Inland Revenue
Te Tari Taake

Inland Revenue Annual Report
Te Tari Taake Pūrongo ā-Tau
2021–22

22

Te Tari Taake Inland Revenue - our story

At Te Tari Taake Inland Revenue, we're passionate about Aotearoa New Zealand being a great place to live and work. We're making it simpler for everyone to pay tax that pays for the things they value, like health care, education and protecting the environment.

For almost 150 years we've protected the integrity of the tax system, so New Zealanders can trust that everyone is contributing what they are meant to. We support people and businesses with initiatives such as tax credits for working families, child support payments, student loan repayments and support for businesses impacted by COVID-19.

We are learning to weave te Tiriti o Waitangi principles and te ao Māori through everything we do. We recognise that New Zealand and its communities are diverse, so we are listening to these communities and working to provide a tax system that works for everyone.

We know most New Zealanders believe paying their tax is a good thing. They know we're here to help them. They also know that, when people choose not to meet their obligations, we'll take action.

We think paying taxes and getting what you're entitled to shouldn't take a lot of work, which is why we've been changing every part of how we do things. We're using data and analysis in new ways to make it easier for people to get things right and harder to get them wrong.

Businesses no longer have to fill out a lot of forms—we have software to do this for them. People don't need to work out if they are due a refund—this happens automatically. If people are paying or getting too little or too much, we can fix it before it becomes a problem.

Now we've made things simpler, people don't need to get in touch as often. We're able to spend more time with the customers who need our help.

Our people work in teams from different parts of the organisation, combining skills and knowledge to do a great job. Being agile, resilient and curious means we're able to help New Zealanders get things right, even when times are challenging.

Every day, we work with our colleagues across the Public Service, the tax community and organisations throughout New Zealand to continually improve the tax system for New Zealanders.

We're proud to work at Inland Revenue, knowing we help to make Aotearoa New Zealand a great place to live and work, now and in the future.

This logo represents the way that we want to work with our customers to achieve our primary outcome of improving the economic and social wellbeing of New Zealanders.

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

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

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

This is Inland Revenue's Annual Report for 2021–22
Ko tēnei te Pūrongo ā-Tau 2021–22 a Te Tari Taake

We're proud to work at Te Tari Taake Inland Revenue, knowing that we're helping New Zealanders every day

A word from the Commissioner

When I became the Commissioner of Te Tari Taake Inland Revenue in July 2022, I took on responsibility for a diverse and inclusive organisation that makes a significant contribution to New Zealanders' economic and social wellbeing every single day.

In the short time I have been with Inland Revenue, the dedication and enthusiasm our people have for this important mahi has really shone through.

As I've talked with our external stakeholders and partners, I have been encouraged to hear how the changes introduced during Inland Revenue's transformation are already creating positive outcomes for the individuals, businesses and organisations at the heart of the tax community and the partners we work with across government and overseas.

I have seen first-hand Inland Revenue's commitment to becoming a better partner in the Māori Crown relationship and providing better services for Māori customers. Through supporting our staff to develop their own capabilities and understanding of te ao Māori and te reo Māori, as well as doing work that provides better services for our Māori customers, I am confident that we are all on this important journey together.

This Annual Report shares Inland Revenue's many achievements and highlights over the last 12 months.

The past year has seen Inland Revenue complete the final changes of its multi-year business transformation programme, while also supporting the Government's COVID-19 response. The impact of COVID-19 has also been felt personally by our staff who have needed time to recover from the virus and support whānau to do so too.

This created a challenging environment for our people and our customers, with the extra demands from the COVID-19 work impacting our service levels at different times.

On 30 June 2022, the business transformation programme officially closed, having been delivered on time and under budget. Through transformation, it's now easier for customers to pay and receive the right amounts and they can do more for themselves through our online services. We have improved system resilience and can make policy changes faster. Inland Revenue is on track to save $100 million in administration costs every year.

I would like to acknowledge and thank former Commissioner Naomi Ferguson for her hard work and tenacity in successfully leading Inland Revenue over the past 10 years and creating a transformed organisation. This has laid a strong foundation we will build on over the coming years.

Looking ahead, it's an exciting time for us as we use our new tools, systems, data and analytics ability in different ways, to identify where we can make the biggest difference for New Zealanders. There will be a busy Government work programme to complete, and we will continue to support the COVID-19 response as needed.

I am looking forward to leading Inland Revenue into this new post-business transformation era as we continue to make tax and social payments simpler so everyone can contribute to making Aotearoa New Zealand a great place to live and work.

P. Mersi

Peter Mersi

Commissioner of Inland Revenue

Ka noho whakahīhī mātou ki te mahi mō Te Tari Taake, ki te āwhina i ngā tāngata o Aotearoa ia rā ia rā

He kupu nā te Kaikōmihana

I taku tīmatanga hei Kaikōmihana mō Te Tari Taake, i te marama o Hūrae 2022, ka riro māku tētahi whakahaere whanaungatanga kanorau, e whai wāhi nui ana ki te tautoko i te oranga pūtea me te oranga pāpori hoki mō ngā tāngata o Aotearoa ia rā ia rā.

I tōku wā poto nei ki Te Tari Taake, e mārama ana te hiahia me te pono o ngā kaimahi ki tā rātou kaupapa nui.

I au e kōrero ana ki ō tātou tāngata whaipānga o waho me ngā hoa mahi o waho, he rongo pai kua whai hua kē ngā tāngata, ngā pakihi me ngā whakahaere o te hapori taake nā te hurihanga nui o Te Tari Taake, tae noa atu ki ngā hoa mahi tahi puta noa i te kāwanatanga me tāwāhi.

Kua kite ā-kanohi hoki ahau i te ū o Te Tari Taake ki tōna wāhi hononga Māori Karauna e pai ake ai hoki ōna ratonga ki ngā kiritaki Māori. Mā te tautoko i ō mātou kaimahi kia mārama ake ki te ao Māori me te reo Māori, me te mahi pai ake mō te kiritaki Māori, e whakapono ana ahau kei te huarahi kotahi tātou e haere ana.

Kei tēnei Pūrongo ā-Tau ngā whakatutukinga mahi nui a Te Tari Taake huri noa i te tekau mā rua marama kua taha ake nei.

I roto i te tau kua taha ake nei kua oti te hōtaka pakihi hurihanga nui o Te Tari Taake e hia tau te roa, kua tautoko hoki i te urupare a te Kāwanatanga ki te KOWHEORI-19. Kua pā hoki te KOWHEORI-19 ki ētahi o ō mātou kaimahi, ka whakatā ai rātou kia piki anō ai te ora, ki te tautoko rānei i ō rātou whanaunga i pāngia.

He wā uaua tēnei ki ō mātou tāngata me ō mātou kiritaki, inā ia nui ake te mahi pā mai nā te KOWHEORI-19 i ētahi wā.

Nō te 30 o Hune 2022 ka kati ōkawa ai te hōtaka hurihanga pakihi kua tutuki hoki i te wā tika i raro iho i te utu whakapae. Nā te hurihanga nui kua māmā ake ināianei mā te tangata e utu tika, mā te tangata anō hoki e toro ngā ratonga ipurangi. Kua pakari ake tō mātou pūnaha kua tere ake hoki te huri i ngā kaupapahere. Kei te ara tika hoki Te Tari Taake kia iti ake te whakapaunga moni whakahaere ia tau mā te $100 miriona tāra.

Ka mihi atu hoki ahau ki te Kaikōmihana o mua Naomi Ferguson mō ana mahi nui me tana māia ki te ārahi i Te Tari Taake mō te tekau tau kua taha ake nei me te hurihanga nui i ngā whakahaere. Kua whakatōkia te māra hei whakawhanake mā mātou mō ngā tau e tū mai nei.

Ki te titiro whakamua, he wā hari koa tēnei mō mātou ki te whakamahi i ō mātou pūkenga hou ki ngā taonga hou, ngā pūnaha, ngā raraunga me ngā tātaritanga, e whai hua ai mō ngā tāngata katoa o Aotearoa. He nui hoki te hōtaka mahi kāwanatanga hei whakatutuki, me tā mātou tautoko tonu hoki i te urupare KOWHEORI-19 a te kāwanatanga.

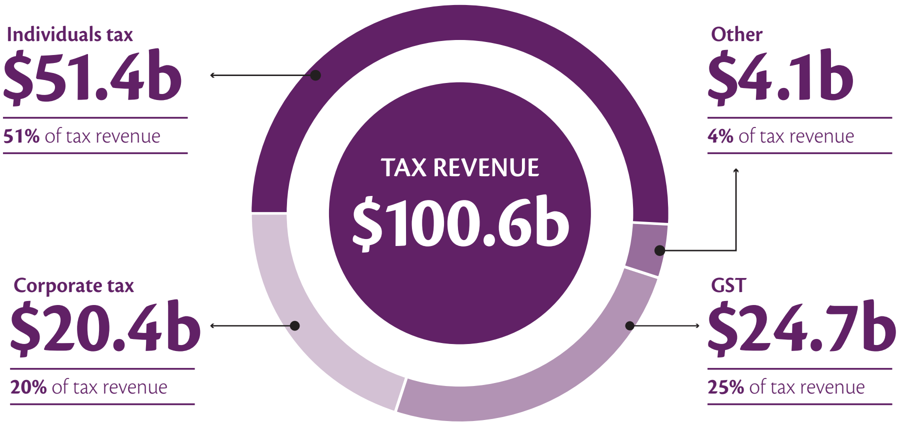
Kei te koa ahau ki te ārahi i Te Tari Taake ki tua mai nei o te hurihanga pakihi nui. Kei te ū tonu mātou kia māmā ake te utu taake me ngā utunga pāpori, kia whai wāhi ai te katoa ki te whakapai ake i Aotearoa hei kāinga pai rawa mō te noho me te whai mahi.

Peter Mersi

Kaikōmihana o Te Tari Taake

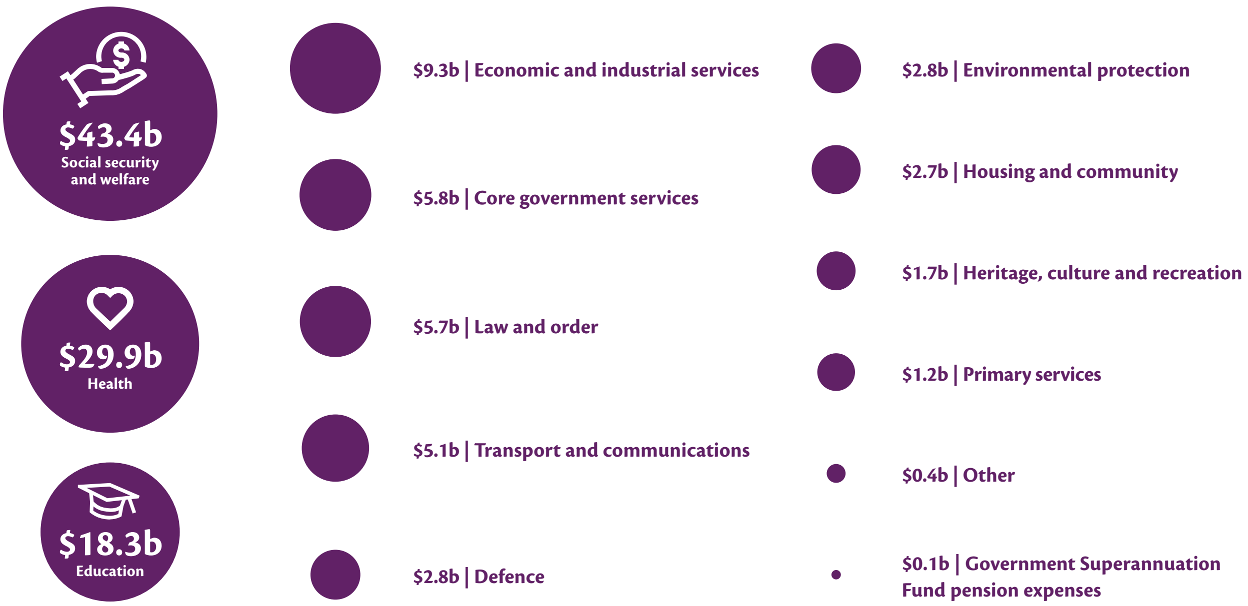
All New Zealanders benefit from tax
Ka whai hua ngā tāngata katoa o Aotearoa i ngā tāke

The money Inland Revenue collects helps pay for the essential services that all New Zealanders benefit from such as roads, education and healthcare. It's our responsibility to ensure the Government has funding for these essential services



In 2021–22, revenue was $101.3 billion. Tax revenue was $100.6 billion. Direct or income taxation (for example individuals income tax or corporate tax) accounted for 75% of tax revenue. GST accounted for 25%. For full details, refer to pages 166 to 167.

In 2021–22, the Government expected to spend in these areas:



For full details see: www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2022

We work with the rest of the Public Service, the tax community and organisations throughout Aotearoa New Zealand
Ka mahi tahi mātou ki te katoa atu o te ratonga tūmatanui, ki te hapori taake, me ngā whakahaere hoki puta noa i Aotearoa

We're the principal steward of the tax system. We play a crucial role in maintaining and enhancing its integrity by striving to make it clear, consistent and simple. We're accountable to the Minister of Revenue.

We work with many other organisations who help manage and run the tax system and the digital 'ecosystem', and with international tax networks. Increasingly, we're working together on ways to improve family and whānau wellbeing and make sure people access their entitlements.

We advise the Government on tax policy and the social policies that Inland Revenue administers. We work with other agencies to help deliver inter-generational wellbeing and positive outcomes for all New Zealanders.

This includes meeting our obligations under te Tiriti o Waitangi and fulfilling our role as part of the Māori Crown relationship.

We provide assurance that the systems for tax and social policy payments:

> operate efficiently
> deliver what the policies intended
> achieve the intended outcomes
> remain fit for purpose.

We work with many other parties that help manage and run the tax and social policy systems such as tax agents, KiwiSaver providers and financial institutions.

Employers play a huge part by providing employment income information every pay day.

We're also part of a digital 'ecosystem' that includes an increasing number of service providers such as payroll software companies.

We advise the Government on international tax issues and help develop and implement Aotearoa New Zealand's international tax legislation.

We work with groups such as the Organisation for Economic Co-operation and Development and tax agencies in other countries.

We exchange financial account information with more than 70 countries.

We administer various social policy programmes and a number of COVID-19 initiatives.

We administer KiwiSaver and make Working for Families, parental leave and Best Start payments.

We work closely with other government agencies, especially Te Tai Ōhanga the Treasury, Te Manatū Whakahiato Ora the Ministry of Social Development, Tatauranga Aotearoa Stats NZ and Hīkina Whakatutuki the Ministry of Business, Innovation and Employment.

We have information-sharing arrangements with more than 17 agencies.

We interact with a range of customers on tax, and provide payments that are critical to people's wellbeing Ka mahi tahi mātou ki ō mātou kiritaki mō te taake, ka tuku pūtea hoki mō te oranga o te tangata

OUR INDIVIDUAL CUSTOMERS are paying their income tax, may be putting money into KiwiSaver or have a student loan. They want clear timelines and expectations from us and to know that they've got things right.

We administer student loans with the Ministry of Education and Ministry of Social Development.

INDIVIDUAL INCOME TAX

3.3 million customers received an automatic individual income tax assessment in the tax year to March 2021.*

KIWISAVER

We transferred $8.8 billion to KiwiSaver scheme providers to invest in 2021–22.

On 30 June 2022, over 3.2 million people were enrolled in KiwiSaver.

STUDENT LOANS

Over 658,000 student loan customers made $1.6 billion in repayments in 2021–22.

SOME FAMILIES receive social policy payments from us. Many customers are facing hardship and have complex circumstances. We aim to understand families' situations, give simple and consistent advice and help them resolve issues if they contact us.

We deliver these payments with the Ministry of Social Development and Ministry of Business, Innovation and Employment.

WORKING FOR FAMILIES TAX CREDITS

Along with MSD, we distributed $2.92 billion in net entitlements to support working families this financial year.

CHILD SUPPORT

On 30 June 2022, more than 141,000 parents were assessed to pay child support.

We collected $453 million from parents in 2021–22 and distributed $296 million to carers. The government retains the balance to help offset the costs of benefits paid.

PAID PARENTAL LEAVE

We made $601 million in paid parental leave payments to around 57,000 parents.

BUSINESSES provide us with employment information and collect tax, which is the basis of the tax system. They want interactions with us to be low effort and easy, and many need our support through difficult trading times.

EMPLOYERS AND COMPANIES

In the 2021 tax year,* approximately 237,000 employers filed more than 7.4 million employer information returns.

Over 395,000 company returns were filed.

GST

Approximately 677,000 businesses were registered for GST in the 2021 tax year.*

Businesses filed more than 3.1 million returns.

COVID-19 SUPPORT

We paid out $4.6 billion in support payments and loans to businesses in 2021–22.

** Figures for the tax year ended March 2022 are not available for this publication because customers have until April 2023 to file their 2022 returns.*

'Filing my income tax return is so easy now compared to what it used to be, the recent changes are really effective at streamlining the process for ordinary Kiwis. And I cannot believe that after submitting my return on Monday, the refund was in my account on Wednesday.'

'I would just like to thank those who have helped me with all my queries. It gives me peace of mind to know that there are people able to sort my enquiry so quickly and efficiently.'

'Hi. Just wanted to pass on some feedback about a very helpful lady I spoke to. She was wonderful in helping me and my mum who is elderly and showed great compassion and understanding. She was very kind to my mum who gets overwhelmed sometimes and so patient with her.'

Inland Revenue customers

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

Peter Mersi joined us this year and leads our Executive Leadership Team.

Peter was appointed Commissioner and Chief Executive | Kaikōmihana of Te Tari Taake Inland Revenue in July 2022. Before this, he was the Secretary and Chief Executive for Transport (2016–2022), Chief Executive of Toitū Te Whenua Land Information New Zealand (2012–2016) and spent 6 months as the Acting Secretary and Chief Executive of Te Tari Taiwhenua the Department of Internal Affairs (2011–2012).

Peter has held senior leadership roles in Inland Revenue and Te Tai Ōhanga the Treasury, where he spent 14 years working primarily on social policy and the public management system. He has also worked for Te Tari o te Pirimia me te Komiti Matua the Department of the Prime Minister and Cabinet, Department of Labour, Department of Trade and Industry and the Bank of New Zealand.

Peter co-chairs Papa Pounamu, an initiative by public sector chief executives to support and grow diversity and inclusion in the public sector.

Sharon Thompson

Deputy Commissioner, Customer and Compliance Services—Individuals

Kaikōmihana Tuarua, Ratonga Kiritaki me te Tautukunga—Takitahi

Sharon joined Inland Revenue in July 2017. She has a background in the financial services industry, and has brought a deep experience in building employee engagement and improving services for customers.

Sharon leads our business group for Customer and Compliance Services—Individuals.

Cath Atkins

Deputy Commissioner, Customer and Compliance Services—Business

Kaikōmihana Tuarua, Ratonga Kiritaki me te Tautukunga—Pakihi

Cath has over 25 years' experience in the public sector. Before joining us in 2017, she was Deputy Secretary, Macroeconomics and Growth at Te Tai Ōhanga the Treasury.

Cath leads our business group for Customer and Compliance Services—Business.

Corey Sinclair

Acting Deputy Commissioner, Enterprise Services

Kaikōmihana Tuarua, Ratonga Hinonga

Corey joined Inland Revenue in January 2018 after 20 years in banking and finance. He has been Acting Deputy Commissioner for our Enterprise Services business group since April 2022. Before that, as National Leader of Community Compliance, Corey led community compliance teams located in 17 cities and towns across Aotearoa New Zealand. Community Compliance provides front-line services for customers at our front of house, in communities and with intermediaries.

David Carrigan

Deputy Commissioner, Policy and Regulatory Stewardship

Kaikōmihana Tuarua, Kaupapa me te Tiaki Waeture

David has held several tax policy positions at Inland Revenue since joining us in 1996. He's led a number of reforms, most recently the policy work to support our transformation.

David leads our Policy and Regulatory Stewardship business group.

Mary Craig

Deputy Commissioner, Enterprise Design and Integrity

Kaikōmihana Tuarua, Hinonga Hoahoa me te Tika

Mary has had an extensive and varied career since joining us. This has included leading our cross-organisation programme for organisation design, embedding new ways of working, and leading and governing the transformed Inland Revenue.

Mary leads our business group for Enterprise Design and Integrity.

Michelle Redington

Chief Tax Counsel

Rōia Tāke Matua

Michelle has been Inland Revenue's Chief Tax Counsel since March 2021 and leads our Tax Counsel Office. She has more than 20 years' professional taxation experience, including several senior leadership roles, primarily in the private sector.

Mike Cunnington

Deputy Commissioner, Information and Intelligence Services

Kaikōmihana Tuarua, Ratonga Pārongo me te Mōhiotanga

Mike joined Inland Revenue in July 2013. He leads our approach to compliance and customer strategies and our digital, data analytics and marketing capabilities. Mike has led customer-centric change and held senior marketing positions in organisations in Aotearoa New Zealand and the UK.

Mike heads our Information and Intelligence Services business group.

Greg James

Deputy Commissioner, Transformation

Kaikōmihana Tuarua, Huringa

Greg joined Inland Revenue in June 2013. He brought a wealth of experience in transformation and change, having successfully led several large-scale programmes. He has transitioned functions from our transformation programme into Inland Revenue's new operating model and teams. Greg is now actively exploring the potential to leverage public sector assets across the sector.

→ Read more about the backgrounds of our Executive Leadership Team and about our business groups at **ird.govt.nz** under 'About us'.

During challenging times, our people have helped customers to get things right
I ngā wā o te uaua, kua āwhina mātou i ngā kiritaki kia tika anō ai te mahi

We're 3,923 people
based in
17 cities and towns
with connections throughout Aotearoa New Zealand

Over 80%
of the Crown's core revenue comes from Inland Revenue

82% of us
work with customers every day to sort out their tax and payments
We aim to be
empathetic and straightforward
to deal with

We've sent out individual income tax assessments faster this year
84% of the total tax refunded went to customers who earn less than $70,000

18% of us work in tax technical roles
using our knowledge and experience to keep tax fair for everyone

Our compliance specialists prevented
$166 million
in incorrect or fraudulent refunds from being paid out and found
$1.12 billion
in tax position differences through investigations

96% of us work flexibly in some way
Flexible working is one of the top reasons that people like being part of Inland Revenue
We also like the interesting work, and that we can be ourselves

We've got a plan to reduce our organisation's carbon emissions by
50% by 2030

We've paid out

$6.5 billion

in COVID-19 support since 2020

We're on track to

save $100 million a year

in administration costs

Thanks to the changes we've made to child support services, payments are reaching carers for children

14 days faster

Over our transformation programme, our people held

600 customer seminars

and contacted

5 million customers

We migrated 29 million accounts and 470 million transactions

We have a dedicated team who are using the Hague Convention to

locate parents overseas to pay child support

We've run campaigns over 2 years resulting in voluntary disclosures of

$100 million

in omitted income by New Zealand tax residents

Our people come from

diverse communities

like our customers

Our people have spent

17,000 hours in classroom and online training sessions

to learn how to transform the tax and social policy system

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

OUTCOMES

We achieve our mission by delivering outcomes, long-term results, for New Zealand.

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

People receive payments they're entitled to, enabling them to participate in society.

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

KEY RESULTS

Some of the key results and indicators that tell us we're making the right impacts.

$100.6 billion

Tax revenue was $100.6 billion, 7.3% higher than last year, and overdue tax debt was 4.6% of tax revenue, compared to 4.5% last year

79%

of customers who received automatically issued individual income tax assessments this year had nothing to do

(provisional figures as at 30 June 2022)

72%

of customers had trust in Inland Revenue

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.

We track our progress towards achieving our mission and vision through our performance measures. You can read how we performed this year from page 47.

89%
of the tax payments made by customers were on time

62%
of new customer debt was resolved within 6 months

98.7%
of returns were filed digitally

80%
of customers found us easy to deal with

99.8%
of Working for Families and paid parental leave payments were paid on time

FOLLOW THE STORY ON REVENUE AND DEBT

Read about how we worked to keep customers on track with payments on pages 33 to 35.

Read pages 166 to 167 and 182 to 185 of our financial statements for a breakdown of revenue and pages 79 to 84 for information on debt.

FOLLOW THE STORY ON MAKING TAX EASIER

Read our story for 2021–22, which covers how our transformation has made tax and payments easier and more certain, from page 18.

Read in detail about our approach for helping people pay their tax from page 24.

FOLLOW THE STORY ON TRUST AND SOCIAL POLICY PAYMENTS

Read more about customer trust in Inland Revenue on pages 42 and 61 to 62.

Read about how we work to ensure Working for Families payments are accurate and timely on page 28 and in detail on pages 57 to 58.

OUR CULTURE

CUSTOMER-CENTRIC

INTELLIGENCE-LED

AGILE

INCLUSIVE

The story of 2021–22
Ko ngā kōrero o te tau 2021–22

We have completed a multi-year, multi-stage, once-in-a-generation transformation of Aotearoa New Zealand's tax system. Using our expertise, data and analysis, we're making it easier for people to get things right and harder to get them wrong.

Kua oti i a mātou te hurihanga nui i te pūnaha taake o Aotearoa, e hia tau nei te roa, e hia wāhanga kē nei te mahi, e kore hoki e kitea anō ki tēnei whakatupuranga. Mā ō mātou pūkenga, me ā mātou raraunga me ngā tātaritanga, ka māmā ake kia tika, ka uaua ake kia hē.

The story of 2021–22
Ko ngā kōrero o te tau 2021–22

In June 2022, Inland Revenue finished the multi-year programme to transform and modernise Aotearoa New Zealand's tax and social policy system.

At the heart of our transformation has been our drive to make it simpler and easier for customers to pay the right amount of tax and get the social policy payments they're entitled to.

We've assessed $100.6 billion in tax revenue, and distributed a net $2.92 billion in Working for Families Tax Credits and $4.6 billion in COVID-19 support payments and loans. We've continued to take a supportive approach with customers struggling with their tax obligations.

Inland Revenue has needed to make some trade-offs in our services this year. Our compliance efforts and resources have focused on the areas of highest risk, and we're paying close attention to the integrity of COVID-19 initiatives.

This year, we've networked with the wider tax and social policy communities to deliver more for Aotearoa New Zealand. We're also focused on being a better partner in the Māori Crown relationship.

The people who work here have achieved a lot. They've stayed resilient and dedicated, and many have dealt with the effects of COVID-19 in their own lives.

WE WORK TO KEEP ENSURING NEW ZEALANDERS BELIEVE:

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

Tax and social policy payments centred around our customers

'I remember being a young woman in the 1980s dreading the delivery of tax forms and grappling with the complex end-of-year tax forms that never made sense to me, and that I inevitably stuffed up. I remember the fear each year of waiting for a tax bill to arrive and wondering how I managed to get a bill when I had no control over the money that went into my account, and how I was going to pay the bill. I love the fact the system is now automated. It has reduced stress for me and others I know.'

Inland Revenue customer

This year, we finished our multi-year programme to transform tax and social policy payments. Aotearoa New Zealand now has a modern, digital system that enables customers to do as much for themselves as possible, in ways and at times that suit them. The transformed system makes it easier for customers to pay and receive the right amounts. It is:

> based around customers' needs
> integrated with other systems and software
> easy to use
> responsive and flexible
> near real-time and highly automated
> fit for the future.

Before transformation, it was getting more and more difficult for Te Tari Taake Inland Revenue to provide the level of service New Zealanders expected and deserved, and to quickly deliver what the Government wanted us to do. We needed to change to ensure we could deliver what was expected of us.

These expectations included cutting compliance costs for taxpayers, effort for businesses and the cost of running the tax system. A key aim was to make it more difficult for people to fall into overdue debt and easier for them to manage their tax payments.

We knew we needed to be able to respond more rapidly to changes the Government wanted us to make—what we didn't know was just how important this would be. When COVID-19 arrived in early 2020, customers coping with the impacts of the pandemic needed us to get support to them as quickly and as easily as possible.

We were able to move quickly to support customers and the Government's response because of the changes implemented as part of our transformation. Our people have used their new capabilities and drive to help New Zealanders during these challenging times. We've rolled out changes to our system and processes and implemented new products while dealing with the pandemic restrictions, earthquakes and building evacuations.

We couldn't have delivered all these changes successfully without the support of our partners, colleagues and the organisations we work with every day.

October 2021 saw our final changes for customers

Inland Revenue's transformation is one of the biggest change programmes of its kind. Delivering our transformation successfully was always about understanding what customers wanted and managing changes carefully through staged rollouts. We left the changes to child support until this year because this service is complex, and we wanted to get it right for our customers. We also made a major upgrade to myIR, the secure online service our customers use.

We've made child support services simpler and fairer

In October 2021, we moved child support to our new system to make it easier for customers to keep track of their obligations and payments. Customers can now do more for themselves in myIR such as applying for payments. It's quicker and easier as we now pre-populate much of the information needed. Previously, customers had to fill in a form or call us to apply.

Carers now receive child support payments 14 days faster.

Parents who are new to paying child support, and those re-entering the scheme, now have their payments automatically deducted by their employer. This helps customers stay on track with their payments and avoid getting into debt.

Penalties for late payments of child support are now fairer. Parents who are new to the scheme have more time before penalties are charged if they are late with their payments. We also no longer charge incremental penalties on overdue payments. These changes were made to encourage paying parents to pay the right amounts on time.

Shortly after we made these changes, some carers told us they were struggling to find their payment information in myIR.

We quickly made some improvements, and we're continuing to embed the changes and help customers get used to them. Before, fewer than 50% of our customers said it was easy to find information, whereas 60% now say it is easy.

'It's all right there when you log in.'

'I like the fact that you can see what payments you are due and how much.'

Inland Revenue customers

SUPPORTING CHILDREN'S WELLBEING

163,323 children

*are covered by the Child Support Scheme**

* as at 30 June 2022

Carers who receive child support and parents who pay it want certainty around payments

84%

of liable parents who earn salary and wages are paying child support by employer deductions

→ Read more about how we've performed in administering child support services on page 78.

We now collect child support from more paying parents living overseas

On 1 November 2021, New Zealand joined the 2007 Hague Convention on the International Recovery of Child Support and Other Forms of Family Maintenance. This allows us to support more children living here and overseas as we can now make more international assessments and get assistance from other Hague member countries to collect child support. We can work with over 40 countries under the Convention. Before, New Zealand only had a reciprocal agreement with Australia.

With a team dedicated to helping families and children get the support they're entitled to, we're already seeing some great results locating liable parents overseas. Some parents are paying their outstanding amounts in full, and families have received child support after many years of missed payments.

Below: Inland Revenue's Hague Convention team

We've upgraded the online services our customers use

We know how important myIR is to our customers so we're always looking for ways to improve it. Customers had 60 million user sessions in myIR this year. Its use has grown 140% between 2019 and 2022. myIR makes it easier for customers to check their tax and payments when it suits them. They can see all the information we hold about them and send messages when they need our help.

In October, we upgraded myIR to give it a more modern look and feel and make it easy to use on different devices. Customers can now see what they need to do all in one place. They get alerts to let them know they need to do something, and when it's due.

When we asked customers about the refreshed myIR, most liked the changes although some would have liked more help to get used to them.

'I've just logged in to myIR for the first time since its big overhaul. It's really great, clearly structured and things are much easier to find and do than before. Fantastic improvement.'

'Need a tutorial for those who find change difficult. What has changed and where to find it.'

Inland Revenue customers

→ Read more about what customers think of the new myIR on page 65.

Our services are highly digital, and we're working hard to ensure everyone's included

A key part of our transformation is that we've made it easy for the majority of customers to interact with us digitally. For example, customers have been claiming credits for donations they make to registered charities. They're scanning and verifying donation receipts, and we're processing and paying straightforward claims quickly.

'I am an older person and found completing my church donation rebate so easy to do online, and within about 4 days back came the correspondence of how much I get back.'

Inland Revenue customer

We expect most customers with straightforward needs will use digital services and that customers with more complex needs would still need to contact us. When customers call us, we aim to help them get to the point that they know what to do, and they don't need to be transferred or call us back. We achieved this for approximately 70% of calls this year.

We know that there will always be customers unable to use digital services or who need to contact us for other reasons. As you'll read on the next page, we're working to ensure everyone is included.

DIGITAL STREAMLINES TAX

80%

of customers found us easy to deal with this year

98.7%

of returns were filed digitally

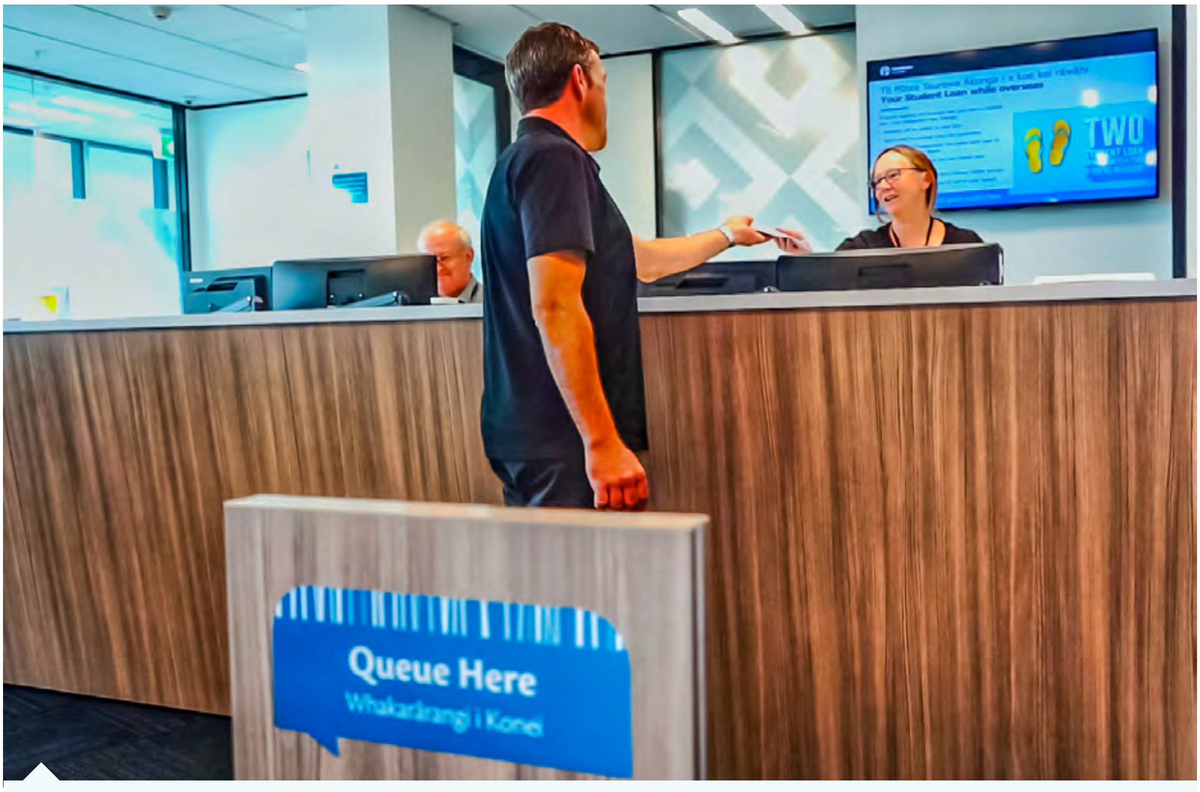
99%

of people paid their income tax digitally

79.7%

of customers claimed donation tax credits digitally

→ Read more about how customers interact with us on page 63.



Making sure that everyone's included

Through our transformation programme, we have invested in our people who work with customers across our voice and web channels, and in our community compliance and front-of-house teams, so customers continue to get assistance when they need it.

This year, we looked at how we can further assist customers who find digital services hard to access—some are among our most vulnerable customers and most in need of our services.

A team came together to identify the issues that customers from different communities can face when they're effectively excluded from government services that are digital. Citizens Advice Bureau (CAB) New Zealand gave us powerful insights from its 'Leave No One Behind Campaign to Address Digital Exclusion'. Many of CAB's clients cannot readily access a computer or other appropriate device or don't have reliable internet. A lack of finances, language or ICT skills and confidence can also disadvantage people and contribute to their digital exclusion.

Our team identified improvements we can make quickly. For example, we've had great feedback on a pilot project launched in November 2021 to prioritise calls from deaf and hearing-impaired customers who contact us using NZ Relay services. Our people are working to enrol more customers in VoiceID, which unlocks a range of non-digital self-service options to interact with us. We're also taking a closer look at why some customers don't actively use myIR.

For the longer term, Inland Revenue is putting in place a formal customer design approach that ensures customers who are at risk of being digitally excluded always have channels to engage with us in ways that works best for them.

The effort for smaller businesses hasn't reduced as much as we would like

Through transformation, we've aimed to reduce effort for all our customers. Approximately 90% of businesses in Aotearoa New Zealand have 5 or fewer employees and are less likely to have in-house tax experts or use a tax agent than larger businesses. We hoped they especially would benefit from transformation.

Improvements to our online services and website, and the ability for customers to file from software, are making a difference for small-to-medium-sized enterprises (SMEs) and providing greater certainty. Through their online myIR account, customers can file returns, make payments, advise us of changes in their circumstances, send and receive messages and apply for support.

Since 1 April 2019, employers give us employment income information every payday. Straight-forward transactions, including their information and GST returns, are processed by our systems quickly. This gives smaller businesses certainty quickly that they've got things right.

SMEs now spend far less time on GST and income tax, but they spend as much time on PAYE obligations as they did in 2013, which is our baseline year for measuring changes. Also, while a lot of COVID-19 support has been available to businesses, they have had to demonstrate they are eligible for it when applying.

In a 2021 survey, SMEs said they spent 5 fewer hours on tax compliance, compared to 2013. While this is an improvement, it's below the target we set ourselves of 15 fewer hours. However, many more SME owners agreed (60%) than disagreed (17%) that the time their business spends on tax is acceptable to them.

We will continue to focus on supporting smaller businesses and designing our services to be low effort for them.

→ See how effort has changed for smaller businesses over the years on page 67.

We completed transformation on time and under budget

Transformation was delivered on time and under budget—we handed back more money this year as part of Budget 2022 and closed the programme as planned on 30 June 2022. In total, we handed back $458 million, which is nearly 32% of the new Crown funding that was approved for transformation.

Inland Revenue now works with more customers than ever before and processes data and transactions exponentially faster, and we've automated millions of interactions that used to be done manually. We're operating more efficiently and focused on getting better value from the funding we receive from the Government.

Most importantly, we delivered changes that make a difference to the lives of all New Zealanders.

→ We have committed to tracking the benefits delivered from transformation until 30 June 2024. Read about this on pages 89 and 90.

TRANSFORMATION HAS BEEN ALL ABOUT CUSTOMERS PAYING THE RIGHT TAX AND PAYMENTS REACHING CUSTOMERS FASTER

For the March 2018 year, $450 million in income tax refunds was paid to people who applied

As at 30 June 2022, we've automatically refunded

$602 million

Child support payments get to carers

14 days faster

We close paid-off student loan accounts

overnight

It used to take 40 days or more

Before transformation, 1.4 million people who were potentially eligible for a refund never applied

This year, refunds went to

1.65 million customers

This year, we processed claims for donation tax credits worth

$301 million

In 2018, $269 million in credits were processed

95% of KiwiSaver contributions transfer to scheme providers

in 2 days

It used to take 20 to 23 days

Every return

that can generate a refund is checked automatically

We used to check only some returns as we were limited by available resources

SMEs are spending

5 fewer hours

a year on tax

We handed back

$458 million

to the Crown at the end of transformation

We're on track to save

$100 million

in administration costs every year

On average, it costs

$1.35

to process a return

It was $2.33 back in 2015–16

Tax and payments are simpler, open and certain

Our core work is collecting tax and making social policy payments. We've made a lot of changes over the last 5 years to make things easier for customers.

End-of-year assessments for 3.3 million individuals were calculated automatically

Automatically calculating and sending end-of year income tax assessments to individuals is the biggest process we run each year. Since we began doing these assessments in 2019, we have paid out $2.6 billion in refunds to customers and issued $480 million in bills for tax to pay. (Figures are provisional because some customers have until 31 March 2023 to amend their 2022 assessments.)

This year, we got assessments out to customers faster than ever by issuing 2 million assessments over the last weekend in May and the first weekend in June. We prioritised families customers first so any refunds reached them quickly.

Each year, our team has been improving the process. For 2022, we worked to ensure a smoother online self-service experience for customers using myIR. We also included income from the Wage Subsidy Scheme in people's assessments, and from Māori authority distributions and other sources. This reduced the number of customers who needed to call us or take any action before their returns were finalised.

Because we get employment and investment income information more regularly and can better analyse it, we can see where things aren't right much more quickly. We worked with customers during the year to make sure they were making and receiving the right payments, rather than waiting until the end of the tax year.

AS AT 30 JUNE 2022

2.6 million

taxpayers received this year's assessment and did not have to do anything

$602 million

was refunded to 1.65 million customers

84%

of the refund amount went to people earning less than $70,000

235,000

customers had a bill to pay before 7 February 2023

'My husband and I were due refunds and I was expecting to wait about a month to have that paid into our bank account. I was extremely surprised and delighted when it appeared in our bank account within a few days.'

Inland Revenue customer

→ Read more about average refunds and bills to pay on page 56.

