

21 August 2026

[Redacted]
[Redacted]

Dear [Redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 31 July 2026. You requested the following:

Please provide a .pdf of your 2012/13 and 2013/14 Annual Reports. They are no longer anywhere on your website.

Please find attached to this letter copies of the two documents you have requested.

Right of review

If you disagree with my decision on your OIA request, you have the right to ask the Ombudsman to investigate and review my decision under section 28(3) of the OIA. You can contact the office of the Ombudsman by email at: info@ombudsman.parliament.nz.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Teresa Dillon
Domain Lead – Performance and Reporting

ANNUAL REPORT 2013



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TO THE MINISTER OF REVENUE

Under the provisions of the Public Finance Act 1989 and the Tax Administration Act 1994, I present the following report on my administration of the Inland Revenue Acts for the year ended 30 June 2013, and on the operations of the Inland Revenue Department for that year, together with the audited financial statements.

A handwritten signature in blue ink that reads "Naomi Ferguson". The signature is fluid and cursive, with the first name "Naomi" and the last name "Ferguson" clearly distinguishable.

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue

COMMISSIONER'S INTRODUCTION



2013 was a good year for Inland Revenue—and that means a good year for New Zealand. Inland Revenue makes sure money is available to government to fund what is important to New Zealanders. This year we've done new and different things to make it as easy as possible for people to make and receive payments; and to prevent fraud

and manage debt. Overall, we collected almost \$54 billion in Crown revenue.

CUSTOMER SERVICE

Customers tell me that using our digital services is convenient and easy, and the numbers back that. More than 1.6 million people are registered for myIR, our secure online services. During the year we introduced new digital services like 'eGST' for fast, authenticated GST registration and filing, plus text and e-alerts for registered customers. We also set up a B2B (business-to-business) service for tax refund intermediaries which made it easier for customers to get tax refunds very quickly. These all helped raise satisfaction with our online services to 94%.

We saved people's time with online services—and in other ways. Parents can now apply for an IRD number for their baby when they register the birth with Department of Internal Affairs, by just ticking a box and adding a couple of details. Phone customers continued to take up secure voice identification to cut their waiting time—more than 750,000 people are now registered.

I'm pleased that Inland Revenue has done well tackling problems in the community where people are avoiding obligations. We've made inroads into the hidden economy, property speculation, fraud and tax avoidance. We made it easier for overseas student loan borrowers to pay, and we shared information with other departments—while maintaining customer privacy—that saved millions of taxpayer dollars.

Our debt performance is the best it's been in years. Earlier intervention has helped prevent people getting into debt, and we've seen a year-on-year reduction in outstanding returns.

We helped with the recovery of Canterbury and continue to support the Christchurch Rebuild, and we started to reform Child Support processes.

I recognise there were problems for customers trying to get through on phones this year, and we have other areas for

improvement in our core services. We will continue to work on these, alongside planning for future change.

I'm proud of our performance, and it gives me great confidence that we'll manage the big changes ahead well.

CHANGING INLAND REVENUE

Our world is different now from even five years ago. People expect more from government services. Inland Revenue is changing how we work to meet those expectations and make it faster, easier and cheaper to do business with us. Our transformation programme, approved in principle by Cabinet in April, will create a 21st century tax administration that helps make New Zealand a good place to live, work and grow a business.

Over the next few years we will simplify Inland Revenue processes, policies and systems. We'll transform our technology, and use combined understanding of customer needs to design and deliver integrated services that work across government. The change is already underway, and our new Executive Leadership team formed earlier this year is driving and supporting the transformation.

CREATING BETTER PUBLIC SERVICES

We are not changing Inland Revenue in isolation. New Zealanders want better services and better value from government. People shouldn't have to know how agencies work to get the services or support they need. Better Public Services is building a responsive and integrated public sector: as we change Inland Revenue we're working with other departments to find different ways to provide better public services. We're sharing expertise and information with many other agencies, and we're improving how people and businesses can connect with government through better digital services.

We've made excellent progress on many fronts in 2013. A major reason is the professionalism, commitment and capability of our people who demonstrate our core values of trust, integrity, innovation and co-operation every day. I am confident Inland Revenue has the people and the strengths to develop innovative and effective new ways of working in future and will continue to deliver results for New Zealanders.

