-Tara Wellington and consolidated office space in Takapuna.

We also moved out of one location in Ōtautahi Christchurch to support the Ministry of Social Development's urgent need for office space as a result of COVID-19.

The Government Office Accommodation Programme involves securing commercial accommodation that meets the current and future needs of a number of government agencies and guides our property decisions. As part of the programme, we are leading the Manukau Hub project on behalf of Government.

As a result of the changes during 2019–20, our energy consumption was 16% lower than the year before and our costs were 8% lower.

We are now measuring the trend in CO_2 reductions from energy use—we reduced this by 16% compared to 2018–19.

Printing and travel have decreased

We have been printing and travelling less, partly due to COVID-19, but also because more of our people can take their work devices anywhere and collaborate virtually. This contributes to the Government priority of a clean, sustainable, low-carbon economy.

As at 30 June 2020, printing was 43% less than at 30 June 2019 (and as a result, paper use was less too). We saved approximately 37% in printing costs.

Mail between our offices was also down by 25%, saving $64,000 in courier costs.

The amount of air travel was 35% lower this year than in 2018–19, and related CO_2 emissions dropped by 34%. Overall travel costs (including flights, accommodation and other costs) were $3.5 million less than budgeted for 2019–20.

We are right-sizing our vehicle fleet

As part of our continuing programme to right-size our vehicle fleet, we reduced it from 138 to 110 vehicles this year. We are currently looking at the future ways of working for our teams who use our vehicles to interact with customers in their communities.

We are launching a phased programme to replace our fleet with electric vehicles to support the Government's aim of having an emissions-free light vehicle fleet by 2025–26.

CO_2 emissions from our vehicle fleet are now being measured. Emissions dropped 85% in 2019–20 compared to the year before, although this result was significantly affected by the COVID-19 lockdowns.

Energy consumption for 2019–20 was 16% lower and costs were 8% lower.

Printer use for 2019–20 was 43% less than the year before.

Costs were down 37%.

Air travel was 35% lower (over 5 million kms) and related CO_2 emissions fell by 34% or 1.4 tonnes.

CO_2 emissions from our vehicles dropped by 85%.

We travelled 281,000 fewer kilometres.

We focus on getting the best value in our procurement

Our *Buying for Better Outcomes* procurement strategy ensures that we consider not only the whole-of-life cost of a procurement, but also the wider benefits to society, the environment and the economy. This year, we incorporated broader outcomes questions into our tender documents and subsequent agreements. We have also been engaging with our major suppliers to understand the broader outcomes they are delivering through their work.

To get the best value for money, we look for innovative efficiencies and improvements in our procurement processes and market engagement. We also take part in a number of All-of-Government, syndicated and common capability contract arrangements.

We continue to share our insights and learnings related to commercial practices with other government agencies. For example, we have developed a simple software application for more efficient management of conflicts of interests in procurement. The Ministry of Business, Innovation and Employment is now remodelling this application to enable its use by all public sector agencies.

The year ahead

Ko te tau kei te heke mai

- In line with our wider organisational change, we will review our governance system to ensure the boards and committees in place are fit for purpose and able to support our requirements.
- We will roll out more information and functionality through Ātea, and leverage what we have to help other agencies improve their enterprise support services.
- We will continue to complete optimisation of our technology landscape and decommission data centres and systems that are no longer needed.
- We will continue to realign our property portfolio through exiting leases, and we will update our national property plan to take into account reducing people numbers, options for co-locating with other agencies and flexible working.
- We will go to market for a replacement payroll solution.

Our performance
Ko tā mātou mahi

We track our progress towards achieving our mission and vision through our performance measures. The diagram on **page 19** 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 2019–20 is measured by comparing our 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. 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.

How we performed
Ko ā mātou whakatutukinga

This year, we continued our transformation programme while adapting and responding to the COVID-19 pandemic and national lockdown. The challenges we faced this year tested our resilience as we showed our commitment to our customers.

We delivered the 2020 automatic individual income tax assessments and Release 4 of our transformation programme, and supported our customers through COVID-19 and other national adverse events. We ensured our customers received their social policy entitlements and tax refunds and supported customers to meet their tax obligations.

Our outcome performance has remained steady in a year of significant events. We continued to provide customers with timely refunds and social policy payments, achieving all of our timeliness targets. The timeliness of tax payments made by customers dropped slightly this year, and assessed revenue was 3.9% lower than forecast.

Results from our impact measures show that customers are increasingly using our online services, with a significant increase in the number of returns being filed and correspondence being sent digitally. We also have a number of case studies that demonstrate that we are realising the benefits of our transformation through how we are using START, new analytical tools and capabilities.

As a result of prioritisation decisions in the context of a large and complex transformation programme, and disruptions to our services and to our customers from COVID-19, we achieved 30 out of 45 of our output performance measures in 2019–20.

We achieved most of our primary output measures. The vast majority of our customers filed returns and made payments on time. This was also the first year that we met the target for percentage of child support assessments paid on time after increasing this target by 5% in 2018–19. We exceeded our policy advice targets and met our transformation milestones.

While our customer satisfaction results remained high throughout the year, three out of four measures narrowly missed our targets. Customers continued to familiarise themselves with our processes during the year, putting our phone services under pressure. This impacted on a number of our core customer service measures.

Some of our output measure results reflect the impacts from our approach to supporting customers through COVID-19. We deferred or delayed audits, disputes and debt activities where customers needed a different kind of support from us. This ultimately protects the integrity of the tax system and means people are more likely to voluntarily comply over time. Performance measures impacted include management of unfiled returns and debt, cash collection, investigations and tax technical measures.

Our facilities asset performance results have also been affected by COVID-19 and the lockdown. We have been unable to complete some of the required checks on our buildings and vehicles. Our levels of CO_2 emissions and printer use dropped significantly this year, with limited travel as people worked from home.

Statement of responsibility

I am responsible, as Chief Executive for Inland Revenue, for:

- the preparation of the department's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that 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, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the department, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the department as at 30 June 2020 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the department as at 30 June 2021 and its operations for the year ending on that date.

Naomi Ferguson

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue
30 November 2020

Countersigned by:

L Ariell

Lara Ariell
Chief Financial Officer
30 November 2020

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

- **85.9%** of tax payments made by customers were on time
- Revenue assessed was **3.9%** below forecast
- **99.3%** of Working for Families Tax Credit payments were made to customers on time
- We are contributing positively to the digital target for the top 20 common public services

Impact measures

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

- **90%** of customers felt confident that they were doing the right thing
- **77%** of customers found it easy to deal with Inland Revenue
- **94%** of customers had their 2020 income tax assessment issued automatically
- **84%** of customers agreed they knew what they needed to do next
- **96.0%** of returns were filed digitally—up from 88.8% last year
- **93.2%** of customers filed returns on time—up from 85.2% last year
- Use of our analytical tools improved property compliance
- We used our new systems and processes and worked with other agencies to support the response to COVID-19
- We introduced the temporary loss carry-back scheme and Small Business Cashflow (Loan) Scheme quickly
- **89%** of customers have trust and confidence in Inland Revenue
- Staff engagement is **25%**
- We finished the year within all departmental appropriations
- Our Public Sector Reputation Index score is **91**
- The gender pay gap at Inland Revenue is **18%**

Output measures

We achieved 30 out of 45 output performance targets compared to 36 out of 48 last year

30/45 ACHIEVED

Services for Customers	Policy Advice	Services to Other Agencies	Transformation
24/39 ACHIEVED	2/2 ACHIEVED	2/2 ACHIEVED	2/2 ACHIEVED

Key to our measures

- On track
- Off track
- Change is greater than 0.5%
- Change is less 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 benefit all New Zealanders. It helps pay for public services, like education, roads and healthcare. We have three measures for this outcome.

Percentage of tax payments made by customers on time

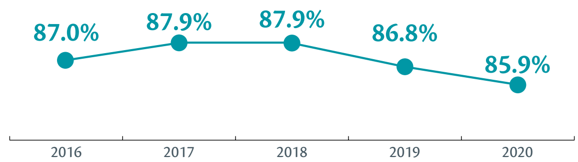
This measure relates to timely and cooperative behaviour of our customers, resulting in tax obligations being paid. This in turn contributes to revenue being collected to fund government programmes.

The percentage of tax payments for income tax, PAYE and GST made by customers in full and on time has decreased. As part of our support for our customers affected by Release 3, we did not run our usual 7 February and 7 April payment reminders. These are personalised communications we provide in addition to our START reminder messages that are sent automatically. We expect performance to return to previous levels 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%.

85.9%

of tax payments were made by customers on time



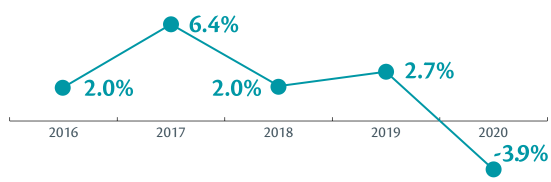
Total revenue assessed and forecast

This is the amount of revenue assessed compared with the total revenue the Government expects to receive. COVID-19 has contributed to tax revenue being lower than forecast. There were lower business profits, consumption of goods and services weakened, and interest rates dropped, lowering withholding taxes. A new process for estimating income tax was introduced in 2018–19, resulting in some revenue that would have been recorded as 2019–20 revenue being recorded as 2018–19 revenue.

Refer to pages 150 and 151 in our financial schedules for a breakdown of total revenue.

3.9% less

revenue was assessed compared to forecast



Total cash forecast and received

This is the total tax receipts the Government received for tax returns filed (current year and prior years), provisional tax payments, and deposits into tax pooling. Crown cash received to 30 June 2020 for tax payments was $76.3 billion, 2.8% over forecast and 2.3% higher than for this period last year.

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 seven measures for this outcome.

Percentage of tax disbursements paid to customers on time

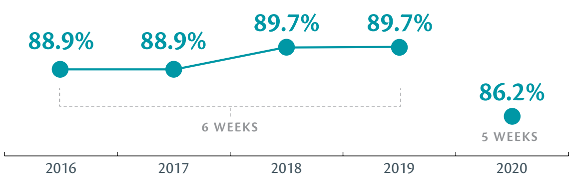
Income tax disbursements issued

This measure looks at the time taken to issue income tax disbursements to customers once a return is received, ensuring that they receive the payments they are entitled to.

The percentage of income tax disbursements paid to customers on time has decreased this year and reflects a new target we set for 2019–20. We changed the timeframe from six to five weeks to challenge ourselves to deliver a higher level of customer service and illustrate the benefits of our new system and processes. This is also an output measure within our *Services for Customers* multi-category appropriation. We have exceeded the output target of 85%.

86.2%

of income tax disbursements were issued within five weeks

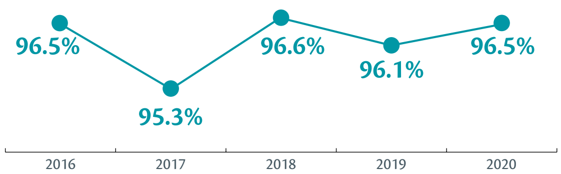


GST disbursements issued

This measure looks at the time taken to issue GST disbursements to customers, ensuring that people receive the payments they are entitled to.

96.5%

of GST disbursements were issued within four weeks



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

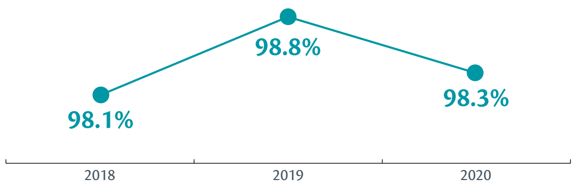
Percentage of tax refunds which are accurate

We have an indicator for the accuracy of GST refunds. We will be able to report on the accuracy of income tax refunds from the 2020 automatic income tax assessment process next year, as customers have until February 2021 to make any amendments. We will continue to develop accuracy indicators for our social policy payments.

GST refund accuracy

98.3%

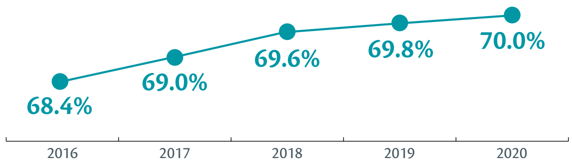
of GST refunds had no amendment after the initial refund



Percentage of social policy payments made to customers on time

70.0%

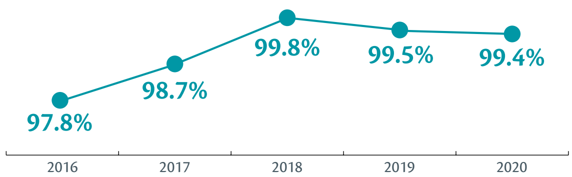
of child support assessments were paid on time



This indicator is an output measure within our *Services for Customers* multi-category appropriation, and we have achieved the target of 70%.

99.4%

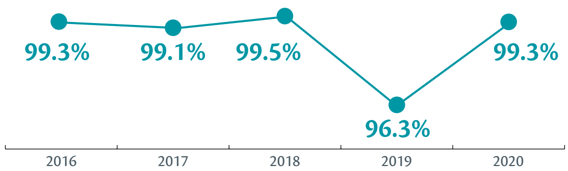
of paid parental leave payments were issued to customers on the first pay day following the agreed date of entitlement



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

99.3%

of Working for Families Tax Credit payments were made on the first regular payment date following an application

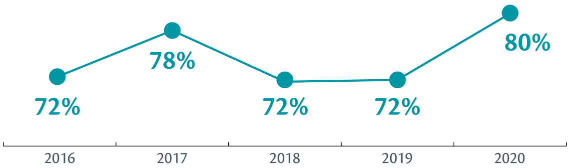


This indicator is an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 95%.

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

80%

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



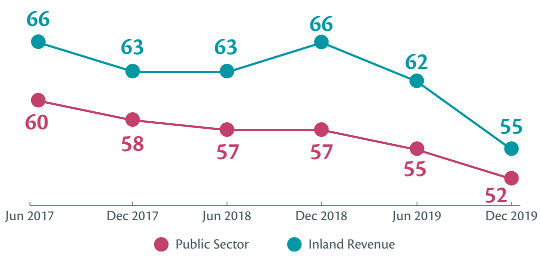
New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment

This outcome has two measures. The first is how business customers view their experience when dealing with Inland Revenue and the second is how many of our common transactions are completed digitally.

Business customers gain value from easy and seamless dealings with Government

55

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

Our customer experience index score of 55 in December 2019 was a decrease from 66 in December 2018. The overall score for the public sector also decreased to 52 in December 2019 from 57 in December 2018.

We expected our score to decrease following Release 3 changes that significantly impacted businesses with payday filing. This year was the first full tax year where it was mandatory for customers to provide their employment income information every pay day. Our customers continue to familiarise themselves and adapt to our new processes.

By 2021, 80% of the transactions for 20 common public services will be completed digitally

Inland Revenue has three transactions in the top 20 common public services that we measure digitally: paying individual tax, claiming donation tax credits and filing individual tax returns (IR3s). Our results for two of these transactions have increased from last year.

94.8%

paying individual income tax digitally

June 2019: 91.2%

71.9%

claiming donation tax credits digitally

June 2019: 59.5%

We were unable to report on IR3 return results in 2019–20. To make year-end income tax easier for our individual customers, we have started pre-populating their IR3 returns with information we already have. These returns appear in our system as 'generated by Inland Revenue' rather than reflecting the channels our customers used to provide their information. These changes mean the IR3 digital filing measure is no longer suitable for reporting.

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 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.

We have been supporting our customers to help them understand what the changes from Release 4 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

The following results show our customers' perceptions of whether they know what to do. This comes from our new online Customer Experience and Perceptions survey that started in 2019–20. Results show ratings of 4 or more, out of 7.

84%

of customers agreed they knew what they needed to do next

90%

of customers agreed they felt confident that they were doing the right thing

Customers find it easy

The following results show our customers' perceptions of ease. This comes from our new online Customer Experience and Perceptions survey that started in 2019–20. Results show ratings of 4 or more, out of 7.

77%

of customers found it easy to deal with Inland Revenue

78%

of customers were satisfied with their last interaction with Inland Revenue overall

77%

of customers agreed they found it easy to get the information they needed

77%

of customers agreed they felt that the amount of time it took was acceptable

73%

of customers agreed they felt no stress or frustration

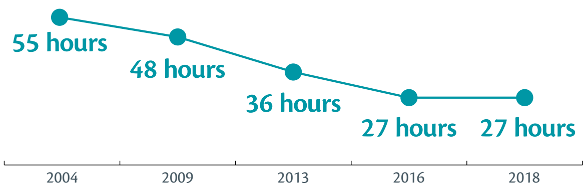
84%

of customers agreed they felt reassured they got it right

Customer time spent on tax compliance

27 hours

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



Reducing compliance costs is one of the benefits of transformation we are committed to delivering. We conduct our tax compliance survey every two years. However, to reduce the burden a survey places on businesses as they manage the impact of COVID-19, we delayed our 2020 survey until 2021.

In late 2018, we conducted an online survey of 6,003 small businesses to estimate the time and cost of complying with tax requirements. 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 against which progress is measured.

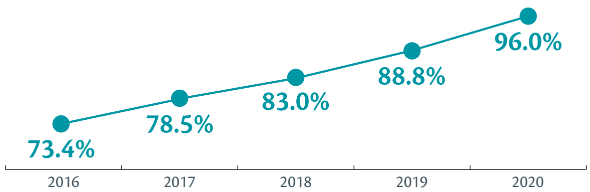
We continue to develop compliance effort indicators for our non-business individuals.

Customers successfully using digital channels to undertake activities

Returns filed digitally

96.0%

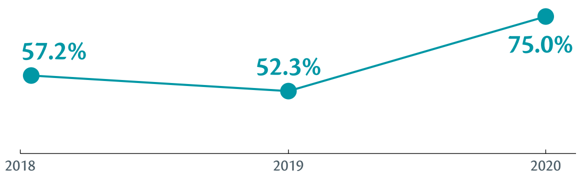
of returns were filed digitally (income tax, GST and employment information)



Correspondence sent digitally

75.0%

of correspondence sent in by customers was sent digitally



Businesses using accounting or payroll software

As at 30 June 2020, 136,936 small to medium-sized enterprises and tax agents used business accounting or payroll software to manage their GST obligations. This compares with 108,321 for the previous year.

Customers setting up their own instalment arrangements

Customers can set up instalment arrangements themselves online through our self-services. This year, in START, 37.5% of of instalment arrangements were set up automatically through myIR.

Customers who had their income tax assessments and entitlements issued automatically

94% *of individual income tax customers had their 2020 income tax assessment issued automatically*

By automating the assessment process, we now can include customers who previously missed out on refunds they were entitled to or did not previously pay the right amount of tax.