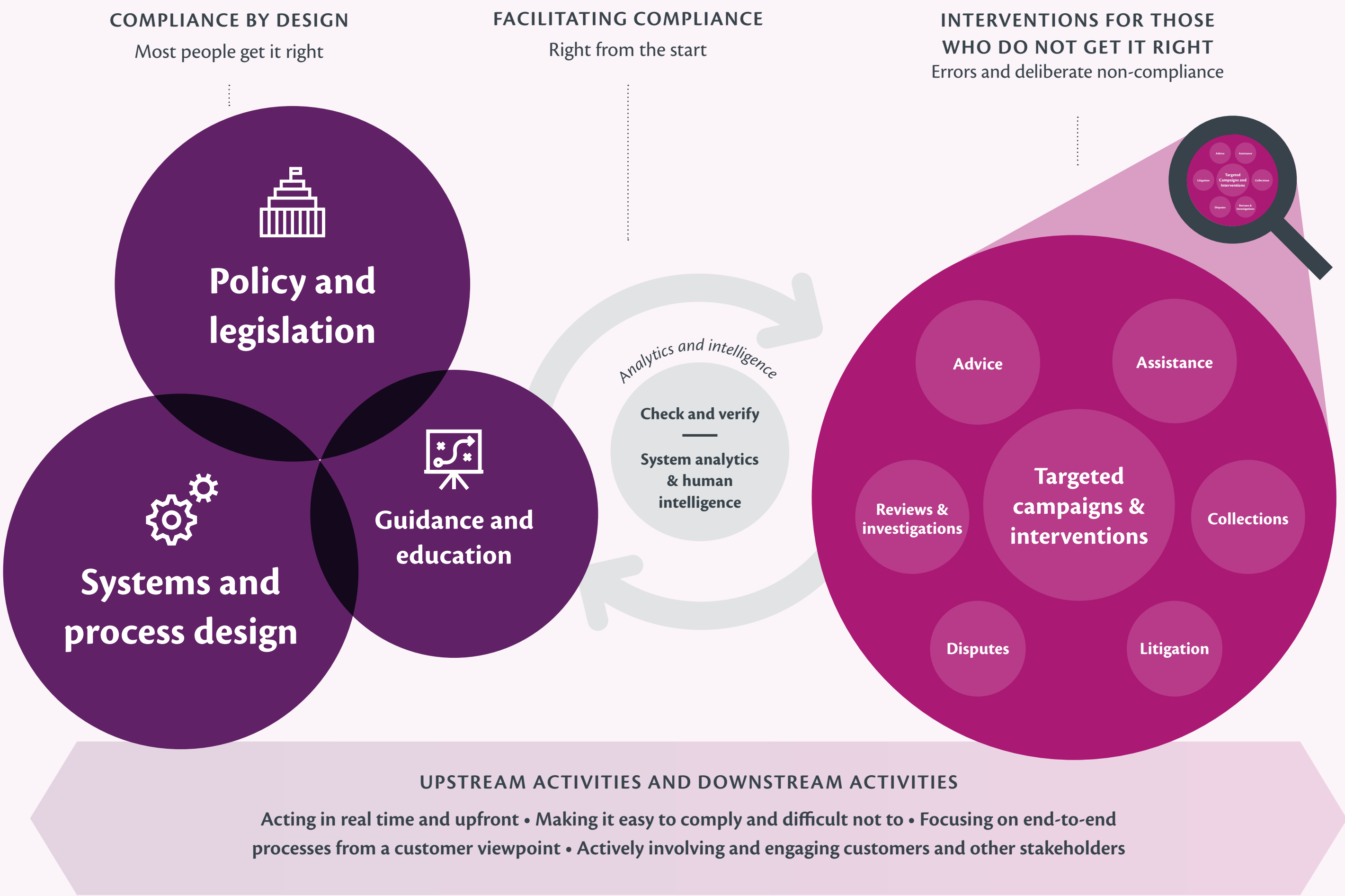
We've helped people to get things right and stay on track

Everything we do is aimed at helping people to pay the right amount of tax and get the right social policy payments. This influences how we design policy, products and services; the advice and education we provide; and how we approach investigations and litigation.

We use our analytical capabilities to identify where customers aren't getting things right and decide how we can help them. We might text them or let them know through myIR. If it's something a lot of customers are getting wrong, we might send texts or put messages out on social media.

For instance, we called more than 5,000 customers this year, including people newly in business or just elected to Māori authorities, to work through their tax obligations and any issues they may have.

We also reached out to 250,000 customers in April 2022 to let them know about new reporting requirements for trusts, and we've continued to explain to people that they may need to pay tax on profits from the sale of a property.



Our compliance framework reflects what we've aimed to achieve through our transformation programme—collecting more revenue for New Zealand, with less effort by us and our customers.

We design the tax and social policy system with compliance in mind

The left side of the framework shows how we design tax policy, systems, processes and guidance to help about 95% of our customers get their obligations right.

We use analytical tools to help ensure people comply

The centre of the framework shows the tools and intelligence capabilities we use to act in real time, and identify and assist customers who need more help to comply with their obligations.

We have interventions for people who do not comply

The right side of the framework shows the interventions we can use with the very few customers who need more help to get things right or more of our attention because they deliberately try to avoid their obligations.

We're doing more to help people avoid surprise tax bills when they sell a property

The bright-line property rule means people may need to pay tax on any profits from selling a house within 10 years of buying it. People don't have to pay tax when they're selling their main home or an inherited property.

This year, we've continued to make more people aware of bright-line by communicating online, sending information to tax professionals, conveyancers and solicitors and holding webinars.

We can now identify sales that may fall within the bright-line rule. Every month we're in touch with between 500 to 800 people who have recently sold a property to let them know that they may have tax to pay.

To make it easy for customers, when we become aware of a sale, we pre-populate information in the property section of their myIR account and alert them to check out this information. This year, we've also started pre-populating information in the customer's bright-line residential property sale information form (IR833) as an attachment to their tax return, unless they'd told us the rule doesn't apply. We expect customers to include the income in their tax return, and we check to see that they have.

We find those who are not trying to do the right thing

This year, delivering COVID-19 support and ensuring the integrity of these payments and loans has been a priority. As outlined on pages 30 to 31, we've been vigilant in checking for potential errors or wrongdoing with these initiatives.

We've continued to use our systems to check for errors across tax and other transactions and pick up errors at the earliest opportunity. This reduces the need to collect debt or do audits later. In the year to 30 June 2022, we stopped $166 million in ineligible refund claims from being paid (note this figure is unaudited).

We haven't run as many interventions that help people who are getting it wrong as we usually do as we didn't want to put any more pressure on customers in what has been a difficult environment. For example, we paused some compliance activity and debt management and collection work.

When needed, we've continued to investigate potential wrongdoing and take enforcement action. This year, our investigations picked up $1.12 billion in discrepancies.

We completed 38 prosecutions for tax evasion, knowledge and Crimes Act 1961 offences, compared to 50 cases in 2020–21. The decrease reflects our emphasis this year on helping customers stay on track with their obligations and delivering support for those affected by the pandemic. As this work tailed off towards the end of the year, we redirected our effort back to compliance activities—93 prosecutions were before the courts at 30 June 2022.

PREVENTING ERRORS AND INVESTIGATION RESULTS

$166 million

in wrong or potentially fraudulent refunds were stopped this year

Across our investigations, we identified tax position differences of

$1.12 billion

Our audit return on investment was $9.88 in discrepancies for every dollar we spent, $2.71 higher than last year

→ Read more about our investigations work on pages 85 to 86.

Our technology is helping customers stay on track

Tracey Lloyd is our Service Leader, Compliance Strategy and Innovation. She and her team help drive our compliance strategy using innovation and expert knowledge and insights from our START technology system.

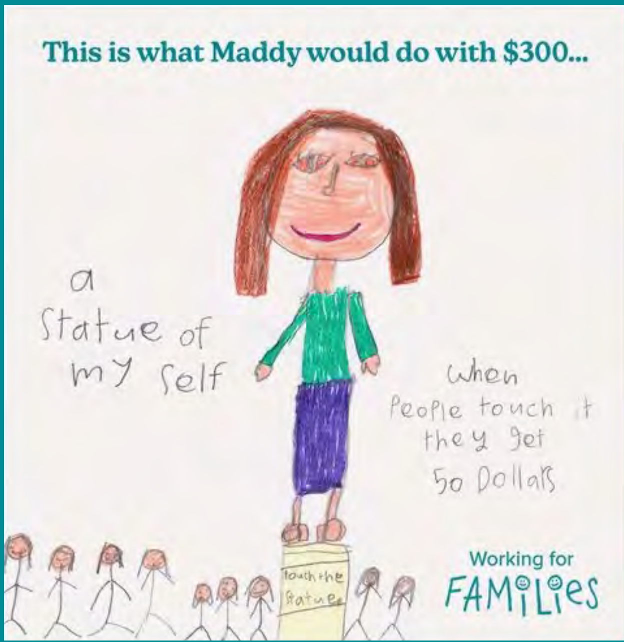
'START (our new system) has inbuilt analytical capabilities that make it easy to identify errors and issues across all our customers,' Tracey says. 'It does upfront checks to ensure people get only the payments they are entitled to, and rules in the system help us to better target our compliance activity. We also have a data and intelligence platform that lets us combine information quickly, including external information such as property data, and compare customers and industries.

'Our online service myIR is a great tool that lets customers contact us securely, and vice versa. Thanks to our new technology, we can tell if customers are trying to get a bigger refund or payment than they're entitled to, or trying to reduce their tax. We can stop this behaviour as soon as it happens, as we review their activity and encourage people to get back on the right track.'

Tracey says that one of the best things about our new capabilities is we can help our customers while they're in their online account. 'If a customer calls us with a question about myIR, we can join their session and help them with what they're trying to do.'

'Our customers are still learning about myIR, and we're still learning what works for them. If customers don't pay the tax they owe by 7 February, we automatically deduct payments through their employer, beginning in April. But before we do that, we send customers a message in myIR to let them know it's going to happen and give them a chance to pay first.

'Last year, we realised many people hadn't read the messages and were surprised by the deductions. This year, we used our new technology to look at customers who hadn't paid their tax and hadn't been into myIR for a while. We sent them text reminders instead of myIR messages. We're trying to make sure that customers don't get a surprise by receiving less in their pay because they hadn't paid on time.'



Helping families to get the payments they're entitled to

Working for Families (WFF) and paid parental leave (PPL) payments are essential to many customers as they manage living expenses week in and week out, especially this year. We've focused on registering eligible customers and getting payments out quickly. 99.8% of WFF and PPL payments have gone out to customers on the first regular payment date after they applied.

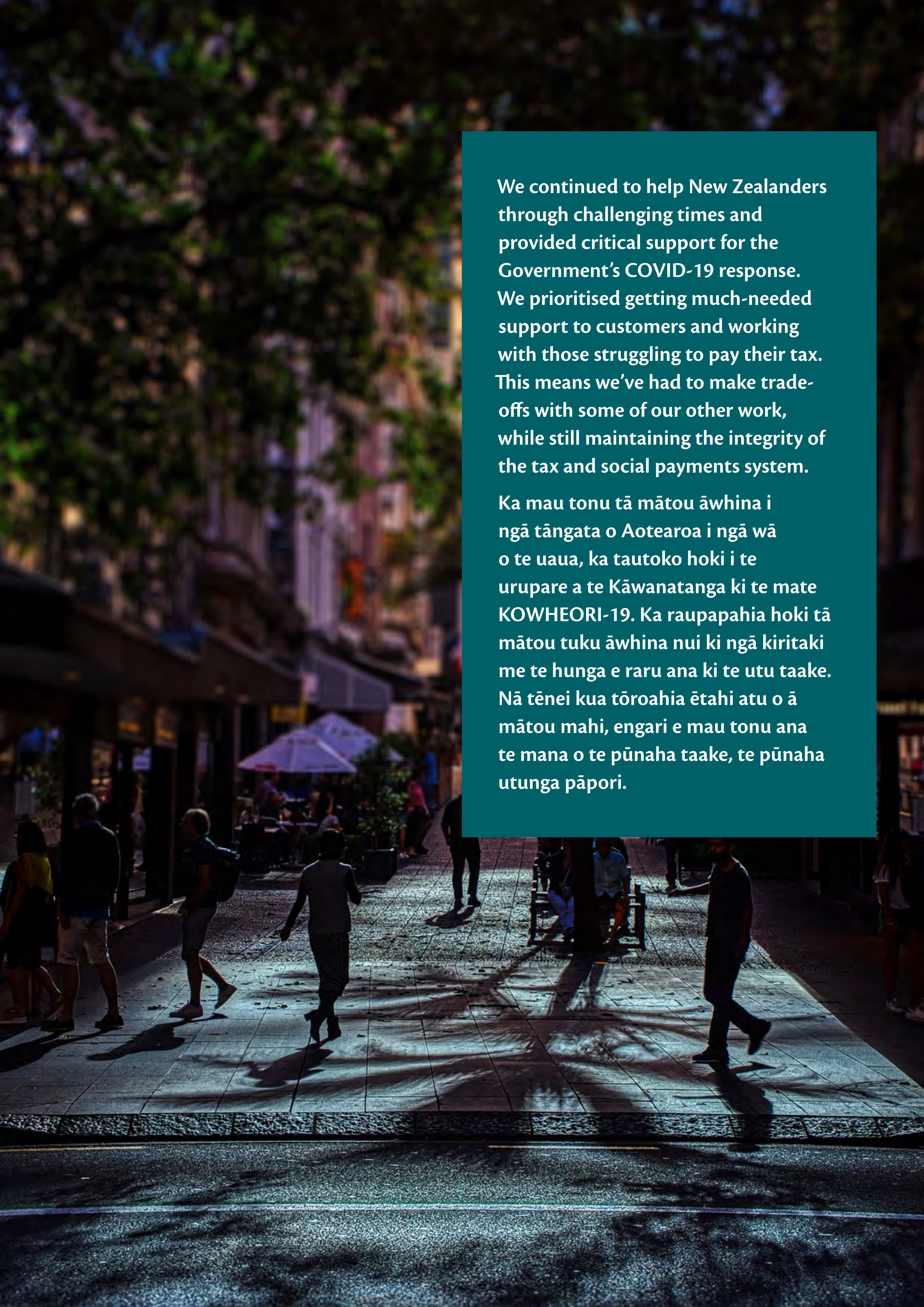
Our transformation changes have made applying for PPL much easier. Over 90% of the 780 parents who apply every week do this online; we pre-populate much of the information needed so customers don't have to find this out from their employer.

Some families don't realise they are eligible to receive Working for Families Tax Credits. To make more people aware, and to encourage customers with families to check if they qualify, we ran a campaign from March to May this year. It was inspired by what children say they would do with the extra money.

We reached approximately 670,000 customers who could potentially qualify by advertising on Facebook and Instagram. We also advertised on YouTube, Google search and Trade Me. YouTube video ads were viewed 171,800 times and Google search advertising drove 59,862 clicks to the webpage (mostly from mobile devices).

We know not all our customers can access digital platforms, so we also advertised in 35 supermarkets and recreational locations across Tāmaki Makaurau Auckland, Te Whanganui-a-Tara Wellington and Ōtautahi Christchurch. Our people engaged with community and advocacy organisations and advertised on radio stations to reach whānau with children.

There is some complexity in calculating the WFF entitlements customers receive, and this year has been a challenge because many customers have seen changes in circumstances such as jobs that can result in overpayments or underpayments. This is part of a wider picture around families, income and debt that we and other agencies are focused on. There's more on this on pages 57 to 58 and more on debt on page 81.



We continued to help New Zealanders through challenging times and provided critical support for the Government's COVID-19 response. We prioritised getting much-needed support to customers and working with those struggling to pay their tax. This means we've had to make trade-offs with some of our other work, while still maintaining the integrity of the tax and social payments system.

Ka mau tonu tā mātou āwhina i ngā tāngata o Aotearoa i ngā wā o te uaua, ka tautoko hoki i te urupare a te Kāwanatanga ki te mate KOWHEORI-19. Ka raupapahia hoki tā mātou tuku āwhina nui ki ngā kiritaki me te hunga e raru ana ki te utu taake. Nā tēnei kua tōroahia ētahi atu o ā mātou mahi, engari e mau tonu ana te mana o te pūnaha taake, te pūnaha utunga pāpori.

New Zealanders received essential support to help deal with the effects of the pandemic and to stay on track with their obligations

This year, we continued to provide our customers with a range of COVID-19 support. We developed relief packages rapidly and set up online applications with built-in checks, which makes it easy for customers to check their eligibility. More than 99.5% of applications were made online and customers have received payments in their accounts within days of applying.

We also continued to work with customers who were struggling, to help them keep on top of things. Many New Zealanders are dealing with the health, social and economic impacts of COVID-19. At the end of June 2022, just over 454,000 of our customers had told us they were directly affected by these impacts. We know that they're mainly small-to-medium-sized businesses with GST, employer or income tax obligations.

We've supported customers dealing with the effects of COVID-19

This year, we reactivated the Resurgence Support Payment and made loans and top-up loans under the Small Business Cashflow Scheme.

In February 2022, the Government announced a new COVID-19 Support Payment for businesses struggling to earn income during the Omicron outbreak. It replaced the Resurgence Support Payment. We implemented the new payment so applications could open on 28 February. It was available on a fortnightly basis for 6 weeks—so 3 payments were made in total.

Since the launch of these initiatives, we've paid out $6.5 billion in payments and loans.

'I just wish to convey my genuine appreciation for processing my company's resurgence support so quickly. Really happy to see the deposit in just one day. I can see it was crazy busy dealing with applications. For this reason I fully acknowledge your response and thank you for your great help at this difficult time.'

Small business customer

We took longer to process some COVID-19 Support Payment applications than we would have liked. This is because twice as many customers contacted us than expected, and our people were dealing with the impacts of the pandemic themselves. However, our people and systems have ensured 84% of payments reached customers within 1 business day.

Our pre-payment checks ensure eligible businesses receive payments quickly and those who aren't, don't

COVID-19 payments were made using a high-trust model, but this doesn't mean it was high risk. Rules built into our systems allow us to assess risk very quickly and determine whether customers are eligible for support. This year, upfront automatic risk-based checks stopped just over 200,000 applications and referred them to our people to review.

Our post-payment checks ensured those who received support were entitled to it

In addition to pre-payment checks, we also complete post-payment checks. Customers who received payments they were potentially ineligible for may not have had the decline in income they were expecting or may not have used the money for its intended purpose. In a small number of cases, customers have committed fraud.

For the Small Business Cashflow Scheme, a small number of people have created false businesses, used fraudulent documents and/or stolen identities and committed tax fraud linked to loan fraud, and vice versa. In the worst cases of fraud, we prosecute. In less serious cases, we put the loan into default and demand immediate repayment. We also review customers who appear to have breached their loan terms and conditions. If a breach has occurred, we may put their loan into default.

In December 2021, a man from Te Whanganui-a-Tara Wellington was sentenced to 12 months of home detention for defrauding the Small Business Cashflow Scheme. His bank account statements showed he received $53,000 that he was ineligible for.

In February 2022, a man from Tāmaki Makaurau Auckland was sentenced to 12 months of intense supervision and 6 months of community detention. He had fraudulently tried to obtain $117,800 in loans. However, we only paid out $23,600.

AS AT 30 JUNE 2022

COVID-19 Support Payments

84% of payments were paid within 1 business day

113,000

customers have received COVID-19 Support Payments

$1.3 billion

has been paid out

Small Business Cashflow Scheme loans

75% of loans were paid within 2 business days and 96% were paid within 5 days

128,000

businesses have had loans approved

19,000

applications for top-up loans have been approved

$2.3 billion

in loans has been paid out, which includes

$191 million

in top-up loans

Resurgence Support Payments

84% of payments were paid within 1 business day

231,000

customers have received Resurgence Support Payments

$2.9 billion

has been paid out

APPLICATIONS WE STOPPED IN 2021–22

COVID-19 Support Payments

48,000

applications were stopped in pre-payment checks

30,000

applications were rejected after we reviewed them totalling

$140 million

Small Business Cashflow Scheme loans

11,000

applications were stopped in pre-payment checks

6,200

applications were rejected after we reviewed them totalling

$99 million

Resurgence Support Payments

143,000

applications were stopped in pre-payment checks

43,000

applications were rejected after we reviewed them totalling

$112 million

Customers have repaid around 20% of small business loans

In February 2022, the Government announced that the first 2 years of existing and new Small Business Cashflow Scheme loans would be interest free, if the loan isn't in default. From April, we started letting customers know that the first interest-free periods would end on 12 May 2022 and by the end of June 2022, around 21% of the total amount loaned had been repaid.

The loan scheme is working as intended by supporting ordinarily viable businesses that have been impacted by COVID-19. We reviewed customers with loans of $90,000 to $100,000 who repaid them in full before the interest-free period ended. We found they were all eligible as they had met the loan criteria, including the decline in their business revenue, and none had received a second loan or top-up loan. These businesses appear to have recovered well to repay their loans in full.

AS AT 30 JUNE 2022

60,000

customers have made repayments on Small Business Cashflow Scheme loans

23,000

customers have repaid the full loan amount

$493 million

has been paid back

All figures have been rounded

Reaching out with support, no matter how remote our customers are

Every day, our teams support communities around the country with their tax and payments.

When COVID-19 first broke out, the economy in the Chatham Islands was badly affected as many people earn their income from exporting fish and crayfish to China. We knew businesses would be eligible for, but perhaps not aware of, the assistance available.

Fortunately, we had a strong connection with the Chatham Islands. Community Compliance Officer Anne Williams has been supporting our customers for over 17 years, visiting the Chathams annually.

Just before the lockdown in March 2020, Anne joined a taskforce set up by Te Manatū Ahu Matua the Ministry for Primary Industries, which held hui with Chatham Islanders at Waitangi and Kaingaroa. Anne says, 'The export market disappeared overnight, and people had an immediate 75% drop in the money coming in. Families and whānau were struggling to afford and import food and other essentials.'

The taskforce set up immediate support such as a food bank and has helped improve communications into the Chathams. Anne and her colleagues at Inland Revenue assisted customers in applying for support schemes.

Since then, Anne has continued to help her customers with advice. She hopes to get back to the Chatham Islands soon. She's drawn on experience from coordinating and problem-solving in the immediate aftermath of the Christchurch earthquakes. Anne says, 'People are under mental stress, so my approach is to listen and empathise and then we work together to find other support.'

We've helped customers to avoid getting into debt or manage their repayments

Inland Revenue has kept a strong focus on helping any customers who are struggling to pay their tax obligations. Our research shows that 1 in 3 households are facing financial challenges, small businesses are operating in an unpredictable environment, and COVID-19 is increasing the risk of customers getting into debt.

Most customers want to do the right thing. This year, the vast majority continued to file on time despite the difficult environment, even if they couldn't pay. 96% of the returns filed by customers were on time this year, which is 2% higher than in 2020–21. Customers also made 89% of tax payments on time, the same as last year.

We believe the best approach to assist people with debt is to help them avoid getting into it in the first place. We've emphasised to customers the importance of contacting us as soon as they know they have a problem. Our systems have done much of the heavy-lifting as they help us quickly identify customers who miss a payment and send them reminders. This has enabled us to continue to manage debt while delivering our priorities.

→ Read more about our approach to managing debt on pages 79 to 84.

We're trialling new ways of helping people stay on top of their payments

Typically we run interventions throughout the year to help customers at risk of getting into debt. We've run fewer this year because of the focus on COVID-19 support, but we have trialled some new ways to help people get back on track with their payments as early as possible. For example, around the 7 February income tax due date, we trialled 3 text message campaigns. Compared to those who didn't receive a message, 10% more customers paid on time, 8% more customers entered into instalment arrangements and 15% fewer customers needed enforcement action. We will use what we've learned from this trial for future campaigns.

$2.38 billion in debt was put under instalment arrangements

We've worked through options with customers who end up in debt to come up with a plan specific to their circumstances. Instalment arrangements help people to get back on track and minimise the costs they incur by paying late. This year, approximately 120,000 customers set up a plan to pay their tax over time. These arrangements covered $2.38 billion in debt. Of this, $491 million has already been paid in full.

It's easy for customers to set up an instalment arrangement themselves in myIR. We encourage customers to do this because if they set up their own payment plan they are more likely to stick to it. This year, 68% of the arrangements that customers set up themselves were being adhered to, compared to 58% of arrangements that we helped to set up.

'From feeling really guilty and defeated because I couldn't keep up with my bills. To feeling like there's hope, and knowing that I can and will get this debt down in a manageable way.'

Inland Revenue customer

→ Read more about instalment arrangements on pages 64 and 68.

We've used other options for customers facing severe hardship

Inland Revenue has used other debt relief options for customers facing serious hardship besides instalment arrangements. We use them to keep customers from getting into an unrecoverable debt situation and to protect the long-term integrity of the tax system. This helps us focus our resources on collecting debt that is recoverable and dealing with customers who deliberately do the wrong thing.

Overall, we wrote off $688.7 million of debt this year, compared to $812.8 million in 2020–21. Write-offs of GST and individual income tax debt made up 58.8% of the total value this year. We write off debt for a range of reasons, including liquidations, bankruptcies and when customers are in serious hardship.

The total amount written off is lower this year due in part to us prioritising COVID-19 support over proactive debt collection work.

Included in this year's write-offs were provisions that the Government created specifically for businesses affected by the pandemic. We wrote off $176.1 million, which includes some write-off amounts that depend on customers paying off their tax debt as soon as practicable.

We have started looking at businesses with bigger debts to see if they're still viable

Inland Revenue now has a wider range of tools to address tax debt than we used to, and this has contributed to fewer businesses being liquidated over time. We work with businesses that are normally viable, but currently vulnerable, to help them continue to trade if we believe they can maintain current and future tax payments.

Unfortunately, this is not the case for all businesses, and we have begun to look more closely at those with bigger debts. Since November 2021, we've contacted around 1,350 businesses, with debts totalling $356 million, to see if they have underlying issues that mean they can't pay what they owe. For example, the pandemic has fundamentally changed some sectors and industries and meant some businesses are not viable. Some of the businesses we contacted were able to pay their debt. By 30 June 2022, approximately $90 million had been paid in full or was under an instalment arrangement.

Liquidating any business is a step of last resort, but an action we take to protect the integrity of the tax system and to ensure there's a level playing field for other businesses that are meeting their tax obligations. Companies who trade insolvently undermine the whole trading community because they have an unfair advantage over other companies by not paying tax.

This year 1,292 companies went into liquidation across Aotearoa New Zealand. In the same period, we commenced the liquidation process against 759 companies, leading to us liquidating 163 companies in the High Court. A further 592 companies went into liquidation owing tax debt once we initialised the process.

Tax debt has increased, but at a comparable rate to revenue

The impact that COVID-19 has had on customers—businesses in particular—is reflected in the amount of debt owed to Inland Revenue. Many customers have lost income, particularly during lockdowns, yet still have fixed costs to pay. Customers have faced really tough choices about which bills to pay as a priority, and some haven't been able to pay their tax on time.

This has contributed to a 10.5% increase in overall tax debt this year, which was $4.8 billion at 30 June 2022. Most of this debt was in income tax and GST.

As at 30 June 2022, 55,888 customers who received Working for Families were in debt, which is 27% more than in June 2021. Read more about this on page 81.

Aside from tax debt, overdue student loan debt also increased this year. It grew 17.6% to $2.0 billion at 30 June 2022. As you can read on page 82, this is mostly due to only 24.5% of overseas-based student loan borrowers making their required repayments.

It's important to keep in mind that overdue tax debt grew at a comparable rate to tax revenue. It was 4.6% of tax revenue, compared to 4.5% in 2020–21 and 4.5% in 2018–19. This is a good result, considering how difficult the environment has been.

HELPING CUSTOMERS AVOID DEBT OR MANAGE IT

$4.8 billion

is owed in tax debt as at 30 June 2022, 10.5% higher than last year

This year, tax revenue was

$100.6 billion

Overall tax debt as a percentage of tax revenue was

4.6%

As at 30 June 2022, the total amount of debt under active instalment arrangements is

$1.04 billion

This year, we wrote off

$689 million

$176 million

of this amount was for customers seriously affected by COVID-19

Between June 2020 and July 2022,

207,000 customers

affected by COVID-19 had use-of-money interest written off

As at 30 June 2022,

33,000 customers

who were paying off their tax in instalments were not being charged use-of-money interest

7,400 customers

have opted to 'carry back' a loss in the 2020 or 2021 tax years from the start of the scheme to May 2022

This brings monetary benefits worth

$243 million

to those customers

Making choices about where to focus our efforts

Responding to the demand created by COVID-19 support meant we had to make choices about where we focused our people's efforts throughout the year.

We made it a priority to get money out quickly to customers applying for support, knowing these payments and loans were critical to businesses, workers and their families. We also took 192,000 calls from Te Manatū Whakahiato Ora the Ministry of Social Development to verify their people's queries on Wage Subsidy Scheme applications.

We've needed to balance this new work with our core services to help customers meet their tax obligations and make social policy payments. For example, we made great improvements to the annual process of automatically calculated individual income tax assessments, which meant fewer customers needed to call us about their tax returns.

Our people worked overtime for extended periods on weekdays and on Saturdays, and we've recruited more people into customer-facing roles.

However, we weren't able to answer all the calls we received or respond to messages from customers as quickly as we wanted. We received 4% fewer calls this year, but correspondence was 6.6% higher, driven by a 20% increase in web messages from customers.

We publish estimated response times on our website to give our customers some certainty over how long it may take us to respond to them.

'Thank you IRD staff for doing a great job especially during these difficult times.'

Message from our Facebook page

We did less work than would be typical in areas such as debt collection, investigations, disputes, litigation and liquidation activity. However, we continued to focus on areas that pose a high risk to the integrity of the tax and social policy system.

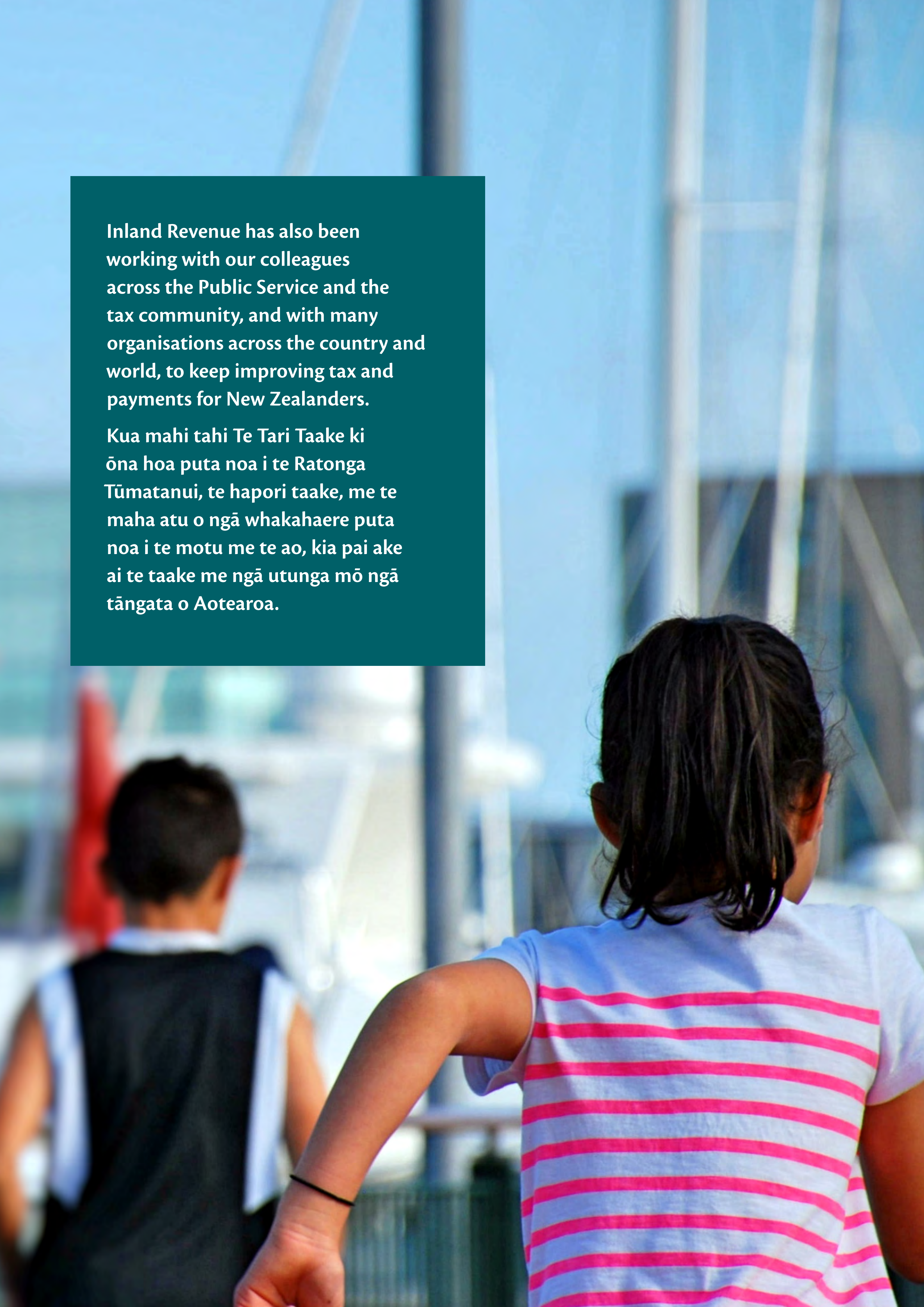
Proactive wellbeing support for our people in a challenging year

Most of us have worked in some way to support customers affected by COVID-19 this year. Networked teams have come together to respond to different priorities such as implementing the COVID-19 Support Payment within weeks of its announcement by Government. Our people have made sure customers got support payments, provided tax intermediaries with the right information and supported other agencies' efforts. Our customer-facing staff showed their adaptability as we redeployed them to—and sometimes retrained them in—the areas of highest demand.

Our people were also often managing significant impacts from the pandemic on their own lives. We've regularly checked in on how our people are feeling and provided proactive ways to stay well or seek help early.

In the surveys we've run through the year, people's feelings about their wellbeing remained consistent, as did their day-to-day work experiences. We've acted on what our people are telling us and encouraged our people leaders to use the results to understand and support their people's personal and work situations.

→ Read more about our people's wellbeing, health and safety on pages 102 to 103.



Inland Revenue has also been working with our colleagues across the Public Service and the tax community, and with many organisations across the country and world, to keep improving tax and payments for New Zealanders.

Kua mahi tahi Te Tari Taake ki ōna hoa puta noa i te Ratonga Tūmatanui, te hapori taake, me te maha atu o ngā whakahaere puta noa i te motu me te ao, kia pai ake ai te taake me ngā utunga mō ngā tāngata o Aotearoa.

We're working with others to keep improving tax and payments

We continue to expand our connections with other government agencies, tax agents and the tax community and social sectors, nationally and internationally. As a public sector organisation, we're also working to be a better partner in the Māori Crown relationship and committed to integrating te Tiriti o Waitangi and te ao Māori into everything we do. We're focused on creating an inclusive workplace at Inland Revenue and a diverse workforce that represents Aotearoa New Zealand's communities.

We're focused on the key tax and social policy issues

Since 2012, Inland Revenue has delivered around 40 Bills to Parliament. The Bills included legislation that enabled transformation of the tax system and 5 COVID-19 Bills that we developed at great speed so we could give our customers financial support when they needed it most.

On 1 April 2022, more than 100 law changes were introduced. These include:

- increases to Working for Families Tax Credits
- new ways for KiwiSaver members to change their contribution rate
- a requirement for trusts to provide more information on their annual returns for the 2022 tax year onwards
- an extension of the bright-line property rule to 10 years for property bought on or after 27 March 2021 (for new builds, the bright-line period is 5 years)
- limits on deducting loan interest from rental income.

With the extensive policy changes for modernising the tax system now completed, our work is focusing on a wider range of issues and Government priorities such as overall integrity of the tax system and the next phase of international tax reform. We're also working on a Tax Principles Bill, which will enable us to report on various aspects of the design of the tax system such as fairness.

A significant proportion of our business involves delivering social policy payments such as Working for Families and administering KiwiSaver and student loans. We're combining our policy, operational and digital expertise, and working together with other government agencies and tax agents, to tackle some key issues facing families and whānau.

→ Read more about the Tax and Social Policy Work Programme on page 70.

Passing on child support payments to 41,500 families

Inland Revenue currently holds on to child support payments for some beneficiaries to offset the cost of their benefits. However, this means parents have fewer financial resources available to support their children. In 2019, the Welfare Expert Advisory Group recommended that child support payments be passed on to all sole-parent beneficiaries, rather than being held by us. Overseas research has shown that passing these payments on improves the paying parent's engagement with their children.

Before we could start making this change, COVID-19 hit and this work got delayed. But in May 2021, our policy team and Te Manatū Whakahiato Ora the Ministry of Social Development (MSD) started to look at ways to progress this work.

From 1 July 2023, approximately 41,500 sole-parent families will benefit by a median gain of $24 per week (the first payments will be passed on to families in August). We'll pass on approximately $155 million to sole-parent families each year, which will help lift up to 14,000 children out of poverty.

To introduce this, we need to design and implement changes to current legislation and to our technology systems. We're working with MSD to consult New Zealanders on sharing information about child support payments with the Ministry so they can be included as income for the purpose of calculating people's benefits. This will streamline the process for beneficiaries receiving child support.

Learning to weave te Tiriti o Waitangi and te ao Māori into everything we do

As a public sector organisation, Inland Revenue is committed to being a responsible and responsive Tiriti partner and to providing better services for Māori customers. In 2018, we recognised that to achieve this, we needed to shift our organisational culture. We developed Māhutonga, an approach to integrate te Tiriti o Waitangi principles and te ao Māori into everything we do.

Under Māhutonga, we're working to make enduring changes that lift the capability of our people and improve services for whānau Māori. We recognise Māori communities trust Inland Revenue less than other communities and we can do better.

At the end of June 2022, we launched online learning that gives our people the basics of te reo, te ao and tikanga Māori. We'll be rolling out more levels of learning so all our people can be confident and deepen their cultural capability.

Research we completed in 2021 provided us with a Māori customer landscape, and it's helping us better understand the world views of whānau Māori. Taking this forward, we're exploring the outcomes that are important for whānau Māori and starting to use this to inform our policy and services.

→ Read about all the key initiatives we're working on in our Māhutonga programme from page 110.

Dear and Rata talking with our customers on Facebook Live

Taking a whānau-centric approach with advice and support

Throughout the year, our people have worked together to ensure Māori customers know we're here to help.

We've run webinars and produced pānui to inform whānau Māori about the COVID-19 support options. This approach has helped us bridge the gap of engagement, not only with whānau Māori but also with pakihi Māori (Māori businesses). It helps to ensure that we continue to be committed to our response as a Treaty partner and support Māori aspirations.

Whāriki Te Tai Tokerau is a regional Northland Māori business online network. In September 2021, the network reached out to local Inland Revenue Kaitakawaenga Māori, Dear Kingi, to take part in a Go-Live Facebook Live event with their Māori business audience. This was a first for Inland Revenue to partake in a live Facebook event, and it was extremely successful.

Dear and Inland Revenue colleague Rata Kamau talked about the COVID-19 support available, addressed historical concerns such as trust and encouraged the audience to make contact with us. Rata says, 'We know our Māori customers can be reluctant to approach government agencies like Inland Revenue, so our key message was, now that you've met us, we're not that scary. Please get in touch early if you need help.'

Dear says, 'I am still getting requests from the Facebook Live event for support and continue to connect our Māori businesses to the Kaitakawaenga Māori in their region.'

'Was great hearing from IRD and know they are approachable.'

'Thanks to you and Rata, I'm not scared of the IRD logo anymore. I hope that everyone else felt the aroha that came with your kōrero last night, Dear.'

Participants in the Whāriki Facebook Live event

Walking in our customers' shoes

New Zealand is a diverse country, and Inland Revenue needs to reflect the communities we serve. Diversity brings different thinking to our work and better ways of doing things. A diverse and inclusive organisation will enable us to better understand and respond to our customers' needs. The varied perspectives of our people will help us design and deliver the right services for customers.

Our teams are making a significant effort to ensure Inland Revenue is an organisation where people from all walks of life can achieve their full potential. We're listening to communities and developing a tax and social policy system that works for everyone.

Our people have completed training to address unconscious biases, and we've introduced new learning this year to help people better understand Rainbow communities.

Thriving networks created by our people for different communities give us advice and help user-test products and services for different customer groups.

In Te Taunaki, the 2021 Public Service Census, our people said that our inclusive culture is a highlight of working at Inland Revenue, along with the ability to work flexibly. Read more on pages 104 to 109 about what we're doing to increase the diversity of our workforce, improve gender equity and make Inland Revenue more inclusive of other communities such as people with disabilities.

A WORKPLACE WHERE EVERYONE CAN THRIVE

86%

of our people who responded to Te Taunaki believe we support and actively promote an inclusive workplace, compared to 78% of people who work in the Public Service

83%

of people say they feel they can be themselves at work, which is on par with people who work in the wider Public Service

Supporting pregnant wāhine in Taranaki

This year, Community Compliance Officer Maree Sanger visited a wānanga (workshop) for pregnant wāhine in Taranaki. She wanted to let them know about our support for parents-to-be, and their whānau, while they're pregnant and after they have given birth. Once a baby is born, our support includes providing paid parental leave, Best Start new baby payments and Working for Family Tax Credits.

Before she attended the wānanga, Maree sought guidance on te reo Māori and tikanga from our Kaitakawaenga Māori Service. Kaitakawaenga Māori play a critical role connecting Inland Revenue with whānau Māori. Maree joined the parents-to-be as they weaved pūtea (woven bags) to bring home their whenua (placenta) for burial. In te reo Māori, 'whenua' means 'land' and 'placenta', so when a baby's placenta is buried, it anchors the person to that land.

At the wānanga, the group discussed how we can go into communities and provide face-to-face tailored services. We're also happy to visit marae and provide one-on-one tax advice and information. Maree's experience ignited in her a desire to learn more te reo and tikanga Māori so she can better support our wāhine and hapū customers.

We work on emerging international tax issues with organisations worldwide

Our international tax work aims to ensure we comply with all international standards and maintain Aotearoa New Zealand's positive international reputation.

We do this by exchanging information with other countries, using the information and intelligence we receive from our treaty partners, administering the foreign trust regime, and supporting customers to deal with any compliance issues resulting from the pandemic.

We help our international-based customers to get things right from the start

Aotearoa New Zealand has information-sharing agreements with over 70 jurisdictions. These agreements enable us to deter, detect and address international tax evasion like never before.

We take the same customer-centric approach to international tax as we do with all our compliance work. This means we help customers get their tax right from the start.

The customers we've worked with this year include 1,200 significant enterprises—corporate groups with a turnover of more than $30 million. Over 700 are foreign-owned multinationals, and they contribute approximately $4.4 billion in corporate tax, which is a large part of Aotearoa New Zealand's corporate tax base.

We use advance pricing agreements to assure tax

Advance pricing agreements give customers certainty on tax for an agreed period for specific transfer pricing arrangements. In return, Aotearoa New Zealand gets assurance that these businesses are paying the right tax over the agreed period and about potential future revenue. There's less need for audits as a result.

As at 30 June 2022, 84 customers had active agreements with us, representing tax assured of approximately $490 million a year.

We are focused on improving tax governance of significant enterprises

This year, we have increased our focus on tax governance in significant enterprises. We tested a representative sample of enterprises and found that they need to pay more attention to documenting their strategies and tax control frameworks, testing and updating controls and reporting to their boards. In late 2022, we'll check to see whether significant enterprises have made any improvements.

Our offshore compliance campaigns generated positive results

We've also run targeted compliance campaigns focused on specific sectors and compliance issues. This year, we ran campaigns about tax residency and disclosing offshore income, aimed at ensuring customers meet their international tax obligations in Aotearoa New Zealand. The campaigns targeted almost 7,000 customers and their tax agents, resulting in voluntary disclosures totalling $100 million in omitted income in the last 2 years.

Inland Revenue published a new offshore compliance package in June 2022, which provides customers and tax agents with the information they need to get their international tax affairs right from the start. This includes paying tax on their worldwide income.

Pictured at the launch of the new package are Anu Anand, Service Leader for International Revenue Strategy, and John Nash, Strategic Advisor, International.

This year has been hard for customers

Aotearoa New Zealand's tax and social policy system is based on customers voluntarily making the payments they should. Our role is to collect the most net revenue we can with our resources, within this framework of voluntary compliance. People's trust in Inland Revenue is critical. Ultimately, everything we've done this year is to maintain the integrity of the tax and social policy system and people's belief in paying tax.