A handwritten signature in blue ink that reads "Naomi Ferguson". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue

INLAND REVENUE'S CHARTER

How we will work with you

Inland Revenue collects money to pay for public services. We help people to meet their obligations and receive their entitlements. We work within the Inland Revenue Acts and other relevant laws, and our actions are consistent with the spirit of the Treaty of Waitangi.



How we will work with you

- We will be easy to deal with, prompt, courteous and professional.
- We will follow through on what we say we will do.
- We will be responsive to individual, cultural and special needs.
- The person you are dealing with will give you their name.
- We will value your feedback and use it to improve our services.



Consistency and equity

- We will apply the law consistently so everyone receives their entitlements and pays the right amount.
- We will take your particular circumstances into account as far as the law allows.



Reliable advice and information

- We will provide you with reliable and correct advice and information about your entitlements and obligations.
- We will assist you to get in touch with the right people for your needs.
- We will be well-trained and competent.
- We will keep looking for better ways to provide you with advice and information.



Your right to question us

- We will make it easy for you to question the information, advice and service we give you. We will inform you about options available if you disagree with us, and we will work with you to reach an outcome quickly and simply.



Confidentiality

- We will treat all information about you as private and confidential, and keep it secure. We will only use or disclose it in accordance with the law.



For this charter to work effectively, we rely on each customer to provide all relevant information when dealing with Inland Revenue.

Naomi Ferguson
Commissioner of Inland Revenue

www.ird.govt.nz



Inland Revenue
Te Tari Taake

HIGHLIGHTS OF THE YEAR

PROVIDING BETTER SERVICES

- We have 1.6 million customers registered for myIR, our secure online services, 30% more than last year.
- 750,000 customers are now enrolled for voice ID. This is the highest enrolment for a voice biometrics service per capita in the world.
- 94% of online services customers are satisfied with our service.
- Over half the customers who used our unauthenticated GST online form, have moved to our new authenticated online GST filing service.
- Nearly 95% of new parents are now choosing to apply for an IRD number for their baby when they register the birth with the Department of Internal Affairs.

IMPROVING COMPLIANCE

- The Court of Appeal unanimously held that the Optional Convertible Notes (OCN) arrangement entered into by Alesco and 12 other taxpayers, involved tax avoidance. The total amount at issue in all OCN cases is over \$300 million.
- We released Inland Revenue's Interpretation Statement on tax avoidance which gives greater certainty to our customers.
- This year, we collected tax revenue of \$53.8 billion and \$1.2 billion of other revenue. This is a 10.0% increase from the previous year.
- Our information sharing has enabled the Ministry of Social Development to cancel more than 3,000 benefits being paid to people who were not entitled to them.
- This year, total overdue debt increased by 1% compared to an increase of 7% in each of the previous two years.
- We had a 3.5% decrease in the number of outstanding returns. This is the first time we have seen a year-on-year reduction in ten years.

CHANGING OUR ORGANISATION

- We formed a new Executive Leadership Team and governance structure which will provide a greater focus on our customers, and drive the changes required over the next few years.
- The Transformation Programme Business Case was approved in principle by Cabinet in April 2013. We are developing a transformation programme roadmap.
- With our move into our new Mid City premises we became the first government agency to return to the Christchurch central business district.
- This year, the CIO Magazine has ranked Inland Revenue's IT group at 6/100 against all other New Zealand IT organisations.

Part 1

OUR STRATEGIC DIRECTION

GOVERNMENT PRIORITIES

Inland Revenue makes an important contribution to the economic and social wellbeing of New Zealanders by collecting and making payments. We interact with more New Zealanders than any other government agency.

Inland Revenue's strategic direction has been developed in the context of the Government's priorities for the state sector, which are to:

- responsibly manage the Government's finances
- build a more competitive and productive economy
- deliver better public services within tight fiscal constraints
- rebuild Canterbury.

Much of our work aligns and contributes to the achievement of these priorities. This includes:

- the administration of the tax and social policy systems we are responsible for
- our contribution to the Better Public Services programme and our related work with other agencies, eg, information sharing to improve compliance
- our work on the Canterbury Rebuild, which involves work with many other agencies and has enabled us to test new and better ways of providing services to customers
- our work to develop and promote self-service options to our customers, which make it easier for them to comply with their obligations
- the tax policy work programme.