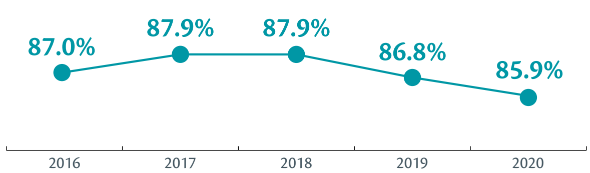
Customers do what they need to

We report on four measures for this impact.

Percentage of payments made by customers on time

85.9%

of tax payments were made by customers on time



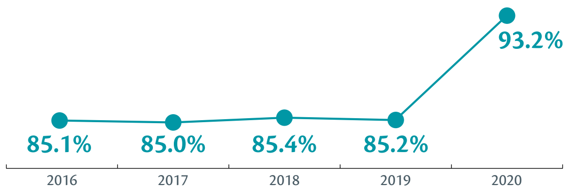
The percentage of tax payments made by customers in full and on time has decreased. As part of our support for customers affected by Release 3, we did not run our usual 7 February and 7 April payment reminders. These are personalised communications we provide in addition to our START reminder messages that are sent automatically. We expect performance to return to previous levels 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 returns filed by customers on time

93.2%

of returns were filed by customers on time



The percentage of returns filed by customers on time has increased in 2019–20. We include income tax, GST and employment information returns. With the introduction of mandatory payday filing, we have seen an increased volume of employment information returns filed on time.

This is also an output measure within our *Services for Customers* multi-category appropriation, and we have exceeded the target of 85%.

Customer sentiment—tax morale

The following results come from our new online Customer Experience and Perceptions survey that started in 2019-20. Results show ratings of 4 or more, out of 7.

84%
of customers agreed they feel good about paying their tax

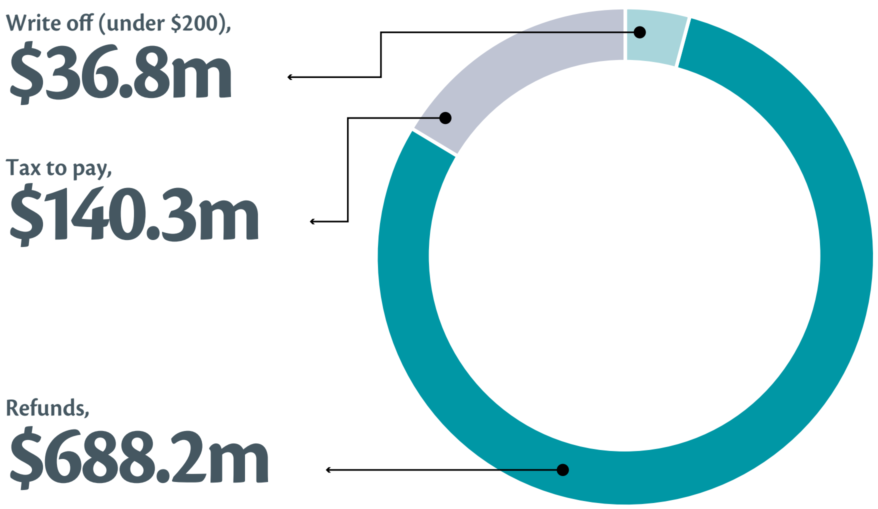
86%
of customers agreed that Inland Revenue helps people who are trying to get things right

93%
of customers agreed that if someone tries to avoid paying the right amount, they will get into trouble with Inland Revenue.

Automatically issued income tax refunds and tax to pay get progressively smaller

As customers have until February 2021 to make amendments to their 2020 assessment, we will compare finalised 2020 assessment results with 2019 to see if income tax refunds and tax to pay amounts are getting smaller.

As at 30 June 2020, 3.1 million assessments were issued to customers for the 2020 automatic assessment process.



We use intelligence and insight to improve customer outcomes and revenue

We report on two measures for this impact.

Improved compliance and customer outcomes

Case study—using our new analytical tools to support customers

We have two analytical capabilities in START, Discovery Manager and Integrity Manager, that make it easier for us to see if our customers are getting it right, or wrong.

Discovery Manager enables us to look at returns received and other information held, to find errors and issues that require action.

Integrity Manager stops assessments and refunds from being issued where there is a high likelihood they are wrong or fraudulent, based on the risk indicators built into the system. This ensures our customers receive the payments they are entitled to.

Release 3 was a key milestone as we now have all income information in one place and can associate more of a person's income with them. As a result, errors and inconsistencies across tax types can now be identified and acted on.

These capabilities helped us to:

- tailor information for customers registering for GST
- identify and contact 200,000 customers to help them select the right tax codes
- identify 1.5 million customers who were on the wrong prescribed investor rate so that we tax their investment income at the right rate
- make correct Working for Families payments
- provide support to our customers when needed, including paying and receiving the right amount
- identify non-compliance by tax type.

Customer maturity score

We use the Forrester maturity framework to benchmark the extent to which we have put the customer at the centre of our plans. The Forrester framework provides an assessment of customer-centric maturity, using a set of key strategic enablers such as leadership, culture, analytics and proactive services.

In 2018, we completed an internal assessment of how customer-centric we are, and achieved a score of 3 out of a possible 5. We are planning to complete another assessment in 2021.

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

We report on two measures for this impact.

Increased policy capability

We use 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 2.5. This has increased from last year's self-assessment level of 2.3. We will focus on improving:

- People capability–by embedding robust training and development processes to build future capability
- Engagement–by continuing to improve relationships with stakeholders and our customer-facing people
- Policy quality systems–by enhancing our research and analysis to achieve the best intended policy outcomes
- Stewardship–by embedding a culture change that focuses on our role in the regulatory system, while maintaining our leadership and direction.

Reduction in time and costs to implement policy

Case study—Small Business Cashflow (Loan) Scheme

We played a significant role in helping to deliver the Government's response to COVID-19. The capabilities we gained through our transformation—technology and our people's skills—were crucial to our ability to do this quickly.

On 1 May 2020, the Government announced the Small Business Cashflow (Loan) Scheme to support small businesses affected by COVID-19. A number of key factors enabled the rapid design and implementation of the scheme.

The most important factor was our early anticipation of the potential need for a payment capability. The scheme was shaped and implemented within six to seven weeks of a preliminary assessment of what the Government might need.

Our preliminary work ensured that the requirements of the scheme were simple and used existing capabilities, information and processes. This was critical as one of the primary considerations was speed. Exceptions and rules were challenged as a risk to the Government's desire for immediacy and the need to keep it simple to avoid unnecessary costs for both prospective loan applicants and for us.

Delivery of the scheme in such a short timeframe also demonstrated how radically our technology and design environment has changed. We used the payment and collection functionality built within START, and unlike the timeframes required to code and test changes to our heritage systems, changes could be made during the day if necessary, instead of overnight. This allowed us to implement the scheme within two weeks of Cabinet signing off on the initiative.

Our new ways of working and workplace technology enabled all the necessary expertise from across teams and departments to be brought together to design and implement the scheme from end-to-end quickly.

As at 30 June 2020, 89,461 applications had been received, 85,248 had been approved and $1.429 billion had been disbursed. Small businesses with five or fewer employees accounted for 80% of applications and 63% of the value of loans issued.

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

We report on two measures for this impact.

Results achieved through information sharing

Key information sharing initiatives:

COVID-19 wage subsidy and wage subsidy extension

We supported the Ministry of Social Development (MSD) with the implementation of the wage subsidy and wage subsidy extension payments. We provided data to help them with assessments, verifications, audits and reviews. To support the wage subsidy extension and COVID-19 Income Relief Payment, we accelerated the deployment of a portal to allow MSD access to view employer and income data. Enabling MSD to self-serve for some applications and integrity checks reduced the impact on our people, with only exceptions for self-employed customers needing to be validated.

Small Business Cashflow (Loan) Scheme (SBCS)

From 19 May 2020, we supplied MSD with wage subsidy data for the Small Business Cashflow (Loan) Scheme's eligibility criteria. From June 2020, we shared key SBCS information with Stats NZ, which publishes aggregate information on their COVID-19 Data Portal.

Stats NZ Integrated Data Infrastructure remote access

We supported Stats NZ with a remote working policy for their staff and specified government researchers, permitting them to remotely access our data in the Integrated Data Infrastructure and Longitudinal Business Database. A joint agency group worked quickly to ensure that staff and researchers could seamlessly continue COVID-related projects and other government projects deemed essential to New Zealand.

Results of international collaboration

As outlined on page 43, Inland Revenue's collaboration with international tax treaty partners has included completing a second year of Automatic Exchange of Information (AEOI).

AEOI is one of the activities we carried out this year, in addition to:

- continuing to focus on strong engagement with multinational enterprises and providing effective upfront guidance to them
- our annual international questionnaire and risk assessment process
- managing requirements for multinationals to file an annual basic compliance package
- an active programme of advance pricing agreements
- efficient enforcement covering high-risk cases.

New Zealand was subject to two peer reviews this year. These reviewed our compliance with base erosion and profit shifting minimum standards for the exchange of summaries of certain cross-border rulings and country-by-country reports. The reviews looked at the effectiveness of our implementation of these international initiatives. They found New Zealand fully compliant, with no recommendations for improvement required.

Inland Revenue has also been collaborating with the Asian Development Bank to support Pacific developing countries. The aim is to increase these countries' awareness of, and capacity to counter, tax evasion and avoidance. It will involve tailoring technical assistance that aligns with their national strategies and priorities.

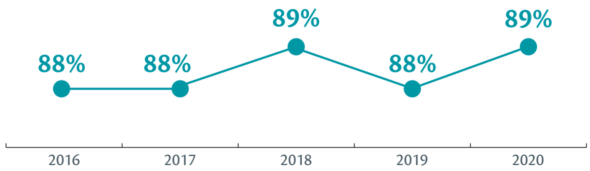
We protect the integrity of the tax and social policy system, and our stakeholders and the public have trust and confidence in us

Our integrity measures show how we protect the integrity of the tax and social policy system. We report on two measures.

Percentage of customers who have trust in us

89%

of customers have trust and confidence in us

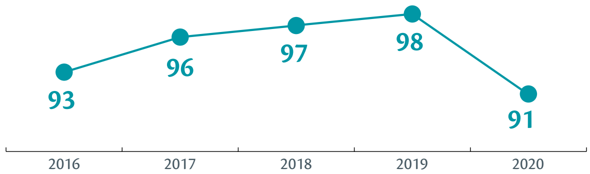


This is derived from the Customer Satisfaction and Perceptions survey for ratings of 3 or more, out of 5.

Comparative results and benchmarking—Public Sector Reputation Index (RepZ) score

Our RepZ score is

91



The Public Sector Reputation Index (RepZ) measures the reputation of public sector organisations across four areas: trust, fairness, social responsibility and leadership.

Our latest score has decreased seven points from the previous year from 98 to 91. Reputation scores are relative to other public sector agencies included in the index. This means that if there are new agencies that have a higher score, or other agencies have improved more than we have, our score will show a relative decrease—even if the public has not rated us any differently when answering the questions.

There were a number of statements where our scores improved—most notably 'uses taxpayer money responsibly'. 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

Staff engagement

Our staff engagement is **25%**

This is a 2% decrease from our previous full survey conducted in 2017 (27%).

We measure employee engagement and perceptions of our culture through our Kōrero Mai survey. In October, we ran our full Kōrero Mai survey. The results showed that the gap between our current and desired culture is closing, with positive shifts in the areas of diversity and inclusion, people leadership and collaboration.

Through the survey, our people indicated that the main driver for this result is where we are in our transformation journey. This included going through organisation structural changes, dealing with co-existence of systems and processes as we implement new ways of doing things, and a desire for more open and transparent communication.

The rapidly evolving COVID-19 situation in early 2020 created new challenges for our people and how we managed our workload. From early April we ran regular wellbeing surveys to see how our people were feeling and provide the support they needed. As we got used to working differently, our people increasingly reported a good or very good experience of doing their work (78% by June, up from 61% in early April).

We know Inland Revenue's success depends on our people, and we remain committed to improving engagement. We will continue to explore and implement new ways to ensure we are actively listening and responding to our people.

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

Ethnicity	New Zealand (2018 Census)	Inland Revenue (as at 30 June 2020)	Public sector (Human Resource Capability Report 2019)
European	70%	68%	67%
Māori	17%	12%	16%
Asian	15%	16%	11%
Pacific Peoples	8%	8%	9%

Pay equity: the pay gap for gender at Inland Revenue

We are committed to eliminating the gender pay gap. Between 30 June 2016 and 30 June 2020, our average gender pay gap decreased from 20.6% to 18.0%. Inland Revenue has changed the way in which the gender pay gap is calculated to align with sector guidance. The pay gap calculation is based on a person's substantive role. Previously the calculation was based on a person's current position including temporary role changes.

When we compare salaries of men and women in the same roles, on average there is a close to 0% pay gap. Our gender pay gap is largely explained by the over-representation of women in less complex roles, and under-representation of women in senior and highly complex roles.

Across our organisation, women currently make up 49% of the people who earn over $100,000, while they make up 70% of the people who earn under $100,000.

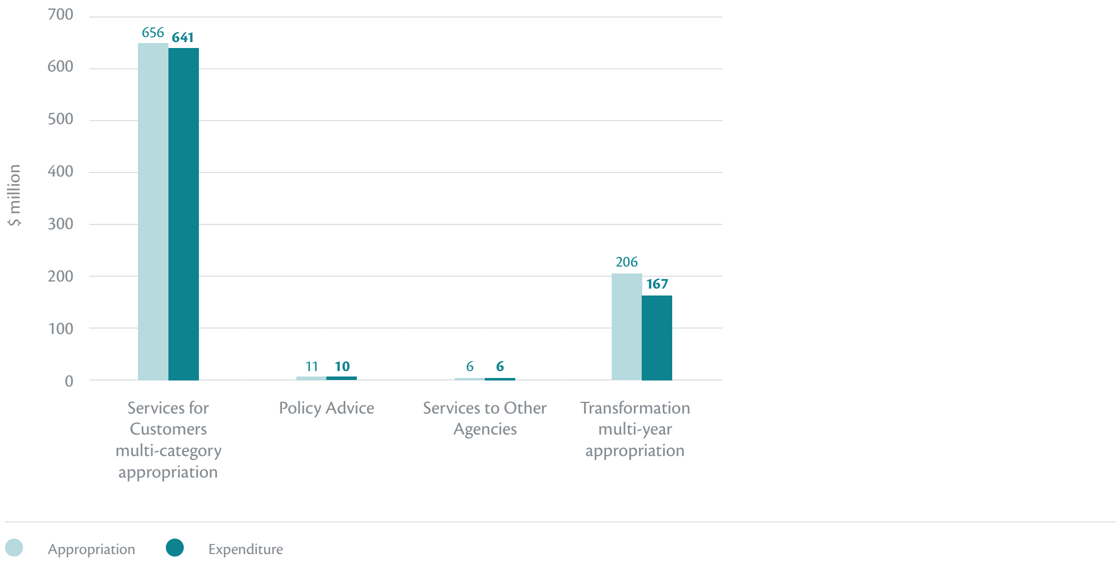
Representation of women in senior management has increased in recent years, from 22% to 45% between June 2016 and June 2020.

We are achieving our goal of having a minimum of 40% of senior leadership roles held by women.

Expenditure incurred against departmental appropriations

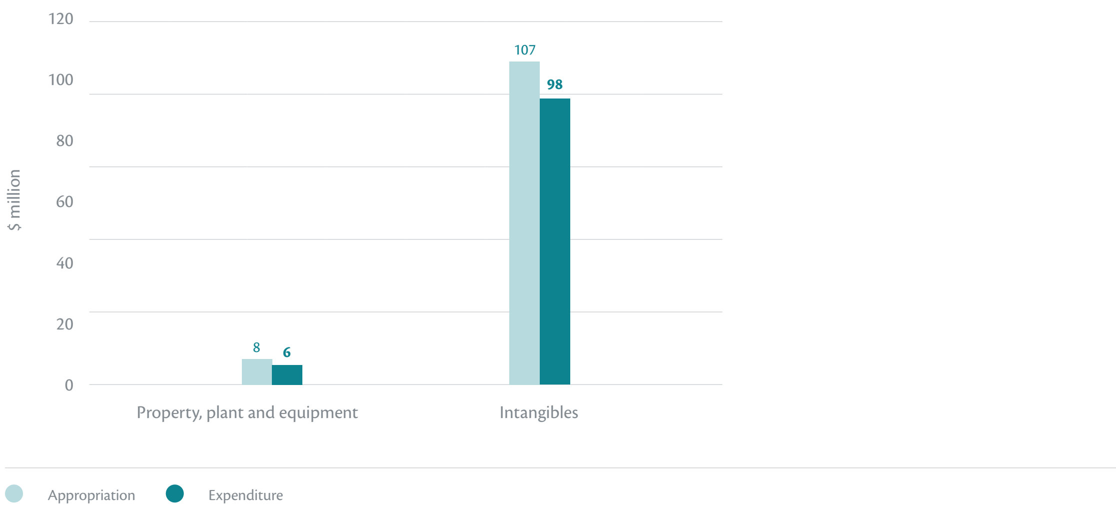
Our work is funded through operating appropriations. We finished the 2019–20 year within all departmental appropriations.

2019–20 OPERATING EXPENDITURE AGAINST OPERATING APPROPRIATIONS



In 2019–20, our total spend against our operating appropriations was $823 million. This was $55 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 $39 million in our *Transformation* multi-year appropriation will be transferred to 2020–21.

BREAKDOWN OF 2019–20 CAPITAL EXPENDITURE AGAINST CAPITAL 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 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 2020.*

Full details can be found on the Treasury's website: https://www.treasury.govt.nz/publications/estimates/vote-revenue-finance-and-government-administration-sector-estimates-2019-20

We have included comparison of our performance information against the performance measures and results for 2018–19. Our performance targets for 2020–21 are also included to provide context to the 2019–20 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 (#).

All target and forecast figures on pages 89 to 103 are not subject to audit.

Review of 2019–20 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 and targets each year to ensure they reflect the range of services we provide and our operating environment, and support the achievement of our outcomes.

As we transform, we continue to be challenged with operating across two systems to support our customers. Our intent is to ensure that customer service levels are maintained during this time. Despite these challenges, we lifted targets or adjusted the timeframes for six of our measures for 2019–20, to reflect the benefits from transformation changes, increasing customer expectations and continuous improvement.

Two measures were changed and one retired to reflect our new ways of working. The transformation milestones were also updated to reflect the agreed key programme milestones for 2019–20.

These changes reduced the overall number of output measures from 48 in 2018–19 to 45 in 2019–20.