Our customer research this year has showed very mixed results in terms of trust in Inland Revenue. We saw significant increases in trust from SMEs, but declining trust among micro businesses and individuals.

Factors that influence how New Zealanders are feeling include concerns about inflation, the cost of living and global issues such as the war between Russia and Ukraine and the pandemic.

We watch these external trends closely because they play a part in people's trust in Inland Revenue. However, we also know trust is significantly driven by customers' direct experiences dealing with us. These experiences give us opportunities to both win and lose customers' trust. It was difficult for customers to get hold of us at times this year as we prioritised providing COVID-19 support. This may have affected some customers' level of trust.

We know our people in customer-facing roles are great at resolving issues for customers. Building on that, we'll keep working to make it easier for people to interact with Inland Revenue and resolve issues. You can read more about this on page 44, where we look at what's next for Inland Revenue.

→ Read our results around customer trust and tax morale on pages 61 to 62.

Getting the next generation set up right from the start

More than 450,000 of our customers are aged 13 to 19—over a third are registered for salary and wage income.

In February 2022, Inland Revenue and Te Ara Ahunga Ora the Retirement Commission launched a new learning module to schools. It provides tax information for Year 9 and 10 students to help them get their tax and payments right from the start and set for the future.

The new module is part of Te whai hua – kia ora! Sorted in Schools, which 76% of secondary schools and kura are taking part in. It will be taught across the New Zealand curriculum and in te reo through Māori medium education. It uses real-life, meaningful examples and has been designed to be accessible and meet the diverse needs of learners.

We've often been asked to engage with younger people in schools. We saw this as a great opportunity to create a tailored and structured approach to support students to learn about Te Tari Taake Inland Revenue and how the tax system works.

The year ahead
Ko te tau e tū mai nei

Moving into 2022-23, we'll continue to play our part in progressing the Government's priorities for accelerating the recovery from COVID-19, improving family and whānau wellbeing and looking at the fairness of the tax system.

The new Cost of Living Payment is aimed at helping an estimated 2.1 million New Zealanders. The payment of $350 is split into 3 monthly payments to be paid in August, September and October 2022.

To get ready for the payments, our people have been tidying up issues or errors in customers' 2022 tax returns and Working for Families assessments as this information is key to determining if people are eligible for the payments. We've also worked to update the bank account details of more than 200,000 customers so the payments reach them easily.

Our people been preparing our technology to handle the payments. They've also been providing information about who is eligible by engaging with community groups and tax agents, and using our websites, social media and phone technology. We've translated information for diverse communities.

Helping New Zealand to recover from the pandemic

When we designed the COVID-19 support schemes, we anticipated there would be some risk of fraud, abuse or gaming. We've set up an oversight group that is reviewing the integrity of these schemes. We're using our analytics capabilities to identify these customers and we're responding to them in a variety of ways, including targeted campaigns and direct messaging through intermediaries. When we need to, we're also taking enforcement action.

To help all our customers stay on track with their tax obligations, we'll continue to take a straightforward and helpful approach and intervene early if we think customers are at risk of getting into debt.

Growing into our role in the Māori Crown relationship

It's a priority for us to do better as an organisation in meeting our Treaty obligations and services to whānau Māori. We're continuing to roll out Māhutonga, our programme for integrating te ao Māori and te Tiriti o Waitangi into everything we do. In 2022–23 we will progress Mauri Ora Te Whānau, our Māori Customer Strategy, and our people will be learning to be comfortable with te reo and tikanga Māori through our new foundation capability programme.

Supporting the Government's tax and social policy priorities

By the end of 2022, the Government will update its Tax and Social Policy Work Programme. This will set out our future policy focus. We're continuing our research into the tax paid by high-wealth individuals and working on the Tax Principles Bill. We're also contributing to the cross-government review of Working for Families and to work on debt owed by people to government. We'll be implementing the change to pass on child support payments to carers.

As the steward of New Zealand's tax system, Inland Revenue is beginning its next regulatory review. This is a 'health check' of the system to help identify any problems that exist such as rules that don't work as they should because they're too complex or easy to misinterpret.

Improving everyday services to customers

It's important for us to keep improving our everyday services so tax and payments are easy to get right and hard to get wrong. We'll continue helping customers to do as much for themselves as possible using digital channels like myIR. At the same time, we'll continue supporting customers who can't use them.

A key initiative under way is upgrading the technology we use in our contact centres to make it more flexible and cost-effective, and enable a better experience for customers. The technology will mean we can use new ways to understand and interact with our customers.

Supporting he tangata (our people)

Providing our people with a positive, safe, sustainable and inclusive work experience and workplace underpins everything we do.

We're reshaping our culture through an initiative called Te Pou o te Tangata. 'Te Pou o te Tangata' means 'personal endeavour', which relates to being sincere in how we act and conduct ourselves with other people. We want to create a single set of descriptors that better reflect who we are as an organisation and that will continue to build on the momentum we generated during our transformation.

We're working with our entire Inland Revenue whānau to do this. We're incorporating te ao Māori concepts of whakawhanaungatanga and manaakitanga to make sure everyone at Te Tari Taake Inland Revenue has a voice and those voices are heard.

Playing our part in achieving wider public sector priorities

Inland Revenue is committed to achieving cross-government broader priorities, including becoming more diverse and inclusive, reducing emissions and buying goods and services from a more diverse range of suppliers.

We're committed to operating sustainably and reducing our environmental footprint. We have a set a target to reduce greenhouse gas emissions by 43% by 2025 and 50% by 2030 (read more about this from page 115).

Our performance
Ko tā mātou mahi

We track the progress we're making towards our mission and vision through a range of measures and indicators. Our Performance Measurement Framework on page 49 shows how we use our resources to deliver our services, and how our services connect with the outcomes we want to achieve for our customers and Aotearoa New Zealand.

Statement of responsibility

I am responsible, as Chief Executive of 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 controls 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 2022 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 2023 and its operations for the year ending on that date.

Mary Craig
Acting Chief Executive of Inland Revenue
29 September 2022

Countersigned by:

N.S. Bradley

Nick Bradley
Chief Financial Officer
29 September 2022

How to read our performance section
Me pēhea te pānui i tā mātou wāhanga whakatutukinga mahi

We use our Performance Measurement Framework to monitor the progress we're making towards the outcomes we want to achieve for New Zealanders through the services we provide. Our Performance Measurement Framework has 4 layers:

- Our outcomes
- Customer outcomes
- Our services
- Our organisational health.

We use information about our performance in each layer to tell the story of how Te Tari Taake Inland Revenue is performing.

Our Performance Measurement Framework

Our outcomes—the long-term results we want to achieve

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

Customer outcomes—the changes we want in customers' knowledge, skills or behaviour

Customer motivation	Customer opportunity	Customer capability
The factors that create the willingness to comply and then actually follow through and do it. Motivation includes both social and personal norms.	How easy it is for a customer to comply or not to comply with their obligations or access their entitlements.	How well customers can meet their obligations and access their entitlements. It includes their knowledge of rules that apply to them, their access to tools and assistance, and their ability to understand.

Our services—the services we deliver for our customers and government

Services for customers	Policy advice	Services to other agencies	Transformation

Our organisational health—how we use our resources to deliver for our customers

Our people	Managing for value	Our assets	Our environment

How we performed
Ko ā mātou whakatutukinga

We have continued to focus on supporting our customers through the COVID-19 pandemic this year, while also upholding the integrity of the tax and social policy system.

We assessed

$100.6 billion

of tax revenue to help fund government programmes

We paid out

$4.6 billion

in support payments and loans to help customers affected by COVID-19

Along with MSD, we distributed a net

$2.92 billion

in Working for Families Tax Credit entitlements to support working families

We completed

1.72 million

items of correspondence

We issued

3.3 million

automatic income tax assessments

We answered

1.3 million

calls

Our outcomes

Our performance towards our outcomes has remained relatively steady during a year of significant events and challenges.

- Assessed tax revenue of $100.6 billion was 7.3% higher than 2020–21. The increase is mainly due to stronger individuals and companies revenue.
- Although overdue tax debt has grown over the year, with revenue also growing, it still represents a similar percentage of revenue to pre-pandemic levels.
- Our real-time reviews of all returns filed (including GST and donation tax credits) resulted in $165.8 million of incorrect or fraudulent refunds and tax reductions being stopped at the time of filing in 2021–22.
- We continued to provide customers with timely refunds and social policy payments. We achieved the majority of our timeliness targets.

- The accuracy of our automatic income tax assessments for individuals is mixed. Average refunds have steadily decreased between 2019 and 2021. The increases in the average tax to pay is due, in part, to income being more variable due to COVID-19 and us prioritising providing COVID-19 support over other work.
- The accuracy of our Working for Families Tax Credits (WfFTC) assessments is holding steady, a positive result given the instability of some customers' employment and income during the COVID-19 pandemic. Over two-thirds of WfFTC customers received within 20% of their entitlement over the last 3 years.
- We worked with a number of agencies to support and deliver COVID-19 services and initiatives.

Customer outcomes

Our performance against our customer outcomes reflect the challenges customers have faced over the year.

- Globally, the challenge of maintaining people's trust in government and public institutions is emerging as one of the key issues of the pandemic. Trust in Inland Revenue is trending down.
- Significantly more people are now using our digital channels. Between 2016–17 and 2021–22, myIR user sessions have more than tripled from 17 million to 60 million and website sessions have nearly tripled from 29 million to 76 million sessions.
- Customers' perceptions of knowing what to do, and confidence they are doing the right thing, remained stable in 2021–22. We'll continue to work to support customers to get it right from the start, and help them get familiar with what they need to do.

Our services

Our performance in delivering services to our customers and government reflects our continued focus on maintaining the integrity of the tax and social policy system and supporting customers through the COVID-19 pandemic.

- Providing COVID-19 support to customers, and reduced capacity throughout the year, has meant we've been operating under pressure. In turn, this has meant that we weren't always able to respond as quickly to all our customers as we would have liked.
- We achieved 30 out of 42, or 71%, of our output performance measures this year. This is a drop from 2020–21, when we achieved 37 out of 44, or 84%, of our output measures.

Organisational health

Our performance against our organisational health reflects the challenges we have faced over the year.

Our outcomes—what we want to achieve

Te Tari Taake Inland Revenue contributes to the economic and social wellbeing of Aotearoa New Zealand by collecting and distributing money. Our success is reflected in 3 outcomes:

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

We use a range of indicators to help track our performance in delivering these outcomes.

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

Inland Revenue contributes to the economic wellbeing of Aotearoa New Zealand by collecting and distributing money. That means that the taxes we collect for the government help to fund things like education and healthcare. Taxes also provide money that's paid out in benefits and entitlements to hundreds of thousands of New Zealanders every year through different government agencies.

Most customers want to do the right thing. This is reflected in the high proportion of customers who file returns and make payments on time. Increasingly, customers are filing returns on time, and the rate at which customers made payments on time remains relatively steady. Read more about these results on pages 80 and 83.

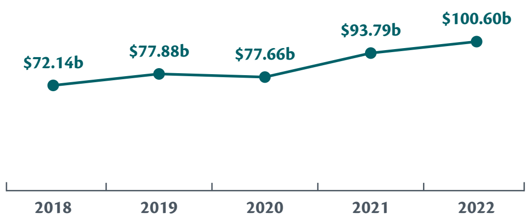
Revenue trend over time

We look at the overall trend for tax revenue to see how the revenue in 2021–22 compares with revenue in previous years.

We assessed

$100.6 billion

in tax revenue



The year-on-year increase in tax revenue is mainly due to stronger individuals and companies revenue, partially offset by higher GST refunds. Individuals tax revenue grew by $6.624 billion (15%) as a result of strong employment, salary growth and business profits. Fiscal and monetary support has also played a major role in supporting the economy.

Revenue assured through our interventions

We assure revenue using a range of activities to make sure customers are doing the right thing; from interventions that promote voluntary compliance and prevent revenue loss occurring in the first place, to finding and correcting things where people have got them wrong. We also recognise that some of our compliance interventions result in assurance that future revenue will be returned correctly through changes in customer behaviour and an increased understanding of their obligations.

Our real-time review of all returns filed (including GST and donation tax credits) resulted in $165.8 million of incorrect or fraudulent refunds and tax reductions being stopped at the time of filing. This provided customers with more certainty and reduced the potential for revenue loss.

Using an intelligence-led approach, we have been able to target specific groups of customers to create greater awareness and facilitate compliance. For example, we have seen continued success from our Common Reporting Standards campaign that uses financial account information received from our offshore treaty partners to increase compliance with the tax rules for offshore income. This resulted in 250 voluntary disclosures and an additional $10.9 million of revenue being returned in 2021–22.

Our investigations activities in recent years have expanded to include the upfront review of the COVID-19 products we administer. Through these and our more traditional investigations activities, we have assessed additional tax or protected the integrity of the tax system, returning $9.88 for every dollar spent.

We also estimate how much additional revenue is assured in future years from our work promoting voluntary compliance and undertaking assurance activities. Our work in 2021–22 has assured a further $49 million in revenue for the next 3 years.

Revenue assured from providing certainty

Our compliance experts provide certainty for customers on specific tax positions. Through taxpayer rulings, we give our interpretation of how the law applies in specific circumstances.

Another way we provide this certainty is through advance pricing agreements. Advance pricing agreements provide customers with certainty on tax for specific transfer pricing arrangements for an agreed period. In return, Aotearoa New Zealand gets a level of certainty that these businesses are paying the right tax for that period of time.

This year, we ruled on arrangements worth

$8.40 billion

with associated tax of more than

$1.59 billion

On 30 June 2022, 84 customers had active advance pricing agreements with us

These agreements represent approximately

$490 million

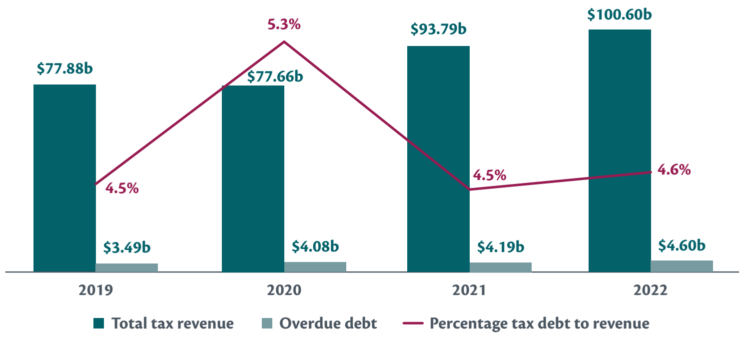
in assured tax each year

Total tax debt to revenue

One of the ways we measure progress towards our revenue outcome is looking at the amount of overdue tax debt as a percentage of tax revenue.

4.6%

of overdue tax debt to revenue



Note: Tax debt and revenue figures exclude child support, student loans, Working for Families Tax Credits and the Small Business Cashflow Scheme.

In 2021–22, overdue tax debt grew, but given the significant growth in revenue, the percentage of tax debt to revenue of 4.6% remained broadly the same as the previous year.

The ratio of tax debt to tax revenue compares favourably with other similar tax administrations, some of which have ratios of as much as 7% to 17%.

We've worked through options with customers who end up in debt to come up with a plan specific to their circumstances. This year, approximately 120,000 customers set up a plan to pay their tax over time covering $2.38 billion in debt. Of this, $491 million has already been paid in full.

Read more about tax debt on pages 80 to 82.

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

It's important that we get New Zealanders the payments they're entitled to at the right times. We keep customers at the centre of our thinking. We focus on helping them get things right from the start by making it simpler and easier for them to access entitlements.

Providing COVID-19 support

We continued to support the Government's response to COVID-19, by reactivating the Resurgence Support Payment and distributing loans and top-up loans for the Small Business Cashflow Scheme. In February 2022, the Government announced that a new COVID-19 Support Payment would be available to businesses, replacing the Resurgence Support Payment.

Since the launch of these initiatives, we have:

- paid out $1.3 billion in COVID-19 Support Payments to 113,000 customers
- paid out $2.9 billion in Resurgence Support Payments to 231,000 customers
- approved $2.3 billion for the Small Business Cashflow Scheme loans, which includes $191 million for top-up loans.

Read more about our COVID-19 support on pages 30 to 32.

Timeliness of tax refunds

We look at how long it takes us to issue income tax and GST refunds to customers once we receive their returns.

We have 2 tax refund timeliness targets.

Our target for issuing GST refunds is 95% within 4 weeks. We met this target, issuing 96.4% of refunds within the timeframe.

Our target for issuing income tax refunds is 85% within 5 weeks. We just missed this target, issuing 84.4% in 2021–22.

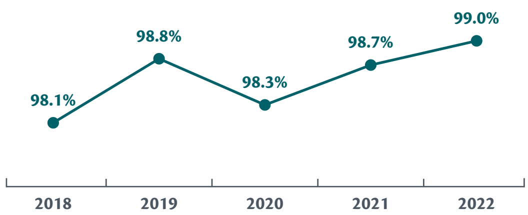
Read more about these measures on page 77.

Accuracy of GST refunds

We look at the accuracy of GST returns that result in us issuing GST refunds.

99.0%

of GST refunds were not amended after the initial refund



The accuracy of GST refunds has increased since 2020 and reached 99% this year.

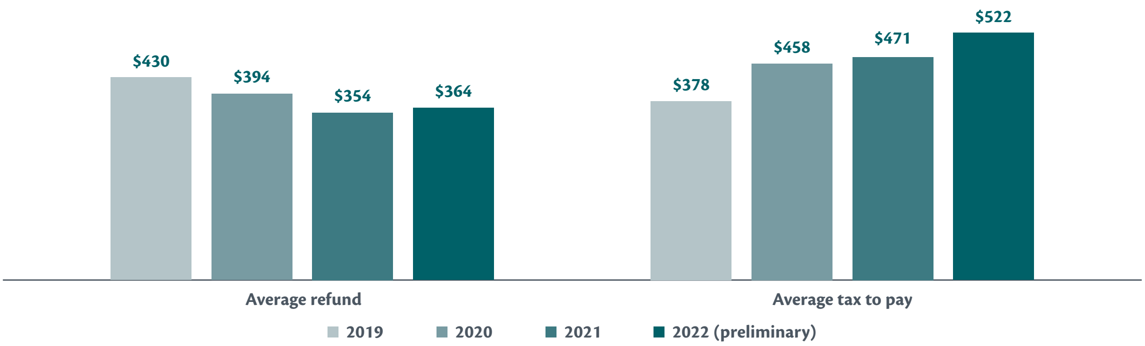
Income tax refunds and tax-to-pay amounts get progressively smaller for individuals

This indicator is based on how automatically issued income tax assessments for individuals are making tax simpler for New Zealanders by better using the data we hold. We use the more detailed, timely and accurate information we get throughout the year to help ensure people are paying the right amount of tax, identify any changes in people's circumstances and fix any errors.

We got 2022 assessments out faster than previous years to give customers certainty. By 30 June 2022, we had issued 3.3 million assessments to customers.

The average tax refund amount has decreased steadily between 2019 and 2021. Our preliminary 2022 figures show this year's average tax refund amount is similar to 2021. However, as the 2022 figures won't be finalised until 31 March 2023, this result may change. This year, 84% of the total tax refunded went to customers who earn less than $70,000.

The average tax to pay has increased since 2019. The increase between 2019 and 2021 is due, in part, to more income variability due to COVID-19, people being on the wrong prescribed investor rate (PIR) and us prioritising providing COVID-19 support over other work. The increase in preliminary 2022 figures is likely also due to the timing of when banks and financial institutions implemented changes for the new marginal tax rate of 39%. They had until October 2021 to do this, which meant some customers have been taxed on interest earned at a lower rate for part of the year.



Note: 2022 information is at 30 June 2022. Customers with tax agents have until 31 March 2023 to amend their 2022 assessments. 2019 information is as at 31 March 2020, 2020 information is at 31 March 2021 and 2021 information is at 31 March 2022.

Timeliness of social policy payments

We look at how long it takes us to issue the following social policy payments to customers, ensuring that they receive the payments they're entitled to in a timely manner.

- Working for Families Tax Credit payments made on the first regular payment date following an application.
- Paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement.
- Child support assessments paid on time.

This year, we achieved all 3 timeliness targets. Read more about these measures on page 78.

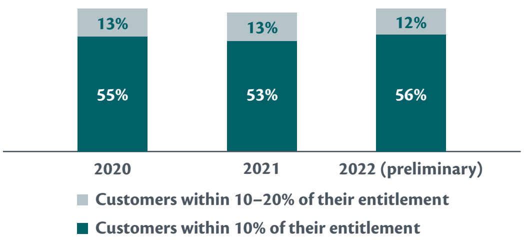
Working for Families Tax Credit overpayments or underpayments get progressively smaller

We look at whether our Working for Families Tax Credit (WfFTC) customers are receiving the amounts they're entitled to, to support their families.

We're aiming to improve the accuracy of WfFTC payments by detecting changes in customers' incomes and adjusting their payments when necessary. Providing accurate payments during the year relies, in part, on customers giving us timely updates if their circumstances change.

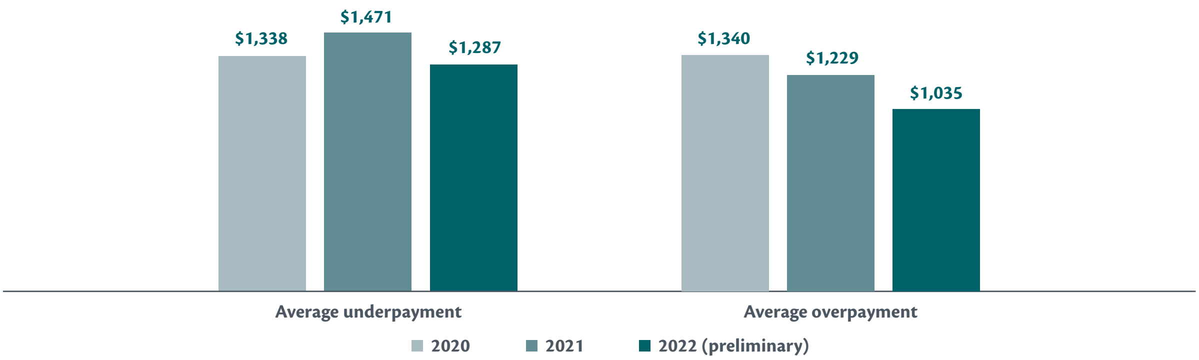
Working for Families Tax Credits is complex. It includes 4 types of payments, each with different eligibility rules and abatement thresholds (the level of income at which payments start reducing). The payments depend on income and the number of dependent children in a family and any shared care arrangements.

Overall, accuracy levels have remained steady over the last 3 years, a positive result when COVID-19 has meant income has been more variable than usual for some customers. Around two-thirds of WfFTC customers received within 20% of what they should have during the year. At the end of the year, we work out how much they should have received. If they were underpaid, they get a refund, and if they were overpaid, they have a bill to pay.



Average overpayments are decreasing year on year. However, it is difficult for many customers to repay these amounts. This is reflected in the average age and growth of WfFTC debt outlined on page 81.

Average underpayment levels may reflect customers intentionally overestimating their income to avoid being overpaid during the year.



We know it has been difficult this year for WfFTC customers to let us know about changes in their circumstances or seek reassurance that their payments are right. Because we prioritised providing COVID-19 support, more customers used digital channels to contact us compared to last year, and we weren't always able to answer them as quickly as we would have liked.

We continue to improve our early interventions to pick up changes to customer income that will affect their entitlements. We're also assessing what customers need to be aware of and understand at different points in their lives, to ensure our communication and content are proactive, relevant and effective.

We continue to play an active part in the Government's Working for Families review, and wider debt to government work, to understand how the scheme can be improved to better meet the needs of families.

Note: results are for customers who receive WfFTC payments during the year. Results for 2020 and 2021 are as at 30 June 2021 and 2022 respectively, and 2022 provisional results are as at 30 June 2022, noting that a number of 2022 assessments are still to be finalised.

Customer awareness of eligibility for Working for Families Tax Credits

We know some families don't realise they are eligible to receive WfFTC. This year, we did some research to find out what customers know and understand about WfFTC, including the recent changes to some eligibility rules. From the research, we found out:

- 88% of customers who responded were aware of WfFTC. However, their awareness is much lower for the 3 tax credits in the scheme that have narrower eligibility than the 4th.
- The complexity of WfFTC affects what customers know and understand about the credits in the scheme, and their access to them.
- Fewer than 25% of customers know about recent changes for the In-Work Tax Credit to remove the set-hours criteria, and the introduction of a 2-week grace period if a family member stops work or takes an unpaid break.
- 38% of respondents know about the Best Start Tax Credit. Overall, this part of the scheme is the least well known, but families with children under the age of 5 are twice as likely to know about it.
- Customers are reasonably well aware of how WfFTC works and how it's squared up for customers who receive payments during the year rather than as a lump sum at the end of the year.

> *'I was only aware of one type of Working for Families Tax Credits. It'd be good if IRD could automatically calculate these for us and apply to our accounts.'*

> *'Make the information more accessible and easier to understand—very confusing about exactly what you are entitled to.'*

Inland Revenue customers

We will use what we've learned from this research when we evaluate the recent changes to the In-Work Tax Credit and our review of the scheme. The research also informed a campaign we ran to encourage families to check if they qualify for Working for Families Tax Credits. Read more about this on page 28.

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

We work and share appropriate information with other government agencies and external partners, to deliver better services and outcomes for New Zealanders.

This year, the Government's top priority continued to be responding to COVID-19. This has required a major focus from all government agencies, including Inland Revenue. We have worked with Te Tai Ōhanga the Treasury; Hīkina Whakatutuki the Ministry of Business, Innovation and Employment; Te Manatū Taonga the Ministry for Culture and Heritage; and Te Manatū Whakahiato Ora the Ministry of Social Development, to prepare joint advice on policies and support the rollout of services and initiatives.

We also worked with government departments on cross-agency initiatives and administering products and services. Read about our information-sharing agreements, international agreements and memoranda of understanding with other agencies on our website **ird.govt.nz/about-us/information-sharing**

Results from working with others to deliver services for New Zealanders

We supported other agencies to administer COVID-19 support

Throughout the year we supported Te Manatū Whakahiato Ora the Ministry of Social Development (MSD) by verifying applications for the Leave Support Scheme and Short-Term Absence Payments.

Between August and December 2021, we supported MSD to administer the Wage Subsidy Scheme. We made a portal available so MSD people could access information directly themselves and verify income information for self-employed people. To further support the integrity of the Wage Subsidy Scheme, using data provided by MSD, we pre-populated 2022 income information for customers with details of the wage subsidy payments they received. Each time the scheme was available, we provided analytical support to MSD to help identify where further post-payment checks may be appropriate. We also took 192,000 calls this year to help verify people's eligibility.

We've also shared our experience with Te Manatū Taonga the Ministry for Culture and Heritage (MCH), on the design of their Cultural Sector Emergency Relief Fund (CSERF) for self-employed people. An information-sharing arrangement with MCH supported the administration of the CSERF: we made checks to help stop double-dipping, as the CSERF and COVID-19 Support Payment were available at the same time and people weren't able to get both. If this did happen, we sought repayment on behalf of the Ministry.

We continued to be actively involved in providing advice and input to other agencies on the design of COVID-19 initiatives, even when we didn't administer them. We worked with other agencies to ensure communications to customers across government agencies were consistent and coordinated. For example, we included information in the newsletter for businesses published by Hīkina Whakatutuki the Ministry of Business, Innovation and Employment.

Sharing what we learned from business transformation

Inland Revenue has had many requests to share what has been learned in successfully delivering our $1.5 billion transformation programme. We launched a website in July 2021 that provides detail behind our programme to other agencies and organisations.

'This was one of the largest and most ambitious programmes of its kind in the Southern Hemisphere, so it's not surprising that others want to know what we did right, and what lessons we learned in doing it,' says Deputy Commissioner Greg James.

All the tools, plans and templates used for the programme are on the site and can be downloaded. Each stage of the programme is covered, including insights from projects that ran parallel with the programme such as intelligence and analytics, digital ecosystem and organisational design.

Our transformation has been recognised as a success both in Aotearoa New Zealand and internationally, and this is an effective way we can ensure that new transformation programmes get the chance to benefit from our experience.

The website can be found at **ird.govt.nz**

Changes to the KiwiSaver default scheme

On 14 May 2021, the Government announced changes to the default KiwiSaver scheme providers. Every 7 years, default providers are reviewed. This is the second time a review has been held but the first time any default providers have lost their status, which meant we were required to transfer members from the exiting default providers. 5 existing providers lost their default status, and 2 new providers were appointed. There are now 6 default providers.

95%

of KiwiSaver contributions are transferred to scheme providers within 2 days

The transfer process began in December 2021. This was a big undertaking, as there were approximately 223,000 members in default schemes, and around $2.3 billion in funds to be re-allocated. We made improvements to the system we use to securely communicate with providers so we could quickly and securely share information. We used this system to let exiting providers know that a transfer had been initiated, and let new/continuing providers know which schemes their new members previously belonged to so they could contact them to arrange a transfer of funds. Once the transfer of funds was completed, the new providers used the system to advise us that the transfer was complete, and the old provider used it to confirm that the account with them was closed. Our modernised capabilities helped make this a smooth and secure process for providers and members.

The automatic transfer process was a success. By working closely with the exiting providers, and sharing necessary information, we transferred the right members. Most of the transfers were completed by Christmas 2021, with the final transfers completed in April 2022.

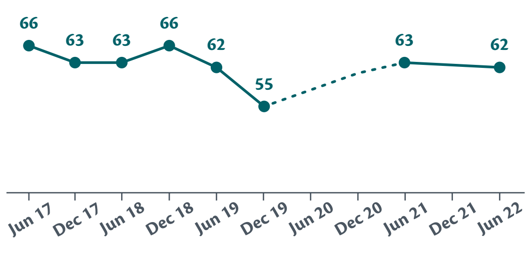
Business customers gain value from easy and seamless dealings with government

The Ministry of Business, Innovation and Employment's Better for Business programme researches customer experiences with several government agencies, including Inland Revenue. Its Customer Experience Index (CXI) uses 10 dimensions to generate insights into how government agencies can improve the experience that businesses have when they deal with them.

We scored

62

on the Customer Experience Index



Over the past year, our CXI score has dropped 1 point to 62. This small decrease was due to drops in satisfaction and service performance (the percentage of matters we resolved in 2 contacts), which dropped 5 and 6 points respectively. These changes reflect the effect that ongoing high customer demand has had on Inland Revenue. This high demand is a result of more customers seeking our support when they've been adversely affected by the COVID-19 pandemic.

2 of the dimensions improved by 4 points from last year; less frustration or stress, and less time spent on day-to-day government requirements. These changes may reflect the 'right from the start' approach we use to educate all our new business customers, and our self-service options that allow customers to get their issues resolved quickly.

Note: In 2020, the survey used to generate information for the Customer Experience Index was put on hold due to the effects of the COVID-19 pandemic on businesses.

Our customer outcomes—the changes we want in customers' knowledge, skills or behaviour

Our 3 customer outcomes are motivation, opportunity and capability. They represent the changes we want in customers' knowledge, skills or behaviour. These changes mean we can support them to get it right from the start, which helps us achieve our outcomes.

We design our products and processes to make it easy for customers to do the right thing, and hard to get things wrong. We're respectful and empathetic—helping people to get it right or to recover when things have gone wrong.

When we need to, we enforce through audit and litigation to ensure we find and stop individuals and businesses deliberately seeking to defraud the system.

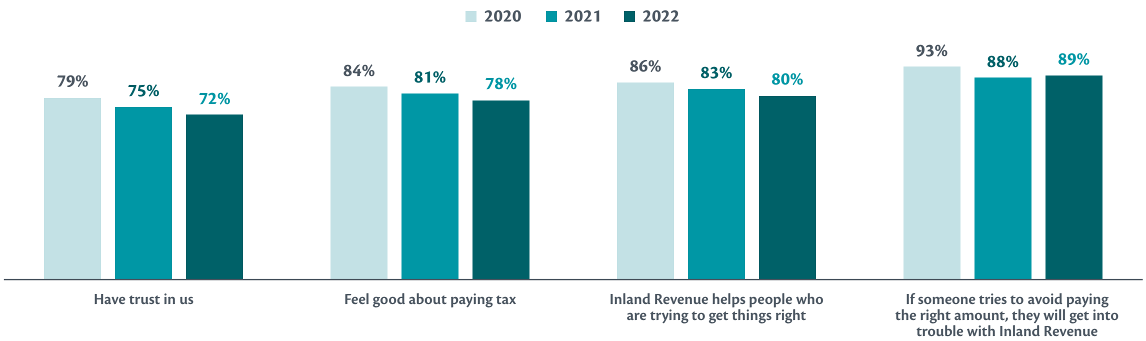
Customer motivation

We define customer motivation as the factors that make people willing to comply and then actually follow through with an action.

Aotearoa New Zealand's tax and social policy system is based on customers voluntarily making the payments they should and claiming only what they're entitled to. For this system to work, it is critical that the public trusts Inland Revenue.

Customer trust and tax morale

We measure our customers' trust in us and their tax morale through our Customer Experience and Perceptions Survey. This survey asks customers to rate their responses on a 7-point scale.



In 2021–22, 72% of customers gave a trust score of 4–7, meaning they trust us or feel neutral. This result is 3 percentage points lower than last year. We know our customers' direct experiences with us drive their trust in us and our reputation. It was sometimes harder for customers to reach us this year (while we focused on providing COVID-19 support). We know this impacted customer experience and that customer experience is a key influence of trust.

Domestic and international issues are also weighing on the minds of New Zealanders, influencing how they think and feel. New Zealanders are concerned about inflation, the cost of living, business and consumer confidence, COVID-19 and other global issues.

Globally, the challenge of maintaining people's trust in government and public institutions is emerging as one of the key outcomes of the COVID-19 pandemic. New Zealanders trust in the public sector brand and Inland Revenue is decreasing in general. An OECD survey on trust in public institutions found that, at the start of the COVID-19 pandemic in early 2020 countries experienced a lift in trust in their governments, but in many countries, this trust declined by mid-2021.

We also saw decreases across 2 areas of tax morale, reflecting the environment Inland Revenue is operating in, where global events are affecting the domestic economy and people's faith in government and the Public Service.

We also look at the Public Sector Reputation Index (RepZ). RepZ measures the reputation of public sector organisations in 4 areas: trust, fairness, social responsibility and leadership. This year, our score was down from 2021 but similar to 2020.

Note: Percentages refer to the percentage of customers who gave a score of 4–7, where 1 means strongly disagree and 7 means strongly agree.

Customer opportunity

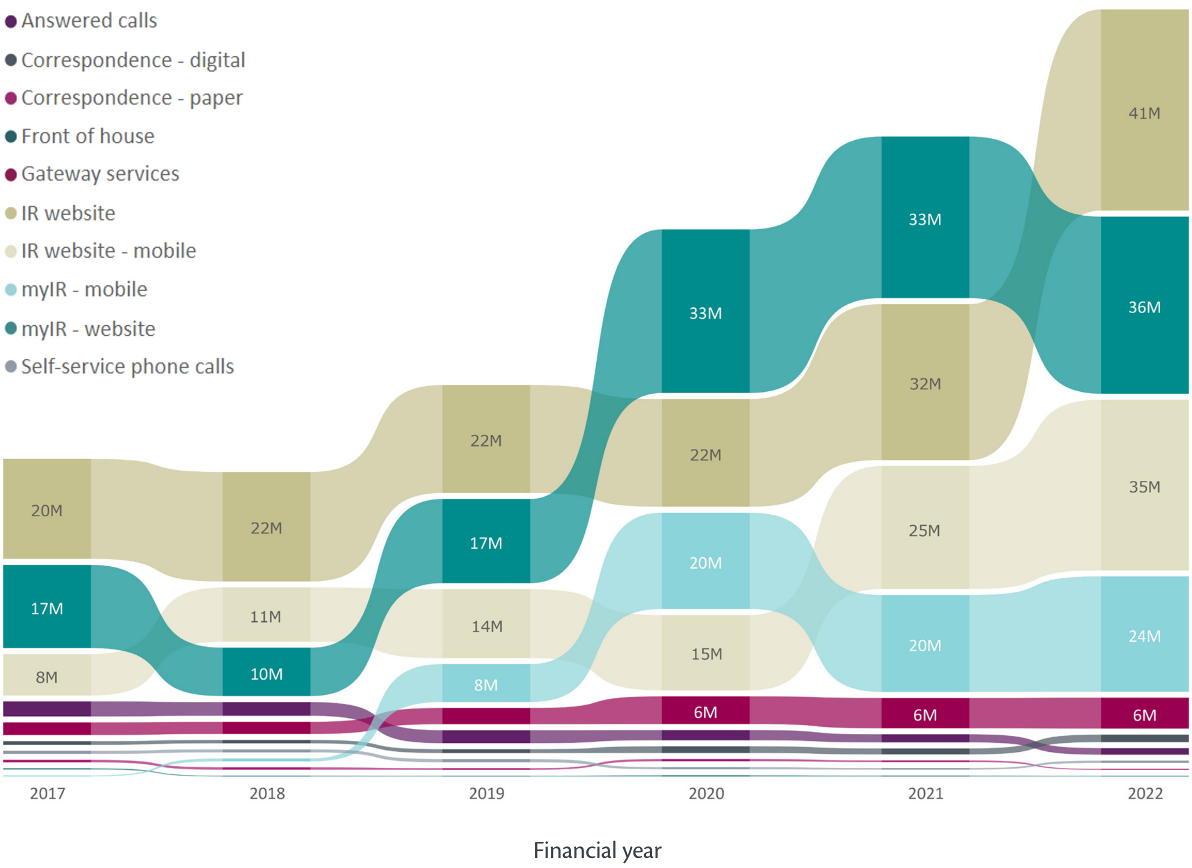
We define customer opportunity as the ease with which a customer can comply with their obligations or access their entitlements.

Customer interactions across assisted and unassisted channels

Digital services enable customers to do as much for themselves as possible, in a way and at a time that suits them. Millions of straight-forward transactions happen with no intervention by us and provide customers with certainty sooner.

Over the last 5 years, significantly more customers have used our digital channels:

- myIR sessions have more than tripled, from 17 million in 2017 to 60 million in 2021–22
- website sessions nearly tripled, from 29 million in 2017 to 76 million in 2021–22
- use of gateway services by businesses to interact directly with our systems increased from 2.6 million in 2017 to 6.3 million in 2021–22.

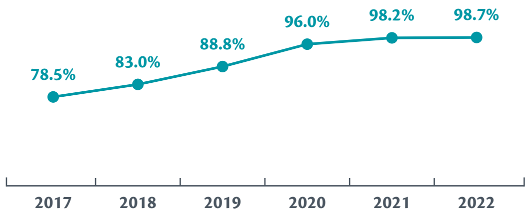


Returns filed digitally

Our customers are increasingly using digital channels.

98.7%

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



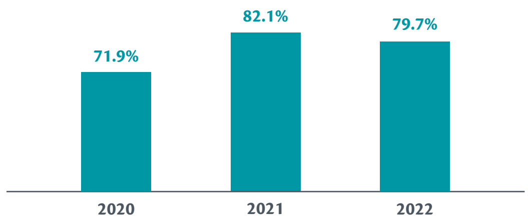
Over the past 5 years, the percentage of returns filed digitally has increased by over 20 percentage points to 98.7% in 2021–22. Paper filing is now the exception.

Donation tax credit claim submissions sent digitally

Using myIR, customers can submit images of their donation receipts at any time during the year. Alternatively, they can send us paper records. At the end of the tax year, we automatically pay out refunds due to customers.

79.7%

of donation tax credit claims were submitted digitally



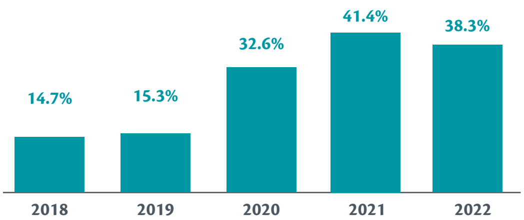
This year, 79.7% of donation tax credit claims were submitted digitally, which is 2.4 percentage points lower than 2020–21. Compared to 2020–21, the total volume of donation tax credit claims submitted dropped by a third. This may indicate that tougher economic conditions are making it harder for some customers to make donations, in particular those who provide their claims digitally.

Instalment arrangements set up through self-service

We provide options for customers who get into debt, including paying off what they owe in instalments while they get back on track. Customers can set up an instalment arrangement themselves in myIR.

38.3%

of instalment arrangements were set up in myIR



In 2021–22, over a third of instalment arrangements were set up through myIR by customers themselves, which is a small decrease from 2020–21. We know customers who set up their own arrangements are more likely to stick to them. More detail on this is on page 68.

Insights into customers' digital interactions and experiences with Inland Revenue

This case study looks at some changes we have made to help customers self-serve using myIR, our secure online service, and our self-service phone line. We continue to make changes to help customers self-serve where they can. It saves time, as customers don't have to wait to speak to someone, and self-service is available 24 hours a day, 7 days a week.

Upgrading our secure online service myIR

In October 2021, we upgraded our secure online service that's available to all customers, myIR. A more modern look and feel and simplified presentation of information is making it easier for customers to focus on what is relevant and important. The layout adapts to fit the size of any screen so people can use myIR on any device. Simplified navigation is allowing customers to easily find and do what they need to do. Other improvements include:

- A new action centre gives customers access to all their alerts to remind them when something is due and what they need to do.
- Receiving carers of children see a more complete view of their payment information.
- A new intermediary centre lets tax agents access their clients in several ways: through the client search screen, from the action centre or through their 'favourites'.

Surveys after the upgrade showed that:

- customers liked the overview, summarising key information with simple navigation
- key information was in 1 place and was easy to find
- customers found it quite easy or very easy to do what they need: 80% of business customers, 71% of families customers and 70% of smaller intermediaries.

> *'It was all in one place and saved a phone call.'*
>
> Families customer
>
> *'Easy to send messages, view history of transactions, details of transactions and set up direct debits.'*
>
> Individual customer

We acknowledge that it may take time for customers to become familiar with the changes, and we have received feedback on areas that could be better:

- Customers with complex situations find myIR more challenging, particularly customers who get Working for Families as well as child support. Only 56% of child support customers found it quite easy or very easy to do what they need.
- More instructions or an online chat function would be helpful.
- We could improve our correspondence, provide real-time updates and help with downloading or printing forms.

We will continue to improve myIR based on customer feedback and deliver any fixes required.

> *'Make it simple to find out how much child support I'm getting and what date please.'*
>
> Child support customer
>
> *'Improving ability to print transaction pages, currently the column width cannot be adjusted like it used to and it cuts off some of the wording.'*
>
> Intermediary

Improvements to our self-service phone line

Customers can use self-service on all our free 0800 phone numbers, and they can also call a dedicated 0800 self-service line. Customers just need to call and say what they want to do, for example, 'tax refund' or 'student loan'. Self-service is easy to use, and the number of self-service calls has doubled to approximately 2 million a year over the last few years.