Implementing Government legislative reform is a key priority for Inland Revenue. This year we worked on:

- **child support reform**—the reforms in the Child Support Amendment Act 2013 will be implemented in two stages, effective 1 April 2014 and 1 April 2015.
- **student loan changes**—this year we rolled out many of the student loan changes announced by the Government in Budget 2012, and the residual changes in the Student Loan Scheme Act 2011 and Student Loan Scheme Amendment Act 2012. The remaining changes are scheduled to be rolled out in October and December 2013.

See Part 3 for more information about our contributions to achieving the Government's priorities.

IR FOR THE FUTURE

We set out our mission and strategic direction in *IR for the future*. It describes what we want to be as an organisation and how we will get there (see figure 1). Our mission is:

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

What we are trying to achieve is reflected in two outcomes.

- 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.

OUR STRATEGIC PRIORITIES

IR for the future also identifies the strategic priorities that we will focus on as we change the way we work. These priorities focus on building our information and intelligence capability, improving our systems, aligning our resources, and investing in the future skills necessary to transform how we work.

- We retain, develop and attract high-calibre people with the skills required in the future—enabling a culture of service and excellence.
- We proactively influence voluntary compliance and address the causes of compliance risk and threats through a range of interventions.
- We move customers to cost-effective channels while creating an environment to make it easy for customers to self-manage.
- We improve the efficiency and effectiveness of government through working with other agencies and private providers.
- We use our information to make timely decisions and build an intelligence-led organisation.
- Our systems meet current and future needs.

FIGURE 1–
IR FOR THE FUTURE

What we are here for

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

Our success is reflected in two outcomes:

- 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.

What we want to be

A world-class revenue organisation recognised for service and excellence

We work with customers and other organisations to make compliance easy and to give New Zealanders confidence that everyone pays and receives the right amount.

To be recognised for service and excellence we aim to achieve the performance goals that define a world-class revenue organisation. These are:

- Speed
- Certainty
- Compliance
- Value

What's important to us in how we work

Trust and integrity
Innovating to make a difference

Valuing people
Working together

These values support a culture based on good relationships, continuous improvement and collaboration, so that we can achieve our performance goals.

Our challenges

We need to:

- Reduce our cost of administration
- Maintain government revenue in a challenging economic environment
- Work more across government to improve services
- Respond to the challenges of an increasingly digital world
- Improve the quality of information we use to make business decisions
- Improve the responsiveness and agility of systems that hold and process business information

Our transformation goals

The key features of our business in the future will be:

- Efficient self-management options for customers that provide speed and certainty
- A broader approach to compliance based on smarter use of information and a wider range of interventions
- A range of different working relationships with other organisations, including strategic partnerships to deliver some services
- Less transactional work and less direct contact with customers
- Excellence in complex technical work
- More automation and streamlined information flows
- Greater use of commercial IT products in our systems and services
- A healthy culture which our people value and thrive in

OUR CHALLENGES

The environment we will be operating in over the next ten years will be shaped by a number of key drivers.

Worldwide, nations are facing the challenges of a changing world. These include the impacts of globalisation, the emergence of new political and economic powers and rapid technological change. Populations are also changing through increasing migration, urbanisation and social diversity, coupled with generational change and ageing populations. There are also changing expectations of the role and operation of government to a more open system where people have a greater say in design and delivery of services. A heightened awareness exists about environmental protection and resource management.

The direct challenges for Inland Revenue and the way we will operate are described at a high level in *IR for the future*.

Reduce our cost of administration

Like all government agencies we are facing pressure to deliver within a constrained financial baseline. We are expected to reduce our administration costs while also delivering improved value for money for government and better services for New Zealanders. We need to do this while managing risks associated with the ongoing delivery of our core business, maintaining the integrity of the tax and social policy system and advancing our major transformation programme.

Maintain government revenue in a challenging environment

As a small country, New Zealand is vulnerable to negative impacts from global economic change. Average economic growth is predicted over the next few years, although we expect an economic boost from the Canterbury Rebuild. To retain our revenue base, we will need to respond to domestic and international threats from tax avoidance and tax evasion. The increased complexity of global business operations will require active involvement in cross-country solutions to protect revenue, eg, the OECD work on tax base erosion and profit shifting by multinationals¹. We can also help by implementing government policy changes that help support New Zealand's fiscal position and enable New Zealand businesses to compete better internationally. The opportunities presented by the emergence of strong economies in Asia will also be increasingly important to us.