Key to our measures

Met the target

Did not meet the target

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

24/39 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

2018–19 Actual		2019–20 Target		2019–20 Actual	2020–21 Target
	Primary measures				
88.0%	Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue#	90%	Not achieved	87%	90%
	Not achieved—The percentage of customers who are satisfied with the quality of our services has decreased slightly since last year. We continue to work closely with our customers to understand how best to support them through transformation changes, especially with payday filing and automatic income tax assessment changes.				
79.7%	Percentage of customers who feel Inland Revenue makes it easy for people to get it right#	80%	Achieved	80%	80%

Actual performance measured using a sample of the customer population.

All targets are unaudited.

What it cost

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
590,740	Revenue from the Crown	634,967	634,967	598,562	541,112
24,069	Other revenue	19,949	21,389	24,639	17,665
614,809	**Total revenue**	**654,916**	**656,356**	**623,201**	**558,777**
610,097	**Total expenses**	**640,765**	**656,356**	**623,201**	**558,777**
4,712	**Net surplus/(deficit)**	**14,151**	**–**	**–**	**–**

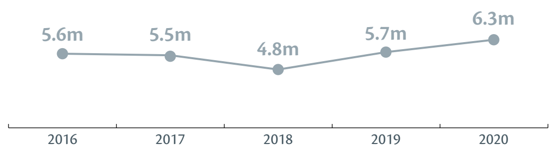
We came within budget for the *Services for Customers* multi-category appropriation. There are four categories within the appropriation and the individual results are shown separately on pages 90–99.

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.

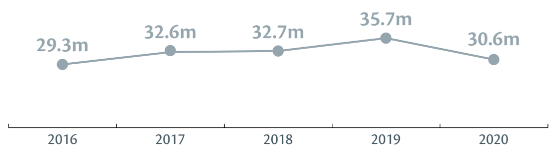
6.3 million

customer service contacts



30.6 million

self-help service contacts



How we performed

2018–19 Actual		2019–20 Target		2019–20 Actual	2020–21 Target
	Primary measures				
82.0%	Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations#	85%	Not achieved	84%	85%
	Not achieved—The percentage of customers who perceive that Inland Revenue informs them of their rights and obligations has improved from last year, but we came in just below target. We are responding to customer feedback to improve the clarity and ease of access to information about their rights and obligations.				
79.1%	Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort#	80%	Not achieved	77%	80%
	Not achieved—The percentage of customers who perceive that resolving issues requires low effort has decreased slightly from last year. While our customers continued to familiarise themselves with our online processes, our phone services were under pressure. This influenced our customers' perception of our services.				
	Supporting measures				
$48.47	Average cost of a customer-initiated contact	$35.00 or less	Not achieved	$44.76	$35.00 or less
	Not achieved—The cost of a customer-initiated contact has decreased from last year. Customer-initiated contact includes all inbound calls, paper and digital correspondence and visits to our front of house offices. Self-help customer contacts are not included. *The mix of contacts has been different this year, with more items of digital correspondence and visits to our front of house, and fewer phone calls and less paper correspondence. While digital interactions are more cost-effective to respond to, front of house visits are the most expensive. We had 300,000 fewer customer-initiated contacts overall than last year, a 7% decrease.* *Our focus to resolve customer queries on their first contact with us, being proactive in discussing their broader business with them, often results in interactions taking longer, increasing the cost per contact.* *This year's result also reflects higher costs due to the large number of people focused on supporting customers through Releases 3 and 4, responding to additional customer contacts about automatically calculated income tax assessments, and providing support during the COVID-19 response period.*				
New measure	Average speed to answer telephone calls	4 minutes 30 seconds or less	Not achieved	4 minutes 58 seconds	4 minutes 30 seconds or less
	Not achieved—The average speed to answer telephone calls was a new measure this year. *Results were impacted by significant customer demand in the first part of 2019–20 and our ability to answer calls as we balanced a broader set of priorities, including supporting customers through Release 3 and preparing for Release 4.* *Our focus to resolve customer queries on their first contact with us, and being proactive in discussing their broader business with them, often results in calls taking longer, impacting our ability to answer calls within our target timeframe.* *We answered 2.0 million calls this year compared to 2.6 million answered in 2018–19.* *We also responded rapidly to the impacts of COVID-19, temporarily reprioritising our services to support the Government and our customers. We answered 380,000 calls from the Ministry of Social Development (MSD) to verify wage subsidy customer details. These calls are not included in this measure.* *We have been actively encouraging customers to communicate with us online using myIR rather than calling our contact centres. We received 530,000 more items of digital correspondence in 2019–20 than in 2018–19. To help our customers during COVID-19, we focused on a 48-hour response service for digital correspondence.*				
100%	Percentage of all rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards	100%	Achieved	100%	100%
28	Number of published or finalised public items that give the Commissioner's interpretation of the law	25	Achieved	26	25
96.4%	Percentage of public items (including relevant public consultation), completed within 18 months of allocation	85%	Achieved	100%	85%

Actual performance measured using a sample of the customer population.

All targets are unaudited.

2018–19 Actual		2019–20 Target		2019–20 Actual	2020–21 Target
100% within three months	Percentage of adjudication cases completed within ten weeks of receipt	90%	Not achieved	81.4%	90%
	Not achieved—Our adjudication cases timeliness result decreased from last year. To challenge ourselves this year, we changed the target from three months to ten weeks. *As at 31 March 2020, our year-to-date result of 96.7% reflects that we were on track to achieve our 90% target. However, our year-end result reflects our decision in March 2020 not to issue any adjudication decisions during Alert Levels 3 and 4 of the COVID-19 lockdown period for compassionate reasons. There was also a complete shutdown of the Taxation Review Authority during this period, which meant that taxpayers would have been unable to issue a challenge within the statutory timeframe required.*				
98.9% within three months	Percentage of taxpayer ruling applications that have a draft ruling completed within ten weeks of receipt	90%	Achieved	96.9%	90%
100%	Percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt	90%	Achieved	92.6%	90%
100%	Percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	Achieved	97.0%	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 2020

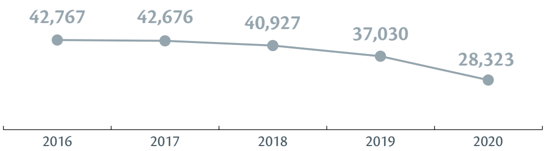
Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
228,971	Revenue from the Crown	276,639	276,639	231,909	223,224
1,272	Other revenue	1,271	1,363	1,363	1,186
230,243	**Total revenue**	**277,910**	**278,002**	**233,272**	**224,410**
243,182	**Total expenses**	**288,987**	**278,002**	**233,272**	**224,410**
(12,939)	**Net surplus/(deficit)**	**(11,077)**	–	–	–

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.

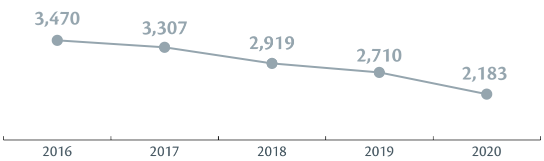
28,323

child support applications were received



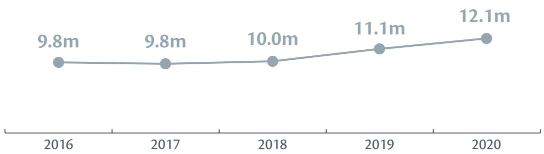
2,183

applications for administrative review of child support assessments were received



12.1 million

returns were received



How we performed

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
	Primary measures			
92.8%	Percentage of social policy and tax registrations processed within five working days	85%	90.2%	85%
89.7% within six weeks	Percentage of income tax disbursements resulting from a return issued within five weeks	85%	86.2%	85%
96.1%	Percentage of GST disbursements issued within four weeks*	95%	96.5%	95%
	Supporting measures			
96.4% within four weeks	Percentage of income tax returns finalised within three weeks	90%	97.8%	95%

We are increasing our target for 2020–21 to 95%.

2018–19 Actual		2019–20 Target		2019–20 Actual	2020–21 Target
99.9%	Percentage of GST returns finalised within three weeks	98%	✓	99.9%	98%
98.8%	Percentage of employment information finalised within four weeks	95%	✓	97.9%	Measure retired
	Measure retiring—We are retiring this measure in 2020–21 to reflect the impact of introducing mandatory payday filing.				
$2.92	Average cost of processing income tax returns, GST returns and employment information	$4.00 or less	✓	$2.78	$3.50 or less
	This measure demonstrates the cost-effectiveness of our processing activities. With the introduction of mandatory payday filing, there was an 8.4% increase in employment information returns, which are all filed digitally (excluding exemptions). Returns filed digitally are more efficient to process.				
81.7%	Percentage of tax credit claim payments made within three weeks	90%	—	70.0%	Measure retired
	Not achieved—The percentage of tax credit claims made within three weeks decreased from last year. This measure is designed around an old process where customers filed their donation tax credit claims once a year. With changes made in Release 3, customers can submit claims online throughout the year. *To reflect our new process, we are replacing this measure for 2020–21 with one that focuses on our processing times for receipts and returns, rather than the time between the filing and issuing of refunds. The new measure is 'Percentage of donation tax credit claims processed within three weeks' with a target of 70%.*				
96.3%	Percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	✓	99.3%	95%
99.5%	Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	✓	99.4%	97%
90.1%	Percentage of child support administrative review decisions issued within seven weeks	90%	—	83.4%	90%
	Not achieved—The percentage of child support administrative review decisions issued within seven weeks has decreased from last year. *As at 31 March 2020, our year-to-date result of 96.1% reflects that we were on track to achieve our 90% target. Our year-end result reflects the impact of the COVID-19 lockdown where we had fewer people available to work on the cases with limited ability to access resources. Our usual peak time to process child support administrative reviews is between March and June. We prioritised our inbound child support phone calls and applications to ensure child support customers received their entitlements during this time. Additionally, many customers prefer to meet face-to-face and therefore preferred to wait until this could occur.*				
84.9%	Percentage of child support assessments issued within two weeks	80%	✓	81.4%	80%

Actual performance measured using a sample of the customer population.

* Section 46 of the Goods and Services Tax Act 1985 stipulates that 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 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
92,337	Revenue from the Crown	144,468	144,468	93,795	125,261
20,830	Other revenue	16,412	17,596	20,846	14,285
113,167	**Total revenue**	**160,880**	**162,064**	**114,641**	**139,546**
112,951	**Total expenses**	**154,327**	**162,064**	**114,641**	**139,546**
216	**Net surplus/(deficit)**	**6,553**	**–**	**–**	**–**

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

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
	Primary measures			
85.2%	Percentage of returns filed by customers on time	85%	✓ 93.2%	85%
$56.27	Value of assessed revenue for every unfiled return dollar spent	$45.00	– $40.22	$40.00

Not achieved—The value of assessed revenue for every unfiled return dollar spent decreased from last year. This measure demonstrates the cost-effectiveness of our work to recover assessed revenue from returns not filed by the due date.

The introduction of mandatory payday filing, and subsequent removal of employment information returns, has resulted in a decrease in the volume of returns and the value assessed. There was no corresponding decrease in our costs.

Our results are also impacted by our decision to prioritise and reduce our focus on these returns to support our customers through Release 3, preparing for Release 4 and the response to COVID-19.

We are changing our 2020–21 target to $40.00.

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
86.8%	Percentage of tax payments made by customers on time	85%	✓ 85.9%	85%
$51.35	Cash collected for every debt dollar spent	$30.00	✓ $64.54	$40.00

2018–19 Actual		2019–20 Target		2019–20 Actual	2020–21 Target
	Cash collected for every debt dollar spent has increased from last year. This measure demonstrates the cost-effectiveness of our debt collection activities. *We set our 2019–20 target prior to income tax being administered in START, when we did not know the impact removing tax pooling customers would have on the measure. Since then, we have a better understanding and visibility of our tax pooling customers and as a result, we are increasing our 2020–21 target to $40.00.*				
69.8%	Percentage of child support assessments paid on time	70%	✓	70.0%	70%
	Supporting measures				
$24.04	Average cost of finalising an unfiled return	$18.00–$20.00	—	$50.83	$30.00 or less
	Not achieved—The average cost of finalising an unfiled return increased from last year. This measure demonstrates the cost-effectiveness of our work on finalising returns not filed by the due date. *With the introduction of mandatory payday filing, we have removed employment information returns from this measure. This removes a significant number of returns. There was no corresponding decrease in our costs.* *Now that all our tax products are being administered in START, this measure only includes returns that are filed by a customer following a compliance action. Previously this measure included returns that were not required to be filed.* *Results were also impacted by our decision to prioritise supporting customers in preparation for Release 4, and reducing our focus on these returns in response to COVID-19. We focused on helping our customers set up instalment arrangements and providing other relief options.* *We are changing our 2020–21 target to $30.00 or less.*				
New measure	Percentage of unfiled returns that are finalised within six months	70%	—	45.1%	60%
	Not achieved—Percentage of unfiled returns that are finalised within six months is a new measure. This measure demonstrates the effectiveness of our activities to help customers with unfiled returns do what they need to do. *With the introduction of mandatory payday filing, we have removed employment information returns from this measure. This removes a significant number of returns.* *We set our 2019–20 target prior to the introduction of mandatory payday filing. We now have a better understanding of the impact of payday filing and have removed employment information returns from the measure.* *Results were also impacted by our decision to prioritise supporting customers through Releases 3 and 4, including automatically calculated income tax assessments.* *We are changing our 2020–21 target to 60%.*				
47.0%	Percentage of collectable debt value over two years old	50% or less	—	51.6%	50% or less
	Not achieved—This measure looks at how much of our collectable debt is aging and therefore becoming harder to collect. The percentage of collectable debt value over two years old has increased from last year, but we came in just under our target. *This includes student loan debt, which contributes to a high proportion of the overdue debt over two years old. A significant portion is owed by overseas-based borrowers, which is harder to collect.*				
81.3%	Percentage of new customer debt resolved within six months	80%	—	70.8%	80%
	Not achieved—Percentage of new customer debt resolved within six months has decreased from last year. This measure focuses on customers who have recently gone into debt and resolved their debt in a timely manner. *We focused on supporting our customers affected by Releases 3 and 4, and as a result, we did not run our usual 7 February and 7 April payment reminders. These are personalised communications that we provide in addition to our START reminder messages that are sent automatically.*				
79.2%	Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	✓	80.1%	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 and returns not filed by the due date.

The funding for our Budget 2012 and Budget 2015 initiatives for aged debt and unfiled returns finished this year.

Our aged debt and unfiled returns collections initiatives exceeded their five-year June 2020 targets. We collected $345 million in aged debt against a $191 million target, and assessed over $770 million through our unfiled returns against a target of $539 million, through Budget 2012, 2014 and 2015 funding.

We completed the second year of our Budget 2018 unfiled company returns initiative. This continues through to June 2022. We assessed $87.5 million in returns against the target of $108.5 million for June 2020. Before the impact of COVID-19, we had been tracking well to achieve the year-end target. The decision to defer our campaign work and reprioritise our compliance activities to best support our customers during this period has influenced our results.

The table below shows our return on investment (ROI) in these areas.

2018–19 Unaudited ROI Actual		2019–20 Unaudited ROI Actual
$5.60	Ageing debt	$1.47
$3.73	Unfiled returns—Budget 2012 and 2015	$16.51
$5.65	Unfiled company returns—Budget 2018	$5.81

What it cost

Output statement

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
127,433	Revenue from the Crown	91,106	91,106	129,197	80,662
1,773	Other revenue	1,934	2,074	2,074	1,958
129,206	**Total revenue**	**93,040**	**93,180**	**131,271**	**82,620**
119,258	**Total expenses**	**87,731**	**93,180**	**131,271**	**82,620**
9,948	**Net surplus/(deficit)**	**5,309**	–	–	–

Investigations

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

How we performed

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
	Primary measures			
87.0%	Percentage of customers whose compliance behaviour improves after receiving an audit intervention#	85%	74.2%	85%
	Not achieved—Our customers whose compliance behaviour improves after receiving an audit intervention has decreased from last year. We monitor a sample of our audited customers compliance behaviour during the year. This year, at the time we reviewed our customers compliance behaviour, a number of them had an unfiled return or overdue debt.			
$7.54	Discrepancy identified for every output dollar spent	$7.00	$8.75	$7.00
	We continued to progress cases that could impact the integrity of the tax system such as fraud, court proceedings and voluntary disclosures. Through investigations, we have assessed additional tax of $959 million in discrepancies. *We closed 14 audits with tax adjustments over $10 million.*			
78.0%	Percentage of litigation judgments found in favour of the Commissioner	75%	89.5%	75%
	Supporting measures			
67.4%	Percentage of audited customers who are satisfied with their experience#	75%	69%	75%
	Not achieved—Our audited customers' satisfaction with their experience increased from last year, but was still below the target. The main themes from customers surveyed were around communication and timeliness. *Our results cover the period between July 2019 and March 2020. We did not survey any customers on their audit experience from March 2020 to minimise our impact on customers during the COVID-19 lockdown. Our results to 31 March 2020 are based on a statistically representative sample.*			

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. The funding for our Budget 2012 and Budget 2015 initiatives for investigations finished this year.

Investigations this year identified a total of $959 million differences in tax positions, of which Budget-specific initiatives contributed $362 million to the total tax differences identified. We have achieved $1.374 billion in tax position differences, against a five-year target of $1.062 billion.

Our work on the hidden economy assessed additional tax revenue of $50 million, of which $23 million came from our Budget 2015 funding.

Investigations into aggressive tax planning and other complex technical issues resulted in tax position differences of $295 million in 2019–20. Of this, $280 million came from work funded through Budget-specific initiatives.

The table below shows our return on investment (ROI) in these areas.

2018–19 Unaudited ROI Actual		2019–20 Unaudited ROI Actual
$5.65	Hidden economy	$3.66
$7.22	Complex technical issues (including aggressive tax planning)	$21.25
$2.57	Fraud	$0.09
$9.58	Property compliance	$8.35
$6.89	Investigations total from Budget-specific initiatives	$11.64

What it cost

Output statement

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
141,999	Revenue from the Crown	122,754	122,754	143,661	111,965
194	Other revenue	332	356	356	236
142,193	**Total revenue**	**123,086**	**123,110**	**144,017**	**112,201**
134,706	**Total expenses**	**109,720**	**123,110**	**144,017**	**112,201**
7,487	**Net surplus/(deficit)**	**13,366**	–	–	–

Our services to the Government

02. Policy Advice

2/2 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 30 and 31.