The technology upgrade as part of transformation has significantly improved self-service calls. Customers can use self-service to update their personal details, such as their bank account or address, find out about their refunds and payments, get an account balance, make payments, and much more. Before transformation, customers could only get details of their account balances.

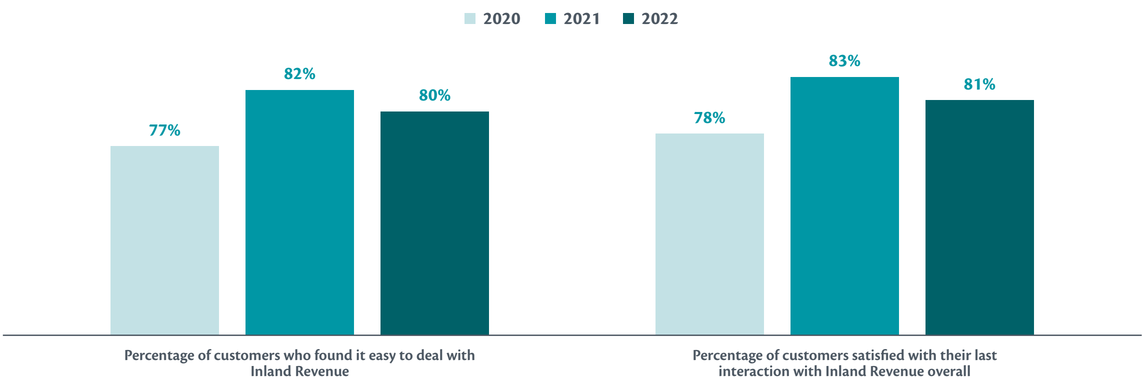
Other improvements include:

- Overseas-based student loan borrowers can find out when their repayments are due and what they need to pay. Before transformation, there were no self-service options on our lines for overseas-based borrowers.
- Small Business Cashflow Scheme customers can find out how much they have left to borrow, what their loan balance is and when repayments are due.
- Customers can find out if they are eligible for the new Cost of Living Payment, when the payments will be made and which bank account we'll pay them to.

To use self-service, customers just need to register for voice ID, which they can do by calling us. We use voice-recognition software, so voice ID is secure. Over 2.6 million customers are already enrolled.

Customer satisfaction and perceptions of effort

We use 2 questions in our Customer Experience and Perceptions Survey to measure our customers' satisfaction. This survey asks customers to rate their experiences in interacting with us on a 7-point scale. Results represent customers who gave a score of 4 or more.



This year's survey results show customers were slightly less satisfied with us and found us slightly less easy to interact with than in 2020–21. These changes reflect the continued focus on providing COVID-19 support and responding to the demand for this support. We couldn't provide the level of service to all customers that we wanted.

Note: Results for 2020–21 have been updated from those reported in our 2021 Annual Report to reflect weighting recalculations.

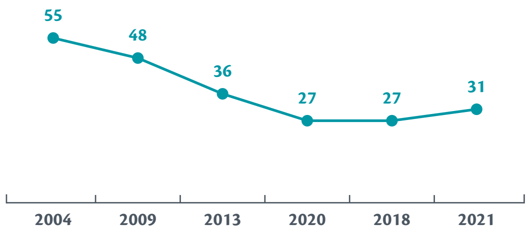
Medium customer time spent on tax compliance for small-to-medium-sized enterprises

We are committed to reducing the tax compliance costs to businesses. We survey small-to-medium-sized enterprises (SMEs) to estimate the time they spend on complying with tax requirements and what it costs them.

On average, SMEs spend

31 hours

each year on tax compliance activities



In 2021, SMEs told us they spend an average of 31 hours a year on meeting their tax obligations. That's 5 hours less than in the survey's baseline year of 2013. This recent increase is not unexpected, given the impact that COVID-19 has had on businesses. SMEs have had to spend time applying for government support. The introduction of mandatory payday filing on 1 April 2019 means that businesses spend as much time complying with PAYE obligations now as they did in 2013. We've also encouraged them to stay on top of their compliance obligations by filing on time.

Improving our online services and website, and enabling customers to file from software, are making a difference to businesses. About a quarter of SMEs say these improvements are making it easier for them to comply with their obligations.

In 2021, more SME business owners agreed (60%) than disagreed (17%) that the time their business spends on tax matters was acceptable. This is a positive change since 2019, when 55% of SME business owners agreed.

Note: We conduct our SME compliance cost survey regularly. However, to reduce the burden on businesses as they were managing the impact of COVID-19, we delayed our planned 2020 survey until 2021. The survey will be run again in 2023.

Customer capability

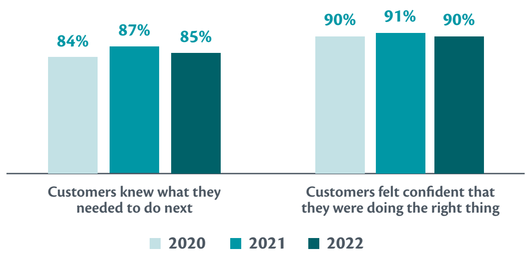
We define our customer capability as the ability of customers to meet their obligations and access their entitlements. It includes them knowing the rules that apply to them, having access to tools and assistance, and understanding what they need to do.

Customer understanding and confidence

We use 2 questions in our Customer Experience and Perceptions Survey to measure customers' knowledge and confidence. This survey asks customers to rate their responses on a 7-point scale. Results represent customers who gave a score of 4 or more.

90%

of customers felt confident they were doing the right thing



This year, customer perceptions about knowing what to do and feeling confident about doing the right thing remained stable. This tells us that we're effectively supporting our customers to get it right from the start, and they're becoming familiar with what they need to do.

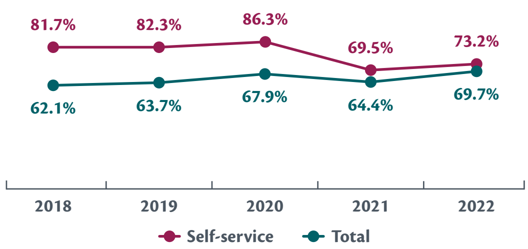
Note: Results for 2020–21 have been updated from those reported in our 2021 Annual Report to reflect weighting recalculations.

Instalment arrangement success

We provide options for customers who get into debt, including paying off what they owe in instalments while they get back on track, minimising the costs they incur by paying late. Customers can set up instalment arrangements themselves, or we can set them up for them.

69.7%

of customers adhered to their instalment arrangement



More customers adhered to their instalment arrangement in 2021–22, increasing from 64.4% in 2020–21 to 69.7% in 2021–22. This year, approximately 120,000 customers set up a plan to pay their tax, covering $2.38 billion in debt. Of this, $491 million has already been paid in full. Customers who set up arrangements in myIR have higher adherence levels.

Our services—the services we deliver for our customers and for the Government

We measure our performance against output measures and targets in *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022*. Full details are on the Treasury's website:

www.treasury.govt.nz/publications/estimates/vote-revenue-finance-and-government-administration-sector-estimates-2021-22

Inland Revenue has 4 appropriations to provide services to the Government and the public:

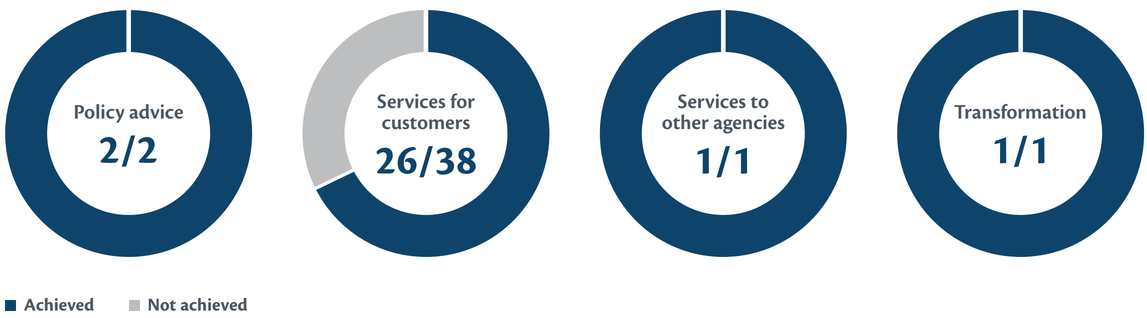
- Policy advice
- Services for customers (a multi-category appropriation)
- Services to other agencies
- Transformation (a multi-year appropriation)

Our performance against our services: a summary

This year, we achieved 30 out of 42, or 71%, of our output performance measures. This is a drop from 2020–21 when we achieved 37 out of 44, or 84%, of our output measures.

We have continued to focus on supporting our customers through the COVID-19 pandemic this year, while also upholding the integrity of the tax and social policy system.

Providing COVID-19 support to customers has meant we've been operating under pressure. This has resulted in us being unable to consistently provide our customers with the level of service we would like.



In this section, we've explained the output performance measures that we did not achieve and those that we exceeded by more than 15%.

None of the target and forecast figures on pages 70 to 88 are subject to audit.

This is the key we use to show our performance against the measure

- We met the target
- We did not meet the target

01. Policy advice

2/2
ACHIEVED

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

What we do

We provide advice to Ministers on tax and social policy matters to help them make policy decisions. Our advice aims to protect and maintain the integrity of the tax system, keep the tax and social policy system as simple as possible and ensure we stay internationally competitive.

When possible, we use the Generic Tax Policy Process (GTPP) to develop better, more effective tax policies by considering key elements and trade-offs at an early stage. There are opportunities for the public to comment on proposed policies at several points during the process.

We implement the Government's Tax and Social Policy Work Programme (TSPWP), which is based on the Government's revenue and economic strategies.

Our role includes:

- advising on tax and social policy measures
- developing tax and social policies
- drafting tax legislation and helping to get it passed
- negotiating and maintaining double tax agreements with other countries
- forecasting revenue and disbursements for the Government
- analysing the revenue implications of policy changes on revenue

Our main policy achievements this year

This year, we finalised policies on increased reporting obligations for domestic trusts and rules on interest deductions for rental properties. Together, these policies will affect around 35,000 customers. We worked on international tax issues such as the OECD's solution for taxing the digital economy. We also worked with other government agencies to review Working for Families.

We engaged on high-profile matters such as the housing changes, cross-border workers, taxing the gig and sharing economy, and tax administration in a digital world. Consulting with the public on the housing changes attracted around 500 submissions. This input was crucial for designing and refining the rules to make the changes work in practice.

Between March and June 2022, we provided policy and operational advice to Ministers on designing a cash payment for low-to-middle-income New Zealanders. This Cost of Living Payment was announced as part of Budget 2022. The purpose of the payment is to help eligible people with the recent increase in the cost of living, and it required a quick and simple process for payment. A payment mechanism was designed for implementation in time for the first payment on 1 August 2022.

Every year, the Minister of Revenue introduces a taxation bill that proposes changes to annual tax rates and other related changes. This year, the Taxation (Annual Rates for 2021–22, GST, and Remedial Matters) Bill enacted in March 2022 contained over 100 changes. Most changes related to property and trusts.

Read more about the GTPP, TSPWP and our public consultations on our website **taxpolicy.ird.govt.nz**

How we performed

An independent panel assessed the quality of the policy advice papers we wrote for Ministers this year. They found that all the papers were 'acceptable' or better. This compares well with 2020–21, where 90% of our papers were 'acceptable' or better.

Policy 'agility' is a key aspect of the effectiveness of our policy advice—it was one of the main reasons Ministers invested in our transformation programme. Read more about how we've demonstrated our policy agility in a case study on the quick delivery of COVID-19 support payment schemes on page 120.

Our performance against our output performance measures

This year, we achieved both performance measures in the *Policy advice* appropriation, which is the same as in 2020–21.

2020–21 Actual		2021–22 Target	2021–22 Actual	2022–23 Target
90%	Average score of papers assessed using the Policy Quality Framework *Scale for scoring the quality of policy advice* *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.*	3.5 or more out of 5	✓ 3.5	3.5 or more out of 5
95%	The Minister's satisfaction with the policy advice services received	4 or more out of 5	✓ 5.0[1]	4 or more out of 5

[1] Result based on a response from the Parliamentary Under-Secretary for Revenue.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast[1] 2023 $000
	Revenue				
11,498	Revenue from the Crown	14,419	14,419	11,499	–
–	Other revenue	7	1	1	–
11,498	**Total revenue**	**14,426**	**14,420**	**11,500**	**–**
11,173	**Total expenses**	**13,114**	**14,420**	**11,500**	**–**
325	**Net surplus/(deficit)**	**1,312**	**–**	**–**	**–**

[1] Due to the cessation of the *Policy advice* appropriation as at 30 June 2022, and the transfer of funds to the new *Policy advice* category in the *Services for customers* multi-category appropriation, the amount for the unaudited forecast is nil.

02. Services for customers

The 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.

Services for customers is a multi-category appropriation: it has 4 categories:

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

What we intend to achieve

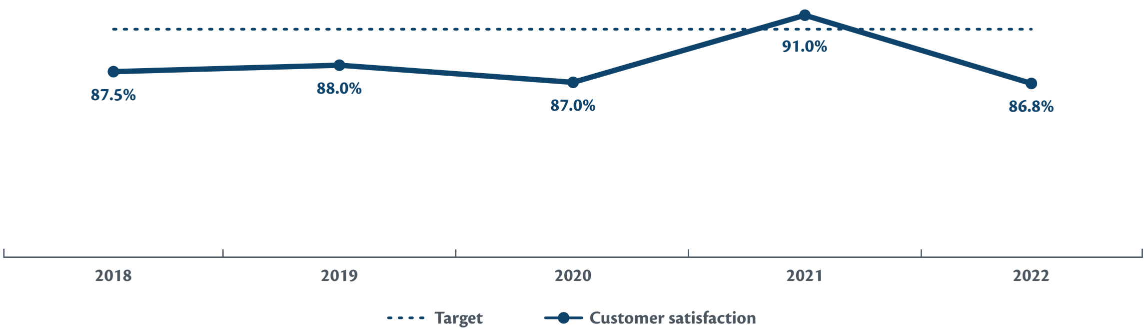
This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they're entitled to.

We start this section with our overall results for this appropriation and present the results for each of the 4 categories on pages 74 to 86.

How we performed

This year, we've focused on supporting customers through the COVID-19 pandemic, while ensuring we uphold the integrity of the tax and social policy system. We've operated under pressure, as providing COVID-19 support and delivering critical activities have taken priority. This has meant customers experienced longer response times than we would have liked, and this has affected their experiences with us.

This year, customers' satisfaction with the overall quality of our service delivery dropped back to the same levels as 2019–20.



Performance measure results

This year, we did not achieve the 2 overarching customer experience performance measures in the *Services for customers* appropriation, compared with 2020–21 when we achieved both.

2020–21 Actual		2021–22 Target	2021–22 Actual	2022–23 Target
91%	Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue[1]	90%	— 87%	Measure retired see page 91
	Not achieved—In 2021–22, we focused on supporting customers through the COVID-19 pandemic and upholding the integrity of the tax and social policy system. These priorities and increased customer demand, particularly web messages, meant it took us longer to respond to some customers than we would have liked.			
81%	Percentage of customers who feel Inland Revenue makes it easy for people to get it right[1]	80%	— 79%	Measure retired see page 91
	Not achieved—Refer to the commentary above.			

[1] Actual performance measured using a sample of the customer population from our Customer Satisfaction and Perceptions Survey. The survey asks customers to rate their experiences on a 5-point scale. Results represent customers who gave a score of 3 or more.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
569,309	Revenue from the Crown	588,645	606,105[2]	553,085	705,156
15,703	Other revenue	16,292	16,700	16,700	16,701
585,012	**Total revenue**	**604,937**	**622,805**[2]	**569,785**	**721,857**[3]
581,179[1]	**Total expenses**	**573,364**	**622,805**	**569,785**	**721,857**[3]
3,833[1]	**Net surplus/(deficit)**	**31,573**	**–**	**–**	**–**

[1] The actual results for 2020–21 have been restated following a change in the Crown accounting policy for software as a service (SaaS) arrangements. Refer to our section on changes in accounting policies on page 137.

[2] The revenue from the Crown amount under the unaudited revised budget is higher by $17.460 million than the actual 2022 because there was a revenue increase to provide appropriation authority for the non-cash restatement of expenses incurred from SaaS in the prior financial year.

[3] The unaudited forecast includes $15.980 million for the new *Policy advice* category.

We came within budget for the *Services for customers* multi-category appropriation.

Until 30 June 2022, there were 4 categories within the appropriation and the individual results are shown on pages 74 to 86. From 1 July 2022, onwards there are 5 categories within the appropriation, with the inclusion of the new *Policy advice* category.

Services to Ministers and to inform the public about entitlements and meeting obligations

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

What we do

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

We provide certainty and clarity through public guidance, taxpayer rulings and advice, dispute reviews and an escalation service for technical issues.

How we performed

This year, we focused our resources on delivering the Government's COVID-19-related initiatives and supporting customers who were adversely affected by the pandemic. This meant that we prioritised COVID-19 support and social policy payments. The trade-off was reducing some services.

We continued to give certainty and clarity, developing public guidance on various topics including:

- the deductibility of meal expenses for people who are self-employed
- tax obligations of online content creators
- how to return foreign-sourced income
- how to use foreign exchange rates
- the deductibility of abnormal expenditure caused by COVID-19
- the taxation implications of the Clean Car Discount scheme
- GST obligations for importers (a joint initiative with Te Mana Ārai o Aotearoa the New Zealand Customs Service).

Through taxpayer rulings, we give our interpretation of how the law applies in specific circumstances. This year, we ruled on arrangements worth $8.40 billion with associated tax of more than $1.59 billion. The demand for rulings was relatively strong. The significant transactions we ruled on involved business reorganisations, financing arrangements, charities and capital reductions. We often ruled on the application of general and specific anti-avoidance provisions. We provided our first rulings on the new company loss carry-forward continuity of business activities provisions. We also ruled on cryptocurrency transactions and issues of permanent establishment.

Performance measure results

This year, we achieved 10 out of 12 measures for the *Services to Ministers and to inform the public about entitlements and meeting obligations* category in the *Services for customers* appropriation, the same result as in 2020–21.

2020–21 Actual		2021–22 Target		2021–22 Actual	2022–23 Target
85%	Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations[1]	85%	Not achieved	81%	Measure retired see page 91
	Not achieved—We expect that the decrease in customers' perceptions that we do enough to inform them of their rights and obligations was influenced by the longer response times they experienced this year. The result may also reflect where customers self-serving in myIR are getting used to changes made in October 2021, when we improved and customised some elements. We acknowledge it can take a while for customers to get used to the changes.				
79%	Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort[1]	80%	Not achieved	78%	Measure retired see page 91
	Not achieved—In 2021–22, we focused on supporting customers through the COVID-19 pandemic and upholding the integrity of the tax and social policy system. These priorities and increased customer demand, particularly web messages, meant it took us longer to respond to some customers than we would have liked.				
3 minutes 46 seconds	Average speed to answer telephone calls	4 minutes 30 seconds or less	Achieved	4 minutes 14 seconds	4 minutes 30 seconds or less
98.2%	Percentage of returns filed digitally	97%	Achieved	98.7%	Measure retired see page 91
100%	Percentage of rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards	100%	Achieved	100%	100%
27	Number of published or finalised public items that give the Commissioner's interpretation of the law	25	Achieved	26	Measure retired see page 91
100%	Percentage of public items (including relevant public consultation) completed within 18 months of allocation	85%	Achieved	100%	85%
97.4%	Percentage of adjudication cases completed within 10 weeks of receipt	90%	Achieved	94.7%	90%
96.8%	Percentage of taxpayer ruling applications that have a draft ruling completed within 10 weeks of receipt	90%	Achieved	92.5%	90%
100%	Percentage of non-qualifying ruling applications that have a draft ruling completed within 6 months of receipt	90%	Achieved	100%	90%
96.3%	Percentage of submissions by the applicant on any draft ruling responded to within 1 month of receipt	90%	Achieved	93.9%	90%
95.4%	Percentage of short-process rulings that have a draft ruling completed within 6 weeks of receipt	90%	Achieved	100%	90%

[1] Actual performance measured using a sample of the customer population from our Customer Satisfaction and Perceptions Survey. The survey asks customers to rate their experiences on a 5-point scale. Results represent customers who gave a score of 3 or more.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
241,023	Revenue from the Crown	268,884	268,884	232,374	311,933
911	Other revenue	1,350	1,045	1,045	1,045
241,934	**Total revenue**	**270,234**	**269,929**	**233,419**	**312,978**
240,565	**Total expenses**	**256,119**	**269,929**	**233,419**	**312,978**
1,369	**Net surplus/(deficit)**	**14,115**	–	–	–

Services to process obligations and entitlements

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

What we do

We deliver efficient and effective registration, assessment and processing of tax obligations and entitlements. This contributes to the availability of revenue to fund government programmes as well as ensuring that taxpayers and other customers receive payments they're entitled to.

How we performed

Our new systems and more automated processes have made us more efficient in several areas relating to our performance measures. However, we did not meet all our targets. This reflects the impact on our services of prioritising COVID-19-related initiatives, and supporting customers adversely impacted by the pandemic.

Performance measure results

This year, we achieved 8 out of 11 measures for the *Services to process obligations and entitlements* category in the *Services for customers* appropriation. This is fewer than in 2020–21, when we achieved all 11 measures.

2020–21 Actual		2021–22 Target		2021–22 Actual	2022–23 Target
85.5%	Percentage of social policy and tax registrations processed within 5 working days	85%	✓	89.8%	85%
85.9%	Percentage of income tax refund disbursements resulting from a return issued within 5 weeks	85%	—	84.4%	85%
	Not achieved—While we did not quite make our 85% target, we worked hard to balance this work with our priority to respond to the Government's COVID-19-related initiatives and supporting customers adversely affected by the pandemic.				
97.1%	Percentage of GST refund disbursements issued within 4 weeks[1]	95%	✓	96.4%	95%
98.5%	Percentage of income tax returns finalised within 3 weeks	95%	✓	98.7%	95%
99.9%	Percentage of GST returns finalised within 3 weeks	98%	✓	100%	98%
$1.86	Average cost of processing income tax returns, GST returns and employment information	$3.50 or less	✓	$1.35	$2.50 or less see page 92
	This measure demonstrates the cost-effectiveness of our processing activities. We continue to see more returns filed digitally (98.7% in June 2022), which is more efficient for us to process. Most returns filed digitally need no intervention from us. In 2022–23, we will use a higher target—$2.50 or less—to measure our performance.				
74.6%	Percentage of donation tax credit claims processed within 3 weeks	70%	—	68.7%	70%
	Not achieved—Our timeliness in processing donation tax credit claims was impacted by the lockdown in August 2021 when staff could not process paper-based claims. We also had to balance our COVID-19-related work and other priorities such as the individual income tax assessments. Each year, we receive the highest volumes of claims between April and August. This year, 48% of all claims were submitted in April, May and June 2022.				

99.8%	Percentage of Working for Families Tax Credit payments made on the first regular payment date following an application	95%		99.8%	95%
99.2%	Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%		99.8%	90%
93.0%	Percentage of child support administrative review decisions issued within 7 weeks	90%		49.0%	90%
	Not achieved—Our ability to complete administrative reviews was impacted by the shutdown of our systems for business transformation in October 2021, COVID-19 lockdowns in Tāmaki Makaurau Auckland where the work is carried out, and a significant increase in volumes since October 2021. We are increasing our capacity to carry out this work.				
81.5%	Percentage of child support assessments issued within 2 weeks	80%		84.7%	80%

All targets are unaudited.

[1] Section 46 of the Goods and Services Tax Act 1985 stipulates that refunds are to be issued within 15 working days unless selected for screening or investigation. The 4 weeks issuing timeframe allows additional time to include those selected for screening or investigation in our performance.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
114,628	Revenue from the Crown	107,820	125,280[2]	124,260	156,915
14,182	Other revenue	14,184	14,234	14,234	14,234
128,810	**Total revenue**	**122,004**	**139,514**	**138,494**	**171,149**
126,196[1]	**Total expenses**	**114,147**	**139,514**	**138,494**	**171,149**
2,614[1]	**Net surplus/(deficit)**	**7,857**	–	–	–

[1] The actual results for 2020–21 have been restated following a change in the Crown accounting policy for software as a service (SaaS) arrangements. Refer to our section on changes in accounting policies on page 137.

[2] The revenue from the Crown amount under the unaudited revised budget is higher by $17.460 million than the actual 2022 because there was a revenue increase to provide appropriation authority for the non-cash restatement of expenses incurred from SaaS in the prior financial year.

Management of debt and unfiled returns

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

What we do

We seek to achieve the timely and efficient collection of revenue and debt owed. We believe the best approach for managing debt is helping customers avoid getting into debt in the first place. We do this by:

- understanding our customers, their circumstances and their experiences and dealings with us and other government agencies
- using analytical capabilities to anticipate what customers may need from us, to help them stay on track
- reaching customers who need our help earlier by tailoring our approach and messages to them
- ensuring that policy settings reflect a whole-of-government approach and support consistent customer experiences
- equipping our people to support customers in debt

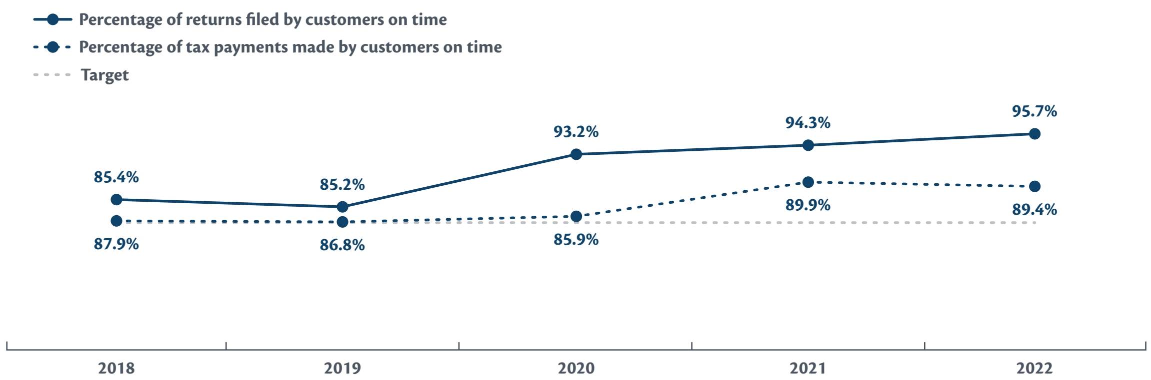
When customers do get into debt, we help them work through their options and come up with a plan that suits their specific circumstances. We are required under section 6A of the Tax Administration Act 1994 to collect the highest net revenue over time considering the resources we have available, levels of voluntary compliance and compliance costs.

How we performed

This year, we've continued to focus on supporting customers through the COVID-19 pandemic: administering COVID-19 support; setting up payment arrangements; and applying our new powers to write off penalties and interest, where possible. Our tools and systems have provided automated reminders to customers.

Read more about how customers are using myIR to set up instalment arrangements themselves, and their adherence to instalment arrangements, on pages 64 and 68.

Most customers want to do the right thing. This is reflected in the high proportion of customers who file returns and make payments on time. Increasingly, customers are filing returns on time: the rate improved from 94.3% in 2020–21 to 95.7% in 2021–22. The rate at which customers made payments on time remains relatively steady at 89.4%, which was half a percentage point less than in 2020–21.



Tax debt

This year, tax debt increased by 10.5% to $4.846 billion (excluding student loans, child support and the Small Business Cashflow Scheme). However, while tax debt has grown, so has tax revenue. The proportion of debt to revenue has stayed broadly the same as last year and the pre-pandemic year of 2018–19. Read more about the tax debt to revenue ratio on page 54.

TAX DEBT AS AT 30 JUNE 2022 ($ MILLION)

	2018	2019	2020	2021	2022	Change since 2021
Income tax	1,651.3	1,609.8	1,742.6	1,585.0	1,791.1	13.0%
GST	814.9	1,180.6	1,550.0	1,523.0	1,824.5	19.8%
PAYE and KiwiSaver[1]	417.3	517.1	–	–	–	–
Employment activities[1]	–	–	741.3	919.6	822.3	-10.6%
Working for Families Tax Credits	140.1	128.8	167.2	198.5	250.8	26.3%
Other tax	79.8	85.0	45.8	157.7	157.3	-0.2%
Total tax debt	**3,103.4**	**3,521.3**	**4,246.9**	**4,383.8**	**4,846.0**	**10.5%**

[1] The consolidation of employer deductions to an 'employment activities' account changes how we group tax debt. We are unable to compare PAYE and KiwiSaver debt with 'employment activities' debt.

GST and income tax debt

The increase in tax debt was mainly due to increases in GST and income tax debt. These types of debt were $301.5 million and $206.1 million higher respectively than in 2020–21.

The COVID-19 pandemic has caused some income streams for businesses to stop or slow down. While some businesses have struggled to earn income and meet their fixed costs (such as rent and wages), they've been unable to pay their tax.

We've seen a significant jump in GST registrations over the last 2 years, with 33,000 more customers registered for GST in 2021–22 compared to 2019–20. COVID-19 affected employment, so the increase in GST registrations is likely due to salary and wage earners who lost their employment becoming self-employed. The increase may also be due to businesses that were previously operating outside the system registering for GST so they could access COVID-19 support payments.

Working for Families Tax Credit debt

Most Working for Families Tax Credit (WfFTC) customers receive payments in instalments during the year that are based on their estimated annual income. The COVID-19 pandemic has made some customers' income more variable and harder to estimate accurately. This means that some WfFTC customers ended up being overpaid.

WfFTC debt increased by $52.3 million from 2020–21. While the accuracy of WfFTC assessments has remained relatively steady over the last few years, as outlined on page 57, we know it is very difficult for some WfFTC customers to repay their debt. This means WfFTC debt continues to grow, with 70% of it being over 12 months old as at 30 June 2022, compared to 68% the previous year.

Some customers simply cannot pay off their debt. When customers are experiencing hardship, in some circumstances we can write off their debt. This year, we wrote off WfFTC debt totalling $24.6 million.

We try to help customers avoid getting into debt by identifying who might be at risk of being overpaid, communicating with them during the year and adjusting their payments if necessary. We still completed all the early interventions we would normally do, and our system generated actions continued, but we did not follow up with WfFTC customers who were already in debt.

In 2022–23, we'll focus more on supporting customers to manage their debt. We'll look at customers with more than 1 year of debt and work with them to resolve it, if possible, or write it off. We'll continue playing an active part in the Government's Working for Families review to understand how WfFTC can be improved to better meet the needs of families.

Employment activities debt

Employment activities debt (PAYE and KiwiSaver employer contributions debt) decreased by $97.3 million. This is an excellent result, especially considering the difficulties that businesses—particularly large employers—have faced during the COVID-19 pandemic. The decrease is also in part due to large enterprises making significant lump-sum payments for debt during the year.

It is really important that we receive employment income information on time, as it affects so many other things such as Working for Families entitlements.

Social policy debt

We've had mixed results with social policy debt this year. Child support debt fell, while student loan debt increased, particularly for overseas-based borrowers.

Child support debt

Child support debt fell by $178.0 million this year. This is mostly due to work we did before we moved child support to new systems and processes in October 2021. We wrote off $181 million, including penalties, to encourage paying parents to restart their payments and to reflect the revised penalty rates introduced in October 2021.

CHILD SUPPORT DEBT AS AT 30 JUNE 2022 ($ BILLION)

	2018	2019	2020	2021	2022
Total debt value	2.259	2.208	2.151	1.366	1.188
Penalties only	1.662	1.608	1.553	0.726	0.586

Note: The past due child support gross receivables on page 190 comprises penalty and Crown entitlement debt. It differs to the total debt reported above as it does not include non-custodial parent assessment debt payable to the receiving carer.

Student loan debt

As at 30 June 2022, overdue student loan debt was $2.0 billion, which is 17.6% more than it was last year.

STUDENT LOAN OVERDUE REPAYMENTS ($ MILLION)

	2018	2019	2020	2021	2022
New Zealand-based borrowers	116.2	131.8	133.0	140.9	152.3
Overseas-based borrowers	1,205.2	1,349.1	1,446.1	1,579.6	1,870.3
Total	**1,321.4**	**1,480.9**	**1,579.1**	**1,720.5**	**2,022.6**

For New Zealand-based borrowers who earn salary and wages, repayments are automatically deducted from their employment income. Those who are self-employed pay directly with interim payments. This is reflected in their higher repayment rates: 94.7% of New Zealand-based borrowers made their required repayments in 2021–22, a similar level to 2020–21 when it was 95.3%.

However, only 24.5% of overseas-based borrowers made the repayments they were required to this year, a decrease from 27.2% in 2020–21. The longer a borrower is out of New Zealand, the less engaged they are with their student loan. Overseas-based borrowers account for 73% of customers with overdue amounts, and 92% of the amounts overdue. 86% of overseas-based borrower default is more than 2 years old, and 63% is more than 5 years old. There are options available to everyone including overseas-based borrowers who can't meet their repayments, so we encourage them to contact us if they are having trouble making their repayments.

We have focused on providing support and encouraging customers to self-manage their debt rather than direct compliance interventions. As we move out of the COVID-19 pandemic restrictions and people start to travel, we will be engaging with travellers to ensure that they are aware of their obligations and how we can help them to keep their repayments on track. A range of activities is planned to target a more diverse range of overseas customer groups based on their situation and the length of time they have been away from Aotearoa New Zealand.

We introduced a new performance measure in 2021–22—the 'percentage of student loan customers that meet their obligations'. Across both New Zealand-based and overseas-based borrowers, 84.1% were meeting their repayment obligations. We have set a target of 85% for 2022–23.

Detailed reporting on the Student Loan Scheme is available at **educationcounts.govt.nz/publications**

Writing off debt

We write off tax debt in cases of serious hardship, bankruptcy or liquidation, or if the cost of collecting the debt is uneconomical. This year, we wrote off $512.6 million of debt using these provisions, compared to $695.0 million in 2020–21.

This year we have maintained our focus on supporting customers through the COVID-19 pandemic. This support includes applying new legislative powers to write off penalties and interest, where possible. We remitted $176.1 million using these provisions in 2021–22 and $117.7 million in 2020–21.

WRITE-OFFS ($ MILLION)

	2020–21	2021–22
General write-offs	695.0	512.6
COVID-19 write-offs	117.7	176.1
Total	**812.8**	**688.7**

Read more about other actions we take, such as liquidations, on pages 33 to 34.

Performance measure results

This year, we achieved 7 out of 9 measures for the *Management of debt and unfiled returns* category in the *Services for customers* appropriation. This was an improvement on 2020–21, when we achieved 6 out of 10 measures.

2020–21 Actual		2021–22 Target		2021–22 Actual	2022–23 Target
94.3%	Percentage of returns filed by customers on time	85%	✓	95.7%	90% see page 92
$53.75	Value of assessed revenue for every unfiled return dollar spent	$45	✓	$61.10	$45
	This measure demonstrates the cost-effectiveness of our work to recover assessed revenue from returns not filed by the due date. We use our analytical tools to identify unfiled returns that are likely to be of a higher value. The result is impacted by our reduced focus on some compliance activities in 2021–22, resulting in lower costs being applied to this measure. In 2021–22, we increased the target from $40 to $45.				
89.9%	Percentage of tax payments made by customers on time	85%	✓	89.4%	90% see page 92
$40.03	Cash collected for every debt dollar spent	$40.00	✓	$43.43	$40.00
72.5%	Percentage of child support assessments paid on time	70%	✓	70.2%	70%
New measure	Percentage of student loan customers that meet their obligations	Baseline year		84.4%	85% see page 92
49.2%	Percentage of unfiled returns that are finalised within 6 months	60%	—	42.3%	60%
	Not achieved—This measure demonstrates the level of activity focused on helping customers with unfiled returns. To support customers through the COVID-19 pandemic, we focused less on compliance activities. We've now resumed compliance activities and continue to focus on finalising higher-value unfiled returns, rather than those that are less cost-effective to pursue.				
51.7%	Percentage of collectable debt value over 2 years old	40% or less	—	40.5%	40% or less
	Not achieved—This measure looks at how much of our collectable debt is ageing and therefore becoming harder to collect. When individual income tax assessments were introduced in 2019, more customers received an annual tax assessment and, consequently, the number of customers with debt rose. Our performance against this measure has been affected by large enterprises making significant lump-sum payments for debt that was less than 2 years old. This has resulted in the percentage of collectable debt over 2 years old rising. From 2020–21, we removed student loan debt and Small Business Cashflow Scheme debt from this measure and changed the target from 50% or less to 40% or less.				
49.7%	Percentage of new customer debt resolved within 6 months	50%	✓	61.7%	50%
79.8%	Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	✓	80.0%	75%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
89,804	Revenue from the Crown	92,117	92,117	82,362	94,587
349	Other revenue	327	1,272	1,272	1,272
90,153	**Total revenue**	**92,444**	**93,389**	**83,634**	**95,859**
90,093	**Total expenses**	**89,863**	**93,389**	**83,634**	**95,859**
60	**Net surplus/(deficit)**	**2,581**	**–**	**–**	**–**

Additional government funding

In Budget 2018, we received additional funding to target assessed revenue for unfiled company returns and associated returns. 2021–22 was the final year of this initiative.

We decided to defer our campaign work and reprioritise compliance activities for supporting customers during the COVID-19 pandemic. This has influenced our results.

We assessed $19.1 million in returns in 2021–22 against the annual target of $65 million. Against our multi-year target of $240 million to 30 June 2022, we have assessed a total of $141.9 million.

RETURN ON INVESTMENT (ROI)

2020–21 Unaudited ROI actual		2021–22 Unaudited ROI actual
$4.63	Unfiled company returns—Budget 2018	$2.50

Investigations

This category is limited to Inland Revenue undertaking investigation, audit and litigation activities.

What we do

We protect the integrity of the tax system through early interventions, investigation, audit and litigation activities.

Our 'right from the start' approach helps customers get it right, as we intervene early when they're getting it wrong, and act if they choose to do the wrong thing. This helps ensure that everyone pays what they need to and receives the right entitlements.

How we performed

This year, we didn't undertake as many interventions as usual, as we didn't want to put more pressure on customers during a difficult year. We paused some investigation activity and focused on ensuring the integrity of our COVID-19 support products. Consequently, we didn't meet all our performance measure targets.

We used tools, data and intelligence to ensure the integrity of COVID-19 products. We ran upfront checks that allowed us to identify when we needed more information from customers. It also enabled us to check their eligibility if they previously made fraudulent or ineligible applications. This year, we paused just over 200,000 applications that we needed to review for eligibility. We also ran post-payment verification checks.

Performance measure results

This year, we achieved 1 out of 4 measures for the *Investigations* category in the *Services for customers* appropriation. This was a decrease on 2020–21, where we achieved 3 out of 4 measures.

2020–21 Actual		2021–22 Target		2021–22 Actual	2022–23 Target
78.8%	Percentage of customers whose compliance behaviour improves after receiving an audit intervention[1]	85%	Not achieved	69.6%	85%
	Not achieved—This measure looks at the impact audit activity has on customer compliance behaviour across a range of compliance aspects. The percentage of customers whose compliance behaviour improved after receiving an audit intervention decreased from last year. This year, when we reviewed our customers' compliance behaviour, many of them had overdue debt, an indication that the economic environment is affecting customers' abilities to meet their payment obligations.				
$7.17	Discrepancy identified for every output dollar spent	$7.00	Achieved	$9.88	Measure retired see page 92
	In recent years, we've expanded our investigation activities to include upfront reviews of the COVID-19 products we administer. Through these reviews, and our more traditional investigations activities (such as voluntary disclosures and audits), we have assessed additional tax or protected the integrity of the tax system to the value of $1.12 billion. This has exceeded expectations.				
83.3%	Percentage of litigation judgments found in favour of the Commissioner	75%	Not achieved	71.4%	75%
	Not achieved—This measure looks at the success of litigation we commence or defend ourselves against. Success means that we protect the integrity of the tax system, the accuracy of our tax assessments and the use of our powers and collection. This is the first year that this measure has not been achieved since the target was lifted from 66% to 75% in 2018–19. The measure relates to court judgments across the breadth of our litigation efforts and requires 100% success on the issues before the court. With only a small number of decisions during the year, any losses or partial wins had a significant impact on the result.				

75%	Percentage of audited customers who are satisfied with their experience[2]	75%	69%	65% see page 92

Not achieved—This measure gauges the quality of the audit process across a number of aspects such as communication, education, how the auditor conducted themselves, timeliness, impacts on the customer, and overall experience.
Our audited customers' satisfaction with their experience has decreased since last year. This year, our customers scored us lower on the financial cost to provide Inland Revenue with the information required during the audit and the length of time the audit took. To support customers through the COVID-19 pandemic, we made trade-off decisions to manage the additional demand such as reducing, pausing or stopping some compliance activity, including audit actions. This meant the timeliness of some audit activity was affected.

All targets are unaudited.

[1] Actual performance measured using a sample of audit cases.

[2] Actual performance measured using a sample of the customer population from our Audit Survey. The survey asks customers to rate their experiences on a 5-point scale. Results represent customers who gave a score of 3 or more.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
123,854	Revenue from the Crown	119,824	119,824	114,089	125,742
261	Other revenue	431	149	149	149
124,115	**Total revenue**	**120,255**	**119,973**	**114,238**	**125,891**
124,325	**Total expenses**	**113,235**	**119,973**	**114,238**	**125,891**
(210)	**Net surplus/(deficit)**	**7,020**	**–**	**–**	**–**

03. Services to other agencies

1/1
ACHIEVED

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

What we do

We provide support services to other government agencies such as the provision of a hosted financial management information system and shared financial transactional services.

How we performed

The New Zealand Productivity Commission rated the level and quality of service provided by Inland Revenue highly in 2021–22, scoring maximum results across 7 of the 10 areas surveyed.

Performance measure results

This year, we achieved the performance measure in the *Services to other agencies* appropriation, which is the same as in 2020–21.

2020–21 Actual		2021–22 Target		2021–22 Actual	2022–23 Target
100%	Percentage of satisfaction of the New Zealand Productivity Commission for services provided	90%	✓	94%	90%

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
4,816	Other revenue	1,600	1,884	1,174	1,524
4,816	**Total revenue**	**1,600**	**1,884**	**1,174**	**1,524**
4,816	**Total expenses**	**1,600**	**1,884**	**1,174**	**1,524**
–	**Net surplus/(deficit)**	–	–	–	–

04. Transformation

1/1
ACHIEVED

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

What we intended to achieve

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

How we performed

This year, we finished our multi-year programme to transform tax and social policy payments. Transformation was delivered on time and under budget—we handed back more money this year as part of Budget 2022 and closed the programme as planned on 30 June 2022.

In October 2021, we moved child support into our new system and upgraded the online services all our customers use, to make it easier for customers to keep track of their obligations and payments. Read more about these changes on page 18 to 20.

Performance measure results

	2021–22 Target	2021–22 Actual
Child Support is administered in START	30/06/2022	✓ Achieved

All targets are unaudited.