Increase cross-government work to improve services

There is an enhanced focus on the state sector contributing to more innovative and efficient service delivery in line with the expectations of government and New Zealanders. The Better Public Services programme developed from the requirement for agencies to collaborate more in the future. We are expected to be major contributors to developing solutions and delivering results for New Zealanders. New cross-sector arrangements, leadership roles and accountability arrangements are being developed to support this approach. Our future world will see enhanced information sharing across agencies, but this will need to be balanced with the need to protect the confidentiality and privacy of New Zealanders and maintain the integrity of the tax system. We may also increasingly use third parties to deliver some services.

Respond to the challenges of an increasingly digital world

We need to keep pace with rapid technology change, the expectations of our customers, their increasing digital literacy and access to mobile devices. They expect to receive services in the same way as they deal with any other institution or service provider. We aim to enable our customers to serve themselves in a more cost-effective way by using digital channels. In the future there will be new and emerging risks around information security, privacy and identity authentication that we will need to manage.

Improve the quality of the information we use to make business decisions

Inland Revenue holds a large amount of information and knowledge that is not fully utilised. We recognise that it is an important resource and that we can improve the way it is managed and analysed. By doing this we can make better informed management decisions and use resources more effectively. It is also an important element in our new coordinated information, intelligence and communications function.

¹ Shifting profits across borders to take advantage of tax rates that are lower than in the country where the profit is made.

Improve the responsiveness and agility of our business information systems

We need to manage the constraints of our current infrastructure to achieve our goal to implement government initiatives faster. There are layers of complexity and risk in our current processes and our core infrastructure, which have developed over time. Developing a “future-proofed” response by advancing our transformation programme, will be fundamental to addressing this challenge.

Changing customer base and workforce

We need to understand how New Zealand’s population is changing to enable us to meet the needs of our future customers and understand the implications for our workforce planning. An ageing population will have associated economic costs and could potentially affect revenue in the future. People will also have longer working lives, which affects our future workforce planning. We will also need to ensure that we have the different capabilities and skills and organisational culture required to deliver in the future. The ethnic make-up of the New Zealand population is also changing, with increasing numbers of new migrants requiring different services.

CHANGING INLAND REVENUE

Inland Revenue's transformation will build the capabilities required to deliver the transformation goals set out in *IR for the future*. This will significantly change the way New Zealanders interact with Inland Revenue and with government in general and improve the way we deliver services to our customers.

To enable Inland Revenue to become a world-class revenue organisation, we will need to fundamentally change our operating model in the following ways:

- **Customer**—simple, clear and integrated delivery of services to customers across channels and products. Smarter use of data and intelligence to enable earlier interventions by Inland Revenue and greater self-management by customers.
- **Information**—increased information and intelligence sharing with other agencies while protecting privacy, to enable increased cross-agency collaboration and better public service.
- **Process**—customer-centric, seamless and streamlined processes including more automation, greater standardisation and better monitoring. Processes will optimise the use of technology as part of the all-of-government ICT strategy.
- **Policy**—improved ability to respond to and implement policy changes and requirements in a timely manner.
- **People**—Inland Revenue people will have the broad capabilities needed to deliver business objectives and meet customer expectations. Our people will be adept in re-using common processes, services and applications, and be comfortable working across organisational and sector boundaries.
- **Platform**—a technology platform that is flexible, scalable and reliable. Inland Revenue's technology approach will mark it as a leader within government and create a secure foundation for on-demand data-sharing and collaboration across agencies and with third parties.

Cabinet considered the Transformation Programme Business Case in April 2013. It approved in principle our direction of travel and directed that the Government ICT Ministerial Group and the Minister of Revenue, provide Inland Revenue with oversight and guidance on the proposed transformation.

During the coming year, we will engage with New Zealanders and businesses to ensure we have considered their needs. We will give them the opportunity to be involved in the design of services and ensure that they see the changes proposed as valuable. In August 2013, the Minister of Revenue will officially launch our transformation programme and we will release our Transformation Market Brief.

Depending on the scope of our transformation activities at any time, we will need to access different capabilities and capacity. We may have to source these externally and we are engaging with the market during 2013–14 to raise awareness of potential opportunities.