How we performed

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
	Primary measures			
N/A	Percentage of sampled reports that meet quality standards	80%	✓ 96%	80%
	The policy advice we provide is critical to ensuring that our tax and social policy systems operate as intended. *This year, we updated our methodology to align with the new policy quality framework developed by the Department of the Prime Minister and Cabinet. The new guidelines assess the average score for papers out of 5, compared to the old scoring system of 10.* *Our average score for papers assessed was 3.5 out of 5*. For the papers assessed (57 papers across 12 themes), 96% of the papers received a score of 3 or higher and 61% of the papers received a score of 3.5 or higher.* ** Scale used for scoring:* *1 – Unacceptable: Does not meet the relevant quality standards in fundamental ways.* *2 – Poor: Does not meet the relevant quality standards in material ways.* *3 – Acceptable: Meets the relevant quality standards overall, but with some shortfalls.* *4 – Good: Meets all the relevant quality standards.* *5 – Outstanding: Meets all the relevant quality standards and adds something extra.*			
96.9%	Percentage of ministerial satisfaction for policy advice	90%	✓ 99%	90%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
10,595	Revenue from the Crown	11,182	11,182	10,547	10,298
14	Other revenue	16	17	17	8
10,609	**Total revenue**	**11,198**	**11,199**	**10,564**	**10,306**
9,977	**Total expenses**	**10,300**	**11,199**	**10,564**	**10,306**
632	**Net surplus/(deficit)**	**898**	**–**	**–**	**–**

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

2018–19 Actual		2019–20 Target	2019–20 Actual	2020–21 Target
	Primary measures			
76%	Percentage of satisfaction of the Department of Internal Affairs for services provided	75%	85%	75%
100%	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 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
5,157	Other revenue	5,506	5,662	3,962	3,942
5,157	**Total revenue**	**5,506**	**5,662**	**3,962**	**3,942**
5,103	**Total expenses**	**5,506**	**5,662**	**3,962**	**3,942**
54	**Net surplus/(deficit)**	–	–	–	–

Our transformation

04. Transformation

2/2
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.ird.govt.nz/about-us/business-transformation

How we performed

	2019–20 Milestone	2019–20 Actual
KiwiSaver is administered in START	30/06/2020	Achieved
Student Loans Scheme repayments are administered in START	30/06/2020	Achieved

All targets are unaudited.

What it cost

Other expenses statement

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
214,665	Revenue from the Crown	205,893	205,893	239,086	326,464
385	Other revenue	2,208	–	–	–
215,050	**Total revenue**	**208,101**	**205,893**	**239,086**	**326,464**
203,358	**Total expenses**	**166,764**	**205,893**	**239,086**	**326,464**
11,692	**Net surplus/(deficit)**	**41,337**	**–**	**–**	**–**

Our asset performance

Our assets are 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 ensure we are consistently achieving:

- a building portfolio which is compliant with Health and Safety and Building Act legislation
- Government property expectations and initiatives
- a cost-effective and safe vehicle fleet.

Unaudited 2018–19 Actual	Performance measures	How we measure it	Unaudited 2019–20 Target	Unaudited 2019–20 Actual
100%	Our building environment is healthy, safe and secure for our people—legislative checks	Percentage of premises which are compliant with legislative requirements by their due date	100%	96%
	Not achieved—We completed 96% of the legislative checks by the due date. Every year, we are required to do eight checks per property. With the impacts of COVID-19, our landlords have not been able to complete all regular legislative checks. This was due to the temporary closure of all or part of some buildings during lockdown when we were unable to provide access to our buildings to complete the checks.			
100%	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 by their due date	100%	94%
	Not achieved—With the impacts of COVID-19, our landlords have not been able to complete all regular non-legislative checks. This was due to the temporary closure of all or part of some buildings during lockdown when we were unable to provide access to our buildings to compete the checks.			
100%	Our buildings are managed in a cost-effective manner	Percentage of metro buildings where the square metre utilisation is no more than NZ Government Property Group guidelines	100%	69%
	Not achieved—We had four metro buildings where the square metre utilisation rate was greater than the upper guideline of 16 square metres per person. We are optimising our space and reducing our accommodation footprint in line with our future property needs. This includes exiting buildings and having greater flexibility in our leases to be able to give up space we do not need. We are also seeking co-location agreements with other agencies.			
36%	Our fleet is operated in a cost-effective manner	Percentage utilisation of bookable vehicles	45%	26%
	Not achieved—We retired 28 fleet vehicles this year and expect to be able to further right-size the vehicle fleet in 2020–21. Our utilisation rate was significantly impacted by the COVID-19 lockdown.			
100%	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%	94%
	Not achieved—All vehicles have a current warrant of fitness. As a result of the COVID-19 lockdown, we were not able to complete all safety checks for vehicles.			

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 2018–19 Actual	Performance measures	How we measure it	Unaudited 2019–20 Target	Unaudited 2019–20 Actual
99.6%	Availability of systems	Percentage of serviceable hours that systems are available to users	99.5%	✓ 99.7%
3.6	Outages for systems	Average number of priority 1 outage incidents per month	1.8	— 2.1
	Not achieved—We experienced teething issues following the implementation of Release 4 in April 2020 and with our external identity access management system. These incidents were resolved very quickly. We are constantly monitoring and fine-tuning the performance of our infrastructure.			
4.64	Supplier performance	Average monthly score for supplier reporting based on available data points	4.00	✓ 4.72
92.1%	Condition of systems	Average of various asset condition indicators for components of the applications services and ICT infrastructure	93%	✓ 96.9%
N/A	Utilisation of infrastructure	Average of various asset utilisation indicators for components of the ICT infrastructure	N/A	N/A

We are unable to report an aggregate result for this measure. For eChannel, back office and START, our target is to have higher utilisation rates. For FIRST and voice, our target is to have lower utilisation rates. Because of this, we cannot provide a meaningful overall result for utilisation.

	Unaudited 2019–20 Target	Unaudited 2019–20 Actual
eChannel	More than 95%	97.9%
FIRST	Less than 80%	23.3%
Voice	Less than 80%	53.4%
Back office	More than 80%	79.4%
START	More than 95%	100.0%

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.

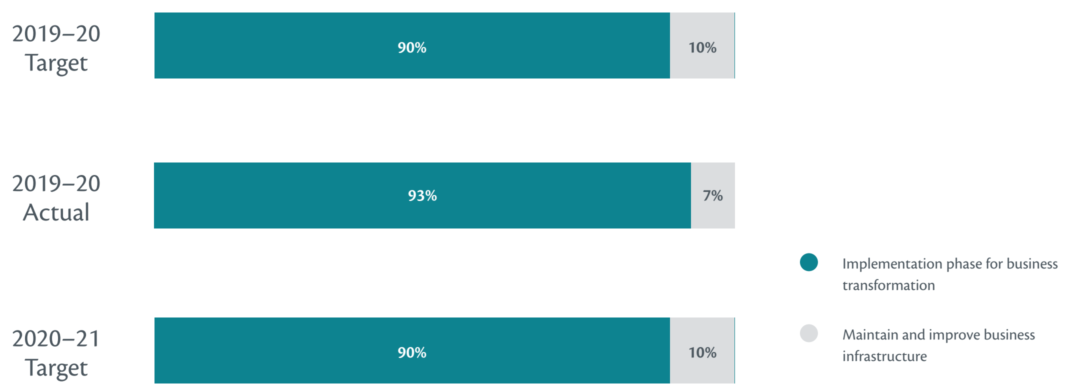
Our capital asset management priorities for 2019–20 were:

- *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 109.

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 109.

For details of departmental capital injections, please refer to page 110.

Our financial summary

In 2019–20, we completed Release 4 of our transformation programme and the annual automatic income tax assessment process.

Operating expenditure

In 2019–20, we spent $824.8 million to operate our organisation. This was $54.9 million lower than our Government funding and other income. The lower spend was 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.

Our operating expenditure against appropriations excluding remeasurements (expenditure that does not require an appropriation) was $823.3 million.

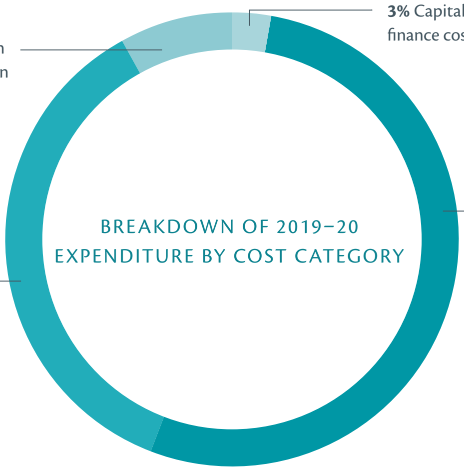
Operating funding of $39.1 million in our *Transformation* multi-year appropriation will be transferred to 2020–21.

Operating expenditure by cost categories

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

Our total personnel costs for 2019–20 were $436.3 million. These costs were directly related to our employees' remuneration and training and development costs.

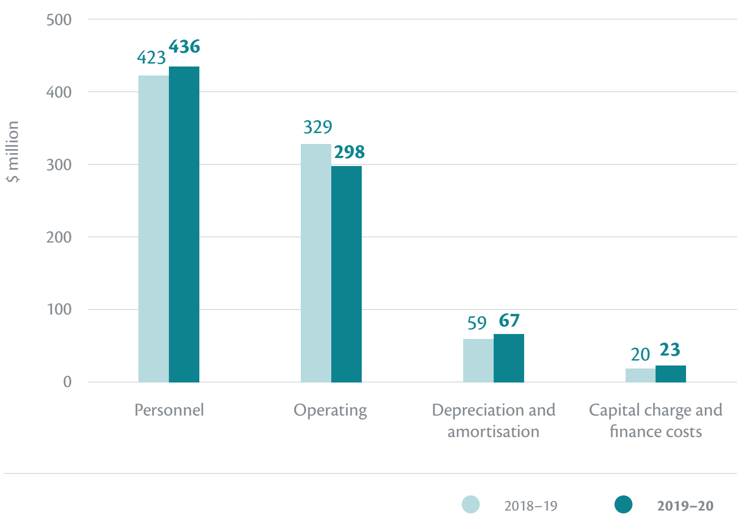
Operating costs for the year were $298.1 million. Approximately 90% of these operating costs related to contractors, information technology and telecommunications, rental, consultants and office expenses.



Comparing 2019–20 to 2018–19

Our personnel costs were $13 million higher in 2019–20 than in 2018–19, mainly due to an increase in restructuring costs associated with transforming our organisaton. Our operating costs were $31 million lower in 2019–20 than in 2018–19, mostly driven by the phasing and savings realised from our transformation programme. Expenditure on depreciation and capital charge have increased due to assets created as part of our transformation programme.

BREAKDOWN OF EXPENDITURE BY COST CATEGORY



Capital expenditure

We spent $103.8 million in capital investment in 2019–20. This was lower than our revised capital budget of $114.6 million, mainly due to the re-phasing of the capital plan for the transformation programme to align with our updated delivery approach.

Transformation expenditure

Our expenditure on transformation to date is under budget. We spent $1,121.9 million (excluding depreciation and capital charge) on transformation between 1 July 2014 and 30 June 2020. This expenditure includes $747.0 million in operating and $374.9 million in capital. Any under-spending to date has either been moved to later periods or returned to the Crown.

Future outlook

Operating expenditure for 2020–21 is forecast to be $899.5 million, an increase of $74.7 million from 2019–20. Capital expenditure for 2020–21 is forecast to be $213.1 million, an increase of $109.3 million. Our capital investment in 2019–20 was $103.8 million, contributing to the growth of our net assets. This is mostly driven by investing in more intangible assets as we further transform our 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 2020.

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

For the year ended 30 June 2020

Actual 2019 $000		Actual[1] 2020 $000	Unaudited Revised Budget 2020[5] $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Vote: Revenue				
	Output expenses				
9,977	Policy Advice	10,300	11,199	10,564	10,306
	Services for Customers—MCA				
243,182	Services to Inform the Public about Entitlements and Meeting Obligations	288,987	278,002	233,272	224,410
112,951	Services to Process Obligations and Entitlements	154,327	162,064	114,641	139,546
119,258	Management of Debt and Outstanding Returns	87,731	93,180	131,271	82,620
134,706	Investigations	109,720	123,110	144,017	112,201
620,074	**Total departmental output expenses**	**651,065**	**667,555**	**633,765**	**569,083**
5,103	Services to Other Agencies RDA[2]	5,506	5,662	3,962	3,942
625,177	**Total output expenses**	**656,571**	**673,217**	**637,727**	**573,025**
	Other expenses				
203,358	Transformation[3]	166,764	205,893	239,086	326,464
203,358	**Total other expenses**	**166,764**	**205,893**	**239,086**	**326,464**
828,535	**Total expenses**	**823,335**	**879,110**	**876,813**	**899,489**
	Capital Expenditure PLA[4]				
16,144	Property, plant and equipment	6,257	8,000	8,000	9,000
91,706	Intangible assets	97,556	106,608	142,000	204,112
107,850	**Total Capital Expenditure PLA**	**103,813**	**114,608**	**150,000**	**213,112**

[1] Excludes remeasurement of $1,440,000 (2018–19: $2,317,560). The remeasurement consists of macroeconomic changes in the actuarial valuations of retiring and long-service leave, and foreign exchange losses, mainly on forward foreign exchange contracts.

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

[3] Part of the 2019–20 *Transformation* depreciation and capital charge funding has been moved to the *Services for Customers* multi-category appropriation to reflect assets delivered up to 30 June 2019 that have transferred to business as usual.

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

[5] The revised budget figures for 2019–20 are those included in the *Addition to the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020* published 16 June 2020.

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

Explanations of significant variances against budget are detailed in the relevant notes of the departmental financial statements.

All of the 2019–20 performance information for each appropriation administered by Inland Revenue has been reported within the *Our performance* section.

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

For the year ended 30 June 2020

In the 2019–20 financial year, there were no departmental instances of:

- expenses and capital expenditure incurred in excess of appropriation (2018–19: $nil)
- expenses and capital expenditure incurred without appropriation or other authority or outside the scope or period of appropriation (2018–19: $nil).

Statement of departmental capital injections

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget 2020 $000	Unaudited Forecast 2021 $000
	Vote: Revenue			
63,832	Capital injections	68,373[1]	68,373[1]	154,168

[1] This is net of the Ministerial capital contingency of $34.6 million.

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2018–19: $nil).

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

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Revised Budget[1] 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
47,588	Best Start tax credit PLA	184,059	188,000	231,000	336,000
290,572	Child support payments PLA	296,622	295,000	317,000	272,000
106	Child tax credit PLA	558	100	400	100
2,130,709	Family tax credit PLA	2,188,954	2,144,000	2,195,000	2,139,000
612,942	In-work tax credit PLA	620,964	603,000	521,000	631,000
6,509	KiwiSaver: Interest	6,624	9,000	9,000	5,000
859,897	KiwiSaver: Tax credit	859,123	912,000	906,000	930,000
14,005	Minimum family tax credit PLA	18,426	20,000	15,000	22,000
369,354	Paid parental leave payments	422,146	430,000	400,000	455,000
7,883	Parental tax credit PLA	2,460	1,000	–	–
6,460	Payroll subsidy PLA	6,761	4,000	3,900	–
40,000	Research and development tax incentive[2]	213,000	225,000	158,000	281,000
4,386,025	**Total benefits and other unrequited expenses**	**4,819,697**	**4,831,100**	**4,756,300**	**5,071,100**
	Borrowing expenses				
48	Adverse event interest PLA	–	10	10	–
1,516	Environmental restoration account interest PLA	1,438	1,500	1,500	1,500
4,960	Income equalisation interest PLA	6,453	6,000	6,000	10,000
6,524	**Total borrowing expenses**	**7,891**	**7,510**	**7,510**	**11,500**
	Other expenses				
828,664	Impairment of debt and debt write-offs[3]	1,356,750	1,270,000	680,000	880,000
–	Impairment of debt relating to child support	–	5,000	–	–
–	Initial fair value write-down relating to Small Business Cashflow Scheme COVID-19[4]	685,453	3,444,000	–	–
563,354	Initial fair value write-down relating to student loans	506,118	510,000	576,000	558,000
–	KiwiSaver: Employee and Employer Contributions PLA	2,148,158	1,856,000	–	6,967,000
1,392,018	**Total other expenses**	**4,696,479**	**7,085,000**	**1,256,000**	**8,405,000**
	Capital Expenditure				
–	Small Business Cashflow Scheme[4]	1,428,026	5,200,000	–	–
–	**Total capital expenditure**	**1,428,026**	**5,200,000**	**–**	**–**
5,784,567	**Total appropriations**	**10,952,093**	**17,123,610**	**6,019,810**	**13,487,600**

[1] The revised budget figures for 2019–20 are those included in the *Addition to the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020.*

[2] The research and development tax incentive is a new appropriation commencing 1 April 2019. Expenditure in 2018–19 is for a partial year.

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

[4] The Small Business Cashflow (Loan) Scheme commenced on 12 May 2020. The budget figures for 2019–20 are based on forecasts prior to the commencement of the scheme.

These forecasts have been updated for the *Pre-election Economic and Fiscal Update 2020* to reflect loan uptake to date and the extension of the scheme to 31 December 2020.

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 1D 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 for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2020*.

Statement of non-departmental unappropriated expenditure

For the year ended 30 June 2020

In the 2019–20 financial year, there were:

- no instances of expenditure incurred outside of appropriation (2018–19: $nil)
- one instance of expenses incurred with Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year (2018–19: $nil)
- one instance of expenses incurred in excess of appropriation and without prior Cabinet authority to use imprest supply (2018–19: $nil).

With Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year

Expenses type and appropriation name	Authority at time of breach	Amount without or exceeding appropriation
	$000	$000
Non-departmental other expenses		
Initial fair value write-down relating to student loans	491,000	15,118

In 2019–20, the authority for increases to the appropriation, Initial fair value write-down relating to student loans, under imprest supply were approved as part of the Government's commitment to ensure continuity and adequacy of student support from the impacts of COVID-19. However, these changes were not included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020* and, therefore, have not yet been validated through legislation.

Expenses incurred in excess of appropriation and without prior Cabinet authority to use imprest supply

Expenses type and appropriation name	Authority at time of breach	Amount without or exceeding appropriation
	$000	$000
Benefits or related expenses		
Paid parental leave payments	417,000	5,146
Non-departmental other expenses		
Impairment of debt and debt write-offs	680,000	676,750

Inland Revenue obtained joint Minister approval for forecast changes to appropriations relating to Vote Revenue. However, the documentation omitted authority for approval under imprest supply. Without imprest approval for the changes, Inland Revenue has incurred expenses in excess of appropriations.