What it cost

Other expenses statement

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited budget 2022 $000	Unaudited forecast[1] 2023 $000
	Revenue				
130,000	Revenue from the Crown	113,510	113,510	316,752	–
166	Other revenue	180	–	–	–
130,166	**Total revenue**	**113,690**	**113,510**	**316,752**	**–**
128,630	**Total expenses**	**96,944**	**113,510**	**316,752**	**–**
1 ,536	**Net surplus/(deficit)**	**16,746**	**–**	**–**	**–**

[1] Due to the substantive completion of our transformation programme and the closure of this appropriation as at 30 June 2022, the unaudited forecast for 2023 is nil. An amount of $24 million funding has been transferred from the 2021–22 financial year to the new *Residual activities following the transformation programme's substantive closure* appropriation for the 2022–23 financial year.

Tracking the outcomes of the transformation programme

We use several indicators to measure the outcomes of the transformation programme investment as detailed on the next page. Read more about previous years' results in *Business Transformation: Implementing a Digital Revenue System–Final Programme Business Case Addendum.*

This year, we achieved 7 out of the 10 indicators for which there are quantitative measures. The measures achieved relate to digital uptake, system availability, system resilience, additional Crown revenue and administrative savings.

The measures not achieved were:

- 'The percentage of customers who find it easy to comply' decreased by 1 percentage point, from 82% in 2020–21 to 81% this year. This measure is proving difficult to shift as it measures customer perceptions, which presents some challenges in the current environment.
- The reduction in compliance effort for small-to-medium-sized enterprises (SMEs) was not achieved. SMEs reported saving 5 hours compared to a target of 15 hours. The value of the time saved by SMEs is also behind target. These are indicative results based on 2021 survey results. It appears that COVID-19 and payday filing are having an impact. We continue to focus on designing our services to reduce effort for SMEs.
- We recognise that achieving the targets in these areas by 2023–24 will be challenging, and that an ongoing focus on reducing effort will be required.

The transformation programme closed on 30 June 2022, but we will continue to track and report against its benefit commitments until 2023–24.

TRANSFORMATION PROGRAMME OUTCOME INDICATORS

	Indicator	2020–21	2021–22 Target	2021–22 Actual	2022–23 Target
Easier for customers	Digital uptake by customers	98%	78% ✓	**99%**	
	Customers who find it easy to comply	82%	89% —	**81%**	90%
	Reduction in compliance time for SME customers	5 hours	15 hours —	**5 hours indicative**[1]	17 hours
	System availability for customer facing e-channels	99.6%	99.4% ✓	**99.6%**	99.5%
	Customer outcomes from information sharing and security of information	Read the case studies on pages 59 to 60 on how we supported other agencies to administer COVID-19 support and changes to the KiwiSaver default scheme.			
	Cumulative reduction in compliance costs for SME customers	$640m	$820m —	**$790m indicative**	$1,070m
	Cumulative additional Crown revenue to the Government	$570m achieved	$1,110m ✓	**Target achieved**[2]	$1,860m
Reduced time and cost to implement policy	Reduction in the time and cost to implement policy	Read a case study on the quick delivery of COVID-19 support payments schemes on page 120.			
	Increased revenue system resilience as assessed by Inland Revenue	Substantially achieved	**High** ✓	**High**	High
Inland Revenue is more efficient	Digital uptake by customers	98%	78% ✓	**99%**	82%
	Annual reduction in Inland Revenue's administration costs	$87m	$100m ✓	**$105m**	$100m
	Cumulative reduction in Inland Revenue's administration costs	$205m	$295m ✓	**$309m**	$395m

[1] *Inland Revenue will run the SME compliance cost survey again in 2023. The 2020–21 survey has been used as an indicative result.*

[2] *Achievement of additional Crown revenue is measured through case studies and proxy measures, given the difficulty of direct attribution.*

Changes to measures and targets

We review our performance measures and targets each year. We do this to make sure they continue to reflect the range of services we provide and changes in the environment we work in, and continue to support us to achieve our outcomes.

Changes to our services measures for 2022–23

Services for customers appropriation

We have introduced a new Customer Experience and Perceptions (CXP) Survey to replace our legacy survey. The new survey is designed to keep up with the changes in how customers interact with us.

- 2 output measures that relied on the legacy survey have been retired, and 2 equivalent measures from the CXP Survey will be tracked as outcome indicators. The retired output measures are:
    - Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue
    - Percentage of customers who feel Inland Revenue makes it easy for people to get it right.
- The following 2 measures that encapsulate our overall performance in delivering services for customers will be used for the overarching *Services for customers* appropriation:
    - Percentage of returns filed on time
    - Percentage of payments made by customers on time.
- We have increased the targets for these measures from 85% to 90% to reflect the efficiencies we've gained through the transformation programme.

Services for customers appropriation: *Services to Ministers and to inform the public about entitlements and meeting obligations* category

We have introduced the Customer Experience and Perceptions (CXP) Survey to replace our legacy survey. The new survey is designed to keep up with the changes in how customers interact with us.

- 2 measures that relied on the legacy survey have been retired:
    - Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations
    - Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort.
- The retired measures have been replaced by a measure from the CXP Survey:
    - Percentage of customers who agree they found it easy to get the information they needed.
    - We set a 70% target for this measure. In line with industry standards, we will not include neutral responses (customers who respond neither negatively nor positively) towards the achievement of this target.
- The percentage of returns filed digitally measure was an important indicator during our transformation programme to modernise and digitise New Zealand's tax system. Over the past year, we achieved the target and have reached the limit to influence any further performance increase. Therefore, we have retired this measure. We will continue to monitor and report on the trend for filing returns digitally as an outcome indicator.
- We use several output measures to measure our tax advice. We have retired 1 volume-based measure as it does not convey meaningful information to an external audience.

Services for customers appropriation: *Services to process obligations and entitlements* category

- The target for the measure 'average cost of processing income tax returns, GST returns and employment information' has been stretched from $3.50 or less to $2.50 or less to reflect the service delivery cost efficiencies realised through our transformation programme

Services for customers appropriation: *Management of debt and unfiled returns* category

- The measure 'percentage of student loan customers that meet their obligations' was introduced in 2021–22. A target of 85% has been set for 2022 -23. The target takes into account New Zealand-based borrowers' compliance, overseas-based borrowers' compliance and the impacts of COVID-19 on the latter group in particular.

Services for customers appropriation: *Investigations* category

- We have replaced the measure 'discrepancy identified for every output dollar spent' with a more comprehensive measure that covers our end-to-end compliance activities. The new measure, 'the identified value of compliance activities over associated costs', will be baselined in 2022–23 and a target set in 2023–24.
- We updated the target from 75% to 65% for the measure 'percentage of audited customers who are satisfied with their experience'. In line with industry standards, we will not include neutral responses (customers respond neither negatively nor positively) towards the achievement of this target. The target has been adjusted to reflect this higher bar.

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 2022.

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

For the year ended 30 June 2022

Actual restated[1, 2] 2021 $000		Actual[1] 2022 $000	Unaudited revised budget[6] 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Vote: Revenue				
	Output expenses				
11,173	Policy Advice	13,114	14,420	11,500	–
	Services for Customers— MCA				
240,565	Services to Ministers and to inform the public about entitlements and meeting obligations	256,119	269,929	233,419	312,978
126,196	Services to Process Obligations and Entitlements	114,147	139,514	138,494	171,149
90,093	Management of Debt and Unfiled Returns	89,863	93,389	83,634	95,859
124,325	Investigations	113,235	119,973	114,238	125,891
–	Policy advice	–	–	–	15,980
592,352	**Total departmental output expenses**	**586,478**	**637,225**	**581,285**	**721,857**
4,816	Services to Other Agencies RDA[3]	1,600	1,884	1,174	1,524
597,168	**Total output expenses**	**588,078**	**639,109**	**582,459**	**723,381**
	Other expenses				
128,630	Transformation[4]	96,944	113,510	316,752	–
–	Residual activities following the transformation programme's substantive closure[4]	–	–	–	24,000
128,630	**Total other expenses**	**96,944**	**113,510**	**316,752**	**24,000**
725,798	**Total expenses**	**685,022**	**752,619**	**899,211**	**747,381**
	Capital expenditure PLA[5]				
3,439	Property, plant and equipment	7,496	16,642	13,000	21,900
61,534	Intangible assets	28,083	31,523	149,560	30,800
64,973	**Total capital expenditure PLA**	**35,579**	**48,165**	**162,560**	**52,700**

[1] Excludes remeasurement of $2,742,840 (2020–21: $213,000). The remeasurement consists of macroeconomic changes in the actuarial valuations of retiring and long-service leave.

[2] The actual results for 2020–21 have been restated following a change in the Crown accounting policy for software as a service (SaaS) arrangements. Refer to the section on changes in accounting policies on page 137.

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

[4] A portion of the 2021–22 *Transformation* appropriation funding was returned to the Crown and $35 million transferred to the financial years 2022–23 and 2023–24 to the new *Residual activities following the transformation programme's substantive closure* appropriation.

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

[6] The revised budget figures for 2021–22 are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022.*

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 2021–22 performance information for each appropriation administered by Inland Revenue has been reported in the *Our performance* section.

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

For the year ended 30 June 2022

In the 2021–22 financial year, there were no departmental instances of:

- expenses and capital expenditure incurred in excess of appropriations (2020–21: nil)
- expenses and capital expenditure incurred without appropriation, or other authority or outside the scope or period of appropriation (2020–21: nil).

Statement of departmental capital injections and capital withdrawals

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget 2022 $000	Unaudited forecast 2023 $000
	Vote: Revenue			
32,623	Capital injections	122,560	122,560	2,700
–	Capital withdrawal	(119,200)	(119,200)	–
32,623	**Net capital injections and withdrawals**	**3,360**	**3,360**	**2,700**

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2020–21: nil).

The capital injection of $122.560 million in 2021–22 was the final capital injection for the last stage of the transformation programme, including programme contingency funding. The capital withdrawal of $119.200 million reflects the return to the Crown of unused contingency funding at the closure of the programme.

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

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited revised budget[1] 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
271,100	Best Start Tax Credit PLA	307,555	339,000	405,000	375,000
281,234	Child Support Payments PLA	296,495	294,000	286,000	285,000
2,102,743	Family Tax Credit PLA	2,016,589	2,108,000	2,064,000	2,375,000
571,734	In-Work Tax Credit PLA	506,230	542,000	620,000	545,000
391	KiwiSaver: Interest	158	1,000	1,000	2,000
915,571	KiwiSaver: Tax Credit	963,856	987,000	973,000	1,028,000
13,220	Minimum Family Tax Credit PLA	13,130	15,000	27,000	17,000
503,310	Paid Parental Leave Payments	602,634	620,000	540,000	645,000
250,000	Research, Science and Innovation: R&D Tax Incentive[2]	–	–	–	–
4,909,303	**Total benefits and other unrequited expenses**	**4,706,647**	**4,906,000**	**4,916,000**	**5,272,000**
	Borrowing expenses				
1,418	Environmental Restoration Account Interest PLA	1,510	1,400	1,400	1,400
6,476	Income Equalisation Interest PLA	8,444	7,000	10,000	7,000
7,894	**Total borrowing expenses**	**9,954**	**8,400**	**11,400**	**8,400**
	Other expenses				
–	Cost of Living payment[3]	–	–	–	800,000
199,983	COVID-19 Resurgence Support Payment[4]	2,712,507	2,726,943	–	–
–	COVID-19 Support Payment[5]	1,306,810	1,530,000	–	–
881,659	Impairment of Debt and Debt Write-Offs[6]	662,229	1,041,000	841,000	841,000
–	Impairment of Debt and Debt Write-Offs Relating to Child Support	–	60,000	–	–
–	Impairment of Debt relating to Student Loans	–	139,000	–	–
–	Impairment of debt relating to the SBCS[7]	89,000	385,000	–	–
142,920	Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19	230,069	639,000	84,000	279,000
468,594	Initial Fair Value Write-Down relating to Student Loans	489,063	547,000	515,000	662,000
7,042,195	KiwiSaver: Employee and Employer Contributions PLA	7,928,486	7,720,000	7,540,000	8,480,000
7,235	KiwiSaver ex gratia payments	–	–	–	–
63,000	Research, Science and Innovation: R&D Tax Incentive[2]	472,967	473,345	453,500	472,525
8,805,586	**Total other expenses**	**13,891,131**	**15,261,288**	**9,433,500**	**11,534,525**
	Capital expenditure				
297,749	Small Business Cashflow Scheme COVID-19	537,545	1,492,000	175,000	652,000
297,749	**Total capital expenditure**	**537,545**	**1,492,000**	**175,000**	**652,000**
14,020,532	**Total appropriations**	**19,145,277**	**21,667,688**	**14,535,900**	**17,466,925**

[1] The revised budget figures for 2021–22 are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022.*

[2] The *R&D Tax Incentive* has been reclassified from *Benefits and other unrequited expenses* to *Other expenses* from May 2021.

[3] The *Cost of Living payment* is a new appropriation commencing 2022–23.

[4] The *COVID-19 Resurgence Support Payment* was a new appropriation commencing 22 February 2021, but has been replaced with the *COVID-19 Support Payment.*

[5] The *COVID-19 Support Payment* is a new appropriation commencing 16 February 2022.

[6] *Impairment of Debt and Debt Write-Offs* relates to general tax, Working for Families Tax Credits and KiwiSaver debt.

[7] Refers to the *Small Business Cashflow Scheme COVID-19*.

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 to prepare 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 2022.*

Statement of non-departmental unappropriated expenditure

For the year ended 30 June 2022

In the 2021–22 financial year there:

- were no instances of expenditure incurred in excess of appropriation (2020–21: nil)
- were no instances of expenditure incurred outside of appropriation (2020–21: it was identified that Paid Parental Leave Payments had been incurred outside appropriation from 2015–16 to 2020–21 for a total value of $7.55 million)
- was 1 instance of an expense incurred without prior Cabinet authority to use imprest supply: Resurgence Support Payment (2020–21: nil).

We have identified a breach for the *COVID-19 Resurgence Support Payment* appropriation. An in-principle expense transfer of *COVID-19 Resurgence Support Payment* appropriation funds from 2020–21 to 2021–22 was not covered by the parliamentary authorisation provided by the Appropriation (2021/22 Supplementary Estimates) Act 2022. This was not remedied until 16 July 2021.

Consequently, any spending between 1 July 2021 and 15 July 2021 did not have the necessary authorisation and was therefore unappropriated. There have been no subsequent breaches for this appropriation since 16 July 2021.

Expenses type and appropriation name	Amount without or exceeding appropriation 1 July 2021 to 15 July 2021
	$000
Non-departmental other expenses:	
COVID-19 Resurgence Support Payment	4,768

Our organisational capability
Tō mātou āheinga whakahaere

Over the past few years, Te Tari Taake Inland Revenue has fundamentally changed the way we work as an organisation.

In this section, you can read about what we've done to strengthen our people, supplier and workplace approaches to embed our culture and drive positive outcomes such as inclusion and sustainability.

We're committed to becoming a responsible and responsive partner in te Tiriti o Waitangi. You can read about the journey we're on to integrate te Tiriti and te ao Māori into everything we do.

We're also ensuring our governance will steer us well into the future.

We track a number of indicators of organisational health that link into all-of-government strategies around environmental sustainability, people, technology, property and procurement. These include a challenge we've set ourselves to reduce our carbon emissions by 43% by 2025 and 50% by 2030.

We link in with a number of wider government and community initiatives

Te Arawhiti: Māori Crown Relations Capability Framework

Te Puni Kōkiri: Maihi Karauna, the Crown's Strategy for Māori Language Revitalisation

Te Kawa Mataaho the Public Service Commission: Code of Conduct; Model Standards; Papa Pounamu programme for diversity and inclusion; Kia Toipoto action plan on closing gender, Māori, Pacific and ethnic pay gaps

Te Manatū Whakahiato Ora the Ministry of Social Development: Accessibility Charter

Aotearoa New Zealand Skills Pledge

Manatū Mō Te Taiao the Ministry for the Environment: Carbon Neutral Government Programme

Hīkina Whakatutuki the Ministry of Business, Innovation and Employment: Broader Outcomes; Government Property Group; e-invoice ready

A highly capable, motivated workforce for the future

Back in 2015, we recognised that successfully transforming Inland Revenue's services meant investing in our people and changing our organisation design as much as implementing new systems and processes. Inland Revenue now has fewer management layers and fewer, broader capability-based roles. We've empowered front-line people to make decisions closer to the customer and resolve their issues faster. From here, we're focusing on growing capability and diversity in our workforce, on improving wellbeing and offering a work experience and career pathways that are valued.

A workforce for the organisation we have become

With the final changes made to our organisation redesign, Inland Revenue has now moved all of our people into capability-based roles, based around transferable skills such as customer service, digital literacy and data and analytics. We can quickly bring together multi-disciplinary teams to implement Government priorities and solve problems.

INLAND REVENUE'S 12 PEOPLE CAPABILITIES

Taking a more strategic, proactive workforce approach

Moving out of the transformation era, Inland Revenue is implementing long-term approaches to ensure we have the right capability in the right place at the right time. The market for talented people is currently very competitive and going to remain that way for some time, and unplanned attrition is a growing global trend.

To manage our short-term priorities, we have recruited front-line people throughout 2021–22 and will continue to into 2022–23. We also use partnerships with external suppliers where we need support for a specific purpose on a short-term basis.

Beyond the short term, we have a talent approach in place to attract and keep skilled people, with a strong emphasis on developing the people who are already with us.

Inland Revenue benefits from a large number of people who join us via our customer contact channels and develop valuable customer experience. We've had good success in developing people to move into different parts of our organisation, in line with their career aspirations.

We're also putting in place longer-term workforce planning so we can be more proactive about attracting and retaining the capability we need in the future.

Reinforcing this, we've spent time looking at the strengths Inland Revenue offers as an employer. Our people tell us they value the flexible, supportive and inclusive workplace we offer, so we're emphasising this to current and future employees.

Investing to prepare our people for the future of work

Over the last 6 years, we've made a significant investment in enabling the future capability we need and building an adaptive workforce that's resilient to changes in technology and customer demand.

We've provided tools and learning to support our 12 capabilities and formal learning to upskill our people on new systems and products.

There have been many opportunities for our people to learn on the job by being a part of our transformation journey or working with different customer groups. For example, 193 people have been seconded to different roles in Inland Revenue this year, and 155 people have moved to different customer segments, supporting them to develop their capability.

Our learning approach recognises that people build their capability by doing different kinds of work and collaborating with others, as well as through as formal training events. Our people and their leaders have regular coaching conversations and tailored development plans.

How we're doing

When we look at the results of Te Taunaki, the 2021 Public Service Census, our people said they feel supported to do their jobs well. Approximately half of respondents thought their skills were a good match for their job and were satisfied with their career development here. A third of respondents felt ready for more challenges.

These findings reinforce the importance of planning more proactively for our future capability needs and embedding our performance approach so our leaders and people can work together to align development plans and aspirations with future opportunities.

WHAT OUR PEOPLE SAID IN TE TAUNAKI

68%

of our people who responded to Te Taunaki said they have access to the learning and development needed to do their job well

+6% compared to the wider Public Service

49%

were satisfied with their career development opportunities

-3% compared to the wider Public Service

54%

thought their skills were a good match for their job

+3% compared to the wider Public Service

33%

said they're ready for more demanding work, which is the same as the wider Public Service

96%

used some form of flexible work, which is a top reason why our people join and stay with Inland Revenue

+17% compared to the wider Public Service

Workforce profile

As noted on page 99, we're competing to recruit and keep people in a tight talent market. This was a factor in the increase in unplanned turnover from 8.2% in 2020–21 to 13.4% this year. Turnover was also influenced by us completing the final stages of organisational changes this year and lower unplanned turnover during the COVID-19 lockdown periods.

The total turnover rate for people working in tax technical roles at 30 June 2022 was 16.4%, lower than the overall turnover rate for Inland Revenue of 18.7%.

OUR WORKFORCE PROFILE

Measure	2018	2019	2020	2021	2022
Headcount	5,250	5,009	4,831	4,210	**3,923**
Full-time equivalent	5,134	4,888	4,724	4,106	**3,819**
Average age	43.7	44.6	44.9	46.3	**45.8**
Full-time	91%	90%	90%	90%	**90%**
Part-time	9%	10%	10%	10%	**10%**
Permanent	89%	87%	84%	94%	**99%**
Fixed-term	11%	13%	16%	6%	**1%**
Female staff overall	64%	65%	65%	65%	**66%**
Female all people leaders	58%	61%	59%	56%	**57%**
Female managers	47%	50%	49%	48%	**48%**
Male staff overall	36%	35%	35%	35%	**34%**
Male all people leaders	42%	39%	41%	44%	**43%**
Male managers	53%	50%	51%	52%	**52%**
New hires	604	425	540	97	**539**
Exits	938	693	763	700	**787**
Unplanned turnover	12.1%	9.1%	8.1%	8.2%	**13.4%**
Total turnover (annual)	15.4%	9.6%	10.5%	10.4%	**18.7%**
Average length of service (years)	13.6	14.5	15.4	15.5	**14**

Work experience, wellbeing, health and safety

We want our people to feel they can do their best work here, feel respected and be safe. We take a proactive approach that's about promoting wellbeing and understanding people's situations, work experiences and what they value about Inland Revenue.

Wellbeing during a challenging year

We've put in significant work this year to help our people stay resilient as they managed COVID-19 in their home and work lives. We continued to follow the COVID-19 Protection Framework (traffic lights system) and the necessary controls and restrictions in place at all the settings. Some of our staff had to isolate at home during the Omicron waves but most could work—only 2% of our people were unable to work remotely due to illness or caring responsibilities.

We've regularly checked the 'pulse' of our people with surveys about their wellbeing and experience of doing their work. Approximately 70% of people shared their results with their leader (this was optional), which has provided a good springboard for conversations about wellbeing. Leaders are using the data to understand people's individual situations and provide support if it's needed.

We also ran workshops for our people in Tāmaki Makaurau Auckland and Waikato during the COVID-19 lockdowns, to provide them with tangible ways to look after their health and wellbeing.

In June 2022, we launched the Wellbeing Rhythm Programme, a learning and discussion tool covering all aspects of hauora (wellbeing). It joins our online programme Hauora Hub, which aims to keep people motivated on their wellbeing. Hauora Hub had 9,401 log-ins this year.

How we felt during the year

As expected, the most significant driver of people's sense of wellbeing this year was COVID-19. In the Pulse surveys we ran this year, our people's ratings of their wellbeing remained steady, when compared back as far as April 2020. This indicates the innate resilience of the people who work at Inland Revenue.

WHAT OUR PEOPLE SAID IN OUR JUNE 2022 SURVEY

62%

rated their wellbeing as 'good' or 'very good'

compared to 53% in July 2021

11%

rated their wellbeing negatively compared to 18% in July 2021

65%

felt 'good' or 'very good' about the day-to-day work experience

up from 57% in July 2021

9%

rated their work experience negatively compared to 14% in July 2021

Health and safety focus on the critical risks

Inland Revenue works proactively to understand and manage risks to our people's health, safety and wellbeing—we want our people to go home healthy and safe every day. The risks to our people include those that can arise from isolated and remote work when visiting customers, driving and risks from COVID-19.

Managing psycho-social risks

One of the most significant risks at Inland Revenue is a failure to manage 'psychosocial' or psychological risks to our people's mental health. These include the negative impacts on our people's wellbeing from encountering offensive customer behaviour or work stresses such as workload or difficult workplace relationships. We've considerably strengthened the controls and initiatives that protect and support our people, including:

> We monitor that leaders in our customer business groups are having wellbeing check-in conversations with team members following an interaction with a customer that may have a negative impact on their wellbeing.

> We've incorporated a framework 'Mentally Healthy Work by Design' into our organisation-wide health, safety and wellbeing controls. We can apply it directly to high-risk roles or tasks. For instance, we've used it to review work our people do to close the accounts of deceased customers, and then made improvements to our recruitment process and training for new starters in this area.

> We've given more support and tools to our health and safety representatives around wellbeing to assist them in arranging initiatives on their sites.

> We're introducing a new reporting tool to better track incidents where people are put at risk and the support provided to them, and identify areas where we need to make improvements.

Monitoring how people are doing

Inland Revenue offers an Employee Assistance Programme (EAP) to our people—we monitor usage levels, and why people are taking it up, to better understand key risks to health and safety. Use is comparable to other organisations.

907 of our employees sought EAP assistance during the year, which is 18% higher than in 2020–21, and this is good. We have found that our people are generally accessing assistance proactively before their wellbeing and work performance has been affected.

Monitoring illness and work-related injuries

This year, average sick leave was 11.3 days per person, up from 10 days in 2020–21. The number of ACC claims has continued to trend down this year, with 24 accepted claims, compared with 29 claims in 2020–21.

The average number of days lost for work-related injuries has increased from 9.02 days per injury in 2020–21 to 29.9 in 2021–22. This is still slightly lower than in 2019–20, when it was 36.37 days per injury. The results for this year are primarily due to 2 of the 9 claims lodged, which amounted to over 100 days in both instances.

An environment where our people can do their best work

New Zealand is a diverse country, and Inland Revenue needs to reflect the communities we serve.

We're working to break down barriers to inclusion and celebrate, retain, develop and attract a truly diverse workforce. We provide learning opportunities for our people to understand more about what it means to be inclusive and how to do this every day at work.

This year, we've focused on supporting the thriving networks that different communities have created at Inland Revenue. We're addressing unconscious bias at work. We're also embedding people practices such as supporting leaders with tools and guidance so they have regular, quality conversations with their people to help understand individuals' situations.

Results from Te Taunaki, the 2021 Public Service Census, indicate our people feel they can be themselves at work and that we actively promote an inclusive workplace. Our people cited 'leadership', 'how they are treated' and 'how Inland Revenue operates' as the biggest contributors to why they feel included.

This tracks with our internal surveys, which have found people's ratings about 'inclusion' improved significantly between November 2021 and June 2022.

Linking our strategy to wider goals

We want to see the impacts of increasing diversity and inclusion flow into our strategies for key customer groups.

We're also contributing to the wider Public Service commitments of Papa Pounamu, to the Kia Toipoto action plan for reducing gender, Māori, Pacific and ethnic pay gaps and to improving accessibility to government information and services.

WHAT OUR PEOPLE SAID IN TE TAUNAKI ABOUT INCLUSION

86%

of our people who responded to Te Taunaki believed we support and actively promote an inclusive workplace

+8% *compared to the wider Public Service*

83%

felt they can be themselves at work

+1% *compared to the wider Public Service*

96%

felt comfortable working with people from backgrounds other than their own, which is the same as the wider Public Service

84%

said people in their workgroup behave in an accepting manner towards people from diverse backgrounds

+3% *compared to the wider Public Service*

81%

felt accepted as a valued member of the team

+2% *compared to the wider Public Service*

Papa Pounamu's 5 areas of focus for diversity and inclusion

Our Commissioner, Peter Mersi, co-leads Papa Pounamu, the wider Public Service programme for diversity and inclusiveness. Here's an overview of how we're progressing the 5 areas that Papa Pounamu focuses on.

1. Ngā tūhononga e kōkiritia ana e ngā kaimahi | Employee-led networks

Employee or people-led networks play a significant role in creating inclusive workplaces. They provide a sense of belonging for our people and often contribute to the attraction and retention of diverse talent.

Inland Revenue has a long history of our people creating networks. We provide central support, including an executive sponsor and funding, for 6 networks through our Diversity and Inclusion Strategy.

Our networks promote and support the goals and needs of the people they represent—they're often a voice for our people and customers. Across all the networks there is regular communication of language weeks and other cultural celebrations, with real-life stories, to help build everyone's understanding of the different cultures and identities that make up Inland Revenue.

Some examples of the mahi our networks have been leading include:

- Wāhine Tūhono has been hosting a series of speakers on financial wellbeing and literacy
- He Toa Takitini ran a campaign to increase awareness of the diversity of the Rainbow community and educate our people on how they could be inclusive of the community in the workplace
- the Diversability Network is providing critical input and advice into redesigns of our workplaces.

OUR PEOPLE-LED NETWORKS INCLUDE:

Ngā Tūhononga Māori Networks

Tagata Pasifika Network

He Toa Takitini Rainbow Network

Wāhine Tūhono Women's Network

Diversability Network

Multicultural Network.

We support and get support from a range of external networks

Employee Led Networks | Te Puna Huihuinga Kaimahi

We Enable Us

Cross Agency Rainbow Network

Lead Toolkit For Employing Disabled People

Government Women's Network Te Aka Wāhine o Aotearoa

Government Regulatory Practice Initiative.

2. Te āheinga ā-ahurea | Cultural competence

Our approach to building Māori cultural capability is through our organisation-wide programme, Māhutonga, which you can read about on pages 110 to 112.

Since May 2021, we've offered the Mana Āki online learning to our teams. It supports learners to reflect on the ways we think about and interact with people from different cultures, either with each other or with our customers.

This year, we've supported leaders to help drive cultural competency learning with their teams and practise basic cultural elements regularly. We'll continue to review and add to our cultural capability learning over time.

'It's not about knowing everything about every culture. It's about having an awareness and opening your mind to different perspectives, asking questions and being able to understand and adapt.'

Comment from a people leader who did Mana Āki's unconscious bias training with their team this year

3. Te urupare i te mariu | Addressing bias

Unconscious bias refers to assumptions in favour of or against a thing, person or group when compared to another, which can influence our interactions and decisions.

Inland Revenue recognises that unconscious bias can impact us all and acknowledges the importance of our people understanding it, recognising it and knowing how to address it.

More than 93% of our people and 94% of our leaders have completed online training to build awareness and mitigate unconscious bias. Training is now a mandatory part of induction for new starters, with guidance for leaders to embed the learning into how we work.

4. Hautūtanga ngākau tuwhera | Inclusive leadership

We promote inclusive leadership throughout our people practices. This involves addressing bias and building inclusion into equitable pay, career development and progression opportunities.

We provide tools and guidance for leaders to develop their inclusive leadership capability. Leaders either have completed, or are being required to complete, training in areas such as mental health and addressing unconscious bias.

This year, we've also refreshed our recruitment systems and processes to minimise bias for leaders who are hiring.

706

of our people engaged in learning through Mana Āki this year

194 people have completed training

897

of our people engaged in learning through Mana Āki in the previous 2 years

28% completed training

301

of our people engaged in learning to address unconscious bias this year

93%

of our workforce has now engaged in unconscious bias learning

228

of our people have engaged with new online learning about rainbow communities

94%

of our leaders have completed learning to address unconscious bias

5. Te whakawhanaungatanga | Building relationships

A key way in which we build and maintain positive relationships is through Whanake, our performance approach. Whanake centres around quality conversations between people and their leaders so that leaders can recognise and understand the unique strengths that people bring to their role.

Our people are regularly invited to share their work experience with their leader—including their experience of wellbeing, what they value from an employer, feelings of inclusion and development needs. This provides valuable insight for people and leaders to use to understand the whole person and strengthen feelings of connection and belonging.

Reducing gender and ethnic pay gaps

Inland Revenue is committed to having a workplace free from inequalities. In 2018, we published our first action plan to reduce any gender pay gap. We've since widened our scope to include any ethnic pay gap. Between 2016 and 2022, our gender pay gap has reduced from 20.6% to 17.7%.

Getting the right gender balance

We've analysed different areas that show us gender and ethnicity are not a determining factor in what people get paid at Inland Revenue. The average salary is the same for both men and women in the same or similar roles. Where the average salary differs across roles, this can be attributed to factors such as experience, age or length of service.

Our gender and ethnic pay gaps are driven by the roles people are in, particularly the high numbers of women and ethnic minorities in lower-paying and customer-facing roles. Our challenge is to ensure a gender and ethnic balance at all levels of Inland Revenue.

With this in mind, we set a 5-year goal in 2018 to increase women in leadership, which we achieved in 3 years. We aimed for a 40-40-20 gender mix (40% identifying as female, 40% identifying as male and 20% for natural fluctuations and gender diverse) for all people leadership roles. As at 30 June, 57% of senior management positions are held by women.

Increasing ethnic diversity throughout our organisation

We're working to maintain the gender balance we now have and improve ethnic representation. Our employee ethnicity reflects the ethnicity of Aotearoa New Zealand. However, most of that diversity is in roles with lower pay bands and customer-facing roles.

We're working to develop our diverse talent into senior and technical roles and to help leaders recruit diverse talent into Inland Revenue. At the same time, we're not forcing change in the ethnic or gender balance across our workforce just to reduce the pay gap statistic—frontline roles are an entry point for women and people of different ethnicities into Inland Revenue.

Our relatively low turnover means that changes in our representation will take time.

You can read more about what we're doing in our current Gender and Ethnic Pay Gap Action Plan on our website at **ird.govt.nz**. We're reviewing our progress against the outcomes and milestones of Kia Toipoto, pay gaps guidance from Te Kawa Mataaho the Public Service Commission.

Our diversity and inclusion road map for the next 12 months will include our gender and ethnic pay gap action plan. This will be published by November 2022.

Gender and ethnic pay and representation

The gender pay gap indicates the average difference between women and men's earnings. It's calculated as the difference between the average total remuneration for females and the average total remuneration for males.

The median gender pay gap is calculated as the difference between the middle value of all females' total remuneration and the middle value of all males' total remuneration.

THE GENDER PAY GAP SHIFT

20.6% in 2016 → **17.7%** in 2022

23%
Median gender pay gap

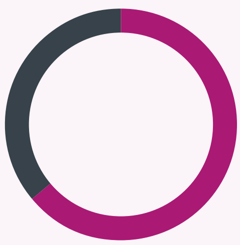
17.7%
Overall (mean) gender pay gap

-0.3%
Average gender pay gap (weighted) within role

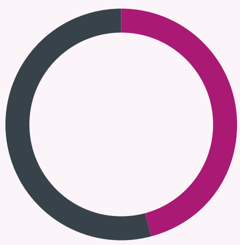
0.0%
Within pay band

Women are in leadership roles

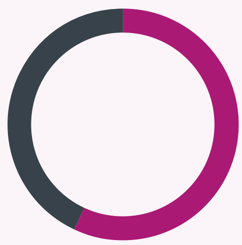
as at June 2022



64%
of team leads are women
compared to 66% in 2017–18



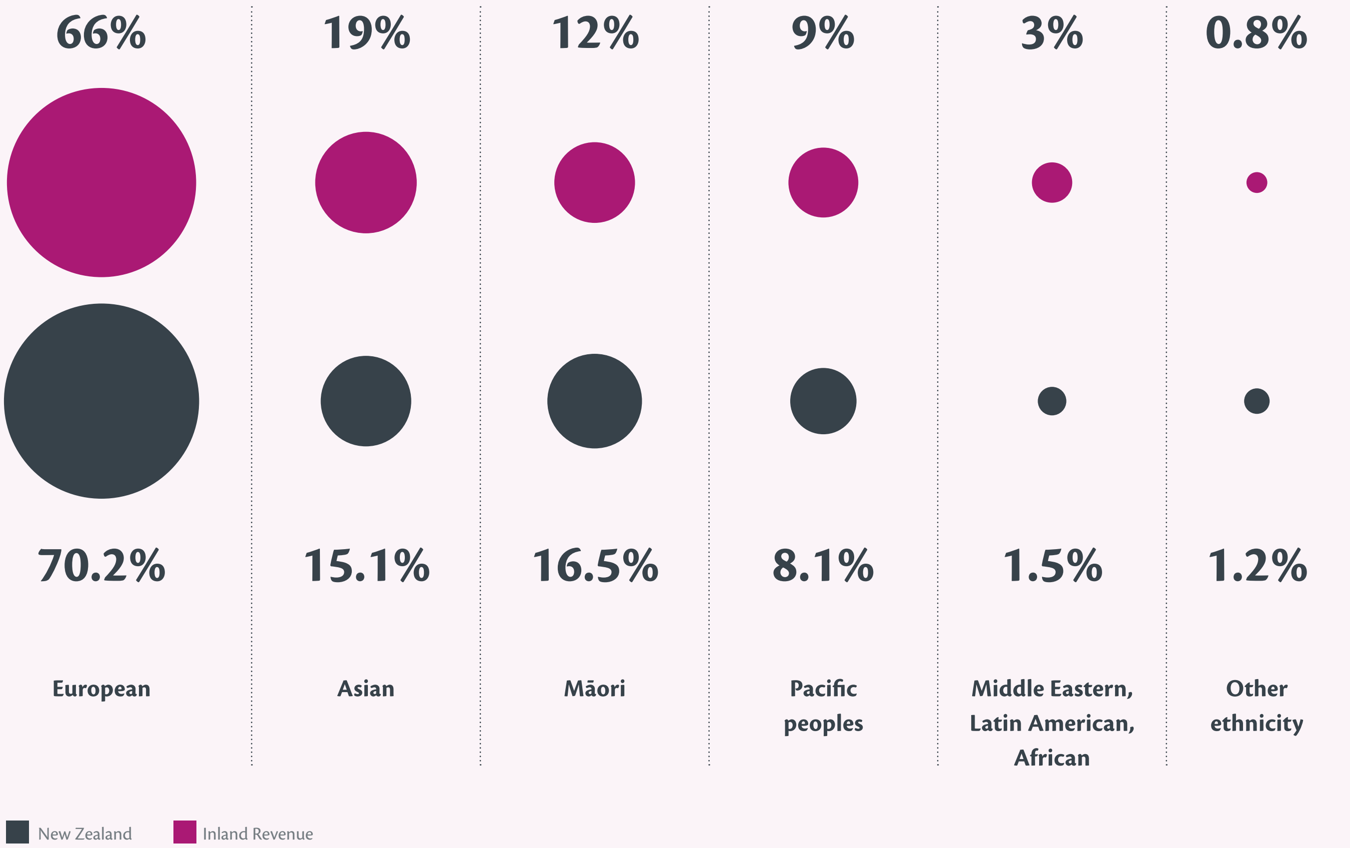
46%
of managers are women
compared to 51% in 2017–18



57%
of senior managers are women
compared to 31% in 2017–18

Inland Revenue employee ethnicity

From 2018 Census data



Because our people can identify with multiple ethnicities, figures may add up to over 100%.

THE PROPORTION OF LEADERSHIP ROLES AT INLAND REVENUE HELD BY PEOPLE WITH DIFFERENT ETHNICITIES

Ethnicity	Team leader	Management	Senior management
European	80.6%	90.6%	96.4%
Māori	10.0%	11.3%	3.6%
Asian	7.5%	6.6%	3.6%
Pacific peoples	7.5%	3.8%	3.6%

Te whatu i ngā kanoi o te Tiriti o Waitangi me te ao Māori i Te Tari Taake

The Public Service Act 2020 recognises that agencies need to better support the Crown in the Māori Crown relationship. We're committed to becoming a more responsible and responsive Tiriti partner and providing better services for whānau Māori.

Across Inland Revenue, we're working to weave te Tiriti principles and Māori world views—te ao Māori—into everything we do. We implemented an organisation-wide programme to do this in 2018 called Māhutonga.

Māhutonga is a commitment by our leadership to becoming more bicultural in nature by:

> creating an enduring cultural shift that integrates te Tiriti and te ao Māori into Inland Revenue
> enhancing our Māori capability and cultural competency
> incorporating te Tiriti and Māori principles, concepts and practices into our formulation of policy advice and delivery of our services and products to whānau Māori.

We've been growing our understanding of te ao Māori and the perspectives of whānau Māori on wellbeing, tax and social policy. Last year, we developed a customer landscape of the views of whānau, hapū and iwi, and we've used its insights this year to help develop our thinking on what wellbeing means for Māori, how differently Māori experience and approach it, and what outcomes matter.

Māhutonga

Te whatu i ngā kanoi o te Tiriti o Waitangi me te ao Māori i Te Tari Taake
Weaving the strands of te Tiriti o Waitangi and te ao Māori in Inland Revenue

Our organisation

Tiaki Tonga
Our taonga protection programme

Our people

Te Mata o te Arero
Our Māori language plan

Te Arapiki
Our capability programme

Our services

Mauri Ora te Whānau
Our Māori customer strategy

Our measurement framework

Ngā Tūhononga, our Māori networks support our mahi

A tax and social policy Māori advisory panel gives us advice

Our focus in 2021–22

This year, we have progressed a number of strands of work under Māhutonga:

Understanding outcomes that matter to whānau Māori

This year, we have been looking at specific outcomes that whānau Māori have told us are important and how Te Tari Taake can bring this into our work. This project, Tuitui te Hono, has followed a kaupapa Māori approach to highlight Māori voices and the aspirations of whānau Māori.

Tania Faulkner, Senior Intelligence and Insights Specialist, is leading the mahi. She's part of a Māori research and evaluation team that's bringing indigenous knowledge and whānau Māori voices to influence change at Inland Revenue.

Tania says, 'Tuitui te Hono is about growing a deeper understanding and empathy for the 2 world views of Māori outcomes in the Māori Crown relationship. 'Inland Revenue has outcomes that we monitor and evaluate, such as ensuring revenue is there to fund the things that people value. Our team has been working to understand Māori-specific outcomes.

'Whānau Māori have told us that the 3 outcomes that matter the most are oranga tangata, oranga whānau, oranga whenua. The holistic wellbeing of a person, of family and of the natural land.

'We now understand what Māori outcomes are,' Tania says. 'We can talk about how Inland Revenue might monitor, evaluate and measure outcomes in a tikanga Māori-based way.'

We're testing our thinking around outcomes in policy

Many other teams across Te Tari Taake are also seeking to deepen their understanding of te Tiriti and Māori world views. For example, Inland Revenue is starting to incorporate different frameworks into our policy thinking. These frameworks include He Ara Waiora, the framework gifted to Te Tai Ōhanga the Treasury and Inland Revenue by the Tax Working Group as a means for thinking about waiora, wellbeing for Māori.

Policy Lead Charles Ngaki sponsors Tuitui te Hono. In July 2022, Charles and his policy colleagues met with whānau Māori to take part in research to explore how the tax and social policy design process that Inland Revenue uses interacts with Māori outcomes frameworks.

Charles says, 'An absence of Māori views in the policy process can result in policies that may not be relevant to Māori. This mahi is helping clarify for us the challenge involved in understanding 2 world views and then applying this in policy design.'

Our policy teams are also benefiting from a new external advisory panel of experts, which first met in October 2021. The panel is providing us with an ao Māori perspective on the implications of tax and social policy and encouraging Inland Revenue to lift our critical thinking and engagement methods.

Improving services for whānau Māori

Research into outcomes is also informing how we think about our services. Last year, we launched our Māori customer strategy, Mauri Ora te Whānau. Under the strategy, we are working to be customer-centric, build trust and partner with whānau Māori in a Tiriti-based way that is mana enhancing, mauri inducing and whānau focused.

Mark Dawson Mau'u leads Mauri Ora te Whānau and says the knowledge gained from our research into whānau Māori has helped shape the strategy's timeframe and aspirations. 'Our customer strategy looks out to 2040 because the outcomes whānau Māori seek are for future generations.'