We will also be implementing a number of short-to-medium term initiatives, which will help us to improve the cost-effectiveness of our services. See Part 3 for more information about our progress in improving the way we work.

Part 2

OUR PERFORMANCE

OUR OUTCOMES FRAMEWORK

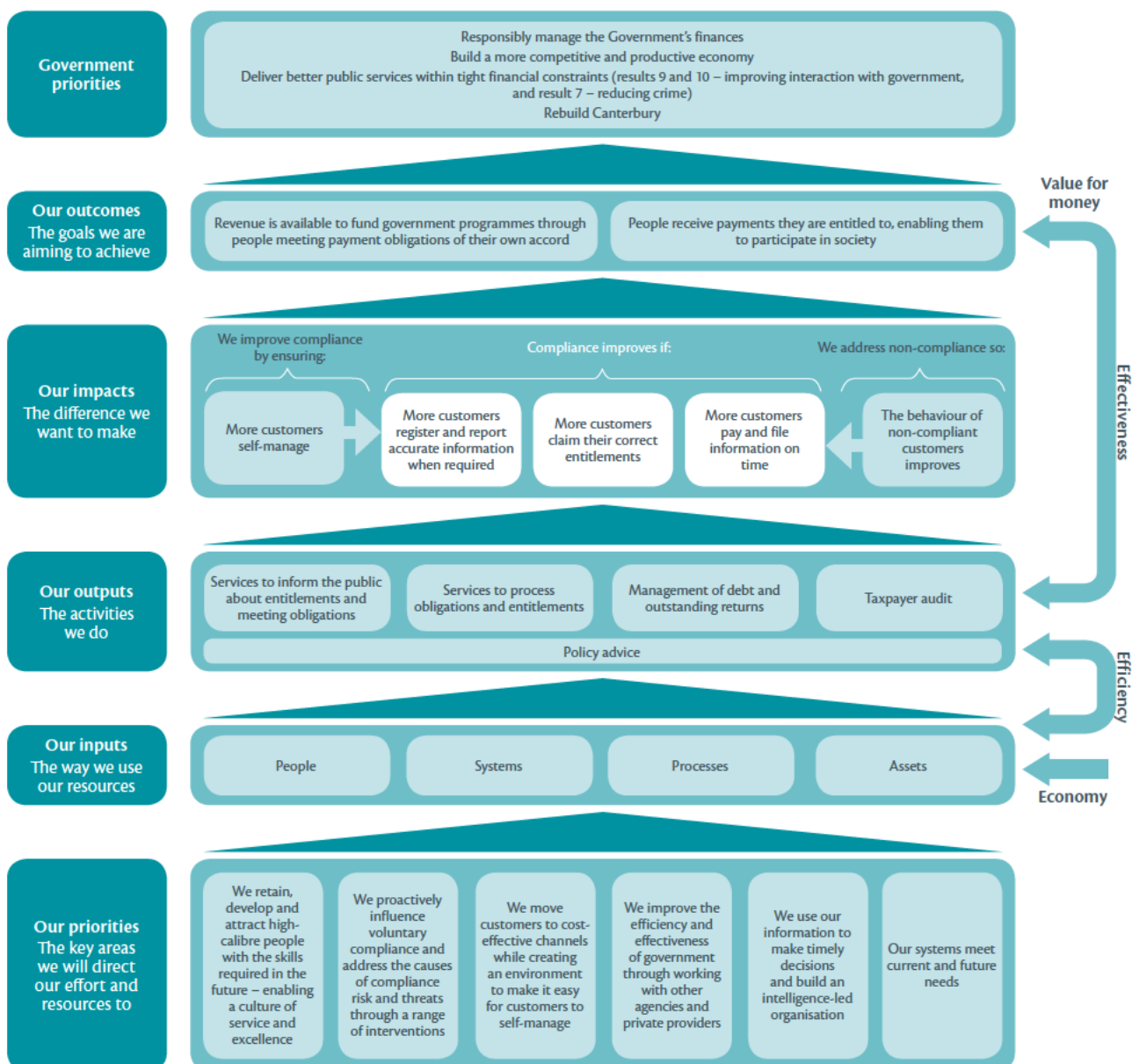
Our outcomes framework sets out what we want to achieve. It shows how we intend to organise and use our resources to deliver services to New Zealanders, and contribute to the social and economic wellbeing of New Zealand by collecting and distributing money.