Financial Statements Departmental
Pūrongo pūtea Ā-Tari

Contents

Statement of comprehensive revenue and expense

For the year ended 30 June 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Revenue				
816,000	Revenue from the Crown	2	852,042	848,195	877,874
29,625	Other revenue	2	27,679	28,618	21,615
845,625	**Total revenue**		**879,721**	**876,813**	**899,489**
	Expenses				
423,123	Personnel	3	436,347	468,189	482,557
329,388	Operating	4	298,076	318,893	323,020
58,812	Amortisation, depreciation and impairment	9, 10	66,989	65,763	66,945
19,525	Capital charge	6	23,363	23,968	26,967
5	Finance		–	–	–
830,853	**Total expenses**		**824,775**	**876,813**	**899,489**
14,772	**Net surplus and total comprehensive revenue and expense**		**54,946**	**–**	**–**

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 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Current assets				
66,984	Cash and cash equivalents		62,962	45,000	42,240
136,476	Debtor Crown	11	220,107	160,923	174,403
17,060	Debtors and prepayments	11	16,973	12,122	9,122
–	Derivative financial instruments	17	11	500	–
220,520	**Total current assets**		**300,053**	**218,545**	**225,765**
	Non-current assets				
1,862	Prepayments	11	563	–	2,000
38,901	Property, plant and equipment	9	30,014	33,722	31,129
277,373	Intangible assets	10	322,282	370,675	478,164
5	Derivative financial instruments	17	–	–	–
318,141	**Total non-current assets**		**352,859**	**404,397**	**511,293**
538,661	**Total assets**		**652,912**	**622,942**	**737,058**
	Current liabilities				
60,423	Creditors and other payables	12	48,114	50,600	50,600
13,606	Surplus payable to the Crown	8	53,444	–	–
48,709	Employee entitlements	13	66,307	47,076	50,660
661	Provision for other liabilities	14	1,645	–	–
1,497	Derivative financial instruments	17	–	–	–
210	Other financial liabilities	14	147	114	111
125,106	**Total current liabilities**		**169,657**	**97,790**	**101,371**
	Non-current liabilities				
30,684	Employee entitlements	13	29,880	41,387	30,387
59	Provision for other liabilities	14	835	76	94
491	Other financial liabilities	14	344	161	344
31,234	**Total non-current liabilities**		**31,059**	**41,624**	**30,825**
156,340	**Total liabilities**		**200,716**	**139,414**	**132,196**
382,321	**Net assets**		**452,196**	**483,528**	**604,862**
382,321	Taxpayers' funds		452,196	483,528	604,862
382,321	**Total taxpayers' funds**	7	**452,196**	**483,528**	**604,862**

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 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
317,323	Opening balance at 1 July		382,321	381,155	450,694
14,772	Total comprehensive revenue and expense		54,946	–	–
(13,606)	Repayment of surplus to the Crown	8	(53,444)	–	–
63,832	Capital injections		103,000	103,000	154,168
–	Capital withdrawal		(34,627)	(627)	–
382,321	**Closing balance at 30 June**	7	**452,196**	**483,528**	**604,862**

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

Statement of cash flows

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Cash flows from operating activities			
866,672	Receipts from the Crown	768,411	823,748	869,553
29,193	Receipts from other revenue	22,079	28,612	21,337
(420,508)	Payments to employees	(419,553)	(451,855)	(486,799)
(339,702)	Payments to suppliers	(292,997)	(331,069)	(321,371)
(19,525)	Payments for capital charge	(23,363)	(23,968)	(26,967)
(4,821)	Goods and services tax (net)	5,499	3,106	(720)
111,309	**Net cash flow from operating activities**	**60,076**	**48,574**	**55,033**
	Cash flows from investing activities			
24	Receipts from sale of property, plant and equipment	177	–	–
(15,537)	Purchases of property, plant and equipment	(7,411)	(8,000)	(9,000)
(88,282)	Purchases of intangible assets	(111,631)	(142,000)	(204,112)
(103,795)	**Net cash flow from investing activities**	**(118,865)**	**(150,000)**	**(213,112)**
	Cash flows from financing activities			
63,832	Capital injections	103,000	103,000	154,168
(59,565)	Repayment of surplus to the Crown	(13,606)	(6,815)	(10,861)
–	Capital withdrawals	(34,627)	(627)	–
(60)	Payments of finance leases	–	–	–
4,207	**Net cash flow from financing activities**	**54,767**	**95,558**	**143,307**
11,721	Net increase/(decrease) in cash and cash equivalents	(4,022)	(5,868)	(14,772)
55,263	Cash and cash equivalents at the beginning of the year	66,984	50,868	57,012
66,984	**Cash and cash equivalents at the end of the year**	**62,962**	**45,000**	**42,240**

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

Statement of cash flows (continued)

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
14,772	Net surplus	54,946	–	–
	Add/(less) non-cash items			
58,812	Amortisation, depreciation and impairment	66,989	65,763	66,945
(1,166)	Net unrealised foreign exchange gains	(1,502)	–	–
57,646	**Total non-cash items**	**65,487**	**65,763**	**66,945**
	Add items classified as investing or financing activities			
153	Net loss/(gain) on disposal of property, plant and equipment	583	–	–
113	Net loss/(gain) on disposal of intangible assets	68	–	–
266	**Total items classified as investing or financing activities**	**651**	–	–
	Add/(less) working capital movements			
50,671	(Increase)/decrease in debtor Crown	(83,631)	(24,447)	(8,321)
(4,388)	(Increase)/decrease in debtors and prepayments	1,386	(2,268)	(2,587)
485	(Increase)/decrease in inventories held for distribution	–	(15)	–
(11,006)	Increase/(decrease) in creditors and other payables	2,893	(6,531)	3,660
2,615	Increase/(decrease) in employee entitlements	16,794	16,334	(4,242)
632	Increase/(decrease) in provision for other liabilities	1,760	31	(181)
(384)	Increase/(decrease) in other financial liabilities	(210)	(293)	(241)
38,625	**Net movements in working capital items**	**(61,008)**	**(17,189)**	**(11,912)**
111,309	**Net cash flow from operating activities**	**60,076**	**48,574**	**55,033**

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

Statement of commitments

As at 30 June 2020

Actual 2019 $000		Actual 2020 $000
	Capital commitments	
6,053	Intangible assets	2,998
122	Leasehold improvements	–
6,175	**Total capital commitments**	**2,998**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
34,326	Not later than one year	31,172
76,286	Later than one year and not later than five years	52,400
14,788	Later than five years	8,109
125,400	**Total non-cancellable operating commitments**	**91,681**
131,575	**Total commitments**	**94,679**

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 $2.318 million (2019: $3.261 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 2020

Actual 2019 $000		Actual 2020 $000
	Contingent liabilities	
147	Employee grievances	5
465	Legal proceedings and disputes—taxpayer	356
612	**Total contingent liabilities**	**361**
	Contingent assets	
1,860	Legal proceedings and disputes—taxpayer	1,433
1,860	**Total contingent assets**	**1,433**

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 157). 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.

Other

Inland Revenue is defending proceedings in the Employment Court.

The Plaintiffs seek a declaration from the Court that they were employees of Inland Revenue, despite being employed by another employer at the material time. The outcome of these proceedings could lead to subsequent legal claims being raised by the Plaintiffs. Therefore, the extent of Inland Revenue's financial liability is unquantifiable at this stage.

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 157). 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 2020

These financial statements are for the year ended 30 June 2020 and include forecast financial statements for the year ending 30 June 2021.

Index

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 2020. The forecast financial statements are for the year ending 30 June 2021.

The Chief Executive and Commissioner of Inland Revenue authorised these financial statements on 30 November 2020.

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 2020 financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies set out below and in the notes to the financial statements have been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared on a historical cost basis, unless otherwise stated. The accrual basis of accounting has been used.

Functional and presentation currency

These financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000). The functional currency of Inland Revenue is New Zealand dollars.

Accounting standards issued and not yet effective

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 2022. 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), note 11 (Debtors and prepayments), note 13 (Employee entitlements) and note 14 (Other liabilities). These notes include disclosures relating to the impacts of COVID-19 in Inland Revenue's financial statements.

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 *Our performance* 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

In 2019–20, Inland Revenue has introduced a simplified cost allocation model that delivers quality cost information that:

- generates valuable insights
- provides more visible linkage between business activities, outputs and products
- brings together output and product costing in one model
- aligns to Inland Revenue's operating model
- is simple to use and easy to maintain.

Inland Revenue allocates costs directly to an output where a line of sight exists between an appropriation and business services or projects. Inland Revenue utilises indirect allocation where business services cannot be attributed directly to an output. Indirect allocation rates are apportioned to outputs based on weighting of relevant direct drivers the business services support.

The changes to cost allocation policies from 2018–19 did not result in material changes to individual appropriations except for the *Services for Customers* multi-category appropriation where *Services to Inform the Public about Entitlements and Meeting Obligations* and *Services to Process Obligations and Entitlements* have increased with a relevant decrease in *Investigations* and *Management of Debt and Outstanding Returns*. The changes reflect Inland Revenue's focus to support customers through a period of significant change and perform activities for transformation releases.

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.

The presentation of some information has changed from the previous period with prior period balances re-classified to be comparable with current year figures.

Changes in accounting policies

There have been no changes in accounting policies since 30 June 2019.

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 2019–20 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020*.

The revised budget figures for 2019–20 (refer to the *Statements of budgeted and actual expenses and capital expenditure incurred against appropriations* on page 109) are those included in the *Addition to the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020*.

The forecast figures for 2020–21 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

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 6 April 2020. While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2021 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 2019–20 is used as the opening position for the 2020–21 forecasts.

Any changes to budgets during 2020–21 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

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 (Addition to the 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 higher than budget by $3.847 million. The variance is due to additional funding required to administer policy decisions associated with the Government's response to COVID-19.

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 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
20,500	Accident Compensation Corporation—agency fees	17,250	20,500
2,515	Services and information provided to other agencies	2,474	3,074
1,760	Recovery of secondees salaries	2,294	–
385	Unrealised foreign exchange gain	2,158	–
1,764	Rental revenue from sub-leases	1,438	1,757
1,595	Court costs recovered	1,051	2,199
150	Foreign trust administration fees	229	–
956	Revenue from rulings	373	1,088
–	Others	412	–
29,625	**Total other revenue**	**27,679**	**28,618**

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 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
389,877	Salaries and wages	384,922	421,509
1,250	Termination benefits	19,333	22,000
12,359	Employer contributions to defined contribution scheme	12,473	12,730
1,419	Annual leave	4,510	1,400
5,457	Retiring, long-service and sick leave	3,474	3,000
4,167	Training and development	3,470	5,512
896	ACC levies	548	706
337	Bonuses	65	452
7,361	Other	7,552	880
423,123	**Total personnel**	**436,347**	**468,189**

Explanation of major variances against budget

Personnel costs were $31.842 million lower than budget. The variance is due to the change in the phasing and delivery of the transformation programme, the timing of organisational change required to deliver the programme outcomes and more cost-effective training and development activities delivered in-house and online.

The cost of annual leave increased as leave accrued exceeded leave taken. Less leave was taken by staff during the COVID-19 lockdown period and due to subsequent restrictions on overseas travel.

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 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
130,502	Contractors	108,521	117,662
100,643	Information technology and telecommunications	104,231	93,107
36,427	Rental	35,676	42,645
13,375	Office expenses	12,379	11,047
11,012	Travel and transport	7,397	10,934
7,743	Consultants	7,330	9,074
11,610	Communications and publicity	6,929	14,695
6,609	Outsourced contracts	5,612	7,639
4,516	Legal expenses	3,206	6,244
2,294	Bank fees	2,638	2,493
1,178	Audit fees for audit of the financial statements	1,166	1,150
25	Disbursements for audit of the financial statements	101	20
266	Net loss on disposal of assets	701	–
142	Debt expected credit losses and write-off	483	6
116	Net realised and unrealised foreign exchange losses	–	–
2,930	Other operating expenses	1,706	2,177
329,388	**Total operating**	**298,076**	**318,893**

Explanation of major variances against budget

Operating expenses were $20.817 million lower than budget due to the phasing and delivery of the transformation programme, a reduction in expenditure on contractors and a reduction in travel costs due to new technology solutions that enable us to meet and work together virtually and COVID-19 related travel restrictions.

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 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 in accordance with Te Kawa Mataaho Public Service Commission guidance:

Actual 2019 $000		Actual 2020 $000
130,716	Contractors	105,865
6,126	Consultants	5,603
136,842	**Total contractors and consultants—operating**	**111,468**
69,134	Contractors and consultants—capital	72,343
205,976	**Total contractors and consultants**	**183,811**

The difference between the amounts in the table above, and the contractors and consultants expense in note 4, is because the financial statement definitions vary slightly to the Te Kawa Mataaho Public Service Commission (PSC) definitions. For example, amounts paid to other government agencies are excluded for PSC 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 2020 was 6.0% (2019: 6.0%).

Actual 2019 $000		Actual 2020 $000
19,525	Capital charge expense	23,363

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 2019 $000		Actual 2020 $000
14,772	Net surplus/(deficit)	54,946
(1,166)	Plus unrealised (gain)/loss in relation to forward foreign exchange contracts	(1,502)
13,606	**Total surplus payable to the Crown**	**53,444**

The net surplus includes an underspend for business transformation of $39.129 million which will be transferred to 2020–21 as part of Inland Revenue's multi-year appropriation.

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	Over $2,000
• Furniture	Over $2,000
• Office equipment	Over $2,000
• Motor vehicles	No threshold
• 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.

2020	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction $000	Total tangible assets $000
Cost						
Opening balance as at 1 July 2019	32,909	24,933	3,315	63,317	2,798	127,272
Additions by purchase	2,966	1,106	–	1,422	762	6,256
Transfers between category	137	(102)	–	2,712	(2,668)	79
Disposals	(4,114)	(1,168)	(634)	(4,292)	–	(10,208)
Closing balance as at 30 June 2020	**31,898**	**24,769**	**2,681**	**63,159**	**892**	**123,399**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2019	23,297	19,715	2,526	42,813	20	88,371
Depreciation and impairment	5,928	1,523	92	7,161	–	14,704
Transfers between category	(63)	(102)	–	44	–	(121)
Disposals	(4,064)	(1,059)	(507)	(3,939)	–	(9,569)
Closing balance as at 30 June 2020	**25,098**	**20,077**	**2,111**	**46,079**	**20**	**93,385**
Carrying amount as at 30 June 2020	**6,800**	**4,692**	**570**	**17,080**	**872**	**30,014**

2019	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction $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 expensed	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**

[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.

There was no impairment of property, plant and equipment associated with the impacts of COVID-19.

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.

Website development costs are recognised as an intangible asset if it can be demonstrated that the website will generate probable future economic benefits. Subsequent costs associated with the development and maintenance of Inland Revenue's existing websites are expensed unless they meet the capitalisation requirement of PBE IPSAS 31 Intangible Assets.

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   Over $20,000
- Software licences   Over $20,000

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.

There was no impairment of intangible assets associated with the impacts of COVID-19.

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.

2020	Internally generated intangible assets $000	Software licences $000	Assets under construction —intangibles $000	Total intangible assets $000
Cost				
Opening balance as at 1 July 2019	702,848	101,477	33,361	837,686
Additions by purchase	78,343	525	10,780	89,648
Additions internally developed	7,909	–	–	7,909
Transfers between category	(396,684)	420,549	(24,063)	(198)
Disposals	(20,704)	(259,621)	–	(280,325)
Closing balance as at 30 June 2020	**371,712**	**262,930**	**20,078**	**654,720**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2019	476,055	80,641	3,617	560,313
Amortisation and impairment	32,126	20,159	–	52,285
Transfers between category	(383,714)	387,331	(3,617)	–
Disposals	(20,640)	(259,520)	–	(280,160)
Closing balance as at 30 June 2020	**103,827**	**228,611**	**–**	**332,438**
Carrying amount as at 30 June 2020	**267,885**	**34,319**	**20,078**	**322,282**
2019				
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 charge—expensed	39,096	4,973	–	44,069
Amortisation charge—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**

[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 $322.282 million carrying value for intangibles, $297.522 million relates to the development of the START tax and social policy management system and supporting infrastructure assets. The estimated remaining life of the START assets is 12 years.

Explanation of major variances against budget

Intangible assets are $48.393 million lower than budget due to the re-phasing of the capital plan for the transformation programme to align with Inland Revenue's updated delivery approach.

Note 11. Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions. Debtor Crown transactions are considered to be non-exchange transactions.

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.

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
	Current assets—exchange transactions		
	Debtors		
4,202	Accounts receivable	7,708	3,700
(125)	Less allowance for credit losses	(593)	(100)
665	Other debtors	536	522
4,742	Net debtors	7,651	4,122
12,318	Prepayments	9,322	8,000
17,060	**Total current assets—exchange transactions**	**16,973**	**12,122**
	Non-current assets—exchange transactions		
1,862	Prepayments	563	–
1,862	**Total non-current assets—exchange transactions**	**563**	–
18,922	**Total debtors and prepayments—exchange transactions**	**17,536**	**12,122**

Explanation of major variances against budget

Debtors and prepayments were $5.414 million higher than budget due to the timing of collection on an inter-government agency receivable and the additional prepayment of some maintenance contracts for the transformation programme.

The expected credit loss rates for accounts receivable 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, including COVID-19, 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 2020 and 30 June 2019 was determined as follows:

2020	Expected credit loss rate	Gross carrying amount $000	Lifetime expected credit loss $000
Not past due	–	2,507	–
Past due 1 to 30 days	0.06%	1,553	1
Past due 31 to 60 days	0.12%	1,620	2
Past due 61 to 90 days	2.04%	98	2
Past due > 90 days	30.5%	1,930	588
Total	**7.69%**	**7,708**	**593**

2019			
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	**2.97%**	**4,202**	**125**

Movements in the allowance for credit losses are as follows:

Actual 2019 $000		Actual 2020 $000
4	Opening balance as at 1 July	125
122	Additional provisions made during the year	480
(1)	Receivables written off during the year	(12)
125	**Closing balance as at 30 June**	**593**

Sensitivity analysis

The following table shows the effect of changes in the lifetime expected credit loss assumption.

2019 $000		2020 $000
(84)	Impact of a 2% increase on the lifetime expected credit loss assumption	(154)
84	Impact of a 2% decrease on the lifetime expected credit loss assumption	154

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 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
	Creditors and other payables—exchange transactions		
11,582	Accounts payable	64	9,000
40,810	Accrued expenses—other	34,520	32,600
52,392	**Total creditors and other payables—exchange transactions**	**34,584**	**41,600**
	Creditors and other payables—non-exchange transactions		
8,031	GST payable	13,530	9,000
8,031	**Total creditors and other payables—non-exchange transactions**	**13,530**	**9,000**
60,423	**Total creditors and other payables**	**48,114**	**50,600**

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 $2.486 million below budget due to early settlement of payables as a result of Government's request to pay 95% of domestic suppliers within 10 business days, offset by lower GST input due to an underspend in operating expenses (refer to note 4).