Te Tari Taake is starting to work with different Māori intermediaries to build sustainable business and tax practices for our mutual customers. We've begun a trial of this kind of approach with Te Kōhanga Reo Trust. Together, we're identifying opportunities to improve our services for the 460 kōhanga reo around the country.

Inland Revenue has also begun work to improve data on the Māori economy, starting with engagement with agencies such as Tatauranga Aotearoa Stats NZ and intermediaries such as Māori authorities. Our aim is to get visibility of the ecosystem of the Māori economy and data that enables us to deliver more tailored services.

Building our cultural capability is a central aspect of Māhutonga

In June 2022, we launched the first module in a new online programme, Te Arapiki. Te Arapiki provides a structured way to learn the basics of te reo, te ao and tikanga Māori and about te Tiriti o Waitangi. It's been designed in line with Whāinga Amorangi, the capability framework developed by Te Arawhiti, the Office for Māori Crown Relations.

The programme takes a stepped approach so our people can grow their capability over time. With this first rongo (foundation) module launched in June, we're now developing the next levels above it. All of our people will be expected to get comfortable with te reo and tikanga, and for some roles a higher level of confidence may be needed.

We've also launched Tūrama, an interactive mobile app.

Tūrama complements Te Arapiki by helping with basic te reo Māori skills so our people feel confident as they start their learning journeys.

Growing the use of te reo Māori

Te Mata o te Arero is our plan to actively support the revitalisation of te reo Māori and the use of it in our workplace. The plan underpins our contribution to Maihi Karauna, the Crown's Māori language strategy. In Te Taunaki, the 2021 Public Service Census, our people reported a lower level of use and encouragement of te reo Māori than the wider Public Service.

All of our people have access to a set of online modules offering the rudiments of te reo Māori. 681 staff have engaged in the learning this year—789 people have done so in the previous 2 years. A number of our people are also studying te reo Māori with external providers—we recognise their learning with an allowance scheme.

Strengthening our Kaitakawaenga Māori Service

Kaitakawaenga Māori are Inland Revenue's connection to our Māori customers. They are essential to developing our delivery approaches with their knowledge around the dynamics of whānau, hapū and iwi, as well as tikanga and te reo Māori.

This year, Kaitakawaenga have given essential advice and information on COVID-19 products both to Māori and non-Māori. They've spent time building relationships with Māori communities to help carry the messaging to the wider whānau of how to access these products.

We've helped strengthen the Service by appointing 8 new Kaitakawaenga Māori. Kaitakawaenga Māori are also looking at how they can focus on core work and delve into a much wider variety of mahi that impacts Māori, gaining more opportunities to connect with whānau on a day-to-day basis and be more present and visible in the community. This allows our people to acknowledge mistrust and work towards a better relationship for the future.

Public Service honours for our Kaitakawaenga Māori

Two of our Kaitakawaenga Māori received Commendations for Frontline Excellence from the Public Service Commissioner in November 2021.

Charmaine Ratima was recognised for her outstanding dedication to serving tangata whenua. Building relationships with customers takes a huge amount of patience, compassion and perseverance, which Charmaine role models. She works tirelessly to improve relationships with and delivery to Māori and all our customers. Charmaine goes above and beyond to empower her colleagues to do the same.

Ian Proctor retired in 2022 after 35 years' service where he worked to build relationships with communities and bring the voices of Māori to the Public Service. Ian has helped shift the way Te Tari Taake works with our Māori communities and customers at a grassroots level, bringing a deeper kaupapa Māori approach into our practices and policies.

Governance has evolved to stay fit for purpose

Inland Revenue's governance system leads and guides us, helping us make sure we're doing the right things in the right way and at the right time. The system ensures we successfully balance competing priorities, take up the right opportunities, and deliver for government and customers in the face of risks and challenges.

This year, we made some updates to ensure our governance is fit for purpose for our post-transformation world and focused on what's next for Inland Revenue. This includes embedding and leveraging our transformation assets and capabilities for customers and government. The governance system is made up of a board and 4 committees. The members are a mix of our executive and senior leaders.

Inland Revenue is moving away from separately funded, centrally managed programmes and projects to a portfolio of prioritised initiatives, large and small, technology and non-technology, which are managed by business groups. We've evolved our governance bodies to enable this way of delivering change while still providing robust oversight and guidance where needed.

Independent advice on risk and assurance

A Risk and Assurance Committee provides independent advice to our Commissioner on risk management and our system of internal controls. The members are external and independent, with a mix of skills in assurance, financial management, risk management and organisational change. The members for 2021–22 were Michael Ahie (Chair), Sandi Beatie QSO, Melanie Templeton, Mark Darrow, Karen Jordan and Mary Craig, Inland Revenue's representative.

Managing the key risks to the tax and social policy system

Inland Revenue takes a holistic and integrated view of all our risk and assurance-related activities. Our Strategic and Investment Board oversees risk management, and other governance bodies monitor specific areas of risk and performance. Our Enterprise Risk Management Framework is based on international standards to identify and manage risks.

We regularly discuss and update these risks, alongside the triggers that could cause each risk to eventuate, the consequences that could result, and the controls in place to reduce the likelihood of the risk occurring and the impacts if it did.

INLAND REVENUE IS MANAGING 7 ENTERPRISE RISKS. THESE ARE STRATEGIC, APPLY TO OUR WHOLE ORGANISATION AND ARE MANAGED BY OUR EXECUTIVE LEADERSHIP TEAM. WE HAVE MULTIPLE CONTROLS IN PLACE TO MANAGE THESE RISKS.

1

Failure to deliver for customers or government priorities.

2

The levels of voluntary compliance are reduced to a point of having a material impact on revenue collection for the Crown.

3

Unable to ensure continuity of business services.

4

Insufficient people capability and capacity to deliver outcomes.

5

Our approach to data and information governance is sub-optimal.

6

Unexpected negative stakeholder reaction to change.

7

Failure to provide appropriate stewardship of the tax and social policy system.

OUR GOVERNANCE SYSTEM HAS BEEN REFOCUSED TO HELP GUIDE AND MANAGE CHANGE AS WE MOVE ON FROM TRANSFORMATION

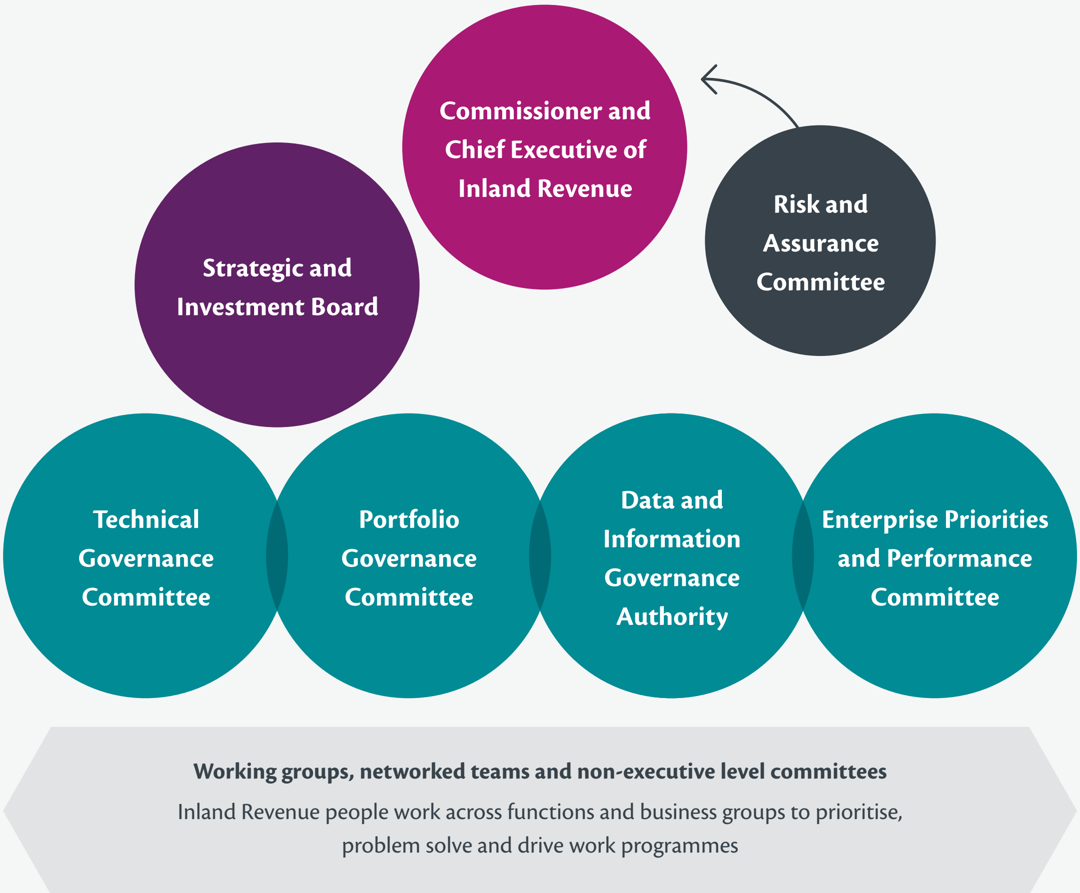
COMMISSIONER AND CHIEF EXECUTIVE OF INLAND REVENUE

The Commissioner has a dual role as our governor and manager.

The role has statutory independence from Ministers, which ensures the Commissioner can carry out their duties independently.

STRATEGIC AND INVESTMENT BOARD (SIB)

Provides overall governance and strategic direction for Inland Revenue. This means deciding what we want to achieve, by when and what is important to us along the way.



TECHNICAL GOVERNANCE COMMITTEE

Ensures that Inland Revenue's legal/technical business and significant tax technical issues are well managed and coordinated.

PORTFOLIO GOVERNANCE COMMITTEE

Governs our change initiatives to help ensure we can achieve our strategic direction as set out by SIB.

Makes key strategic decisions about our initiatives, manages their risks, and guides us to keep initiatives focused on our customers.

DATA AND INFORMATION GOVERNANCE AUTHORITY

Ensures we are accountable for how we use data and information.

Also ensures that the way we use data and information is effective and transparent.

ENTERPRISE PRIORITIES AND PERFORMANCE COMMITTEE

Governs our performance and organisational health, which helps ensure we can achieve our strategic direction.

Also ensures we prioritise well so we can deliver for our customers and for the government.

Progressing Government environmental priorities

Inland Revenue is committed to minimising our environmental footprint by managing the impact of our day-to-day work. We have a plan to reduce our carbon emissions.

We're 1 of 120 organisations taking part in the Carbon Neutral Government Programme (CNGP), which was established in November 2020 to combat climate change and achieve carbon neutrality by 2025.

Our efforts are currently focused on the requirements of the CNGP. These include:

> measuring and seeking external audit verification of our carbon emissions and developing an emissions reduction plan and reduction targets

> purchasing electric vehicles and reducing and optimising our vehicle fleet

> seeking building energy efficiency assessments for the larger sites we occupy.

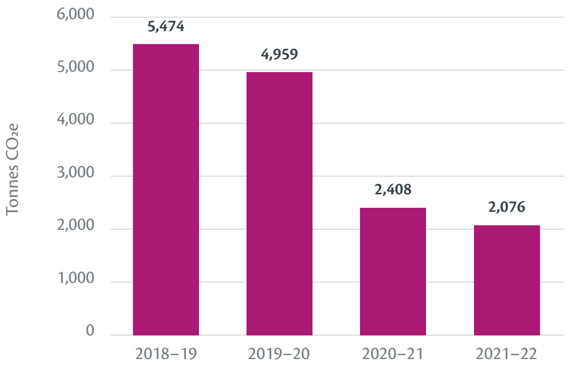
Measuring Inland Revenue's carbon emissions

This year, we've been sourcing information to measure our carbon emissions and set a target for reduction. We set our emissions base year as 2018–19 as it was the most recent full year of Inland Revenue operating without COVID-19 impacts.

Our data and calculations have been independently verified against ISO#14064-1:2018 by Toitū Envirocare (Enviro-Mark Solutions Limited), a wholly owned subsidiary of Manaaki Whenua Landcare Research.

In 2021–22, we emitted 2,076 tonnes of carbon dioxide equivalent (tCO_2e), a 14% reduction on our previous year, and 62% lower than our 2018–19 base year.

INLAND REVENUE'S CARBON EMISSIONS BY YEAR



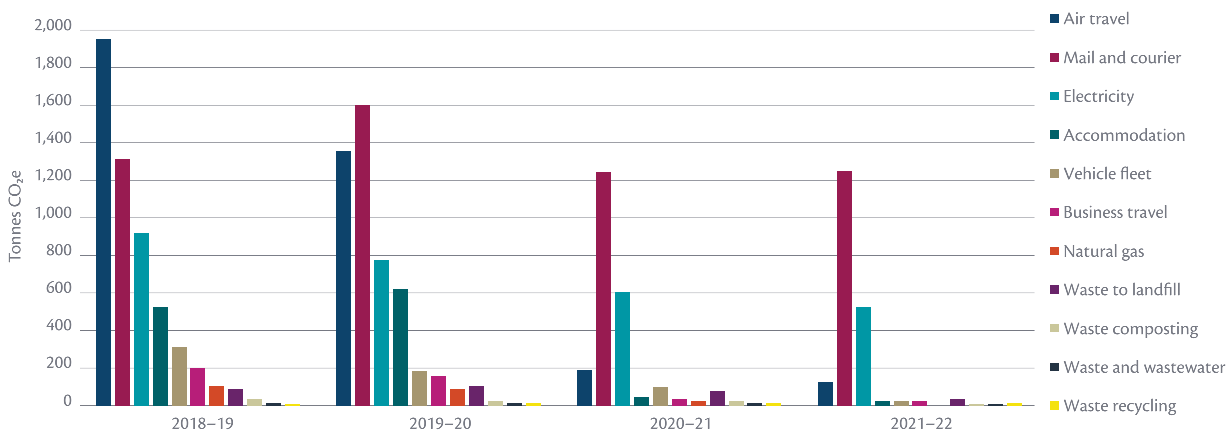
The bulk of our 2021–22 emissions were generated by the freight associated with our mail, particularly international mail, followed by electricity used in our 28 offices (including temporary sites) and air travel.

International mail makes up just under 5% of all paper-based mail and accounts for 69% of mail freight emissions.

We expect air travel to continue to be much lower due to the office technology we now have in place, which enables our people to work remotely and virtually. However, travel remains essential for activities such as tax audits, partner and intermediary engagement, court attendances, attending specialist conferences and for our people leaders to connect with their remote teams.

The breakdown of our emissions by source across the 4 years is shown in the following graph.

INLAND REVENUE'S CARBON EMISSIONS (t CO_2e)



COVID-19 restrictions and lockdowns have led to a significant reduction in all travel-related emissions from the 4th quarter of 2019–20. Also, we have reduced our property footprint through consolidating office accommodation in some locations and releasing floors in other sites. This has contributed to a downward trend in energy emissions.

The ongoing effects of the pandemic and the winter flu season have led to a further reduction from 2020–21 in all forms of domestic travel. Electricity has reduced because our people are working from home on some days and because of our reducing property footprint. However, some of the benefits of exiting buildings have been offset by our need to find temporary office space from July 2021. This is when we vacated our largest site, Asteron Centre in Te Whanganui-a-Tara Wellington, because it needs a seismic upgrade.

Our carbon emissions reduction targets

Under the CNGP, Inland Revenue must reduce gross emissions in line with the Paris Agreement to limit global average temperature increases to no more than 1.5 degrees above pre-industrial levels. This means reducing our gross emissions by 21% by 2025 and 42% by 2030 from our 2018–19 base year.

We're aiming to better this—we're committed to emissions reductions of **43%** by 2025 and **50%** by 2030 from our base year.

Our plan for reducing emissions

We've identified 7 key initiatives to achieve our emission reduction targets:

> **Transition to a fully electric vehicle (EV) fleet**—we will replace the rest of our petrol-based fleet vehicles with EVs by 30 June 2024 and install EV chargers for all vehicles.

> **Reduce the vehicle fleet size and explore other optimisation options**—we will 'right size' our vehicle fleet and explore options to share vehicles with other agencies and use car/ride-share services.

> **Enhance the energy efficiency of buildings**—we will carry out energy efficiency assessments at all of our sites over 2,000m^2. We'll work with landlords to upgrade air-conditioning systems and lighting as required while also exploring the benefits and costs of converting to LED lighting in all sites.

> **Minimise office waste**—we're reviewing and enhancing waste management practices at all sites, and we will implement better signage and consistent recycling and waste bins in kitchen and utility areas.

> **Reduce postal freight emissions**—we will explore options for reducing postal volumes further and ways of delivering mail overseas that produce lower emissions.

> **Reduce taxi and rental car emissions**—we will explore options to switch to electric taxis and electric and low-emission rental cars.

> **Minimise the post COVID-19 growth in air travel**—we will explore ways to minimise travel now that internal COVID-19-related restrictions have been removed.

What we've done this year

In terms of our progress on initiatives in our emissions reduction plan, our fleet has reduced by 63 vehicles since 2018, and 35% of our fleet is now electric.

We have been assessing the energy efficiency of 11 of our 21 sites where we occupy over 2,000m^2. We're using the National Australian Built Environment Ratings System New Zealand (NABERSNZ) assessment programme to identify areas where our sites could be more energy efficient. To date, 9 of our properties have been rated and all are at the minimum 4 stars out of 6 or above. We're working with our landlords to upgrade the lighting and air-conditioning systems at some sites where assessments highlighted a need.

We're also considering a range of options to minimise waste going to landfill.

Moving forward

Inland Revenue's current reporting accounts for the emissions of our core business activities. We will look at emissions that come from the cloud-based data centres we use and from staff commuting. If material, we will add them to our reporting next year.

We're also beginning work with our key suppliers to increase the quality of their emissions source information and consider ways to jointly reduce our environmental footprints.

Future-focused, cost-effective workplaces

Inland Revenue has continued to make changes in our workplaces to reflect our changing needs and support flexible ways of working. We're determining how to implement our commitments to reduce carbon emissions and office waste in our property fit-outs.

We're redesigning some workplaces to help our people operate efficiently, effectively and safely, regardless of location. First up is the Asteron Centre in Te Whanganui-a-Tara Wellington, which is undergoing a seismic upgrade and being refitted to provide a more collaborative and flexible environment.

We're making improvements to selected sites to ensure they are fit for purpose and facilitate co-location with other agencies. We're also completing a programme to improve the security and operation of our front-of-house facilities.

As we've become a smaller organisation, Inland Revenue has continued to consolidate and reduce our property footprint, as the graphic on the right shows. As leases allow, we'll keep taking opportunities to do this when it fits with our workforce planning. People from other government agencies also share space in 10 of our sites around the country.

CONSOLIDATING OUR PROPERTY FOOTPRINT

The net area that Inland Revenue leases

90,173m^2

2017–18

↓

79,027m^2

2021–22

Our net rental costs

$34.4 million

2017–18

↓

$31.4 million

2021–22

Our net areas leased and rental costs exclude co-locations and sub-leased spaces

How we performed

We monitor a number of indicators that tell us how our property portfolio and workplaces are performing against organisational goals and government guidelines. These focus on ensuring:

- our building environments are compliant with the Health and Safety at Work Act 2015 and the Building Act 2004
- we meet government property building utilisation guidelines and initiatives
- we have a cost-effective and safe vehicle fleet.

This year, COVID-19-related restrictions and physical distancing requirements meant some activities related to compliance checks were suspended. We've worked proactively with landlords to complete remaining checks.

Utilisation of our metro buildings this year was not always at our target. 3 properties had surplus space to accommodate the Madison contingent workforce to help manage the Cost of Living Payment. We continue to look for opportunities for other agencies to co-locate with us where we have surplus capacity.

The pandemic has continued to impact the way we travel and interact with customers, which contributed to lower utilisation of our vehicles. We're engaging with our people to gauge future demand and determine the right size of the vehicle fleet.

OUR KEY WORKPLACE ASSET MEASURES (UNAUDITED)

74%

% of legislative compliance requirements met by their due date against a target of 100%

from 89% in 2020–21

96%

of non-legislative compliance requirements met by their due date against a target of 100%

from 98% in 2020–21

77%

of metro buildings where the utilisation is no more than 16 square metres per person at 30 June 2022 against a target of 100%

from 80% at 30 June 2021

7%

utilisation of bookable vehicles against a target of 45%

from 16% in 2020–21

100%

of bookable vehicles that have safety checks completed by their due date against a target of 100%

from 100% in 2020–21

Robust, flexible technology environment

As part of our overall transformation, our technology has moved into an environment where we work with a number of partners that provide commercial-off-the-shelf and cloud-based services. The benefits of this are that third parties can collaborate with us more easily, our people can access tools and data from any location, data is securely located and accessible in the event of a natural disaster and software is regularly updated.

All services moved to new systems and processes this year

In October 2021, the final transformation programme release upgraded myIR, the online services our customers use, and moved child support to new systems and processes.

Upgrading myIR gave it a more modern look and feel and made it easier for customers to focus on what's relevant and important. Using myIR is seamless across different devices, including mobile phones. This upgrade shows the benefits of choosing a commercial-off-the-shelf system: it's updated on an ongoing basis and always current.

We operated smoothly through a year of continued disruptions

We finished decommissioning all our heritage systems this year—we switched off the old tax system in December 2021. This ended the co-existence of the old and new systems running in parallel, which was the biggest risk to the tax and social policy system during transformation. Our operational risk profile has reduced significantly as a result.

During the year, our systems continued to handle high loads, coping with automatically issued income tax assessments and online applications for COVID-19 relief support.

We continued to improve our mobile workplace technology, which has been essential during the periods when our people were not in our offices because of COVID-19 restrictions or other interruptions. We put in place virtual desktop interfaces for more than 500 of our voice channel people so they can respond to customer calls from home. The virtual desktop is secure, and our people are required to keep customer and Inland Revenue information confidential at all times, whether they are working in the office or from home.

Cyber security is being strengthened

Inland Revenue has been improving our cyber security capability significantly in a programme that began in 2020–21. We have increased our resourcing, delivered security initiatives and partnered with third parties to ensure a managed response to security threats.

How we performed

We are classified as an investment-intensive agency and have an asset management plan that includes our technology. The Treasury and Audit New Zealand have twice assessed our management of investments and assets and assigned us an 'A' rating, as noted on page 123.

We monitor and report on the availability, utilisation, condition and functionality of our key assets. Indicators aim to provide robust information on how our internal and customer-facing operational systems are performing. We met our targets for these indicators this year, although a small number of individual assets were marginally below target:

- The overall availability of contact centre services and our websites were marginally below target due to outages.
- Our utilisation of infrastructure licences for contact centre services was below target because we purchased licences for the maximum number of people that might be needed during busy periods.
- Utilisation of devices such as laptops and tablets was below target because we have been purchasing additional devices as part of planned hardware replacement.

Another way we monitor the functionality of our systems is through case studies that look at their fitness for purpose to deliver what Inland Revenue needs, when we need it. You can read about our quick delivery of COVID-19 support payment schemes on page 120.

KEY INDICATORS FOR OUR SYSTEMS (UNAUDITED)

Systems availability

The percentage of serviceable hours that systems are available to users

99.9%

against a target of >99.5%

99.9% in 2020–21

Systems availability—outages

The average number of priority 1 outage incidents per month

1.9

against a target of <2.0

1.8 in 2020–21

Condition of systems

The average of various asset condition indicators for components of the applications services and ICT infrastructure

97.8%

against a target of >95%

96.7% in 2020–21

Supplier performance

The average monthly score for supplier reporting based on performance by IR commercial

4.85

against a target of >4.0

4.75 in 2020–21

Utilisation of infrastructure

The average of various indicators assessing utilisation of our systems

91.2%

against a target of >89%

Case study: Quick delivery of COVID-19 support payment schemes

In February 2021, the first Resurgence Support Payment (RSP) opened to eligible businesses and organisations. When the RSP was originally designed, we anticipated there could be a need for additional applications. We designed the system so that we could rapidly make RSP payments available when needed—a total of 10 times. There was very little system configuration required to make each subsequent payment available. Applications for the last round of payments closed on 13 January 2022.

Building on our experiences to deliver in 2022

On 21 February 2022, the Government announced a new targeted COVID-19 Support Payment (CSP) for businesses affected by the Omicron outbreak.

We were able to open applications to customers 7 days after it was announced. The design of the CSP was built on our previous experiences with the RSP, as well as earlier COVID-19 support products. We once again leveraged our core system, START, to implement the CSP in a fast and cost-effective way. Re-using existing designs where possible allows us to implement new products such as the CSP and the Cost of Living Payment quickly.

We kept the design as simple as possible so customers could easily understand the criteria, and what steps they needed to take. It also meant that Inland Revenue and our partners could deliver the best possible customer experience.

Our systems make it easier to deliver quickly

As our modernised systems now have more accurate information, we can use information we already have to speed up processes. For example, our systems can run checks at the time of a transaction, such as when someone applies for support. This means we don't have to write checks and eligibility criteria into legislation. We can instead publish the criteria on our website and update it as required. Legislation is simpler, making it easier for our stakeholders to understand.

Our response to the Government's COVID-19 initiatives has further embedded our approach to design and new ways of working. Networked teams of people from across Inland Revenue and our partner agencies were able to design new products in short timeframes, and in cost-effective ways, to support the Government's priorities.

Managing for value

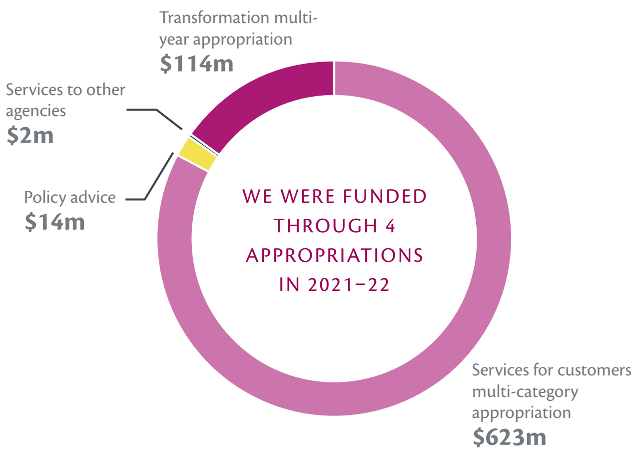
Inland Revenue committed to operating more efficiently as one of the investment objectives of our transformation programme. We're also working to getting the best public value from our buying.

Over the past 5 years, our total spend has decreased by $117 million as we transformed our organisation. Our total spend excluding the *Transformation* appropriation has decreased by $17 million over the same period.

Our finances

Each year, we receive funding from the Government to deliver specific services. This funding is called an appropriation. 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.

INLAND REVENUE'S FUNDING THROUGH APPROPRIATIONS



OPERATING EXPENDITURE FROM 2017–18 TO 2021–22

Expenditure incurred against departmental appropriations

We finished 2021–22 within all departmental appropriations.

In 2021–22, our total spend was $685 million, $68 million lower than our operating appropriations. The underspend of $17 million in the *Transformation* multi-year appropriation reflects further savings in the programme and will be returned to the Crown as part of our year-end surplus. Some of the remaining underspend in the *Services for customers* appropriation will form part of in-principle expense transfers from 2021–22 to 2022–23.

The lower spend in 2021–22 is mainly due to challenges in recruiting and retaining staff in the current labour market, underspending in compliance activities as our focus was on COVID-19-related initiatives, underspending in technology contracts and timing of expenditure for the administration of the Research and Development Tax Incentive scheme.

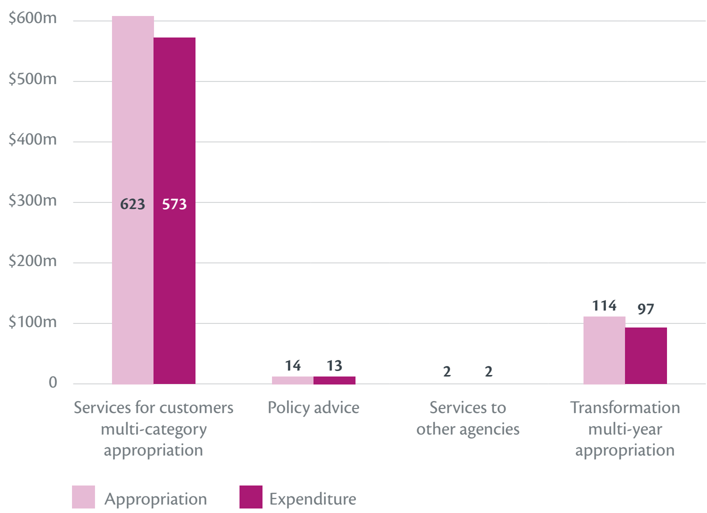
Our operating expenditure

Our operating expenditure against appropriations including remeasurements (expenditure that does not require an appropriation) was $683 million. Operating funding of $35 million has been transferred to 2022–23 and 2023–24 from the *Transformation* multi-year appropriation to undertake residual transformation activities under the new *Residual activities following the transformation programme's substantive closure* appropriation.

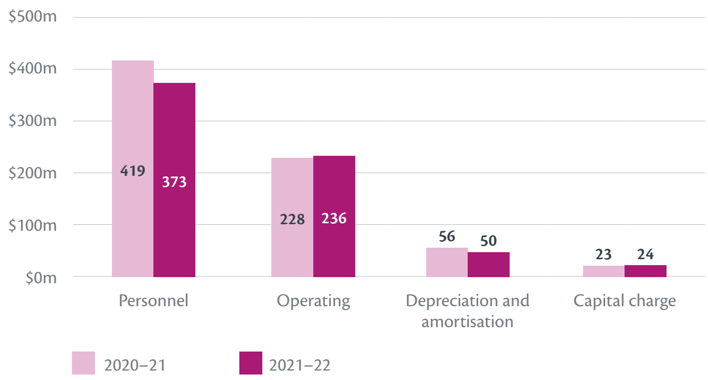
Operating expenditure by cost categories

Our expenditure includes personnel, operating, depreciation and amortisation, and capital charge. Our total personnel costs for 2021–22 were $373 million. These costs were directly related to our people's remuneration, severance costs associated with transformation, employee entitlements and training and development costs. Operating costs for the year were $236 million. Approximately 94% of these operating costs relate to contractors, information technology, telecommunications, accommodation leases, consultants and office expenses.

2021–22 EXPENDITURE AGAINST OPERATING APPROPRIATIONS



BREAKDOWN OF EXPENDITURE BY COST CATEGORY



Our capital expenditure

Capital expenditure is the purchase or development of assets by, and for the use of, Inland Revenue, as authorised by section 24(1) of the Public Finance Act 1989. We spent $35.6 million on capital investment in 2021–22. This was lower than our revised capital budget of $48.2 million, mainly due to a combination of accommodation fit-out savings, unused contingencies for the transformation programme and timing delays in the purchase of electric vehicles.

Our capital asset management priorities were:

> **Complete implementation of business transformation (target: 76% of total capital expenditure, actual: 74%)**
> Our capital investment for transformation included implementing core and supporting capabilities, including technology, for a modern, digital revenue system for New Zealand. The focus this year was the completion of the final stage of the transformation programme, including the last of our major products (child support) to the new START platform.

> **Maintain and improve business infrastructure (target: 24% of total capital expenditure, actual: 26%)**
> Our investment profile for maintaining and improving business infrastructure included technology replacement and accommodation fit-outs.

For details of departmental capital injections, refer to page 94. For details of departmental capital expenditure incurred against appropriations, refer to the *Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations* on page 93.

Overall Investor Confidence Rating

The Investor Confidence Rating is an assessment of the performance of investment-intensive agencies that manage investments and assets that are critical to the delivery of government services. Inland Revenue was last assessed in 2019.

The 2019 Investor Confidence Rating for Inland Revenue is A.

Our transformation expenditure

Having successfully achieved its outcomes and come in significantly under budget, the transformation programme was formally closed on 30 June 2022. From 1 July 2014 and up to the programme closure date, the transformation spend totalled $1.4 billion in capital and operating expenditure (excluding depreciation and capital charge).

Based on a 10-year business case view that also includes residual activities and incremental ongoing costs up to 30 June 2024, the final transformation capital and operating costs (excluding depreciation and capital charge) are expected to be about $1.6 billion. This has resulted in programme capital and operating (excluding depreciation and capital charge) funding savings of $266 million. Of these savings, $227 million was previously handed back to the Crown, $16 million is being handed back as part of the 2021–22 return of surplus and $23 million was previously repurposed by Cabinet for other priority spending in Inland Revenue.

Depreciation and capital charge savings of $214 million were also handed back to the Crown previously, and a further $1 million is being handed back as part of the 2021–22 return of surplus. The total funding savings for capital, operating, depreciation and capital charge are $481 million.

We were able to self-fund 47% of the programme's capital and operating costs, achieving the business case target of a 40% to 50% funding contribution. We also self-funded around 90% of the depreciation and capital charge.

Our future outlook

Operating expenditure for 2022–23 is forecast to be $747.4 million, an increase of $62.4 million from 2021–22. Capital expenditure for 2022–23 is forecast to be $52.7 million, an increase of $17.1 million from 2021–22. Our capital investment in 2021–22 was $35.6 million, contributing to the growth of our net assets. This was mostly driven by investing in intangible assets as part of our transformation.

Getting the best public value from what we buy

Like other government agencies, Inland Revenue considers social, environmental, cultural and economic outcomes when we're sourcing goods and services.

Our key considerations around these broader outcomes when we go to market include:

- increasing New Zealand business access to government contract opportunities, including supplier diversity
- supporting quality employment outcomes for potentially disadvantaged groups
- helping to improve conditions for New Zealand workers
- reduction of carbon emissions.

This year, we've improved our systems and processes to help better identify Māori businesses. We're now tracking contract awards to suppliers who have self-selected as a Māori business. We also track our timeliness in paying invoices to domestic suppliers.

Inland Revenue has incorporated living wage requirements in our contracts for cleaning and security services. We continue to engage with select suppliers on initiatives that will deliver better outcomes.

INDICATORS OF BEST PUBLIC VALUE FROM OUR BUYING

0.8%

of our contracts were awarded to Māori businesses to December 2021*

Our target is 5%

**based on purchase orders issued*

96%

of domestic invoices were paid within 10 working days this year

↑ *from 95% in 2020–21*

↑ *from 84% in 2019–20*

Our target is 95%

Financial statements Departmental
Pūrongo pūtea Ā-Tari

Contents

Statement of comprehensive revenue and expense

For the year ended 30 June 2022

Actual restated 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Revenue				
710,807	Revenue from the Crown	2	716,574	881,336	729,156
20,685	Other revenue	2	18,079	17,875	18,225
731,492	**Total revenue**		**734,653**	**899,211**	**747,381**
	Expenses				
419,023	Personnel	3	372,956	411,604	415,218
235,486	Operating	4	235,538	401,851	222,769
51,975	Amortisation, depreciation and impairment	9, 10	49,537	60,515	85,772
23,110	Capital charge	6	24,248	25,241	23,622
729,594	**Total expenses**		**682,279**	**899,211**	**747,381**
1,898	**Net surplus and total comprehensive revenue and expense**		**52,374**	**–**	**–**

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 2022

Actual restated 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Current assets				
70,891	Cash and cash equivalents		46,663	40,687	45,065
181,207	Debtor Crown	11	243,020	193,024	224,797
16,667	Debtors and prepayments	11	18,311	10,630	13,442
–	Derivative financial instruments	17	21	–	–
268,765	**Total current assets**		**308,015**	**244,341**	**283,304**
	Non-current assets				
317	Prepayments	11	48	550	550
23,104	Property, plant and equipment	9	22,827	32,126	46,035
319,914	Intangible assets	10	303,361	456,067	254,590
343,335	**Total non-current assets**		**326,236**	**488,743**	**301,175**
612,100	**Total assets**		**634,251**	**733,084**	**584,479**
	Current liabilities				
29,805	Creditors and other payables	12	33,771	38,111	27,808
5,583	Surplus payable to the Crown	8	52,266	–	–
83,462	Employee entitlements	13	55,597	55,570	57,570
229	Provision for other liabilities	14	–	–	–
87	Derivative financial instruments	17	–	–	–
119,166	**Total current liabilities**		**141,634**	**93,681**	**85,378**
	Non-current liabilities				
233	Creditors and other payables	12	158	344	–
25,370	Employee entitlements	13	21,655	31,580	25,680
70	Provision for other liabilities	14	75	100	100
25,673	**Total non-current liabilities**		**21,888**	**32,024**	**25,780**
144,839	**Total liabilities**		**163,522**	**125,705**	**111,158**
467,261	**Net assets**		**470,729**	**607,379**	**473,321**
467,261	Taxpayers' funds	7	470,729	607,379	473,321
467,261	**Total taxpayers' funds**		**470,729**	**607,379**	**473,321**

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 2022

Actual restated 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
438,323	Opening balance at 1 July		484,721	484,819	470,621
1,898	Total comprehensive revenue and expense		52,374	–	–
(5,583)	Repayment of surplus to the Crown	8	(52,266)	–	–
32,623	Capital injections		122,560	122,560	2,700
–	Capital withdrawal		(119,200)	–	–
–	Taxpayers' funds—prior year adjustments		(17,460)	–	–
467,261	**Closing balance at 30 June**		**470,729**	**607,379**	**473,321**

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

Statement of cash flows

For the year ended 30 June 2022

Actual restated 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Cash flows from operating activities			
749,707	Receipts from the Crown	654,762	874,519	712,459
21,837	Receipts from other revenue	20,461	17,613	18,354
(406,378)	Payments to employees	(404,536)	(415,541)	(461,333)
(249,830)	Payments to suppliers	(232,516)	(406,500)	(172,737)
(23,110)	Payments for capital charge	(24,248)	(25,241)	(23,622)
(5,766)	Goods and services tax (net)	1,577	2	1
86,460	**Net cash flow from operating activities**	**15,500**	**44,852**	**73,122**
	Cash flows from investing activities			
433	Receipts from sale of property, plant and equipment	–	–	–
(3,252)	Purchases of property, plant and equipment	(4,505)	(13,000)	(21,900)
(54,891)	Purchases of intangible assets	(33,000)	(149,560)	(30,725)
(57,710)	**Net cash flow from investing activities**	**(37,505)**	**(162,560)**	**(52,625)**
	Cash flows from financing activities			
32,623	Capital injections	122,560	122,560	2,700
(53,444)	Repayment of surplus to the Crown	(5,583)	(5,000)	(23,200)
–	Capital withdrawals	(119,200)	–	–
(20,821)	**Net cash flow from financing activities**	**(2,223)**	**117,560**	**(20,500)**
7,929	Net increase/(decrease) in cash and cash equivalents	(24,228)	(148)	(3)
62,962	Cash and cash equivalents at the beginning of the year	70,891	40,835	45,068
70,891	**Cash and cash equivalents at the end of the year**	**46,663**	**40,687**	**45,065**

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

Statement of cash flows (continued)

For the year ended 30 June 2022

Actual restated 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
1,898	Net surplus	52,374	–	–
	Add/(less) non-cash items			
51,975	Amortisation, depreciation and impairment	49,537	60,515	85,772
98	Movement in fair value of derivative financial instruments	(108)	–	–
52,073	**Total non-cash items**	**49,429**	**60,515**	**85,772**
	Add items classified as investing or financing activities			
(120)	Net loss/(gain) on disposal of property, plant and equipment and intangible assets	213	–	–
(120)	**Total items classified as investing or financing activities**	**213**	–	–
	Add/(less) working capital movements			
38,900	(Increase)/decrease in debtor Crown	(61,813)	(6,817)	(16,697)
552	(Increase)/decrease in debtors and prepayments	(1,375)	(614)	820
(17,307)	Increase/(decrease) in creditors and other payables	8,476	(3,554)	412
12,645	Increase/(decrease) in employee entitlements	(31,580)	(3,937)	2,786
(2,181)	Increase/(decrease) in provision for other liabilities	(224)	(741)	29
32,609	**Net movements in working capital items**	**(86,516)**	**(15,663)**	**(12,650)**
86,460	**Net cash flow from operating activities**	**15,500**	**44,852**	**73,122**

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

Statement of cash flows (continued)

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000
	Movement in liability arising from financing activities:	
(47,861)	Increase / (decrease) in surplus payable to the Crown liability	46,683
(47,861)	**Total movement in liability arising from financing activities**	**46,683**
	Non-cash item	
(5,583)	Surplus payable to the Crown	(52,266)
(5,583)	**Total non-cash item**	**(52,266)**
	Add/(less) owner's injection and withdrawal	
32,623	Capital contribution	122,560
–	Capital withdrawal	(119,200)
32,623	**Net owner's injection and withdrawal**	**3,360**
(20,821)	**Net cash flows from financing activities**	**(2,223)**

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

Statement of commitments

As at 30 June 2022

Actual 2021 $000		Actual 2022 $000
	Capital commitments	
4,258	Intangible assets	1,156
4,258	**Total capital commitments**	**1,156**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
29,300	Not later than 1 year	24,355
39,221	Later than 1 year and not later than 5 years	68,805
4,527	Later than 5 years	14,702
73,048	**Total non-cancellable operating commitments**	**107,862**
77,306	**Total commitments**	**109,018**

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 or 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.

Inland Revenue sub-leases some of its premises. The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is $3.021 million (2021: $2.396 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 2022

Actual 2021 $000		Actual 2022 $000
	Contingent liabilities	
15	Employee grievances	30
303	Legal proceedings and disputes—taxpayer	312
19	Other	–
337	**Total contingent liabilities**	**342**
	Contingent assets	
1,321	Legal proceedings and disputes—taxpayer	1.404
1,321	**Total contingent assets**	**1.404**

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 only, associated with tax disputes and other tax-related legal proceedings being taken through the courts. 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 173). 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

The claim identified in 2021 was resolved in favour of Inland Revenue. There are no further claims on this matter.

Contingent assets

Legal proceedings and disputes—taxpayer

These contingent assets relate to potential amounts recoverable by Inland Revenue for court costs only, associated with tax disputes and other tax-related legal proceedings being taken through the courts. 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 173). 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 2022

These financial statements are for the year ended 30 June 2022 and include forecast financial statements for the year ending 30 June 2023.

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Who we are

Note 1. Basis of preparation

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand.

The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989.

Inland Revenue is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2022. The forecast financial statements are for the year ending 30 June 2023.

The Chief Executive and Commissioner of Inland Revenue authorised these financial statements on 29 September 2022.

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 2022 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 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 ending on or before 30 June 2023. 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 ending on or after 30 June 2023. Inland Revenue has not yet determined how the application of PBE FRS 48 will affect its statement of performance and did not 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 that materially affect the measurement of financial results, the financial position and output statements within the *Our performance* section are outlined below.

Changes in accounting policies

From 1 July 2021, Inland Revenue has adopted the revised Crown accounting policy whereby customisation and configuration costs arising from software as a service arrangements, which Inland Revenue does not recognise as an intangible asset, are recognised in arriving at the surplus or deficit. The revised Crown accounting policy also requires retrospective adjustments on the financial statements (refer to **Prior year restatement** on page 138 for details).

There have been no other changes in accounting policies since 30 June 2021.

Goods and services tax

All amounts in the financial statements and appropriation and output statements are exclusive of goods and services tax (GST), except for debtor Crown, net debtors and accounts payable, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST owing or due at balance date, being the difference between output GST and input GST, is included in creditors and other payables in the *Statement of financial position*.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the *Statement of cash flows*.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities. No charge for income tax has been provided for.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in the bank accounts. All cash held in bank accounts is held in on-demand accounts and no interest is payable to Inland Revenue.

Inland Revenue is only permitted to spend its cash and cash equivalents within the scope and limits of its appropriations.

Foreign currency transactions

Inland Revenue's activities expose it to the risks of changes in foreign exchange rates. Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the spot exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the financial results.

Cost allocations

Inland Revenue allocates costs directly to an appropriation where a line of sight exists between an appropriation and a cost centre or a project. Inland Revenue utilises indirect allocation where a cost centre or a project cannot be attributed directly to an appropriation. Indirect allocation rates are derived from the weighting of apportioned direct costs from relevant cost drivers to appropriations.

Comparatives

When the presentation or classification of items in the financial statements change, comparative figures for prior periods are restated to ensure consistency with the current period, unless it is impractical to do so.

As noted, the presentation of some information has changed from the previous period, with prior period balances re-classified to be comparable with current year figures (refer to **Changes in accounting policies** above).

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 2021–22 are those included in *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022*.

The revised budget figures for 2021–22 (refer to the *Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations* on page 93) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022*.

The forecast figures for 2022–23 are those included in *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023*.

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 11 April 2022. While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2023 will not be published.

The main assumptions are as follows:

- Inland Revenue's main activities will remain substantially the same as for the previous year.
- Inland Revenue's transformation programme ceased in 2021–22, with some residual transformation activities post the closure of the programme to occur in 2022–23 and 2023–24.
- Operating costs are based on historical information and Inland Revenue's best estimates of future costs to be incurred for the delivery of its services and the transformation programme.
- Estimated year-end information for 2021–22 is used as the opening position for the 2022–23 forecasts.

Any changes to budgets during 2022–23 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023*.

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.

Prior year restatement

In April 2021, the International Financial Reporting Interpretations Committee issued a final agenda decision on how to account for software as a service (SaaS) arrangements. The agenda decision clarified that a customer does not normally recognise an intangible asset based on the requirement of PBE IPSAS 31 Intangible Assets where a supplier controls the application software to which the customer has access on an SaaS agreement. Therefore, the configuration and customisation costs of the SaaS must be recognised against surplus or deficit.

The modernisation of our tax system, enabled by our transformation programme, involved a significant upgrade to the underlying technology infrastructure, which meant that Inland Revenue entered into a number of SaaS arrangements with different providers.

The new accounting policy has been effective since 1 July 2021. As a result of this change, we have restated some areas of our financial statements retrospectively for the 2020–21 financial year.

Statement of comprehensive revenue and expense 2020–21*

	After restatement 2021 $000	Before restatement 2021 $000	Increase/ (decrease) in surplus and expenses $000
Expenses			
Personnel	419,023	418,734	289
Operating	235,486	227,685	7,801
Amortisation, depreciation and impairment	51,975	56,478	(4,503)
Total expenses	**729,594**	**726,007**	**3,587**
Decrease in net surplus and total comprehensive revenue and expense	**1,898**	**5,485**	**(3,587)**

* Total figures are not the sum of the above figures, but are to be read as restated figures only.

Statement of financial position 2020–21*

	After restatement 2021 $000	Before restatement 2021 $000	Increase/ (decrease) in net assets $000
Net assets			
Intangible assets	319,914	337,374	(17,460)
Net decrease in net assets	**467,261**	**484,721**	**(17,460)**

* Total figures are not the sum of the above figures, but are to be read as restated figures only.

Statement of changes in taxpayers' funds 2020–21*

	After restatement 2021 $000	Before restatement 2021 $000	Increase/ (decrease) in equity $000
Opening balance at 1 July	438,323	452,196	(13,873)
Total comprehensive revenue and expense	1,898	5,485	(3,587)
Repayment of surplus to the Crown	(5,583)	(5,583)	–
Capital injections	32,623	32,623	–
Closing balance at 30 June	**467,261**	**484,721**	**(17,460)**

* Total figures are not the sum of the above figures, but are to be read as restated figures only.

Statement of cash flows 2020–21*

	After restatement 2021 $000	Before restatement 2021 $000	Change in cash flow $000
Cash flows from operating activities			
Payments to employees	(406,378)	(406,089)	(289)
Payments to suppliers	(249,830)	(242,029)	(7,801)
Net cash flow from operating activities	**86,460**	**94,550**	**(8,090)**
Cash flows from investing activities			
Purchases of intangible assets	(54,891)	(62,981)	8,090
Net cash flow from investing activities	**(57,710)**	**(65,800)**	**8,090**
Net increase/(decrease) in cash and cash equivalents	7,929	7,929	–

* Total figures are not the sum of the above figures, but are to be read as restated figures only.

Statement of cash flows 2020–21 (Indirect method)*

Statement of cash flows (continued)	After restatement 2021 $000	Before restatement 2021 $000	Change in cash flow $000
Net surplus	**1,898**	**5,485**	**(3,587)**
Add/(less) non-cash items			
Amortisation, depreciation and impairment	51,975	56,478	(4,503)
Total non-cash items	**52,073**	**56,576**	**(4,503)**
Net cash flow from operating activities	**86,460**	**94,550**	**(8,090)**

* Total figures are not the sum of the above figures, but are to be read as restated figures only.

The total impact of the new accounting policies on financial periods prior to 2020–21 was a cumulative reduction of $13.873 million against Inland Revenue's intangible assets and taxpayers' funds.

As our multi-year transformation appropriation ended in 2021–22, Inland Revenue does not expect that this change will have a material impact on Inland Revenue's financial statements for any future years, unless there are fundamental changes in our technology or our SaaS providers.

Where our income came from

Note 2. Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue is recognised as follows:

Revenue from the Crown

Revenue from the Crown transactions are considered to be non-exchange transactions.

Revenue from the Crown is measured based on Inland Revenue's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

Inland Revenue can incur expenses only within the scope, timeframe and value limits of its appropriations.

The fair value of revenue from the Crown is considered equivalent to the funding entitlement.

Explanation of major variance from budget

Revenue from the Crown was lower than budget by $164.762 million. The variance is primarily due to unrequired business transformation contingency funding being returned to the Crown in 2021–22 at the closure of the programme.

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. Following Te Tai Ōhanga the Treasury's guidance on financial management of secondments (May 2021), we now recognise the reimbursement against expense rather than revenue. The secondee's host bears the cost authorised through their appropriation.

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 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
14,000	Accident Compensation Corporation—agency fees	14,000	14,000
1,304	Rental revenue from sub-leases	1,137	915
731	Revenue from rulings	982	1,180
256	Foreign trust administration fees	933	–
427	Court costs recovered	209	1,520
1,519	Services and information provided to other agencies	184	73
–	Unrealised foreign exchange gain	175	–
654	Other	459	187
1,794	Recovery of secondees' salaries	–	–
20,685	**Total other revenue**	**18,079**	**17,875**

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 Government Superannuation Fund are accounted for as defined contribution schemes. These obligations are expensed.

Actual restated 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
373,337	Salaries and wages	352,095	363,901
11,966	Employer contributions to defined contribution scheme	11,215	11,919
29,347	Termination benefits	3,545	23,475
1,960	Training and development	2,062	4,156
750	ACC levies	545	640
(1,269)	Retiring, long-service, annual and sick leave	(770)	3,068
2,932	Other	4,264	4,445
419,023	**Total personnel**	**372,956**	**411,604**

Explanation of major variances against budget

Personnel costs were $38.648 million lower than budget. The variance is primarily due to delays in recruiting in the tight labour market, a lower amount of transformation-related termination benefits as more staff were retained, more cost-effective training and development activities delivered in-house and online, and the reversal of retiring leave for employees who have left Inland Revenue as part of transformation.

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 restated 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
88,936	Information technology and telecommunications	88,169	95,945
79,572	Contractors and consultants	83,192	99,290
35,476	Rental	36,888	34,521
10,616	Office expenses	12,078	14,302
5,093	Outsourced contracts	4,102	9,170
3,109	Legal expenses	2,318	4,483
3,765	Communications and publicity	2,165	7,192
2,271	Bank fees	1,320	2,297
1,341	Audit fees for audit of the financial statements	1,226	1,209
1,802	Travel and transport	1,090	7,170
13	Debt expected credit losses and write-off	825	–
1,784	Net realised and unrealised foreign exchange losses	388	–
54	Disbursements for audit of the financial statements	251	154
45	Net loss on disposal of assets	218	–
1,609	Other operating expenses	1,308	126,118
235,486	**Total operating**	**235,538**	**401,851**

Explanation of major variances against budget

Operating expenses were $166.313 million lower than budget due to a reduction in transformation programme expenditure on consultants and contractors, and a reduction in travel costs due to new technology solutions that enable us to meet and work together virtually. Ongoing COVID-19-related restrictions reduced travel and legal activity. Transformation operating contingency funding, budgeted as other operating expenses, has been returned to the Crown.

Note 5. Contractors and consultants

Inland Revenue uses contractors and consultants to provide additional capability to cover short-term demand, or where specialist skills or independent external advice are needed, such as specialist skills needed for our transformation programme.

A contractor is a person who is not considered an employee, providing extra capacity in a role that exists within Inland Revenue, or acting 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 to provide expertise, in a particular field, not readily available within Inland Revenue.

Inland Revenue has elected to disclose contractors and consultants information separately in accordance with Te Kawa Mataaho the Public Service Commission guidance:

Actual 2021 $000		Actual 2022 $000
62,666	Contractors	66,266
4,418	Consultants	9,030
67,084	**Total contractors and consultants—operating**	**75,296**
44,245	Contractors and consultants—capital	21,274
111,329	**Total contractors and consultants**	**96,570**

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 Te Kawa Mataaho definitions. For example, fees paid to other government agencies are excluded for Te Kawa Mataaho purposes.

Capital expenditure on consultants and contractors has reduced as part of the closure of the transformation programme. There has been some increase in operating expenditure on consultants and contractors as costs have transferred from the capital transformation programme to ongoing operating activities.

With the closure of the transformation programme, we have reviewed our classification of consultants and contractors expenditure to ensure alignment with Te Kawa Mataaho definitions in a post-transformation environment. Updated classifications will be effective from 1 July 2022.

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 2022 was 5.0% (2021: 5.0%).

Actual 2021 $000		Actual 2022 $000
23,110	Capital charge	24,248

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 each year.

Actual 2021 $000		Actual 2022 $000
5,485	Net surplus/(deficit)	52,374
98	Plus unrealised (gain)/loss in forward foreign exchange contracts	(108)
5,583	**Total surplus payable to the Crown**	**52,266**

The net surplus includes an underspend of $16.566 million for the *Transformation* multi-year appropriation. This amount will be included in the reported savings for the implementation of the transformation programme.

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 1 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 1 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 3 to 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% to 40% 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.

2022	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 2021	29,135	23,336	2,813	63,835	324	119,443
Additions/capitalisation	4,655	20	–	23	2,798	7,496
Transfers between category	–	(153)	–	772	(619)	–
Disposals	(6,884)	(1,182)	–	(437)	–	(8,503)
Closing balance as at 30 June 2022	**26,906**	**22,021**	**2,813**	**64,193**	**2,503**	**118,436**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2021	25,374	19,571	1,139	50,255	–	96,339
Depreciation and Impairment	2,601	733	301	3,918	–	7,553
Disposals	(6,836)	(1,093)	–	(354)	–	(8,283)
Closing balance as at 30 June 2022	**21,139**	**19,211**	**1,440**	**53,819**	**–**	**95,609**
Carrying amount as at 30 June 2022	**5,767**	**2,810**	**1,373**	**10,374**	**2,503**	**22,827**

2021	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 2020	31,898	24,769	2,681	63,159	892	123,399
Additions/capitalisation	895	184	1,472	1,437	(548)	3,440
Transfers between category	439	(470)	–	31	–	–
Disposals	(4,097)	(1,147)	(1,340)	(792)	(20)	(7,396)
Closing balance as at 30 June 2021	**29,135**	**23,336**	**2,813**	**63,835**	**324**	**119,443**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2020	25,098	20,077	2,111	46,079	20	93,385
Depreciation and Impairment	3,933	1,111	101	4,925	–	10,070
Transfers between category	439	(470)	–	31	–	–
Disposals	(4,096)	(1,147)	(1,073)	(780)	(20)	(7,116)
Closing balance as at 30 June 2021	**25,374**	**19,571**	**1,139**	**50,255**	**–**	**96,339**
Carrying amount as at 30 June 2021	**3,761**	**3,765**	**1,674**	**13,580**	**324**	**23,104**

Impairment

Property, plant and equipment that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property, plant and equipment are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is the present value of the asset's remaining service potential. Value in use is determined based on either the depreciated replacement cost or the restoration cost, depending on the nature of the impairment and the availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is considered to be impaired and is written down to the recoverable service amount. The impairment loss and any reversal of impairment loss are recognised in the surplus or deficit.

Note 10. Intangible assets

Inland Revenue has intangible assets in the form of internally generated software and business process design assets and software licences. All intangible assets have finite useful lives.

Internally generated intangible assets

There are 2 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 1 year.

Expenditure on development activities, where research findings are applied to a plan or design for new or substantially improved processes, is capitalised if the processes are technically and commercially feasible. Any other development costs are expensed.

Costs incurred on research of an internally generated intangible asset are expensed. Where the research phase cannot be distinguished from the development phase, the total cost is expensed.

Costs associated with maintaining internally generated computer software are expensed. Costs of configuring and customising commercial off-the-shelf software are capitalised. Costs of configuring and customising software as a service arrangements are expensed.

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 and change management 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.

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 or legislation.

2022	Internally generated intangible assets $000	Software licences $000	Assets under construction $000	Total intangible assets $000
Cost				
Opening balance as at 1 July 2021	385,488	260,837	37,601	683,926
Additions by purchase, software customisation and other development	803	–	27,280	28,083
Transfers between category	57,980	–	(57,980)	–
Disposals	(35,851)	(108,950)	–	(144,801)
Closing balance as at 30 June 2022	**408,420**	**151,887**	**6,901**	**567,208**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2021	131,723	232,289	–	364,012
Amortisation and impairment	33,687	8,297	–	41,984
Disposals	(33,200)	(108,949)	–	(142,149)
Closing balance as at 30 June 2022	**132,210**	**131,637**	**–**	**263,847**
Carrying amount as at 30 June 2022	**276,210**	**20,250**	**6,901**	**303,361**
2021 restated*				
Cost				
Opening balance as at 1 July 2020	361,909	262,930	14,995	639,834
Additions by purchase, software customisation and other development	27,734	3,104	22,606	53,444
Transfers between category	481	(481)	–	–
Disposals	(4,636)	(4,716)	–	(9,352)
Closing balance as at 30 June 2021	**385,488**	**260,837**	**37,601**	**683,926**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2020	102,814	228,611	–	331,425
Amortisation and impairment	33,545	8,360	–	41,905
Disposals	(4,636)	(4,682)	–	(9,318)
Closing balance as at 30 June 2021	**131,723**	**232,289**	**–**	**364,012**
Carrying amount as at 30 June 2021	**253,765**	**28,548**	**37,601**	**319,914**

* The actual results in the table above for 2021 have been restated following a change in the Crown accounting policy for software as a service (SaaS) arrangements. Refer to our section on changes in accounting policies on page 137.

There is no restriction over the title of Inland Revenue's intangible assets, nor are any intangible assets pledged as security for liabilities. Inland Revenue's intangible assets are mainly related to the core revenue system and supporting infrastructure (START). Of the $303.361 million carrying value for intangibles, $292.600 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 9 years.

Explanation of major variances against budget

Intangible assets are $152.706 million lower than budget, mainly due to capital contingency funding being returned to the Crown with the substantive closure of the transformation programme in 2021–22.

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 both on a collective basis, where they possess shared credit risk characteristics, and on an individual basis, where we had specific information about cost recoveries. 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 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
	Current assets—exchange transactions		
	Debtors		
6,419	Accounts receivable	3,742	5,330
(488)	Less allowance for credit losses	(1,234)	(1,200)
390	Other debtors	493	–
6,321	Net debtors	3,001	4,130
10,346	Prepayments	15,310	6,500
16,667	**Total current assets—exchange transactions**	**18,311**	**10,630**
	Non-current assets—exchange transactions		
317	Prepayments	48	550
317	**Total non-current assets—exchange transactions**	**48**	**550**
16,984	**Total debtors and prepayments—exchange transactions**	**18,359**	**11,180**

Explanation of major variances against budget

The total of debtors and prepayments were $7.179 million higher than budget, mainly due to additional prepaid software maintenance contracts. This was slightly offset by a lower-than-budgeted amount for net debtors due to a lower level of court compliance activity, and therefore a lower level of court costs recoveries than budgeted.

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 2022 and 30 June 2021 was determined as follows:

2022	Expected credit loss rate	Gross carrying amount $000	Lifetime expected credit loss $000
Not past due	0.10%	1,961	2
Past due 1 to 30 days	2.72%	147	4
Past due 31 to 60 days	2.94%	68	2
Past due 61 to 90 days	23.44%	64	15
Past due > 90 days	80.63%	1,502	1,211
Total	**32.98%**	**3,742**	**1,234**
2021			
Not past due	–	1,904	–
Past due 1 to 30 days	0.65%	1,501	10
Past due 31 to 60 days	0.35%	1,490	5
Past due 61 to 90 days	35.04%	8	3
Past due > 90 days	31.04%	1,516	470
Total	**7.61%**	**6,419**	**488**

Movements in the allowance for credit losses are as follows:

Actual 2021 $000		Actual 2022 $000
593	Opening balance as at 1 July	488
13	Additional provisions made during the year	820
(118)	Receivables written off during the year	(74)
488	**Closing balance as at 30 June**	**1,234**

Sensitivity analysis

The following table shows the effect of changes in the lifetime expected credit loss assumption.

2021 $000		2022 $000
(128)	Impact of a 2% increase on the lifetime expected credit loss assumption	(75)
128	Impact of a 2% decrease on the lifetime expected credit loss assumption	75

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 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
	Creditors and other payables—exchange transactions		
49	Accounts payable	6,951	3,000
21,881	Accrued expenses—other	17,405	26,000
344	Lease incentive	233	455
22,274	**Total creditors and other payables—exchange transactions**	**24,589**	**29,455**
	Creditors and other payables—non-exchange transactions		
7,764	GST payable	9,340	9,000
7,764	**Total creditors and other payables—non-exchange transactions**	**9,340**	**9,000**
30,038	**Total creditors and other payables**	**33,929**	**38,455**

Creditors and other payables are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates to their fair value.

Explanation of major variances against budget

Creditors and other payables were $4.526 million below budget, due to early settlement of payables as an outcome of the Government's objective to pay 95% of domestic suppliers within 10 business days, and invoices received and processed on time resulting in less accruals at the end of the year. Inland Revenue achieved 96.3% of domestic suppliers paid within 10 working days in 2021–22.

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.

Other provisions include an allowance to meet the requirements of the Holidays Act 2003 for former Inland Revenue employees and other operational employee matters.

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.

Actual 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000
	Current liabilities—exchange transactions		
31,145	Annual leave	29,963	29,966
13,861	Accrued salaries and wages	13,172	7,957
3,560	Retiring leave	4,280	3,560
26,443	Termination benefits	4,137	7,334
5,378	Other provision	1,439	3,678
1,770	Long-service leave	1,410	1,770
1,299	Sick leave	1,190	1,299
6	Time off in lieu	6	6
83,462	**Total current liabilities—exchange transactions**	**55,597**	**55,570**
	Non-current liabilities—exchange transactions		
18,840	Retiring leave	16,331	24,014
5,810	Long-service leave	5,200	7,566
720	Termination benefits	124	–
25,370	**Total non-current liabilities—exchange transactions**	**21,655**	**31,580**
108,832	**Total employee entitlements**	**77,252**	**87,150**

Explanation of major variances against budget

Provisions for employee entitlements were $9.898 million lower than budget, mainly due to a lower amount of transformation-related termination benefits being necessary as staff could be retained in other positions, a reversal of long-service leave and retiring leave for employees who have left Inland Revenue, and macroeconomic changes to valuation assumptions for long-service leave and retiring 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 provisions are as follows:

	Termination benefits $000	Other provisions $000	Total $000
Opening balance as at 1 July 2021	27,163	5,378	32,541
Additional provisions made	1,039	(1,492)	(453)
Amounts used	(23,941)	(2,447)	(26,388)
Closing balance as at 30 June 2022	**4,261**	**1,439**	**5,700**
Opening balance as at 1 July 2020	12,070	4,292	16,362
Additional provisions made	18,103	1,366	19,469
Amounts used	(3,010)	(280)	(3,290)
Closing balance as at 30 June 2021	**27,163**	**5,378**	**32,541**

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 2022. 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 2022 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 4.52% (2021: 2.49%).

COVID-19 impacts are reflected in the assumptions for discount rates and salary inflation. The net effect of these assumptions has resulted in a decrease 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%
2022							
Long-service leave	5,200	294	(265)	(115)	301	1,300	(1,000)
Retiring leave	16,330	1,050	(957)	(13)	1,080	4,920	(3,360)

	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%
2021							
Long-service leave	5,810	365	(327)	(143)	367	1,490	(1,150)
Retiring leave	18,840	1,350	(1,210)	(21)	1,360	6,150	(4,200)

Note 14. Other liabilities

Provision for other liabilities

Inland Revenue recognises a provision for future payments of uncertain amounts or timing where there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that a payment will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for net deficits from future operating activities.

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value and are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash flows, where applicable. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance expenses.

The onerous lease provision totalling $232,000 as at 30 June 2021 was for 2 unused floor spaces. Onerous leases have been assessed as at 30 June 2022 and no further provision is required.

Actual 2021 $000		Actual 2022 $000
	Current liabilities	
229	Onerous contracts	–
229	**Total current liabilities**	**–**
	Non-current liabilities	
67	Lease make-good	75
3	Onerous contracts	–
70	**Total non-current liabilities**	**75**
299	**Total provision for other liabilities**	**75**

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 2022 (2021: nil).

Remuneration of key management personnel

The remuneration of key management personnel during the year was as follows:

2021	Leadership team, including the Commissioner (Chief Executive)	2022
4,132	Remuneration ($000)	3,865
9.99	Full-time equivalent staff	8.98

The key management personnel remuneration disclosure includes the Chief Executive (Commissioner), 7 Deputy Commissioners, Chief Tax Counsel and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined and paid by Te Kawa Mataaho the Public Service Commission and invoiced to Inland Revenue.

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 2021 $000		Actual 2022 $000
	Financial assets measured at amortised cost	
70,891	Cash and cash equivalents	46,663
181,207	Debtor Crown	243,020
6,321	Net debtors	3,001
258,419	**Total financial assets measured at amortised cost**	**292,684**
	Financial assets measured at fair value through surplus or deficit	
–	Derivative financial instrument assets	21
–	**Total financial assets measured at fair value through surplus or deficit**	**21**
	Financial liabilities measured at amortised cost	
21,930	Creditors and other payables	24,356
21,930	**Total financial liabilities measured at amortised cost**	**24,356**
	Financial liabilities measured at fair value through surplus or deficit	
87	Derivative financial instrument liabilities	–
87	**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 Treasury Capital Markets.

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 $0.021 million as at 30 June 2022 (2021: liability of $0.087 million).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2022 was NZ $7.102 million (2021: NZ $9.272 million). The contracts consisted of the purchase of US $4.158 million and AU $0.393 million (2021: US $5.832 million and AU $0.785 million). The unrealised gain on the forward exchange contract derivatives was NZ $0.108 million at 30 June 2022 (2021: unrealised loss of $0.098 million). The majority of the forward exchange contracts relate to software maintenance and application support.

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:

1. quoted market price (level 1)—financial instruments with quoted prices for identical instruments in active markets
2. 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
3. valuation techniques with significant non-observable inputs (level 3)—financial instruments valued using models where 1 or more significant inputs is not observable.

Inland Revenue's departmental financial assets and liabilities as at 30 June 2022 and 2021 were valued at fair value using observable inputs (level 2). There are no quoted market prices (level 1) for these instruments.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value.

Actual 2021 $000	Valuation technique Level 2—observable inputs	Actual 2022 $000
	Financial assets/(liabilities)	
(87)	Forward foreign exchange contracts (net)	21

The fair value of derivative financial instruments has been determined using discounted cash flows based on quoted market prices (level 2).

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 2022 would be a $0.118 million decrease and a $0.122 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 the financial institutions that it deals with, because these entities have high credit ratings. Westpac is Inland Revenue's main bank and has a S&P Global Ratings' credit rating of AA–. Inland Revenue enters into foreign currency transactions with Treasury Capital Markets (S&P Global Ratings' 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 Treasury Capital Markets. 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
2022					
Creditors and other payables	24,356	24,356	24,356	–	–
Total	**24,356**	**24,356**	**24,356**	**–**	**–**
2021					
Creditors and other payables	21,930	21,930	21,930	–	–
Total	**21,930**	**21,930**	**21,930**	**–**	**–**

Contractual maturity analysis of forward foreign exchange contracts

The table below analyses Inland Revenue's forward foreign exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Derivative financial instruments net carrying amount $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2022					
Gross settled forward foreign exchange contracts (net liability)	21	–	–	–	–
Outflow	–	7,102	7,102	–	–
Total	**21**	**7,102**	**7,102**	**–**	**–**
2021					
Gross settled forward foreign exchange contracts (net asset)	87	–	–	–	–
Outflow	–	9,271	8,844	427	–
Total	**87**	**9,271**	**8,844**	**427**	**–**

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 the 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.

2021–22 non-departmental tax revenue totalled $100.6 billion and comprises tax returns and accruals. The majority of this amount is expected to be collected and will be used to fund government programmes. 2021–22 non-departmental expenses incurred were $9.8 billion, including Working for Families Tax Credits, KiwiSaver member tax credits, interest, the COVID-19 Resurgence Support Payment, the COVID-19 Support Payment and other expenses.

What non-departmental schedules are and are not

The non-departmental schedules are prepared in accordance with relevant accounting policies and Te Tai Ōhanga the 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 *Statement of financial position*.

For a full understanding of the Crown's financial position and the results of its operation and cash flows, refer to the consolidated *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2022.*

Contents

Schedule of non-departmental revenue

For the year ended 30 June 2022

Actual 2021 $000		Notes 2, 3	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Direct taxation				
	Income tax				
	Individuals				
37,121,636	Source deductions (PAYE)		41,345,926	38,466,000	43,871,000
8,773,497	Other persons		11,119,903	7,076,000	11,265,000
(1,716,220)	Refunds		(1,739,457)	(2,015,000)	(2,001,000)
607,943	Fringe benefit tax		684,424	648,000	657,000
44,786,856	**Total individuals**		**51,410,796**	**44,175,000**	**53,792,000**
	Corporate tax				
18,374,762	Gross companies tax		20,492,542	14,398,000	22,640,000
(343,723)	Refunds		(630,245)	(389,000)	(410,000)
472,192	Non-resident withholding tax		515,557	472,000	571,000
18,503,231	**Total corporate tax**		**20,377,854**	**14,481,000**	**22,801,000**
	Other direct income tax				
1,000,451	Resident withholding tax on interest income		842,189	1,016,000	1,354,000
1,519,475	Resident withholding tax on dividend income		1,107,888	713,000	980,000
1,554,424	Employer superannuation contribution tax		1,799,830	1,476,000	1,757,000
4,074,350	**Total other direct income tax**		**3,749,907**	**3,205,000**	**4,091,000**
67,364,437	**Total direct taxation**		**75,538,557**	**61,861,000**	**80,684,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2022

Actual 2021 $000		Notes 2, 3	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Indirect taxation				
	Goods and services tax				
40,268,344	Gross goods and services tax		41,610,926	39,743,000	46,208,000
(14,252,179)	Refunds		(16,920,365)	(15,070,000)	(17,904,000)
26,016,165	**Total goods and services tax**		**24,690,561**	**24,673,000**	**28,304,000**
	Other indirect taxation				
87,810	Approved issuer levy		96,620	114,000	93,000
321,929	Gaming duties		272,545	318,000	321,000
1,430	Other indirect taxation		845	2,000	2,000
411,169	**Total other indirect taxation**		**370,010**	**434,000**	**416,000**
26,427,334	**Total indirect taxation**		**25,060,571**	**25,107,000**	**28,720,000**
93,791,771	**Total taxation**		**100,599,128**	**86,968,000**	**109,404,000**
	Other revenue				
335,013	Child support		194,755	164,000	172,000
119,369	Interest unwind—Small Business Cashflow Scheme		122,575	149,000	137,000
234,551	Interest unwind—student loans		317,550	194,000	398,000
47,658	Other revenue		54,669	39,300	45,000
736,591	**Total other revenue**		**689,549**	**546,300**	**752,000**
94,528,362	**Total revenue excluding gains**		**101,288,677**	**87,514,300**	**110,156,000**

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 2022.*

Schedule of non-departmental expenditure

For the year ended 30 June 2022

Actual 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Benefits and other unrequited expenses				
271,100	Best Start tax credit		307,555	405,000	375,000
2,102,743	Family tax credit		2,016,589	2,064,000	2,375,000
571,734	In-work tax credit		506,230	620,000	545,000
391	KiwiSaver: Interest		158	1,000	2,000
915,571	KiwiSaver: Tax credit		963,856	973,000	1,028,000
13,220	Minimum family tax credit		13,130	27,000	17,000
503,310	Paid parental leave payments		602,634	540,000	645,000
–	Payroll subsidy		(2,000)	–	–
4,378,069	**Total benefits and other unrequited expenses**		**4,408,152**	**4,630,000**	**4,987,000**
	Borrowing expenses				
1,418	Environmental restoration account interest		1,510	1,400	1,400
6,476	Income equalisation interest		8,444	10,000	7,000
7,894	**Total borrowing expenses**		**9,954**	**11,400**	**8,400**
	Other expenses				
–	Cost of Living payment		–	–	800,000
199,983	COVID-19 Resurgence Support Payment	2	2,712,507	–	–
–	COVID-19 Support Payment	2	1,306,810	–	–
881,659	Impairment of debt and debt write-offs	2, 4	662,497	841,000	841,000
142,920	Initial fair value write-down relating to Small Business Cashflow Scheme COVID-19	2, 6	230,069	84,000	279,000
468,594	Initial fair value write-down relating to student loans	7	489,063	515,000	662,000
(20,690)	Impairment of debt relating to child support	5	(41,920)	–	–
7,235	KiwiSaver ex gratia payments		(20)	–	–
1,679,701	**Total other expenses**		**5,359,006**	**1,440,000**	**2,582,000**
6,065,664	**Total expenditure excluding losses**		**9,777,112**	**6,081,400**	**7,577,400**

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 2022.*

Schedule of non-departmental gains and losses

As at 30 June 2022

Actual 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
21,000	Net gains/(losses) on Small Business Cashflow Scheme—fair value remeasurement	3, 6	(168,000)	–	–
745,000	Net gains/(losses) on student loans—fair value remeasurement	3, 7	(1,113,000)	35,000	37,000
766,000	**Total net gains/(losses)**		**(1,281,000)**	**35,000**	**37,000**

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 2022.*

Schedule of non-departmental assets

As at 30 June 2022

Actual 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Current assets				
1,310,146	Cash and cash equivalents		2,046,335	1,600,000	1,300,000
16,393,310	Receivables	4	18,465,691	12,799,743	16,555,993
71,000	Receivables—child support	5	63,000	8,320	71,000
–	Receivables—other		92	–	–
253,000	Small Business Cashflow Scheme	6	183,000	330,000	604,000
1,355,000	Student loans	7	1,506,000	1,540,000	1,748,000
19,382,456	**Total current assets**		**22,264,118**	**16,278,063**	**20,278,993**
	Non-current assets				
326,000	Receivables	4	492,000	368,000	326,000
157,050	Receivables—child support	5	235,929	73,237	179,050
667,826	Small Business Cashflow Scheme	6	637,599	610,988	548,826
9,486,485	Student loans	7	7,702,542	9,074,584	7,931,485
10,637,361	**Total non-current assets**		**9,068,070**	**10,126,809**	**8,985,361**
30,019,817	**Total assets**		**31,332,188**	**26,404,872**	**29,264,354**

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 2022.*

Schedule of non-departmental liabilities

As at 30 June 2022

Actual 2021 $000		Notes	Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
	Current liabilities				
13,763	Child support		20,128	27,817	13,763
5,384,129	Refundables and payables	8	5,466,633	5,138,726	5,394,129
23,321	Unclaimed monies	9	28,271	22,673	23,004
5,421,213	**Total current liabilities**		**5,515,032**	**5,189,216**	**5,430,896**
	Non-current liabilities				
321,505	Reserve schemes	10	371,457	280,112	334,305
321,505	**Total non-current liabilities**		**371,457**	**280,112**	**334,305**
5,742,718	**Total liabilities**		**5,886,489**	**5,469,328**	**5,765,201**

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 2022.*

Schedule of movements between other government departments

For the year ended 30 June 2022

Actual 2021 $000		Actual 2022 $000	Unaudited budget 2022 $000	Unaudited forecast 2023 $000
21,301,615	Opening balance	24,277,099	23,926,944	22,531,553
89,228,698	Net result from operating activities	90,230,565	81,467,900	102,615,600
	Asset transfer between departments			
1,430,689	Ministry of Social Development—student loans	1,294,249	1,576,000	1,648,000
(87,683,903)	New Zealand Debt Management Office	(90,356,214)	(86,035,300)	(103,296,000)
24,277,099	**Closing balance**	**25,445,699**	**20,935,544**	**23,499,153**

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 2022.*

Schedule of non-departmental commitments

As at 30 June 2022

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2021: nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2022

Actual 2021 $000		Note 11	Actual 2022 $000
	Quantifiable contingent liabilities		
160,344	Legal proceedings and disputes—assessed		118,408
186,127	Unclaimed monies		228,740
346,471	**Total quantifiable contingent liabilities**		**347,148**
	Quantifiable contingent assets		
26,749	Disputes—non-assessed		23,381
26,749	**Total quantifiable contingent assets**		**23,381**

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 2022*.

Schedule of non-departmental trust money

For the year ended 30 June 2022

Actual 2021 $000		Contributions 2022 $000	Distributions 2022 $000	Total 2022 $000
	Child support			
7,914	Child support trust account	186,361	(158,964)	35,311
406	Reciprocal child support agreement trust account	6,700	(7,106)	–
8,320	**Total child support**	**193,061**	**(166,070)**	**35,311**
	KiwiSaver			
254	KiwiSaver returned transactions trust account	86,602	(86,560)	296
297	KiwiSaver voluntary contribution trust account	777	(789)	285
551	**Total KiwiSaver**	**87,379**	**(87,349)**	**581**
8,871	**Total trust money**	**280,440**	**(253,419)**	**35,892**

The child support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991. The child support trust account holds all funds collected on behalf of receiving carers from liable parents who are either based in New Zealand or overseas. The reciprocal child support agreement trust account was closed on 31 March 2022.

The KiwiSaver trust accounts were established in accordance with section 74 of the KiwiSaver Act 2006. The KiwiSaver returned transactions trust account accepts returned payments from the scheme providers before they are passed on to scheme members or their employers. The KiwiSaver voluntary contribution trust account holds voluntary payments from members before funds are passed on to the 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 2022.*

Notes to the financial schedules

For the year ended 30 June 2022

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How we have prepared these schedules

Note 1. Basis of preparation

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand.

The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989.

Inland Revenue is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

These non-departmental financial schedules present financial information on funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2022*. 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 consolidated *Financial Statements of the Government of New Zealand for the Year Ended 30 June 2022.*

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2022. The forecast financial schedules are for the year ending 30 June 2023.

The Chief Executive and Commissioner of Inland Revenue authorised these financial schedules on 29 September 2022.

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 2022 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, and 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 ending on or before 30 June 2023. 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.

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 in transit and funds held in bank accounts administered by Inland Revenue. All cash is on demand and no interest is payable to Inland Revenue.

Comparatives

When the presentation or classification of items in the financial schedules 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.

Change in accounting policies

There have been no changes in accounting policies since the date of the last audited financial schedules.

All 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 2021–22 are those included in *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022.*

The revised budget figures for 2021–22 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations* on page 95) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2022.*

The forecast figures for 2022–23 are those included in *The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.*

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 11 April 2022.

While Inland Revenue regularly updates forecasts, updated forecast schedules for the year ending 30 June 2023 will not be published.

The main assumptions are:

- Estimates for COVID-19 economic impacts and the Government's COVID-19 economic response packages, including:
  - the reinstatement of a 2% diminishing value depreciation rate for commercial and industrial buildings
  - increasing the low-value asset write-off threshold to $5,000 for the 2020–21 income tax year
  - Small Business Cashflow Scheme lending and associated initial fair value write-down.
- 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 2021–22 is used as the opening position for the 2022–23 forecasts.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2022* (treasury.govt.nz/sites/default/files/2022-05/befu22.pdf).[1]

Any changes to budgets during 2022–23 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.*

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 litigations.

[1] This link leads to information not covered by the audit opinion on page 203.

How we have considered the impacts of COVID-19

Note 2. Consideration and adjustments for the impacts of COVID-19

COVID-19 has created significant uncertainties for the Crown tax revenue estimations and the valuation of Crown assets, as the calculations include macroeconomic assumptions and forecasts. It is difficult to determine likely repayments, defaults and customer behaviour, especially during times of economic uncertainty.

In response to the impact of COVID-19, since 2020, 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 and the COVID-19 Resurgence Support Payment and COVID-19 Support Payment schemes administered by Inland Revenue. Inland Revenue has also applied new legislative powers to remit penalties and interest relating to tax debt where possible.

Tax revenue

Tax revenue for the 2021–22 financial year is 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 2022. The amount owing is reported as a portion of the 'not due' receivables (refer note 4). $17.410 billion of revenue is not yet due as at 30 June 2022, an increase of $1.750 billion or 11.18% from 30 June 2021. This increase is largely due to higher income tax revenue this year.

The estimation of income tax revenue for companies and other persons is material, complex and requires a significant degree of estimation. These estimations are for annual taxes, and 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.

The method of estimation used for each taxpayer depends on their residual income tax for the prior tax year, and if this exceeds $5,000, it also depends on the provisional tax method adopted by the taxpayer for the current tax year.

For the largest group of taxpayers (who had residual income tax over $5,000 for the prior tax year and have adopted the standard provisional tax method for the current tax year), we estimate companies and other persons revenue based on macroeconomic forecast information. Further details on the estimation process are discussed in note 3.

Tax receivables—past due

Past due debt has increased in 2021–22 by $462 million (10.54%) to $4.846 billion. This growth is larger than in 2020–21, when the past due debt increased by $126 million (3.2%).

The increase in overdue tax debt was mainly due to increases in GST and income tax debt balances. These debts were $301.5 million and $206.0 million higher, respectively, than 2020–21.

In 2021–22, overdue tax debt grew at a comparable rate to tax revenue, resulting in a similar result for the percentage of tax debt to revenue of 4.6% compared to 4.5% the previous year. Given the turmoil that businesses faced in the last 2 years, we expected the level of debt to increase.

The ratio of tax debt to tax revenue compares favourably with other similar tax administrations, some of which have ratios of as much as 7% to 17%.

We have been putting effort into preventing debts from happening, or quickly helping customers to recover from their debt position (for example, text campaigns for the 7 February due date) and continued to focus on supporting customers through COVID-19, administering COVID-19 support products, setting up payment arrangements (including self-service arrangements) and applying our new powers to remit penalties and interest where possible. This year, approximately 120,000 customers have set up a plan to pay their tax over time. These arrangements covered $2.38 billion of debt. Of this, $491 million has already been paid in full.

Despite an increase in past due debt over the last year, the amount of debt collected in the past 6 months has been higher than projected at the previous valuation. The impact of COVID-19 on employment and the general economy has been much less than expected.

The independent external valuer has now increased the repayment assumptions for debt less than 5 years old to be closer to the average experience over the last 4 to 5 years. This is consistent with the approach taken before COVID-19.

The most significant assumptions changes are for debt that is under 1 year old which are also impacted by the changes in processing debt following Inland Revenue's business transformation. The repayments on this debt have recently been significantly higher than the COVID-19 impact previously assumed.

However, 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 may be significant uncertainty in the estimated value of these receivables. The valuation reflects the increased levels of debt observed in the data up to 30 June 2022. Future repayments of debt will be dependent on the economic impacts of COVID-19 on our customers and on the effectiveness of our compliance activities and relief mechanisms such as instalment arrangements.

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-sized businesses. Eligible businesses can borrow a $20,000 base amount plus an additional $1,800 per equivalent full-time employee, up to a maximum loan of $110,000. 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.

The loan terms have changed since the scheme was introduced. Initially, the maximum loans were $100,000, with no interest payable if they were fully repaid within 1 year. On 9 November 2020, the scheme was extended to 31 December 2023 and the interest-free conditions were extended from 1 to 2 years, including customers with pre-existing loans.

On 21 March 2022, the scheme was updated to increase the base loan from $10,000 to $20,000 for new loans. Existing borrowers were also eligible for a top-up loan of $10,000, plus any amount they were eligible for but did not take in their initial loan. The interest-free rule was also changed; all loans are now interest free for the first 2 years regardless of whether they are repaid within 2 years. This change has resulted in a $50 million impairment on the loans at 30 June 2022.

In 2021–22, a further $538 million (2020–21: $298 million) has been disbursed and a further $362 million (2020–21: $112 million) has been repaid. The fair value of the loans as at 30 June 2022 is $821 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 total loans of $230 million is due to these unsecured loans being made available to businesses severely impacted by COVID-19 at below market rates and other favourable terms.

Note 6 provides more information on the 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 2022 is $9.209 billion, a net decrease of $1.633 billion (15.06%). The most notable change this year is the $1,113 million fair value remeasurement loss (2021: $745 million gain).

The fair value remeasurement loss is largely due to changes in discount rates and risk adjustments since the *Budget Economic and Fiscal Update 2021*. This is partially offset by positive updated salary wage assumptions. The initial valuation data indicates that COVID-19 is having less of a negative impact than previously modelled for New Zealand-based borrowers.

Since the June 2021 valuation, our data shows that the New Zealand economy has shown remarkable resilience to the impact of COVID-19 so far. It is now expected that fewer New Zealand-based borrowers will be adversely impacted by it. However, we now expect more overseas-based borrowers to be impacted. As at 30 June 2022, we have a COVID-19 allowance of $135 million in relation to deterioration in overseas-based borrower compliance.

The impact of COVID-19 on the economy, employment prospects, overseas repayments and behaviours is still uncertain. The main uncertainty relates to the compliance of overseas-based borrowers. The domestic economy has been very resilient to the pandemic.