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 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000
	Current liabilities—exchange transactions		
28,066	Annual leave	31,620	26,873
8,774	Accrued salaries and wages	11,069	10,000
2,487	Termination benefits	12,070	2,000
3,830	Retiring leave	4,510	3,000
2,571	Other provision	4,292	2,500
1,440	Long-service leave	1,440	1,400
1,539	Sick leave	1,300	1,300
2	Time off in lieu	6	3
48,709	**Total current liabilities—exchange transactions**	**66,307**	**47,076**
	Non-current liabilities—exchange transactions		
22,530	Retiring leave	23,380	33,000
6,570	Long-service leave	6,500	8,387
1,584	Other provision	–	–
30,684	**Total non-current liabilities—exchange transactions**	**29,880**	**41,387**
79,393	**Total employee entitlements**	**96,187**	**88,463**

Explanation of major variances against budget

Provisions for employee entitlements were $7.724 million higher than budget mainly due to less leave taken by staff during the COVID-19 lockdown period, and deferred restructuring costs from the transformation programme, offset by macroeconomic changes to valuation assumptions for retirement leave and long-service leave.

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 and other employee entitlements are as follows:

	Termination benefits $000	Other employee entitlements $000	Total $000
Opening balance as at 1 July 2019	2,487	4,155	6,642
Additional provisions made	12,974	137	13,111
Amounts used	(3,212)	–	(3,212)
Unused amounts reversed	(179)	–	(179)
Closing balance as at 30 June 2020	**12,070**	**4,292**	**16,362**
Opening balance as at 1 July 2018	4,178	3,442	7,620
Additional provisions made	853	713	1,566
Amounts used	(2,443)	–	(2,443)
Unused amounts reversed	(101)	–	(101)
Closing balance as at 30 June 2019	**2,487**	**4,155**	**6,642**

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 depends 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 2020. 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 2020 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 2.19% (2019: 2.34%).

COVID-19 impacts are reflected in the assumptions for discount rates and salary inflation. The net effect of these assumptions has resulted in an increase to the liability. The following section provides a sensitivity analysis of these assumptions.

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%
2020							
Long-service leave	6,500	409	(364)	(153)	406	1,670	(1,290)
Retiring leave	23,380	1,780	(1,590)	(38)	1,780	7,290	(4,990)

	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

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, 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 2019 $000		Actual 2020 $000
	Current liabilities	
440	Lease make-good	–
221	Onerous contracts	1,645
661	**Total current liabilities**	**1,645**
	Non-current liabilities	
59	Lease make-good	61
–	Onerous contracts	774
59	**Total non-current liabilities**	**835**
720	**Total provision for other liabilities**	**2,480**

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 $0.491 million at 30 June 2020 (2019: $0.701 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 2020 (2019: nil).

Remuneration to key management personnel

The remuneration of key management personnel during the year was as follows:

	Remuneration 2020 $000	Remuneration 2019 $000	Full-time Equivalents 2020	Full-time Equivalents 2019
Leadership team, including the Commissioner (Chief Executive)	5,155	4,742	11.8	11.0

The key management personnel remuneration disclosure includes the Chief Executive (Commissioner), seven 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 Te Kawa Mataaho Public Service 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 2019 $000		Actual 2020 $000
	Financial assets measured at amortised cost	
66,984	Cash and cash equivalents	62,962
136,476	Debtor Crown	220,107
4,742	Net debtors	7,651
208,202	**Total financial assets measured at amortised cost**	**290,720**
	Financial assets measured at fair value through surplus or deficit	
5	Derivative financial instrument assets	11
5	**Total financial assets measured at fair value through surplus or deficit**	**11**
	Financial liabilities measured at amortised cost	
52,392	Creditors and other payables	34,584
701	Other financial liabilities	491
53,093	**Total financial liabilities measured at amortised cost**	**35,075**
	Financial liabilities measured at fair value through surplus or deficit	
1,497	Derivative financial instrument liabilities	–
1,497	**Total financial liabilities measured at fair value through surplus or deficit**	**–**

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 an asset of $0.011 million as at 30 June 2020 (2019: liability of $1.492 million).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2020 was NZ $2.048 million (2019: NZ $23.819 million). The contracts consisted of the purchase of US $0.961 million and AU $0.526 million (2019: US $14.979 million). The unrealised gain on the forward exchange contract derivatives was NZ $1.502 million at 30 June 2020 (2019: unrealised gain of $1.166 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 2019 $000	Valuation technique Level 2—observable inputs	Actual 2020 $000
	Financial assets/(liabilities)	
(1,492)	Forward foreign exchange contracts (net)	11

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 2020 would be a $0.738 million decrease and a $0.668 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
2020					
Creditors and other payables	34,584	34,584	34,584	–	–
Other financial liabilities	491	491	147	264	80
Total	**35,075**	**35,075**	**34,731**	**264**	**80**
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**

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	Total contractual cash flows	Up to 1 year	1 to 5 years	Over 5 years
	$000	$000	$000	$000	$000
2020					
Gross settled forward foreign exchange contracts (net asset)	11	–	–	–	–
Outflow	–	2,048	2,048	–	–
Total	**11**	**2,048**	**2,048**	**–**	**–**
2019					
Gross settled forward foreign exchange contracts (net liability)	(1,492)	–	–	–	–
Outflow	–	23,819	11,468	12,282	69
Total	**(1,492)**	**23,819**	**11,468**	**12,282**	**69**

Note 20. 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 2019–20, we collected $78.2 billion of revenue on behalf of New Zealand to fund government programmes. We paid $6.9 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 2020*.

Contents

Schedule of non-departmental revenue

For the year ended 30 June 2020

Actual 2019 $000		Note 3	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Direct taxation				
	Income tax				
	Individuals				
32,022,657	Source deductions (PAYE)		34,073,382	33,766,000	33,977,000
7,663,149	Other persons		7,190,664	7,149,000	6,694,000
(2,428,720)	Refunds		(1,887,138)	(1,937,000)	(1,859,000)
585,498	Fringe benefit tax		593,333	585,000	555,000
37,842,584	**Total individuals**		**39,970,241**	**39,563,000**	**39,367,000**
	Corporate tax				
16,067,492	Gross companies tax		12,767,295	15,538,000	10,974,000
(343,017)	Refunds		(424,365)	(218,000)	(283,000)
650,367	Non-resident withholding tax		570,325	648,000	431,000
(252)	Foreign-source dividend withholding payments		–	–	–
16,374,590	**Total corporate tax**		**12,913,255**	**15,968,000**	**11,122,000**
	Other direct income tax				
1,659,239	Resident withholding tax on interest income		1,528,844	1,675,000	1,016,000
838,149	Resident withholding tax on dividend income		827,581	796,000	596,000
1,351,203	Employer superannuation contribution tax		1,406,459	1,430,000	1,363,000
3,848,591	**Total other direct income tax**		**3,762,884**	**3,901,000**	**2,975,000**
58,065,765	**Total direct taxation**		**56,646,380**	**59,432,000**	**53,464,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2020

Actual 2019 $000		Note 3	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Indirect taxation				
	Goods and services tax				
33,397,969	Gross goods and services tax		34,742,580	35,256,000	31,241,000
(14,004,865)	Refunds		(14,111,693)	(14,334,000)	(12,925,000)
19,393,104	**Total goods and services tax**		**20,630,887**	**20,922,000**	**18,316,000**
	Other indirect taxation				
105,097	Approved issuer levy		100,923	101,000	108,000
313,579	Gaming duties		276,214	307,000	296,000
2,108	Other indirect taxation		2,080	5,000	2,000
420,784	**Total other indirect taxation**		**379,217**	**413,000**	**406,000**
19,813,888	**Total indirect taxation**		**21,010,104**	**21,335,000**	**18,722,000**
77,879,653	**Total taxation**		**77,656,484**	**80,767,000**	**72,186,000**
	Other revenue				
179,337	Child support		196,567	180,000	199,000
393,900	Interest unwind—student loans		330,993	415,000	353,000
45,390	Other revenue		56,971	44,500	49,800
618,627	**Total other revenue**		**584,531**	**639,500**	**601,800**
78,498,280	**Total revenue excluding gains**		**78,241,015**	**81,406,500**	**72,787,800**

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 of New Zealand for the year ended 30 June 2020*.

Schedule of non-departmental expenditure

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Benefits and other unrequited expenses			
47,588	Best Start tax credit	184,059	231,000	336,000
106	Child tax credit	558	400	100
2,130,709	Family tax credit	2,188,954	2,195,000	2,139,000
612,942	In-work tax credit	620,964	521,000	631,000
(3)	KiwiSaver: Fee subsidy	–	–	–
6,509	KiwiSaver: Interest	6,624	9,000	5,000
859,897	KiwiSaver: Tax credit	859,123	906,000	930,000
14,005	Minimum family tax credit	18,426	15,000	22,000
369,354	Paid parental leave payments	422,146	400,000	455,000
7,883	Parental tax credit	2,460	–	–
6,460	Payroll subsidy	6,761	3,900	–
4,055,450	**Total benefits and other unrequited expenses**	**4,310,075**	**4,281,300**	**4,518,100**
	Borrowing expenses			
48	Adverse event interest	(15)	10	–
1,516	Environmental restoration account interest	1,438	1,500	1,500
4,960	Income equalisation interest	6,453	6,000	10,000
6,524	**Total borrowing expenses**	**7,876**	**7,510**	**11,500**
	Other expenses			
828,664	Impairment of debt and debt write-offs[1]	1,356,750	680,000	880,000
–	Initial fair value write-down relating to Small Business Cashflow Scheme COVID-19[2]	685,453	–	–
563,354	Initial fair value write-down relating to student loans	506,118	576,000	558,000
1,392,018	**Total other expenses**	**2,548,321**	**1,256,000**	**1,438,000**
5,453,992	**Total expenditure excluding losses**	**6,866,272**	**5,544,810**	**5,967,600**

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 of New Zealand for the year ended 30 June 2020*.

[1] Notes 2 and 4 provide more information on the impairment of debt and debt write-offs.

[2] The Small Business Cashflow Scheme opened on 12 May 2020. Refer to notes 2 and 6 for more information.

Schedule of non-departmental gains and losses

As at 30 June 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
981,000	Net gains/(losses) on student loans—fair value remeasurement	3, 7	(97,000)	34,000	34,000
981,000	**Total net gains/(losses)**		**(97,000)**	**34,000**	**34,000**

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 of New Zealand for the year ended 30 June 2020*.

Schedule of non-departmental assets

As at 30 June 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Current assets				
3,767,279	Cash and cash equivalents		1,790,421	1,500,000	1,500,000
13,466,127	Receivables	4	13,273,939	11,595,313	15,519,127
8,820	Receivables—child support	5	8,320	10,662	8,820
157,265	Receivables—other		–	137,495	161,265
–	Small Business Cashflow Scheme	6	356,000	–	–
1,372,000	Student loans	7	1,256,000	1,480,000	1,371,000
18,771,491	**Total current assets**		**16,684,680**	**14,723,470**	**18,560,212**
	Non-current assets				
544,931	Receivables	4	368,000	312,700	544,931
74,174	Receivables—child support	5	71,238	60,375	55,174
–	Small Business Cashflow Scheme	6	381,988	–	–
9,358,696	Student loans	7	9,138,584	8,403,623	9,434,696
9,977,801	**Total non-current assets**		**9,959,810**	**8,776,698**	**10,034,801**
28,749,292	**Total assets**		**26,644,490**	**23,500,168**	**28,595,013**

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 of New Zealand for the year ended 30 June 2020*.

Schedule of non-departmental liabilities

As at 30 June 2020

Actual 2019 $000		Notes	Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
	Current liabilities				
25,798	Child support		27,817	8,599	25,798
6,271,327	Refundables and payables	8	5,018,876	5,255,928	6,354,527
21,509	Unclaimed monies	9	22,870	19,947	21,509
6,318,634	**Total current liabilities**		**5,069,563**	**5,284,474**	**6,401,834**
	Non-current liabilities				
251,881	Reserve schemes	10	273,312	220,207	250,881
251,881	**Total non-current liabilities**		**273,312**	**220,207**	**250,881**
6,570,515	**Total liabilities**		**5,342,875**	**5,504,681**	**6,652,715**

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 of New Zealand for the year ended 30 June 2020*.

Schedule of movements between other government departments

For the year ended 30 June 2020

Actual 2019 $000		Actual 2020 $000	Unaudited Budget 2020 $000	Unaudited Forecast 2021 $000
17,088,188	Opening balance	22,178,777	19,853,397	19,278,898
74,025,288	Net result from operating activities	71,277,743	75,895,690	66,854,200
	Asset transfer between departments			
1,360,201	Ministry of Social Development—student loans	1,412,774	1,391,000	1,556,000
(70,294,900)	New Zealand Debt Management Office	(73,567,679)	(79,144,600)	(65,746,800)
22,178,777	**Closing balance**	**21,301,615**	**17,995,487**	**21,942,298**

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 of New Zealand for the year ended 30 June 2020*.

Schedule of non-departmental commitments

As at 30 June 2020

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2019: $nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2020

Actual 2019 $000		Note 11	Actual 2020 $000
	Quantifiable contingent liabilities		
134,105	Legal proceedings and disputes—assessed		189,192
174,029	Unclaimed monies		183,447
308,134	**Total quantifiable contingent liabilities**		**372,639**
	Quantifiable contingent assets		
35,176	Disputes—non-assessed		9,238
35,176	**Total quantifiable contingent assets**		**9,238**

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 of New Zealand for the year ended 30 June 2020.*

Schedule of non-departmental trust money

For the year ended 30 June 2020

Actual 2019 $000		Contributions 2020 $000	Distributions 2020 $000	Total 2020 $000
	Child support			
23,295	Child support trust account	285,316	(291,108)	17,503
516	Reciprocal child support agreement trust account	14,150	(14,252)	414
23,811	**Total child support**	**299,466**	**(305,360)**	**17,917**
	KiwiSaver			
135	KiwiSaver returned transactions trust account	105,211	(105,092)	254
–	KiwiSaver voluntary contributions trust account	1,070	(1,010)	60
135	**Total KiwiSaver**	**106,281**	**(106,102)**	**314**
23,946	**Total trust money**	**405,747**	**(411,462)**	**18,231**

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 accounts were established in accordance with section 74 of the KiwiSaver Act 2006. Inland Revenue administers these accounts 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, as well as voluntary contributions yet to be passed to KiwiSaver scheme providers.

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 of New Zealand for the year ended 30 June 2020*.

Notes to the financial schedules

For the year ended 30 June 2020

Index

How we have prepared these schedules

Note 1. Basis of preparation

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand.

The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989.

Inland Revenue is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

These non-departmental financial schedules present financial information on funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the *Financial Statements of the Government of New Zealand for the year ended 30 June 2020*. 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 2020*.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2020. The forecast financial schedules are for the year ending 30 June 2021.

The Chief Executive and Commissioner of Inland Revenue authorised these financial schedules on 30 November 2020.

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 2020 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 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 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. The impact of COVID-19 on estimates and assumptions is also discussed in these notes.

Note 2 sets out how we considered the impacts of COVID-19 on the non-departmental financial schedules.

Changes in estimations

Income tax—companies and other persons

We have updated the revenue recognition methodology to estimate the impact of COVID-19 on income tax for companies and other persons. This is required because income tax is an annual tax and the impact of COVID-19 will not be known until taxpayers file their annual terminal tax assessments in the future.

The change applies to the taxpayers subject to the provisional tax regime who have not yet filed a terminal tax assessment for the 2020 and 2021 income tax years.

The change in estimation has reduced tax revenue by $526 million, made up of $356 million for companies and $170 million for other persons.

Further information on the change in methodology for estimating income tax is disclosed in notes 2 and 3.

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.

Budget and forecast figures

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

The budget and forecast financial schedules are not subject to audit.

The budget 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 revised budget figures for 2019–20 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations* on page 111) are those included in the *Addition to the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2020*.

The forecast figures for 2020–21 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*. After the Estimates went to print, the tax forecasts were updated to take account of late-breaking Government decisions, particularly in relation to COVID-19 pandemic relief measures.

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 17 April 2020.

While Inland Revenue regularly updates forecasts, updated forecast schedules for the year ending 30 June 2021 will not be published.

The key assumptions in the preparation of the forecasts include the following:

- Estimates for COVID-19 economic impacts and the Government's COVID-19 economic response packages including:
  - a temporary loss carry-back rule to allow refunds of prior year tax paid by businesses that have or will incur tax losses in either the 2020 or 2021 income tax years
  - a same or similar business test for the carry forward of tax losses with effect from the 2021 income tax year
  - temporary powers to allow the Commissioner of Inland Revenue to modify tax obligations impacted by COVID-19
  - the reinstatement of a 2% diminishing value depreciation rate for commercial and industrial buildings
  - increasing the threshold for provisional tax from $2,500 to $5,000 for the 2020–21 and later income tax years
  - increasing the low value asset write-off threshold to $5,000 for the 2020–21 income tax year
  - removal of the hours-test from the In-Work Tax Credit from 1 July 2020.
- 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 2019–20 is used as the opening position for the 2020–21 forecasts.

A significant assumption not included in the forecasts for 2020–21 and outyears is the introduction of the Government's Small Business Cashflow Scheme. Details of the scheme are disclosed in note 6.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2020* (https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2020-html)[1].

Any changes to budgets during 2020–21 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

[1] This link leads to information not covered by the audit opinion on page 184.

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, including the expected impacts of COVID-19, 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.

How we have considered the impacts of COVID-19

Note 2. Considerations and adjustments for the impacts of COVID-19

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19, which has impacted the global economy and created uncertainty in global markets and valuations.

To respond to the impact of COVID-19, the New Zealand Government has taken a number of actions to support the wellbeing of New Zealanders and the New Zealand economy, including the introduction of a Small Business Cashflow Scheme to be administered by Inland Revenue. These actions have affected the New Zealand economy and these financial schedules. A summary of the key impacts on the non-departmental financial schedules is set out below.

Tax revenue

Tax revenue represents revenue for the 2019–20 financial year based on the revenue recognition methodology disclosed in note 3. While most revenue is recognised in cash in the same financial year, these financial schedules include tax estimates and assessments that are not due to be paid until after 30 June 2020. The amount owing is reported in receivables (refer to note 4).

Estimation of tax revenue affects mainly income tax for companies and other persons. Accruing income tax revenue requires a significantly higher degree of estimation compared to tax revenue from GST and source deductions (e.g. PAYE). While most taxpayers pay annual income tax in instalments using the provisional tax regime, final income tax owed, or tax refunds due, for a year is only known with reasonable certainty when the taxpayer files a terminal tax assessment for that period. For GST and source deductions, estimations are relatively certain because taxpayer filing dates are so regular and frequent.

The impact of COVID-19 on economic activity through alert levels and border restrictions has had flow on impacts to tax revenue in 2019–20 compared to what was expected prior to COVID-19.

Taxation revenue was $77.656 billion in 2019–20, a decrease of $223 million (0.3%) compared to 2018–19. Taxation revenue was $3.11 billion lower than the *Budget Economic and Fiscal Update 2019* budget.