Note 7 provides more information on the Student Loan Scheme, the valuation model and the significant assumptions and sensitivities behind the fair value.

COVID-19 Resurgence Support Payment and COVID-19 Support Payment schemes

The rules and restrictions implemented by the Government to reduce the community transmission of COVID-19 have impacted the trading and profitability of many businesses.

The Government established 2 schemes to financially support businesses. The COVID-19 Resurgence Support Payment operated between February 2021 and February 2022 to provide support to businesses following a change in alert levels in the COVID-19 Alert System. From February 2022, the COVID-19 Support Payment Scheme has operated to provide financial support to businesses during changes in settings in the COVID-19 Protection Framework (traffic lights).

In total, across both schemes, expenditure of $4,019.317 million was incurred in 2021–22 (2020–21: $199.983 million).

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 tax payments or 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. The filing of terminal tax returns can happen more than a year after the tax year. For example, 2022 income tax returns may not be filed until March 2023 (or after) and 2023 income tax returns may not be filed until March 2024 (or after).

While the majority of taxpayers make provisional tax payments during a year using a 5% uplift under legislation, the income tax revenue estimation process is based on a rebuttable presumption that the forecast of firms' net operating surplus, from the most recent Treasury forecast, is used as the uplift assumption, unless rebutted for material impacts. 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.

The following assumptions have been used in these financial statements:

- An annual average growth in firms' net operating surplus for the tax year to 31 March 2022 of 13.37%.

  This assumption is derived from Tatauranga Aotearoa Statistics New Zealand's (Stats NZ) quarterly data series released on 14 July 2022. This series was developed for institutional sector accounts, balance sheet and the nominal income measure of quarterly gross domestic product (GDP), to provide more timely data on New Zealand's economy.

  Details of the quarterly release can be found at: stats.govt.nz/experimental/national-accounts-income-saving-assets-and-liabilities-march-2022-quarter. Net operating surplus is delivered from gross operating surplus and gross mixed income less consumption of fixed capital.

  This series shows a growth rate 5.34% higher than Treasury's most recent forecast of net operating surplus growth, which was 8.03% for the tax year to 31 March 2022. This was included in the Treasury's economic forecast as part of Budget 2022 in May.

  The higher growth rate in Stats NZ's updated data release is consistent with other economic data releases since the Treasury's forecast of net operating surplus was finalised on 25 March 2022.

- An annual average growth in the firms' net operating surplus for the tax year to 31 March 2023 of 8.01%.

  For the March-year 2023, the Treasury's latest forecast of firms' net operating surplus growth of 13.35% was published in Budget 2022. However, using the recently published Stats NZ annual average growth in firms' net operating surplus for the tax year to 31 March 2022 as a starting point, the Treasury's Budget 2022 forecast level of firms' net operating surplus for the year to March 2023 now implies a growth rate of 8.01%.

  There is no new forecast information publicly available in respect of firms' net operating surplus for the March 2023 tax year. Therefore, we are unable to rebut the presumption to use the Treasury's forecast of firms' net operating surplus growth of 13.35%, apart from reducing that to 8.01% owing to the upwardly revised 2022 tax year starting point.

The firms' net operating surplus uplift assumption of 8.01% for companies and other persons tax revenue for the 2023 tax year is lower than that of 13.37% for the tax year ended 31 March 2022. This is in line with current economic data, particularly around the weakening real GDP growth and terms of trade, the potential for the tight labour market to erode business profits, and the rising interest rates as Te Pūtea Matua, the Reserve Bank considers how best to control inflation. It is also notable that wage subsidy support (2022: $4.860 billion) and COVID-19 Support Payments (2022: $4.257 billion) are not currently forecast to be repeated in 2023. There may be further downside risks. However, 6 months into the 2023 tax year, we are still unable to quantify with any certainty the impact on the firms' net operating surplus for the whole 2023 tax year posed by the recent data releases and economic commentary.

Therefore, at this point in time, we believe the current estimate of the March-year 2023 firms' net operating surplus of 8.01% growth is still relevant as an uplift assumption, albeit it is uncertain. For the financial statements for the year ending 30 June 2022, we take 1 quarter of the full 2023 income tax estimate as accrued revenue, so in that respect, the uncertainty is limited to a portion of the year.

As a result, the factors applied to the prior year's terminal tax are 113.37% for the 2022 income tax year, which ended on 31 March 2022, and 108.01% for the 2023 income tax year, which ends on 31 March 2023, with the period from 1 April 2022 to 30 June 2022 included in these financial schedules. The non-March balance dates use a pro-rata calculation of these rates.

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 customers with March balance dates for the 2022 income tax year, revenue is estimated as 113.37% of the prior year terminal tax
  - for customers with March balance dates for the 2023 income tax year, revenue is estimated as 108.01% of the prior year terminal tax
  - 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 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 who are 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 who are subject to provisional tax and 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.

The significant assumptions and sensitivities behind the estimation of income tax revenue for companies and other persons are:

2021		2022
2.68%	Stats NZ average annual growth in net operating surplus—2021 income tax year	N/A
1.24%	Treasury's forecast firms' net operating surplus—2022 income tax year	N/A
N/A	Stats NZ average annual growth in net operating surplus—2022 income tax year	13.37%
N/A	Treasury's forecast firms' net operating surplus—2023 income tax year	8.01%
	Sensitivities	
196,000	Impact on revenue of a 1% increase in firms' net operating surplus ($000)	244,000
981,000	Impact on revenue of a 5% increase in firms' net operating surplus ($000)	1,218,000
1,963,000	Impact on revenue of a 10% increase in firms' net operating surplus ($000)	2,436,000
(196,000)	Impact on revenue of a 1% decrease in firms' net operating surplus ($000)	(244,000)
(981,000)	Impact on revenue of a 5% decrease in firms' net operating surplus ($000)	(1,218,000)
(1,963,000)	Impact on revenue of a 10% decrease in firms' net operating surplus ($000)	(2,436,000)

The net operating surplus figure is based on the relevant methodology adopted for the financial year.

Income tax revenue has a high degree of estimation and is therefore uncertain. Application of key assumptions used in estimating income tax revenue may not necessarily reflect actual tax returns when they are filed. The estimation of income tax revenue is challenging because estimation is required so far ahead of the point when a taxpayer is required to file relevant income tax returns. In addition, forecasts of firms' net operating surplus are inherently uncertain and volatile, particularly with the ongoing impact of the COVID-19 pandemic on the economy. While we have confidence in the reliability of Stats NZ's quality assurance processes in releasing the quarterly data series, Stats NZ revises previously published data when more information comes to light.

Goods and services tax (GST)

GST returns are assessed on a 1, 2, 3 or 6-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 for 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—Small Business Cashflow Scheme

Small Business Cashflow Scheme loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, 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 a discount rate appropriate for low-rated commercial and unsecured retail lending.

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 adjustment calculated by the consulting actuaries.

Fair value remeasurement— Small Business Cashflow Scheme

Fair value remeasurement is the change in the value in the loan portfolio over the year. Small Business Cashflow Scheme 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 6.

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 that 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. We provide data to the valuer on receivable balances and repayments. The data is up to 30 June 2022.

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 the 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 2022 is $22.256 billion, an increase of $2.212 billion (11.04%). The main driver of the increase is a $1.750 billion (11.18%) increase in not yet due receivables reflecting higher income tax revenue this year.

Past due debt has increased in 2021–22 by $462 million (10.54%) to $4.846 billion. This growth is larger than in 2020–21, when the past due debt increased by $126 million (3.2%).

PAST DUE DEBT

$million	June 2021	June 2022	Change %
GST	1,523.0	1,824.5	19.8
Income tax	1,585.0	1,791.1	13.0
Employment activities	919.6	822.3	(10.6)
Working for Families Tax Credits	198.5	250.8	26.3
Other tax	157.7	157.3	(0.2)
Total debt	**4,383.8**	**4,846.0**	**10.5**

Despite an increase in past due debt over the last year, the amount of debt collected in the past 6 months has been higher than projected at the previous valuation as the impact of COVID-19 on employment and the general economy has been much less than expected.

The independent external valuer has now increased the repayment assumptions for debt less than 5 years old to be closer to the average experience over the last 4 to 5 years. This is consistent with the approach taken before COVID-19. The most significant assumptions changes are for debt that is under 1 year old which are also impacted by the changes in processing debt following Inland Revenue's business transformation. The repayments on this debt have recently been significantly higher than the COVID-19 impact previously assumed.

However, 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 may be significant uncertainty in the estimated value of these receivables. The valuation reflects the increased levels of debt observed in the data up to 30 June 2022. Future repayments of debt will be dependent on the economic impacts of COVID-19 on our customers and on the effectiveness of our compliance activities and relief mechanisms such as instalment arrangements.

Overall, the valuation resulted in an impairment reversal of $26 million for 2021–22 and a reduction in the average impairment of overdue tax debt from 74.53% to 67.63%.

The fair value of tax receivables at 30 June 2022 is $18.958 billion, an increase of $2.238 billion (13.39%).

Actual 2021 $000		Actual 2022 $000
	Receivables	
20,043,302	Gross receivables	22,255,521
(3,323,992)	Impairment	(3,297,830)
16,719,310	**Carrying value receivables**	**18,957,691**
	Current and non-current apportionment	
16,393,310	Receivables—current	18,465,691
326,000	Receivables—non-current	492,000
16,719,310	**Carrying value receivables**	**18,957,691**
	Ageing profile of gross receivables	
15,659,517	Not due[1]	17,409,521
	Past due[2]	
1,004,639	Less than 6 months	1,229,500
432,057	6–12 months	443,200
903,243	1–2 years	678,100
2,043,846	Greater than 2 years	2,495,200
4,383,785	**Total past due**	**4,846,000**
20,043,302	**Total gross receivables**	**22,255,521**
22%	% Past due	22%
	Receivables—impairment	
3,255,109	Opening balance	3,323,992
881,659	Impairment losses recognised	662,497
(812,776)	Amounts written off as uncollectable	(688,659)
3,323,992	**Closing balance**	**3,297,830**

[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 or KiwiSaver) and the customer's balance date. Past due debt includes debts collected under instalment, debts under dispute, default assessments and debts of customers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio, and the significant assumptions underpinning the valuation of carrying value receivables, are shown below:

Actual 2021		Actual 2022
15,602,854	Recoverable amount of receivables not due ($000)	17,389,080
1,116,456	Recoverable amount of receivables past due ($000)	1,568,611
16,719,310	**Total carrying value ($000)**	**18,957,691**
7.00%	Use-of-money interest rate	7.28%
5.00%	Discount rate	6.00%
(17,700)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(24,100)
19,000	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	25,600

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

Child support is money paid by parents who do not live with their child, or who share care with someone else. The money is to help with the cost of raising a child.

Liable parents can manage their child support payments through Inland Revenue by using a formula assessment or voluntary agreement, or they can be arranged through a private agreement with the other parent or non-parent carer.

For child support managed by Inland Revenue, liable parent payments are passed to receiving carers to the extent that the receiving carer has not received a benefit from Te Manatū Whakahiato Ora, the Ministry of Social Development. The withheld amount is the Crown entitlement, and this is legally enforceable. Receiving carer entitlements are not recognised as revenue, and any funds yet to be passed to the receiving carers are recorded in the child support trust account as presented in the *Schedule of non-departmental trust money*.

Penalties are imposed when there are defaults on child support payments.

Child support receivables include the Crown entitlement and penalties. The Crown entitlement and penalties are presented as revenue in the *Schedule of non-departmental revenue.* Receivables are initially recognised at fair value and are subsequently tested for impairment at year end.

Allowances for amounts that 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.

Upcoming changes

There are upcoming changes for the Crown entitlement. From 1 July 2023, the Crown entitlement will no longer be withheld by the Crown and the total liable parent payments will be passed on to receiving carers.

Child support valuation model, significant assumptions and uncertainties

At the end of the year, receivables are valued by an independent external valuer using predictive models. We provided data to the valuer on receivable balances and repayments. The data was up to 30 June 2022.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors such as discount rates. The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data and then discounting it 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.

As noted by the valuer, it is not possible to assess with any certainty the implications of COVID-19 on the value of child support receivables. There will be an impact on liable parents, and it will affect their ability to repay child support. Repayment assumptions used for the valuation reflect a 3-year average period prior to the pandemic. As economic conditions progress to a post-pandemic normal in the coming years, there is additional uncertainty in our projections of fair value as past experience may not be indicative of the future in a post-pandemic economic environment.

The fair value of child support receivables at 30 June 2022 is $299 million, an increase of $71 million from last year.

Actual 2021 $000		Actual 2022 $000
	Receivables—child support	
982,539	Gross receivables	956,293
(754,489)	Impairment	(657,364)
228,050	**Carrying value receivables**	**298,929**
	Current and non-current apportionment	
71,000	Receivables—current	63,000
157,050	Receivables—non-current	235,929
228,050	**Carrying value receivables**	**298,929**
	Ageing profile of gross receivables[1]	
	Past due	
195,171	Less than 12 months	1,379
202,752	1–2 years	195,171
584,616	Greater than 2 years	759,743
982,539	**Total past due**	**956,293**
982,539	**Total gross receivables**	**956,293**
100%	% Past due	100%
	Receivables—impairment	
1,473,933	Opening balance	754,489
271,708	Impairment losses recognised	83,509
(991,152)	Amounts written off as uncollectable	(180,634)
754,489	**Closing balance**	**657,364**

[1] Balances as at 30 June 2021 have been restated in line with the 2022 methodology.

The estimated recoverable amount of this portfolio and the significant assumptions underpinning the valuation of the carrying value receivables are shown below:

Actual 2021		Actual 2022
13,553	Recoverable amount of receivables not due—Crown entitlement ($000)	–
155,345	Recoverable amount of receivables past due—Crown entitlement ($000)	220,758
59,152	Recoverable amount of receivables past due—penalties ($000)	78,171
228,050	**Total carrying value**	**298,929**
4.00%	Discount rate	7.00%
(13,800)	Impact on the recoverable amount of a 1% increase in discount rate ($000)	(8,059)
14,700	Impact on the recoverable amount of a 1% decrease in discount rate ($000)	8,544

Credit risk

The Crown does not hold any collateral or any other credit enhancements over receivables for child support that 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.

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*).

The purpose of the Small Business Cashflow Scheme is to assist small-to-medium-sized businesses impacted by COVID-19. It provides loans to businesses employing 50 or fewer full-time equivalent employees for a maximum loan term of 5 years. The loans are administered by Inland Revenue.

Eligible businesses can borrow a $20,000 base amount plus an additional $1,800 per equivalent full-time employee, up to a maximum loan of $110,000. 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 for the first 2 years and then an interest rate of 3% per annum applies. Repayments are not required for the first 2 years, but voluntary payments can still be made. 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 2 years
- the time value of money will erode the value of future repayments because there is no interest charged in the first 2 years
- the interest rate of 3% charged is lower than the market interest rates for loans to small-to-medium-sized 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 and interest.

The nominal and fair values of loans are shown below.

Actual 2021 $000		Actual 2022 $000
737,988	**Opening fair value**	920,826
297,749	Lending	537,545
(142,920)	Fair value write-down on lending	(230,069)
(112,360)	Repayments	(362,278)
119,369	Interest unwind	122,575
21,000	Fair value remeasurement	(168,000)
920,826	**Closing fair value**	**820,599**
	Current and non-current apportionment	
253,000	Small Business Cashflow Scheme loans—current	183,000
667,826	Small Business Cashflow Scheme loans—non-current	637,599
920,826	**Fair value Small Business Cashflow Scheme loans**	**820,599**
1,423,441	**Opening nominal value**	1,609,132
297,749	Lending	537,545
(112,360)	Repayments	(362,278)
451	Interest	5,178
(149)	Write-offs	(4,317)
1,609,132	**Closing nominal value**	**1,785,260**

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 1 or more significant inputs is not observable.

Inland Revenue's financial assets as at 30 June 2022 were valued using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and no observable inputs (level 2). 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 2021 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2022 $000
	Financial assets	
920,826	Small Business Cashflow Scheme	820,599

The next section provides details on the model, and the table below 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. We provided data to the valuer on borrowing and repayments, and data on borrowers such as industry and region. The data is up to 30 June 2022.

The key assumptions in determining the $821 million fair value of Small Business Cashflow Scheme loans as at 30 June 2022 are the timing of principal and interest repayments and the default rate. The most critical assumption is the default rates which have 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 cash flows
- there are uncertainties from the impacts 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 fair value movement at 30 June 2022 is a decrease of $168 million (2021: $21 million increase). This decrease incorporates the following changes to the fair value:

- The discount rates and risk-free rates have increased since 30 June 2021, which has decreased the value of the scheme by $79 million (2021: $13 million increase).
- Expected repayment adjustments have decreased the value of the scheme by $89 million (2021: $8 million increase). $50 million of this decrease relates to the change in the interest rule; all loans are now interest-free for the first 2 years regardless of whether they are repaid within 2 years.

A breakdown of the fair value remeasurement—Small Business Cashflow Scheme loans reported in the S*chedule of non-departmental gains and losses* is set out below:

Actual 2021 $000		**Actual 2022 $000**
13,000	Discount rate adjustment	(79,000)
8,000	Expected repayment adjustment	(89,000)
21,000	**Total fair value remeasurement—Small Business Cashflow Scheme loans**	**(168,000)**

The significant assumptions and sensitivities behind the fair value are:

2021		2022
	Assumptions	
3.00%	Loan interest rate	3.00%
29.40%–29.50%	Default rates applied to lending years	30.70%–33.70%
13.00%	Discount rate	16.00%
	Sensitivities	
(60,000)	Impact on fair value of a 20% increase in the initial fair value write-down ($000)	(108,000)
60,000	Impact on fair value of a 20% decrease in the initial fair value write-down ($000)	108,000
(30,000)	Impact on fair value of a 10% increase in the initial fair value write-down ($000)	(54,000)
30,000	Impact on fair value of a 10% decrease in the initial fair value write-down ($000)	54,000

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 $500 million and $1.100 billion.

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 to repay their loans 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.

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 (Te Manatū Whakahiato Ora the 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 2021 $000		Actual 2022 $000
10,394,584	**Opening fair value**	10,841,485
(1,494,745)	Repayments	(1,604,679)
1,430,689	Borrowings transferred from Ministry of Social Development	1,294,249
(468,594)	Fair value write-down on new borrowings	(489,063)
745,000	Fair value remeasurements	(1,113,000)
234,551	Interest unwind	279,550
10,841,485	**Closing fair value**	**9,208,542**
	Current and non-current apportionment	
1,355,000	Student loans—current	1,506,000
9,486,485	Student loans—non-current	7,702,542
10,841,485	**Fair value student loans**	**9,208,542**
16,134,561	**Opening nominal value**	16,260,483
1,430,689	Borrowings transferred from Ministry of Social Development	1,294,249
(1,494,745)	Repayments	(1,604,679)
116,368	Penalties	120,678
92,836	Interest on overseas-based borrowers	68,605
21,996	Administration and establishment fees	21,821
(41,222)	Death and bankruptcies	(23,918)
16,260,483	**Closing nominal value**	**16,137,239**

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 1 or more significant inputs is not observable.

Inland Revenue's financial assets as at 30 June 2022 were valued using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and no observable inputs (level 2).

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 2021 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2022 $000
	Financial assets	
10,841,485	Student loans	9,208,542

The next section provides details on the model, and the table on page 200 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. Tatauranga Aotearoa Stats NZ collates most of the data for the actuarial valuation model from: Inland Revenue; Te Tāhuhu o te Mātauranga the Ministry of Education; and Te Manatū Whakahiato Ora 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 2021. In addition, supplementary data from Inland Revenue and Te Mana Ārai o Aotearoa the New Zealand Customs Service, about loan transactions and borrowers' cross-border movements for the period up to 31 March 2022, 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 2022 is a decrease of $1,113 million. This increase incorporates the following changes to the fair value:

- The discount rate adjustments have decreased the value of the scheme by $1,670 million (2021: $221 million increase). This is largely due to risk-free rate and risk adjustment changes. 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 adjustment. Since 30 June 2021, risk-free rates have increased, which has decreased the fair value of the student loan portfolio by $993 million. The risk adjustment increased from 1.65% to 3.08%, which is in line with market data, decreasing the fair value by $653 million.
- The non-COVID-19-related expected repayment adjustments have increased the value of the student loan portfolio by $443 million (2021: $257 million increase). They are:
  - Updated macroeconomic assumptions (non-COVID-19 related)—these have increased the fair value by $242 million (2021: nil). Salary inflation assumptions have increased this year, resulting in higher projected domestic incomes, New Zealand-based borrower obligations and repayments. Updated salary inflation assumptions have increased the fair value by $269 million.

  - The experience variance—this has increased the value by $89 million (2021: $80 million), largely due to expected negative impacts from COVID-19 not eventuating over the year and write-offs being lower than expected.
  - Updates to the expense assumption—these have increased the value by $68 million (2021: $4 million). This is largely due to Inland Revenue restating product costs for prior years to exclude business transformation costs. These costs were not meant to be included and so expenses in previous years have been overstated.
  - Other modelling changes, including the roll forward of data—these have increased the impaired value by $44 million (2021: $173 million).
- Expected payment adjustments for the impact of COVID-19 increase the fair value by $76 million (2021: $230 million increase). It is now expected that fewer New Zealand-based borrowers will be adversely impacted by COVID-19. However, we now expect more overseas-based borrowers to be impacted.
  - From 1 April 2021 to 31 March 2022, repayment levels have been positive for New Zealand-based borrowers, indicating little COVID-19 impacts. We now expect fewer New Zealand-based borrowers will be unemployed or underemployed than originally expected. This increased the fair value by $35 million.
  - The 2021 valuation included a provision for deterioration in value as a result of COVID-19 for New Zealand-based and overseas-based borrowers. As the economic outlook is looking favourable for New Zealand-based borrowers, and in recognition of this positive experience, we have released half of the domestic COVID-19 allowance. This has increased the fair value by $41 million. The remaining $35 million of the domestic COVID-19 allowance is no longer required, and has now been transferred to the COVID-19 allowance for overseas-based borrowers, resulting in a total provision of $135 million. This transfer had no impact on the fair value.
  - There were no macroeconomic changes specifically identified as relating to COVID-19 this year (2021: $128 million).

A breakdown of the fair value remeasurement—student loans reported in the *Schedule of non-departmental gains and losses* is set out below.

Actual 2021 $000		Actual 2022 $000
(391,000)	Risk-free rates	(1,017,000)
612,000	Risk adjustment	(653,000)
221,000	Discount rate adjustment	(1,670,000)
–	Macroeconomic effects	242,000
80,000	Experience variance	89,000
4,000	Expense assumption	68,000
173,000	Data and modelling changes	44,000
257,000	Expected repayment adjustment	443,000
54,000	COVID-19 impacts—model changes	76,000
48,000	Experience variance	–
128,000	Macroeconomic effects—impacts of COVID-19	–
230,000	Expected repayment adjustment—impacts of COVID-19	76,000
37,000	Repayment collection allowance	38,000
745,000	**Total fair value remeasurement—student loans**	**(1,113,000)**

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 a small amount of 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. 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:

- The proportion of overseas-based borrowers making a repayment is an important metric for the scheme, as the value of the loans of these borrowers hinges on their compliance. We have seen some deterioration in the proportion of overseas-based borrowers making a repayment in recent data and this has been reflected in the model. We have also allowed for a further deterioration through the COVID-19 allowance of $135 million. The duration and severity of this deterioration is still uncertain, as the impact of COVID-19, subsequent variants and other global factors on overseas countries remain extremely uncertain. There is therefore a risk that the deterioration is underestimated or overestimated in the valuation.
- There is uncertainty in the domestic and global economies as the COVID-19 pandemic progresses and economies around the world experience high inflation. For overseas-based borrowers, this has been accounted for in the COVID-19 allowance, the limitations of which are discussed in the above risk. For the domestic economy, the Treasury does not currently expect any large increases in unemployment in the short to medium term. There is a risk that this expectation may change, which could decrease expected future payments from New Zealand-based borrowers and hence decrease the value of the scheme.
- Migration in and out of New Zealand has been severely impacted by the Government response to the COVID-19 pandemic. With the borders recently fully reopened, there is uncertainty around whether net migration will return to pre-pandemic levels for student loan borrowers, or whether there may be a spike in the number of borrowers leaving New Zealand due to pent-up demand. No allowance has been made at this valuation as there is too much uncertainty about future net migration. There is a risk that experience may differ significantly from our assumptions.
- There have been substantial changes in key data sources as a result of Inland Revenue's business transformation and a number of issues were identified at this valuation. All identified issues have either been resolved or had workarounds applied. There is a risk that applied workarounds are not sufficient to correct the data, placing additional uncertainty on our results. There is also a risk that further errors in the data used in this valuation could be identified in the future.

The significant assumptions and sensitivities behind the fair value are:

2021		2022
	Assumptions	
10,841,485	Fair value ($000)	9,208,542
3.95%	Discount rate	7.36%
2.4%–5.00%	Interest rate applied to loans for overseas-based borrowers	2.8%–5.2%
1.16%–2.38%	Consumer Price Index	1.76%–6.56%
2.43%–4.49%	Future salary inflation	3.00%–6.12%
	Sensitivities	
109,000	Impact on fair value of a 1% increase in average wage earnings inflation over 5 years ($000)	102,000
(113,000)	Impact on fair value of a 1% decrease in average wage earnings inflation over 5 years ($000)	(106,000)
153,000	Impact on fair value of a 2.5% increase in overseas-based borrowers making repayments ($000)	130,000
(160,000)	Impact on fair value of a 2.5% decrease in overseas-based borrowers making repayments ($000)	(99,000)
(598,000)	Impact on fair value of a 1% increase in discount rate ($000)	(404,000)
668,000	Impact on fair value of a 1% decrease in discount rate ($000)	444,000
67,000	Impact on fair value of a 1% increase in borrowers going overseas ($000)	24,000
(38,000)	Impact on fair value of a 1% decrease in borrowers going overseas ($000)	(19,000)
46,000	Impact on fair value of a 1% increase in borrowers returning to New Zealand ($000)	51,000
(53,000)	Impact on fair value of a 1% decrease in borrowers returning to New Zealand ($000)	(56,000)
71,000	Impact on fair value of a 1% increase in borrowers moving from low earner to high earner ($000)	53,000
(65,000)	Impact on fair value of a 1% decrease in borrowers moving from low earner to high earner ($000)	(56,000)

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.

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 Student Loan Scheme Annual Report at **educationcounts.govt.nz**

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 mainly represents the annual government contribution payments to be paid in July 2022. The balance also includes a small amount of contributions yet to be forwarded to scheme providers at balance date.

Actual 2021 $000		Actual 2022 $000
4,432,472	Taxes refundable	4,476,574
938,487	KiwiSaver payable	975,524
13,170	Paid parental leave payable	14,535
5,384,129	**Total refundables and payables**	**5,466,633**

Note 9. Unclaimed monies

Under the Unclaimed Money Act 1971, entities (for example, financial institutions and insurance companies) transfer money not claimed after a prescribed length of time (usually 6 years) to Inland Revenue. The funds are repaid to the entitled owner on proof of identity.

Unclaimed money that is received or held by Inland Revenue becomes unclaimable when there is no identifying information, the amount is less than $100 or the money is unclaimed for 25 years or more.

Note 10. Reserve schemes

Actual 2021 $000		Actual 2022 $000
272,812	Income equalisation	310,584
48,693	Environmental restoration	60,873
321,505	**Total reserve schemes**	**371,457**

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.

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 Te Kaporeihana Āwhina Hunga Whara 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 2021–22, ACC paid Inland Revenue $14 million for these services (2020–21: $14 million).

Actual 2021 $000		Actual 2022 $000
1,880,112	Earner levy	2,120,237
1,880,112	**Total collection of earner levy**	**2,120,237**

Note 13. Events after balance date

There have been no significant events after balance date.

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 2022

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 127 to 161, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2022, the statement of comprehensive revenue and expense, statement of changes in taxpayers' funds, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by Inland Revenue for the year ended 30 June 2022 on pages 52 to 90;
- the statements of expenses and capital expenditure of Inland Revenue for the year ended 30 June 2022 on pages 93 to 96;
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 166 to 202 that comprise:
    - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2022;
    - the schedules of expenses; and revenue for the year ended 30 June 2022;
    - the statement of trust monies for the year ended 30 June 2022; 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 127 to 161:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2022; 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 52 to 90:
    - presents fairly, in all material respects, for the year ended 30 June 2022:
        - 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 93 to 96 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989; and
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 166 to 202 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 2022;
    - expenses; and revenue for the year ended 30 June 2022; and
    - the statement of trust monies for the year ended 30 June 2022.

Our audit was completed on 29 September 2022. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the significant uncertainties with some transactions and balances that are included in the schedules of non-departmental activities. 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 – Significant uncertainties

Without modifying our opinion, we draw attention to the following matters in the non-departmental statements and schedules.

- **Estimation of income tax revenue for companies and other persons**
  Note 3 on pages 182 to 185 outlines the significant uncertainties, assumptions, and sensitivities in estimating income tax revenue for companies and other persons for the year ended 30 June 2022.

The methodology used to estimate income tax revenue for companies and other persons is based on macroeconomic forecasts about economic performance. There is uncertainty in the assumptions used in the macroeconomic forecasts and the relationship between those forecasts and tax revenue.

- **Impairment of tax receivables**
  Note 4 on pages 186 to 188 outlines the significant uncertainties, assumptions, and sensitivities in estimating the value of tax receivables and associated impairment as at 30 June 2022. The impairment of tax receivables is calculated based on expected future repayments. The future repayments are uncertain because of the uncertainty associated with the estimation of the repayment behaviour of debtors.
- **Student loans**
  Note 7 on pages 195 to 200 outlines the significant uncertainties, assumptions, and sensitivities in estimating the fair value of the student loan portfolio as at 30 June 2022. The fair value is based on expected future income levels and debt repayments. The expected future income levels and debt repayments are uncertain because they are dependent on macroeconomic factors and the behaviour of borrowers.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Commissioner for the information to be audited

The Commissioner is responsible on behalf of Inland Revenue for preparing:

- financial statements that present fairly Inland Revenue's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand;
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand;
- statements of expenses and capital expenditure of Inland Revenue, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by Inland Revenue on behalf of the Crown.

The Commissioner is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Commissioner is responsible on behalf of Inland Revenue for assessing 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 2021-2025, the relevant Estimates and Supplementary Estimates of Appropriations 2021/22, and the 2021/22 forecast financial figures included in Inland Revenue's 2020/21 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 51, 91 to 92, 97 to 126, 162 to 165, and 207 to 216 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

Delegations outside the Public Service

In accordance with Schedule 6 of the Public Service Act 2020 we are required to report on situations where the Commissioner has delegated any of the Commissioner powers outside the Public Service.

Westpac

The Commissioner has delegated powers under the Treasury Delegations to Westpac's Corporate and Institutional Banking Unit to enable it to effectively manage the movement of payments received in Inland Revenue's Australian WBC Account (Payments) to Inland Revenue's Westpac New Zealand Account. This delegation allows Westpac to transfer the payments out of Inland Revenue's WBC Australia Account to Inland Revenue's Westpac New Zealand AUD Account, apply the foreign exchange rate to the AUD amount and then transfer the NZD amount to Inland Revenue's Westpac New Zealand Account. This delegation has been operating as intended in line with the contractual arrangements with Westpac.

Callaghan Innovation

Callaghan Innovation and Inland Revenue act in partnership to determine entitlement to the Research and Development Tax Incentive (RDTI). To fully enable discussions with customers, agents and experts in relation to applications for the RDTI, the Commissioner has delegated powers to share information under section 18 of the Tax Administration Act 1994 to staff in Callaghan Innovation who consider RDTI applications. This delegation is limited to information that relates to RDTI applications and has been working as intended.

Madison Recruitment Ltd

Inland Revenue engaged Madison Recruitment Ltd to provide contingent labour to help with the introduction of the Cost of Living Payment and to provide additional support with other specific tasks due to the ongoing impact of COVID-19. The first Madison personnel began undertaking their engagement in June 2022. To enable the Madison personnel to fully undertake the engagement, the Commissioner delegated some powers to those Madison personnel. This delegation has been operating as intended in line with the contractual arrangements with Madison Recruitment.

Information sharing with Te Tari Taiwhenua the Department of Internal Affairs

Under information sharing regulations, Inland Revenue must report annually, for this approved information-sharing agreement (AISA), on actions taken during the financial year. A copy of the approved AISA is available to view at **ird.govt.nz/about-us/information-sharing/information-sharing/dia**

	Financial year ending 30 June 2021	Financial year ending 30 June 2022
Contact records received from DIA	99,049	104,498
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 debtors	95,125	101,913
Contact records matched to corresponding Inland Revenue records for:		
• overseas-based child support debtors	23	245
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	381	8
• overseas-based student loan debtors	3,027	2,109
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	493	223
Individuals successfully contacted[1] using contact records matched to:		
• overseas-based child support debtors	0 (0%)	22 (9.0%)
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	5 (1.3%)	0 (0%)
• overseas-based student loan debtors	338[2] (11.2%)	78 (3.7%)
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	31[2] (6.3%)	4 (1.8%)
Payments received from individuals as a result of successful contact with:		
• overseas-based child support debtors	0 ($0)	2 customers, 16 payments, ($2,671)
• overseas-based student loan debtors	702[2] payments ($130,110)[2]	9 customers, 183 payments ($12,566)
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Inland Revenue:		
• overseas-based child support debtors	0% (0 individuals)	1.6% (4 individuals)
• overseas-based student loan debtors	2.9% (89 individuals)[2]	0.9% (18 individuals)
Ongoing programme operating costs[4]	$1,728	$1,728

[1] From 2,585 matches, 104 have passed our identity process.

[2] Figures for 338, 31, 702, $130,110 and 89 are updates to the figures in Inland Revenue's 2020–21 Annual Report.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

[4] Approximate annual incidental administrative charge.

Information sharing with Ngā Pirihimana o Aotearoa New Zealand Police; Te Mana Ārai o Aotearoa the New Zealand Customs Service; and Te Tari Hara Tāware the Serious Fraud Office

Our approved information-sharing agreement (AISA) with New Zealand Police, the New Zealand Customs Service and the Serious Fraud Office sets out key activities that we need to report on each year in our annual report.

Under sections 154(1)(b), 155 and 156 of the Privacy Act 2020, 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 at **ird.govt.nz/about-us/information-sharing/information-sharing/nz-police**

Information shared from 1 July 2021 to 30 June 2022

Please note that the Memorandum of Understanding with the New Zealand Customs Service and the Serious Fraud Office was signed in December 2020, so the sharing with those agencies started from January 2021 onwards.

Agency	Serious Fraud Office		New Zealand Customs Service		New Zealand Police	
Description	2020–21	2021–22	2020–21	2021–22	2020–21	2021–22
Number of requests for information made by the agency	6	3	1	4	332	346
Number of responses with information provided by Inland Revenue to the agency	6	8	1	4	315	322
Number of occasions Inland Revenue proactively provided information to the agency	1	0	1	1	4	1

Costs

The estimated costs of the information-sharing agreement for the year ended 30 June 2022 are:

- New Zealand Police: $18,130.50
- Serious Fraud Office: $639.00
- New Zealand Customs Service: $432.00.

Benefits

The number of times information provided by Inland Revenue has been used in a case with a resolution of:

Agency	Serious Fraud Office		New Zealand Customs Service		New Zealand Police	
Description	2020–21	2021–22	2020–21	2021–22	2020–21	2021–22
No offence					75	59
Prosecution	4	4		2	92	102
Warning					1	3
Still under investigation	2	2	1	2	147	159
No response received (still in progress)					17	

Assurance

There have been no instances identified of information being shared contrary to the AISA.

Information sharing with Te Manatū Whakahiato Ora the Ministry of Social Development (MSD)

Under sections 154(1)(b), 155 and156 of the Privacy Act 2020, the Privacy Commissioner has specified the following reporting in respect of the approved information sharing agreement listed in Schedule 2A of the Privacy Act between Inland Revenue and the Ministry of Social Development (MSD) to facilitate the following public services:

(a) The accurate and efficient assessment of eligibility for, and entitlement to, benefits and subsidies.

(b) The accurate and efficient assessment and enforcement of tax obligations, including recovering any associated debt, and

(c) The accurate and efficient assessment and enforcement of obligations relating to benefits and subsidies, including recovering any associated debt.

Inland Revenue will collate the following information annually (for the period between 1 July and 30 June) and report the information in its annual report for that year:

Scale

Metric	Shares derived from:	2020–21	2021–22
Administration of shared services:			
Number of records disclosed (MSD to Inland Revenue)	Commencement/ cessation of benefits/ students	610	144
	Child support administration	94,378[1]	470,567[2]
	Student loan programme	24,531,906	18,683,988
Number of records disclosed (Inland Revenue to MSD)	Community Services Card	3,066,557	2,380,817
	Commencement/ cessation of benefits/ students	610	144
	Proactive information share—benefits and students	303,626	1,130,036
	Child support administration	402,047[1]	180,351[2]
	Student loan programme	387,504	331,213

Benefits (Quantitative)

Metric	Shares derived from:	2020–21	2021–22
Administration of shared services (Inland Revenue):			
Number of services automatically transferred	Working for Families Tax Credit (WfFTC) administration	19,667	16,126
Number of services stopped (overpayments)	WfFTC double payment (number)[4]	995	1,985
Services offered or renewed (number)	Community Services Card	415,134	369,241
Service cancellations (number)	Proactive information share—benefits and students	33	594
Adverse action notices (number sent)	Community Services Card	14,473	6,624
	Commencement/ cessation of benefits/ students	1	0
	Proactive information share—benefits and students	15,985[3]	72,953
Challenges (number received and number upheld)	Community Services Card (received)	75	0
	Community Services Card (upheld)	23	0
	Commencement/ cessation of benefits/ students (received)	0	0
	Commencement/ cessation of benefits/ students (upheld)	0	0
	Proactive information share—benefits and students (received)	176	1,010
	Proactive information share—benefits and students (upheld)	36	234
Overpayments established (number and value)	Commencement/ cessation of benefits/ students (number)	0	0
	Commencement/ cessation of benefits/ students (value)	$0	$0
	Proactive information share—benefits and students (number)	5,247	24,835
	Proactive information share—benefits and students (value)	$12,363,552	$65,459,722

Benefits (Quantitative) cont.

Metric	Shares derived from:	2020–21	2021–22
Arrears created (number and value)	Commencement/ cessation of benefits/ students (number)	0	0
	Commencement/ cessation of benefits/ students (value)	$0	$0
	Proactive information share—benefits and students (number)	0	29
	Proactive information share—benefits and students (value)	$0	$4,418
Referrals for suspected fraud (number)	Proactive information share—benefits and students	0	0
Prosecutions successful (number)	Proactive information share—benefits and students	5	2

Notes

[1] Estimated (as agreed with the Office of the Privacy Commissioner).

[2] Actual figure. Child support data has now been migrated to Inland Revenue's new START system.

[3] The programme was on hold for most of the year, as MSD staff were diverted to other priority COVID-19-related tasks, resulting in a reduction in proactive information share activities (note that records were still received from Inland Revenue). The figure reported for 'proactive information share—benefits and students' means 'clients with a case or an investigation created by MSD'. An adverse action letter may not need to be sent to the client in all situations, and in other situations, multiple letters may be sent.

[4] The $ value of the WfFTC double payment could not be assessed due to a change of reporting system within Inland Revenue.

Qualitative benefits

In the 2021–22 year:

- The information sharing under this AISA has effectively helped MSD to assess eligibility for Community Services Cards, benefits and subsidies and to identify overpayments. It is also the most effective way for Inland Revenue and MSD to ensure customers receive their correct Working for Families Tax Credit entitlements.
- There have been no data breaches under the AISA.
- Data was continually shared throughout this reporting period. However, actions were not carried out by MSD as a result of resources being diverted to the COVID-19 response. This has impacted both the 'commencement/ cessation of benefits/ students' match and 'proactive information share' recorded values within this reporting period.

Assurance

In the 2021–22 year:

- MSD and Inland Revenue have received no privacy complaints about the operation of the information sharing under the AISA.
- There has been no change to the Order in Council.

Information sharing with approved credit reporting agencies

In the year ended 30 June 2022, the Commissioner has not communicated any taxpayer information to an approved credit reporting agency.

Appendix 1: Glossary

Term	Definition
Advance pricing agreements (APAs)	A co-operative approach to addressing transfer pricing compliance. They produce significant time and cost savings, and certainty of outcomes for both tax authorities and multinationals in comparison with adversarial audits. APAs encourage upfront taxpayer compliance and early resolution of potential disputes.
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 2020. See: privacy.org.nz/privacy-for-agencies/information-sharing/
Automatically calculated individual income tax assessments	We automatically calculate income tax assessments for individual customers if we have all their income information (income from employment, investments such as bank deposits or savings interest or a benefit under an employment share scheme) for the tax year.
Bright-line rule	People who sell a residential property within 10 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.
Cost of Living Payment	Three payments to help eligible people with the rising costs of inflation. Customers do not need to apply for the payments, but we do need their bank account details.
COVID-19 Support Payment (CSP)	This was a payment to help support eligible businesses and organisations that had experienced a drop in revenue as a result of COVID-19.
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.
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 Appropriations for the Government of New Zealand.)
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. the public perception of that integrity; and b. the rights of persons to have their liability determined fairly, impartially, and according to law; and c. the rights of persons to have their individual affairs kept confidential and treated with no greater or lesser favour than the tax affairs of other persons; and d. the responsibilities of persons to comply with the law; and e. the responsibilities of those administering the law to maintain the confidentiality of the affairs of persons; 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: treasury.govt.nz/statesector/investmentmanagement/review/icr
Māhutonga	Our strategic approach that seeks to integrate te Tiriti o Waitangi and te ao Māori into everything we do.
Maihi Karauna	The Crown's Strategy for Māori Language Revitalisation. It outlines what the Crown will do to support a strong, healthy, thriving Māori language in New Zealand.
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 and social policy information online.
Organisation for Economic Co-operation and Development (OECD)	Provides a forum in which the governments of 38 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: oecd.org
People capability	The skills, knowledge, experience and attributes required to achieve our outcomes.
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.
Resurgence Support Payment	This was a payment to support eligible businesses and organisations that had experienced a drop in revenue due to a COVID-19 alert increase to level 2 or higher.

Small Business Cashflow Scheme	A loan available to eligible organisations and small to medium-sized 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 taxation and revenue system.
Tax and Social Policy Work Programme	Sets out Inland Revenue's policy focus. The aim for 2021–22 is to continue the focus on fairness and integrity in the tax 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'.
Te Arawhiti	The Crown agency dedicated to fostering strong, ongoing and effective relationships with Māori across government.
Wage Subsidy Scheme	A scheme introduced by the Government to support employers and sole traders if they were affected 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 organisation, and to help us create the culture we want for Inland Revenue.

Photo credits

Ben Mack: inside front cover

Rod Petsef: pages 9, 29, 43 and 97

Margaret King: page 47

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Te Kāwanatanga o Aotearoa
New Zealand Government