Most tax is paid on a payday or monthly basis. Therefore, the impacts of COVID-19 are recognised at the time of filing, with no need to change our revenue recognition policies. The exception is income tax for companies and other persons, where tax returns are filed in the future.

Tax revenue—income tax for companies and other persons

COVID-19 is expected to impact taxable income earned by companies and other persons for the 2019–20 financial year. Accordingly, we have updated our income tax estimation methodology for the 2020 and 2021 income tax years. This is required because income tax is an annual tax and the impact of COVID-19 will not be known until taxpayers file their annual terminal tax assessments in the future.

Where customers subject to the provisional tax regime have not filed a terminal tax assessment for the period, provisional tax assessments are recognised based on the provisional tax method adopted by the taxpayer. These provisional tax assessments are based on 105% of the prior year terminal tax. This method suits a large number of taxpayers who generally expect to make more or roughly the same amount of profit in the coming tax year.

However, given the large and sudden reduction in economic activity with COVID-19, particularly with New Zealand entering the Alert Level Four lockdown on 25 March 2020, the 105% assumption is now not considered appropriate for the estimation of income tax revenue for the financial year ended 30 June 2020. Therefore, estimated income tax revenue has been based on the Treasury's most recent macroeconomic forecasts, using the percentage movement in forecasts of firms' net operating surplus. As the estimation of income tax revenue is based on macroeconomic forecasts about how the New Zealand economy will perform in the future and how it relates to taxable income, it is an uncertain assumption, particularly in the current environment as a result of COVID-19. This is because macroeconomic forecasts by nature are inherently uncertain. Firms' net operating surplus is a measure of business profits that is published by Stats New Zealand (www.stats.govt.nz). The Treasury produces forecasts of future years' net operating surplus in its economic and fiscal updates.

As a result, the factor applied to the prior year's terminal tax is 102.79% for the 2020 income tax year, which ended on 31 March 2020 and 97.26% for the 2021 income tax year which ends on 31 March 2021, with the period from 1 April 2020 to 30 June 2020 included in these financial schedules rather than the standard factor of 105%. In the 2021 income tax year, the 'uplift' factor applied means there is actually a reduction in tax revenue estimates based on the prior year's tax assessments.

While we believe the Treasury's most recent macroeconomic forecast percentage change in firms' net operating surplus is the most appropriate assumption to determine taxable income in our tax estimation process, there are other possible macroeconomic assumptions that could have been used as inputs, including the forecast percentage change in nominal GDP or forecast percentage change in real GDP. The main reason that the percentage change in the net operating surplus measure was chosen, rather than the percentage change in GDP, is that the net operating surplus has a higher correlation with taxable profits of businesses than either nominal or real GDP. The firms' net operating surplus is a component of Income

GDP and is designed to measure net profits of businesses. This measure is approximately equal to accounting profit before taxes, dividends, and interest, but after depreciation.

Applying the forecast for firms' net operating surplus results in a downward adjustment of $526 million to tax revenue, comprised of $356 million gross companies tax revenue and $170 million other persons revenue.

The updated revenue recognition methodology for income tax is disclosed in note 3.

The significant assumptions and sensitivities behind the estimation of income tax revenue for companies and other persons are:

	2020
Assumptions	
Forecast firms' net operating surplus—2020 income tax year	2.79%
Forecast firms' net operating surplus—2021 income tax year	(2.74%)
Sensitivities	
Impact on revenue of a 1% increase in firms' net operating surplus ($000)	185,000
Impact on revenue of a 5% increase in firms' net operating surplus ($000)	924,000
Impact on revenue of a 10% increase in firms' net operating surplus ($000)	1,848,000
Impact on revenue of a 1% decrease in firms' net operating surplus ($000)	(185,000)
Impact on revenue of a 5% decrease in firms' net operating surplus ($000)	(924,000)
Impact on revenue of a 10% decrease in firms' net operating surplus ($000)	(1,848,000)

There will always be a degree of uncertainty in respect of the estimate of income tax revenue, whether the standard 5% uplift assumption is applied or an alternate approach, but there is elevated uncertainty in the estimation this year due to the impact of COVID-19. However, applying a new assumption this year, based on the forecast of firms' net operating surplus, is considered necessary and appropriate to reflect the current economic circumstances.

Tax receivables

The gross value of tax receivables at 30 June 2020 is $16.897 billion, an increase of $576 million (3.5%). The main driver of the increase is a $726 million (21%) increase in past due debt.

During 2019–20, Inland Revenue made prioritisation decisions to redeploy staff from debt collection to other functions to manage the large and complex requirements to successfully deliver Release 4 of our transformation and support our customers as they continue to familiarise themselves with our new systems and processes. This prioritisation and the impacts of COVID-19 for our customers resulted in increased levels of debt and reduced debt repayments.

Note 4 provides more information on the gross value and fair value of tax receivables, and the significant assumptions and sensitivities behind the fair value.

Small Business Cashflow Scheme

In response to COVID-19, the Government has made Small Business Cashflow Scheme loans available to eligible small-to-medium businesses.

As at 30 June 2020, a total of $1.428 billion was disbursed in loans and $5 million has been repaid. The fair value of these loans at 30 June 2020 is $738 million.

The most critical assumption for determining the fair value is the default rate of the loans, which informs the initial fair value write-down of the loans. The initial fair value write-down on the loans of $685 million is due to these unsecured loans being made to businesses severely impacted by COVID-19 at below market rates and with other favourable terms.

Note 6 provides more information on the Small Business Cashflow Scheme, the valuation model and the significant assumptions and sensitivities behind the fair value.

Student loans

The fair value of the student loan scheme at 30 June 2020 is $10.395 billion, a net decrease of $336 million (3.1%). The net decrease includes repayments, new borrowings, the fair value write-down in new borrowing, interest unwind and fair value remeasurements.

FAIR VALUE OF THE STUDENT LOAN SCHEME

$000	June 2020
Fair value at 30 June 2019	10,730,696
Repayments	(1,477,268)
Borrowings transferred from the Ministry of Social Development	1,412,774
Fair value write-down on new borrowings	(506,118)
Interest unwind	330,993
Other	507
Fair value before remeasurements	10,491,584
Fair value remeasurements	(97,000)
Total debt	**10,394,584**

The fair value remeasurement decrease of $97 million includes:

- an increase in the fair value of $31 million for updates to the model using data to 31 March 2020
- a decrease in the fair value of $507 million to reflect the forecast impacts of COVID-19, including expected border restrictions, fewer expected overseas repayments and a reduction in the number of borrowers in substantive employment
- an increase to the fair value of $343 million due to forecast lower risk-free interest rates partially offset by an increase to the risk premium
- a repayment collection allowance of $36 million.

Note 7 provides more information on the student loan scheme, the valuation model and the significant assumptions and sensitivities behind the fair value.

How we have recognised revenue

Note 3. 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 some time after the publication of the Annual Report.

The measurement of income tax accruals requires significant estimates, judgements and assumptions and has a number of uncertainties. These include the following:

- 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 customers subject to the provisional tax regime have not yet filed a terminal tax assessment:
  - for the 2020 and 2021 income tax years, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted for the Treasury's firms' net operating surplus for that year as at 13 July 2020 (refer to note 2).
  - for all other income tax years, 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 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.

Source deductions (PAYE)

Employers are required to file an employment information form on each payday. Revenue is assessed based on these forms. June employment information forms filed by employers in July are accrued at year end.

Child support

Child support revenue is the penalties levied on child support debts owed to both custodial persons and the Crown by parents who pay child support, as well as child support due to the Crown. This revenue is recognised initially at fair value and subsequently tested for impairment at year end.

Interest unwind—student loans

Student loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, student loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind. The interest unwind has been calculated using the official cash rate plus a risk premium calculated by the consulting actuaries.

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 7.

Crown assets we are managing

Note 4. 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, the Small Business Cashflow Scheme and student loans are reported separately in notes 5, 6 and 7 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.

At the end of the year, receivables are valued by an independent external valuer using predictive models. Inland Revenue provides data to the valuer on receivable balances and repayments. The data is up to 30 June 2020.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors such as discount rates. 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.

The gross value of tax receivables at 30 June 2020 is $16.897 billion, an increase of $576 million (3.5%). The main driver of the increase is a $726 million (21%) increase in past due debt.

Inland Revenue's approach is to prevent customers getting into debt and having penalties and interest added to what they owe. In response to COVID-19, we increased our support to ensure customers knew what help and options were available to them. We also deferred debt activities where that would be the best outcome for the customer.

During 2019–20, Inland Revenue made prioritisation decisions to redeploy staff from debt collection to other functions to manage the large and complex requirements to successfully deliver Release 4 of our transformation and support our customers as they continue to familiarise themselves with our new systems and processes. This prioritisation and the impacts of COVID-19 for our customers resulted in increased levels of debt and reduced debt repayments up to 30 June 2020. This has resulted in an increase in debt impairment, reflecting decreased expected recoverability.

As noted by the valuer, it is not possible to assess with any certainty the implications of COVID-19 on the value of tax receivables or the economy as a whole, in terms of length or the degree of impact. The uncertain and volatile nature of future debt repayments means that there is significant uncertainty in the estimated value of receivables. The valuation reflects the increased levels of debt and reduced debt repayments observed in the data up to 30 June 2020. Future repayments of debt will be dependent on the economic impacts of COVID-19 on our customers and the effectiveness of our compliance activities and relief mechanisms, such as instalment arrangements.

PAST DUE DEBT

$million	June 2019	June 2020	Change %
Working for Families Tax Credits	128.8	167.2	30%
GST	1,180.6	1,550.0	31%
Income tax	1,609.8	1,742.6	8%
Employment activities*	–	741.3	
PAYE and KiwiSaver*	517.1	–	31%
Other tax*	85.0	45.8	
Total debt	**3,521.3**	**4,246.9**	**21%**

* In 2019–20, transformation changes mean our systems consolidated all employer deductions, such as KiwiSaver contributions and PAYE, into a single employer account.

The fair value of tax receivables at 30 June 2020 is $13.642 billion, a decrease of $369 million (2.6%). This reduction reflects a lower level of repayment of older debt as a result of COVID-19 impacts for our customers and the temporary redeployment of staff from debt collection to other functions.

Actual 2019 $000		Actual 2020 $000
	Receivables	
16,321,058	Gross receivables	16,897,048
(2,310,000)	Impairment	(3,255,109)
14,011,058	**Carrying value receivables**	**13,641,939**
	Current and non-current apportionment	
13,466,127	Receivables—current	13,273,939
544,931	Receivables—non-current	368,000
14,011,058	**Carrying value receivables**	**13,641,939**
	Ageing profile of gross receivables	
12,799,796	Not due[1]	12,650,126
	Past due[2]	
951,796	Less than 6 months	1,217,073
419,501	6–12 months	381,458
631,809	1–2 years	747,808
1,518,156	Greater than 2 years	1,900,583
3,521,262	**Total past due**	**4,246,922**
16,321,058	**Total gross receivables**	**16,897,048**
22%	% Past due	25%
	Receivables—impairment	
2,013,977	Opening balance	2,310,000
828,664	Impairment losses recognised	1,356,750
(532,641)	Amounts written off as uncollectable	(411,641)
2,310,000	**Closing balance**	**3,255,109**

[1]Not due receivables comprise estimations or assessments for tax where the tax has been earned, but is not yet due to be paid, and returns that have been filed before due date.

[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 and sensitivities underpinning the valuation of carrying value receivables are shown below:

Actual 2019		Actual 2020
12,763,914	Recoverable amount of receivables not due ($000)	12,590,190
1,247,144	Recoverable amount of receivables past due ($000)	1,051,749
14,011,058	**Total carrying value ($000)**	**13,641,939**
7.00%	Use-of-money interest rate	7.00%
5.00%	Discount rate	5.00%
(27,988)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(20,200)
30,027	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	18,800
–	COVID-19 economic downturn scenario ($000)[1]	(116,000)

[1]A scenario modelling a COVID-19 economic downturn. Assumes that 30% of payments in the next two years will be deferred until March 2022 with 30% of these written off and the rest paid in equal instalments over the projected lifetime of the debt.

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 5. 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 2019 $000		Actual 2020 $000
	Receivables—child support	
1,608,329	Gross receivables	1,553,491
(1,525,335)	Impairment	(1,473,933)
82,994	**Carrying value receivables**	**79,558**
	Current and non-current apportionment	
8,820	Receivables—current	8,320
74,174	Receivables—non-current	71,238
82,994	**Carrying value receivables**	**79,558**
	Ageing profile of gross receivables	
–	Not due	–
	Past due	
165,842	Less than 12 months	202,752
141,666	1–2 years	165,842
1,300,821	Greater than 2 years	1,184,897
1,608,329	**Total past due**	**1,553,491**
1,608,329	**Total gross receivables**	**1,553,491**
100%	% Past due	100%
	Receivables—impairment	
1,579,633	Opening balance	1,525,335
160,867	Impairment losses recognised	189,978
(215,165)	Amounts written off as uncollectable	(241,380)
1,525,335	**Closing balance**	**1,473,933**

Note 6. Small Business Cashflow Scheme

(References to surplus and deficit in this note refer to the surplus and deficit of the *Financial Statements of the Government of New Zealand*).

On 12 May 2020, the Government opened the Small Business Cashflow Scheme to assist small-to-medium businesses impacted by COVID-19. The scheme is administered by Inland Revenue and provides loans of up to $100,000 to businesses employing 50 or fewer full-time equivalent employees for a maximum loan term of five years. Eligible businesses can borrow $10,000 plus an additional $1,800 per equivalent full-time employee. To be eligible for the loans, borrowers need to declare that they are a viable business, and that they will use the money for core business operating costs.

Loans are interest free if they are paid back within a year. Otherwise, the interest rate will be 3% per annum for a maximum term of five years. Repayments are not required for the first two years, but voluntary payments can still be made over this period. During months 25 to 60, regular principal and interest payments are required to be paid on outstanding balances.

Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent fair value adjustments, and is responsible for collecting the loan.

Small Business Cashflow Scheme loans are designated at fair value through surplus or deficit under PBE IFRS 9 Financial Instruments.

The difference between the amount of the 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 loan for a number of reasons including that:

- repayments are not required for the first two years
- because there is no interest charged in the first year, the time value of money will erode the value of future repayments
- the interest rate of 3% charged is lower than the market interest rates for loans to small-to-medium businesses
- borrowers may default on their obligations.

At the end of the year, actuarial and predictive models are used to compare the carrying value to the fair value of the loan portfolio and the difference will be recognised in the surplus and deficit of the *Financial Statements of the Government of New Zealand*.

We use the following key terms to help us define loan values:

Fair value	The market value of 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 loans are shown below.

Actual 2019 $000		Actual 2020 $000
–	Opening fair value	–
–	Lending	1,428,026
–	Fair value write-down on lending	(685,453)
–	Repayments	(4,585)
–	**Closing fair value**	**737,988**
	Current and non-current apportionment	
–	Small business cashflow loans—current	356,000
–	Small business cashflow loans—non-current	381,988
–	**Fair value small business cashflow loans**	**737,988**
–	Opening nominal value	–
–	Lending	1,428,026
–	Repayments	(4,585)
–	**Closing nominal value**	**1,423,441**

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*.

Actual 2019 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2020 $000
	Financial assets	
–	Small Business Cashflow Scheme	737,988

The next section provides details on the model, and the table on page 174 outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Small Business Cashflow Scheme valuation model, significant assumptions and uncertainties

At the end of the year, the Small Business Cashflow Scheme is valued by an independent external valuer using actuarial and predictive models. Inland Revenue provides data to the valuer on borrowing and repayments, and data on borrowers such as industry and region. The data is up to 30 June 2020.

The key assumptions in determining the $738 million fair value of Small Business Cashflow Scheme loans as at 30 June 2020 are the timing of principal and interest repayments and the default rate. The most critical assumption is the default rate of 29.7% which has been explicitly modelled for each industry sector, and cross-checked by modelling using market discount rates. An additional cross-check was provided by applying banking capital requirements and a risk-weighted assets assumption to estimate the regulatory capital required for a bank owning these loans. This has enabled a calculation of the hypothetical fair value of the loans to a New Zealand bank.

As noted by the valuer, there are significant uncertainties in estimating the fair value of the scheme. The key uncertainties include:

- the scheme is new and there is limited data to determine the likely repayment default experience
- there are limited reference points to determine discount rates for discounting the cashflows
- there are uncertainties from the impact of COVID-19 on the wider economy or on the specifics of the businesses receiving loans from the scheme
- the uncertain and volatile nature of the future debt repayments.

The modelling and sensitivity analysis undertaken by the valuer notes a wide range of possible fair values, estimated to be +/- 20% of the fair value. This can be expressed as a fair value between $452 million and $1.024 billion.

The significant assumptions and sensitivities behind the fair value are:

	2020
Assumptions	
Loan interest rate	3.0%
Default rate	29.7%
Discount rate	15.0%
Sensitivities	
Impact on fair value of a 20% increase in the initial fair value write-down ($000)	(285,000)
Impact on fair value of a 20% decrease in the initial fair value write-down ($000)	285,000
Impact on fair value of a 10% increase in the initial fair value write-down ($000)	(143,000)
Impact on fair value of a 10% decrease in the initial fair value write-down ($000)	143,000

The 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, causing the scheme to incur a loss. The risk of default has been assumed to be equivalent to a C-grade investment.

The 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 scheme does not have any material individual concentrations of credit risk.

Inland Revenue will use a variety of activities that inform and assist customers and enforce compliance to reduce the risk of non-payment of obligations.

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. This risk is minimal in the current economic environment.

Changes in interest rates could also impact on the Government's return on loans advanced. The interest rate attached to the loans is set by the Government.

Note 7. 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-based 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.

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.

Actual 2019 $000		Actual 2020 $000
9,929,623	Opening fair value	10,730,696
(1,370,674)	Repayments	(1,477,268)
1,360,201	Borrowings transferred from the Ministry of Social Development	1,412,774
(563,354)	Fair value write-down on new borrowings	(506,118)
981,000	Fair value remeasurements	(97,000)
393,900	Interest unwind	330,993
–	Other	507
10,730,696	**Closing fair value**	**10,394,584**
	Current and non-current apportionment	
1,372,000	Student loans—current	1,256,000
9,358,696	Student loans—non-current	9,138,584
10,730,696	**Fair value student loans**	**10,394,584**
15,868,628	Opening nominal value	16,033,775
1,360,201	Borrowings transferred from the Ministry of Social Development	1,412,774
(1,370,674)	Repayments	(1,477,268)
110,416	Interest on overseas-based borrowers	86,795
22,821	Administration and establishment fees	24,192
92,226	Penalties	98,294
(49,825)	Death and bankruptcies	(44,394)
(18)	Voluntary repayment bonus	(114)
–	Other	507
16,033,775	**Closing nominal value**	**16,134,561**

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*.

Actual 2019 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2020 $000
	Financial assets	
10,730,696	Student loans	10,394,584

The next section provides details on the model, and the table on page 179 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 by an independent external valuer using actuarial models. Stats New Zealand collates most of the data for the actuarial valuation model from Inland Revenue, the Ministry of Education and the 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 2019. 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 2020, 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.

The fair value movement at 30 June 2020 is a decrease of $97 million. This decrease incorporates the following changes to the fair value:

- The discount rate adjustments have increased the value of the scheme by $343 million (2019: $734 million). The discount rates used for determining the fair value are equal to the Treasury's prescribed risk-free rates for accounting valuations plus a risk premium. Since 30 June 2019, risk free rates have fallen significantly, which has increased the fair value of the student loan portfolio. The risk premium increased from 2.34% to 2.66% in line with market data.
- An adjustment for the impact of COVID-19 decreased the fair value by $507 million as it is expected that the borrowers will be adversely impacted by COVID-19. The inputs used for this adjustment include historical data from the global financial crisis and the *Budget Economic and Fiscal Update 2020* forecasts for unemployment and migration trends. The adjustment includes:
  - Updated modelling assumptions for employment and migration decreased the value by $276 million. It is assumed there will be a 10% decrease in the proportion of borrowers who are in substantive employment from 1 April 2020 to 31 March 2021. Employment has been modelled to return to normal levels from 1 April 2025. The model has also been adjusted to assume no New Zealand-based borrowers migrate overseas from 1 April 2020 to 31 March 2022. Migration is assumed to return to its normal patterns from 1 April 2022. There have been no modelling adjustments for overseas-based borrowers returning to New Zealand.
  - A provision of $100 million has been included for a deterioration in overseas-based borrowers' compliance. This provision is equivalent to a 10% drop in overseas borrowers making repayments for a five-year period.
  - Updated macroeconomic assumptions, reflecting the impacts of COVID-19, have decreased the fair value by $131 million, of which $120 million relates to updated salary assumptions. Salary inflation assumptions have mostly decreased this year, resulting in lower projected domestic incomes, domestic borrower obligations and repayments.
- Other expected repayment adjustments have increased the value of the student loan portfolio by $31 million (2019: $211 million increase).

A breakdown of the fair value remeasurement—student loans reported in the *Schedule of non-departmental gains and losses* is set out below.

Actual 2019 $000		Actual 2020 $000
36,000	Repayment collection allowance	36,000
734,000	Risk-free rates	548,000
–	Risk premium	(205,000)
734,000	Discount rate adjustment	343,000
–	COVID-19 impacts—model changes	(276,000)
–	Macroeconomic effects	(131,000)
–	COVID-19 impacts—provision	(100,000)
–	*Expected repayment adjustment—impacts of COVID-19*	(507,000)
–	Expense assumption	(10,000)
230,000	Data and modelling changes	16,000
5,000	Experience variance	25,000
(37,000)	Macroeconomic effects	–
50,000	Provision for write offs	–
(37,000)	Policy changes	–
211,000	*Expected repayment adjustments—other*	31,000
981,000	**Total fair value remeasurement—student loans**	**(97,000)**

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 and judgements, including future income levels, repayment behaviour and macroeconomic factors, such as inflation and discount rates. As noted by the valuer, it is not possible to assess with any certainty the implications of COVID-19 on the fair value of the scheme or the economy as a whole, in terms of the length or degree of impact. There is very little data available to determine the impact of COVID-19 and the modelling adjustments made involve significant judgement and were based on input from the Treasury and other experts. 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:

- Before COVID-19, there were improvements in overseas compliance. We expect that overseas compliance will deteriorate as a result of COVID-19, but the extent of this is unknown. There is a risk that the deterioration is underestimated in the valuation.
- The model assumes that low-earner borrowers will remain low earners for the same duration in the future as they do currently. There is a risk that this group will increase due to COVID-19 and rising unemployment. If the length of time borrowers remain low earners increases then a decrease in fair value may result.
- The proportion of borrowers becoming low earners (that is, earning below $25,000 per annum) continues to be above 50% for those studying lower-level certificates. If this trend continues, long-term earners not in substantive employment will increase and a decrease in fair value may result.
- The modelling for migration is based on a four-year average of cyclical migration trends rather than current peaks and troughs in migration. This year, explicit modelling has been done for COVID-19. There is a risk that migration trends may be different to what has been modelled and, therefore, impact on the fair value.
- The risk premium methodology will be reviewed in 2020–21. A change in methodology is a possibility and may have a significant impact on the fair value.

The significant assumptions and sensitivities behind the fair value are:

2019		2020
	Assumptions	
10,730,696	Fair value ($000)	10,394,584
4.40%	Discount rate	4.03%
2.6%–5.0%	Interest rate applied to loans for overseas-based borrowers	1.9%–5.0%
1.4%–2.1%	Consumer Price Index	0.53%–2.0%
3.0%–3.5%	Future salary inflation	0.03%–3.52%
	Sensitivities	
91,000	Impact on fair value of a 1% increase in average wage earnings inflation over five years ($000)	109,000
(110,000)	Impact on fair value of a 1% decrease in average wage earnings inflation over five years ($000)	(114,000)
140,000	Impact on fair value of a 2.5% increase in overseas-based borrowers making repayments ($000)	121,000
(147,000)	Impact on fair value of a 2.5% decrease in overseas-based borrowers making repayments ($000)	(128,000)
(580,000)	Impact on fair value of a 1% increase in discount rate ($000)	(602,000)
648,000	Impact on fair value of a 1% decrease in discount rate ($000)	674,000
N/A	Impact on fair value of a 1% increase in borrowers going overseas ($000)	65,000
N/A	Impact on fair value of a 1% decrease in borrowers going overseas ($000)	(23,000)
N/A	Impact on fair value of a 1% increase in borrowers returning to New Zealand ($000)	47,000
N/A	Impact on fair value of a 1% decrease in borrowers returning to New Zealand ($000)	(52,000)
N/A	Impact on fair value of a 1% increase in borrowers moving from low earner to high earner ($000)	70,000
N/A	Impact on fair value of a 1% decrease in borrowers moving from low earner to high earner ($000)	(65,000)

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 cannot 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. In the current economic environment this risk is minimal.

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.

Performance of the scheme

A detailed explanation and insight into the performance of the scheme is available in the following document

https://www.educationcounts.govt.nz/publications/80898/2555

Crown liabilities we are managing

Note 8. 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 2019 $000		Actual 2020 $000
5,096,387	Taxes refundable	4,074,176
1,167,366	KiwiSaver payable	934,792
7,574	Paid parental leave payable	9,908
6,271,327	**Total refundables and payables**	**5,018,876**

Note 9. 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 10. Reserve schemes

Actual 2019 $000		Actual 2020 $000
204,024	Income equalisation	226,041
47,271	Environmental restoration	47,271
586	Adverse event income equalisation	–
251,881	**Total reserve schemes**	**273,312**

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.

2019–20 is the final year for the adverse event income equalisation scheme.

Crown contingencies we are managing

Note 11. 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 12. 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. In 2019–20, ACC paid Inland Revenue $17,250,000 for these services.

Actual 2019 $000		Actual 2020 $000
1,671,379	Earner levy	1,859,335
1,671,379	**Total collection of earner levy**	**1,859,335**

Note 13. 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 Department's annual report for the year ended 30 June 2020

The Auditor-General is the auditor of Inland Revenue Department (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 115 to 146, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2020, the statement of comprehensive revenue and expense, statement of changes in equity, 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 2020 on pages 70 to 103;
- the statements of expenses and capital expenditure of Inland Revenue for the year ended 30 June 2020 on pages 109 to 112;
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 150 to 181 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2020;
  - the schedules of expenses; and revenue for the year ended 30 June 2020;
  - the statement of trust monies for the year ended 30 June 2020; 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 115 to 146:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; 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 the Public Benefit Entity Reporting Standards.
- the performance information of Inland Revenue on pages 70 to 103:
  - presents fairly, in all material respects, for the year ended 30 June 2020:
    - 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 109 to 112 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 150 to 181 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 2020; and
  - expenses; and revenue for the year ended 30 June 2020; and
  - the statement of trust monies for the year ended 30 June 2020.

Our audit was completed on 30 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on Inland Revenue and the activities it manages on behalf of the Crown. 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.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 as set out in Note 2 to the non-departmental statements and schedules. We also draw specific attention to the following matters in the non-departmental statements and schedules due to the significant level of uncertainty caused by Covid-19:

- **Estimation of income tax revenue for companies and other persons**
  Note 2 on page 164 describes the significant uncertainties, assumptions, and sensitivities in estimating income tax revenue for companies and other persons for the year ended 30 June 2020. A new estimation methodology has been adopted this year that is based on uncertain macroeconomic forecasts about how the economy will perform in the future due to the impact of Covid-19 and how those forecasts relate to income tax revenue for companies and other persons.
- **Tax receivables**
  Note 4 on page 168 describes the uncertainties, assumptions, and sensitivities in estimating the value of tax receivables and associated impairment as at 30 June 2020. As noted by the valuer, it is not possible to assess with any certainty the implications of Covid-19 on the value of tax receivables.
- **Small Business Cashflow Scheme**
  Note 6 on page 172 describes the significant uncertainties, assumptions and sensitivities in estimating the fair value of the Small Business Cashflow Scheme (the Scheme) loan portfolio as at 30 June 2020. As noted by the valuer, there are significant uncertainties in estimating the fair value of this new Scheme because there is limited data to determine likely repayment default experience, and how Covid-19 will impact the businesses receiving loans.
- **Student loans**
  Note 7 on page 175 describes the significant uncertainties, assumptions, and sensitivities in estimating the fair value of the student loan portfolio as at 30 June 2020. As noted by the valuer, it is not possible to assess with any certainty the implications of Covid-19 on the value of the student loan portfolio.

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.
- 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 the Department's ability to continue as a going concern. The Commissioner is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of 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 2019/20, and the 2019/20 forecast financial figures included in Inland Revenue's 2018/19 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 69, 104 to 108, 188 to 199, but does not include the information we audited, and our auditor's report thereon.

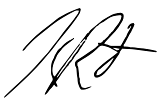
Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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: International 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 (DIA)

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 2020, the operation of this information sharing agreement was reviewed. The review confirmed that we are operating in accordance with the terms and conditions of the AISA and the Memorandum of Understanding (MOU).

A copy of the AISA is available to view at:

https://www.ird.govt.nz/about-us/information-sharing/information-sharing/dia

	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Contact records received from DIA	429,174	486,165
Contact records not matched to a corresponding Inland Revenue record for: • overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up-to-date contact information • overseas-based student loan defaulters	418,048	471,765
Contact records matched to corresponding Inland Revenue records for:		
• overseas-based child support debtors	1,409	1,406
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	71	428
• overseas-based student loan defaulters	7,578	9,154
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	1,978	3,412
Ongoing programme operating costs[1]	$1,728	$1,728
Individuals successfully contacted[2] using contact records matched to:		
• overseas-based child support debtors	669 (47%)	79 (6%)
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	11 (15%)	34 (8%)
• overseas-based student loan defaulters	2,788 (37%)	688 (8%)
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	756 (38%)	544 (16%)
Payments received from individuals as a result of successful contact with:		
• overseas-based child support debtors	120 ($234,541)	108 ($21,423)
• overseas-based student loan defaulters	2,261 ($4.8m)	1,159 ($626,526)
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Inland Revenue:		
• overseas-based child support debtors	36% (504 individuals)	0.7% (10 individuals)
• overseas-based student loan defaulters	29% (2,174 individuals)	4.4% (401 individuals

[1] Approximate annual incidental administrative charge.

[2] We have made attempts to contact 5,994 individuals, 1,345 have passed our identity verification process.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

Information sharing with New Zealand Police

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/about-us/information-sharing/information-sharing/nz-police

Information shared

Description	Financial year ending 30 June 2019	Financial year ending 30 June 2020
Number of requests for information made by New Zealand Police to Inland Revenue	170	203
Number of responses with information provided by Inland Revenue to New Zealand Police	150	198
Number of occasions Inland Revenue proactively provided information to New Zealand Police	5	5

Costs

The estimated cost of the sharing agreement with New Zealand Police is $9,905 for the year ended 30 June 2020.

Benefits

The number of times information provided by Inland Revenue has been used in a case with a resolution of:

Description	Financial year ending 30 June 2019	Financial year ending 30 June 2020
No offence	21	27
Prosecution	54	69
Warning	0	1
Still under investigation	73	104
No response received (still in progress)	2	2
Total	**150**	**203**

Warning, diversion and youth case action do not apply as the AISA focuses on serious offending and these possible resolutions are for lower-level offending which fall below the serious crime threshold.

Assurance

An internal critical task assurance review is applied across a selection of information requests and 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 (AISA) 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	2019–20
Administration of shared services:			
Number of records disclosed (MSD to Inland Revenue)	Commencement Cessation benefits/students	2,610	1,081
	Housing Share	Note[1]	Note[1]
	Child support administration	94,378[2]	94,378[2]
	Student Loan Programme	7,041,500[2]	5,547,303[3]
Administration of social assistance:			
Number of records disclosed (Inland Revenue to MSD)	Community Services Card	1,787,371	5,908,889[4]
	Commencement Cessation benefits/students	2,610	1,081
	Proactive Information Share—benefits and students	556,683	429,025
	Housing Share	Note[1]	Note[1]
	Child support administration	402,047[2]	402,047[2]
	Student Loan Programme	15,700[2]	42,450[3]

Benefits (Quantitative)

Metric	Shares derived from:	2018–19	2019–20
Administration of shared services (Inland Revenue):			
Number of services automatically transferred	Working for Families Tax Credits (WfFTC) administration	12,684	21,583
Value of services stopped (overpayments)	WfFTC double payment (number)	902	1,170
	WfFTC double payment (value)	$282,725	$241,017
Administration of social assistance (MSD) (across product range):			
Services offered or renewed (number)	Community Services Card	376,672	203,992
Service cancellations (number)	Proactive Information Share—benefits and students	1,378	725
	Housing Share	Note[1]	Note[1]
Adverse action notices (number sent)	Community Services Card	12,517	0
	Commencement Cessation benefits/students	50	4
	Proactive Information Share—benefits and students	67,844	43,930
	Housing Share	Note[1]	Note[1]
Challenges (number received and number upheld)	Community Services Card (received)	10	0
	Community Services Card (upheld)	5	0
	Commencement Cessation benefits/students (received)	0	0
	Commencement Cessation benefits/students (upheld)	0	0
	Proactive Information Share—benefits and students (received)	393	171
	Proactive Information Share—benefits and students (upheld)	200	79
	Housing Share (received)	Note[1]	Note[1]
	Housing Share (upheld)	Note[1]	Note[1]

Benefits (Quantitative) cont.

Metric	Shares derived from:	2018–19	2019–20
Overpayments established (number and value)	Commencement Cessation benefits/students (number)	14	0
	Commencement Cessation benefits/students (value)	$24,248	$0
	Proactive Information Share—benefits and students (number)	21,597	10,971
	Proactive Information Share—benefits and students (value)	$42,796,460	$25,780,688
	Housing Share (number)	Note[1]	Note[1]
	Housing Share (value)	Note[1]	Note[1]
Arrears created (number and value)	Commencement Cessation benefits/students (number)	0	0
	Commencement Cessation benefits/students (value)	$0	$0
	Proactive Information Share—benefits and students (number)	25	14
	Proactive Information Share—benefits and students (value)	$4,199	$1,637
	Housing Share (number)	Note[1]	Note[1]
	Housing Share (value)	Note[1]	Note[1]
Referrals for suspected fraud (number)	Proactive Information Share—benefits and students	0	0
	Housing Share	Note[1]	Note[1]
Prosecutions successful (number)	Proactive Information Share—benefits and students	26	10
	Housing Share	Note[1]	Note[1]

Notes

[1] Housing Shares not yet commenced—MSD's intention was to improve how it delivers services to customers by expanding its information sharing with Inland Revenue in this area. Due to other Ministry priorities, resources to implement these changes have not yet been prioritised.

[2] Estimated (as agreed with the Office of the Privacy Commissioner).

[3] Transactions recorded in START, our new tax and revenue technology system, that occurred between 16 April and 30 June 2020. Due to data migration as part of Inland Revenue's Business Transformation programme, the whole year could not be reported on.

[4] An issue with Inland Revenue's START system resulted in very large files being sent to MSD for clients that may be eligible for a Community Services Card, where the fortnightly file in March 2020 started having more than 500,000 clients in it. This may have contributed to the increase in this area of the reporting.

Qualitative benefits

- 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 were no data breaches under the AISA in 2019–20.
- Some of the sharing activity in 2019–20 was paused due to the need for significant operational resources to be diverted to the COVID-19 response, by both Inland Revenue and MSD.
- From the start of the response activities to COVID-19, we focused on supporting customers, and providing relief where appropriate. We also deferred or delayed audits, disputes and debt activities. That decision has affected some of the data and results for the Commencement Cessation Benefits/Student Match and the Proactive Information Share.

Assurance

In the 2019–20 year:

- MSD and Inland Revenue received no privacy complaints about the operation of the information sharing under the AISA.
- There was no change to the Order in Council.

Information sharing with approved credit reporting agencies

In the year ended 30 June 2020, the Commissioner communicated information to an approved credit reporting agency in relation to one taxpayer only.

Index

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.
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 help 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.
bright-line rule	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).
e-Invoicing	The direct exchange of invoice data between suppliers' and buyers' financial systems.
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.)

Forrester maturity framework	The Forrester framework provides an assessment of our customer-centric maturity. The assessment looks across a set of key strategic enablers (eg leadership, culture, analytics, proactive services).
High-wealth individuals	Individuals or family groups with: • control of more than $50 million in wealth or • control of more than $20 million in wealth where they control significant enterprises with turnover greater than $300 million or • substantial wealth in property development or complex business structures where minimal tax is paid relative to wealth.
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. Māhutonga (the Southern Cross constellation) is used for navigation, providing a sense of direction.
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.

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 Portfolio Investment Entity (MRP) uses to work out tax on income from an investment. PIRs are only provided when investing in an MRP.
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.
Small Business Cashflow (Loan) Scheme	A one-off loan available to eligible organisations and small to medium businesses, including sole traders and the self-employed, if they have been adversely affected by COVID-19.
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.
Wage subsidy	A scheme introduced by the Government to support employers and sole traders if they were impacted by COVID-19 and faced laying off staff or reducing hours.
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.

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

NEW ZEALAND 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
24 hours, seven days a week, 365 days a year.

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
Self-service	0800 257 777

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

ISSN 1176-6654 (Print)
ISSN 2230-4053 (Online)

ird.govt.nz

Presented to the House of Representatives pursuant to the Public Finance Act 1989 and the Tax Administration Act 1994.