Getting the best value for public funds is important. The framework shows how we carefully consider the relationship between our resources, outputs and impacts to ensure we

stay focused on delivering value for money. Three elements contribute to this:

- economy—getting and using our resources as economically as possible
- efficiency—producing more for the same, or less
- effectiveness—operating in a way that achieves our outcomes.

FIGURE 2 —
OUR OUTCOMES FRAMEWORK



OUR PERFORMANCE

SCOPE AND SCALE OF OUR BUSINESS

We are New Zealand's principal revenue agency, collecting about 80% of core Crown revenue. We also have an important role in administering social policy programmes, often in conjunction with other agencies.

At 30 June 2013 we employed 5,628 people (5,475 FTEs), 3% fewer than last year.

Revenue

We collect revenue mainly from income tax and GST, but we also collect several special purpose duties and levies. In 2012–13 we collected \$53.8 billion in revenue, 9% more than in 2011–12. This was 3.7% higher than the budget estimate set in 2012 (see Schedule of Revenue in Part 7).

This year, we collected \$53.8 billion in revenue, 9% more than in 2011–12.

FIGURE 3 –
REVENUE ASSESSED

Revenue type	2010–11 \$ million	2011–12 \$ million	2012–13 \$ million	% change
Direct taxes				
Individuals	\$23,136	\$23,917	\$25,907	8%
Corporate tax	\$8,195	\$9,121	\$10,447	15%
Other direct taxes	\$2,582	\$2,644	\$3,054	16%
Sub-total direct	\$33,913	\$35,682	\$39,408	10%
Indirect taxes				
GST	\$12,575	\$13,119	\$14,008	7%
Other indirect taxes	\$357	\$365	\$355	-3%
Sub-total indirect	\$12,932	\$13,484	\$14,363	7%
Total Inland Revenue tax	\$46,845	\$49,166	\$53,771	9%

Customer statistics

In the tax year ending March 2012²:

- **Individuals**—filed about 1.2 million annual tax returns
- **Employers**—about 195,000 employers filed 2.0 million employer monthly schedules with PAYE deductions for employees during the year
- **Companies**—over 420,000 company returns were filed
- **GST payers**—3.0 million GST returns were filed by 630,000 registered customers.

² 2013 data not available.

Inland Revenue manages or shares the administration of:

- **Working for Families Tax Credits**—in 2012–13 we distributed, with the Ministry of Social Development, \$2.6 billion in entitlements to support working families.
- **Child support**—in 2012–13 we collected \$435 million from 179,000 paying parents and distributed \$226 million to custodial parents³.
- **KiwiSaver**—we administer the scheme by collecting contributions and transferring them to scheme providers for investment. In 2012–13, we distributed \$3.1 billion to scheme providers on behalf of 2.1 million members.
- **Student loans**—we jointly administer this programme with the Ministries of Education and Social Development (StudyLink). In 2012–13, we collected \$1.1 billion in repayments from 711,000 borrowers.
- **Paid parental leave**—we make payments, for the Ministry of Business Innovation and Employment, to parents who take leave from their job or business to care for a baby. In 2012–13, we made \$165 million in payments to 26,000 applicants.

Customer services

We support our customers through a variety of self-help and customer services that help them manage their obligations and entitlements. In 2012–13:

- we received 6.4 million customer service contacts
- we received 18.0 million self-help service enquiries
- our contact centres made 90,000 outbound calls to customers as part of our campaign work
- our community compliance teams delivered 22,000 events to assist customers including seminars, expos, advisories and one-to-one visits.

³ The balance goes to the Crown to offset sole parent benefits paid to custodial parents by the Ministry of Social Development.

IMPACT PERFORMANCE

Our impacts describe the difference we want our activities and interventions to make to improve customer compliance. Our impact indicators measure these impacts which, when aggregated, tell us about the effectiveness of our activities on customer compliance. In setting targets, we have taken into account our strategic direction and transformational goals, our

operating environment (including government priorities), the economy and changing customers' expectations.

We continue to refine our impact indicators, including improving measurement methodologies and this year, we have added new indicators to broaden our social policy coverage. See figure 4 for detail on our current performance compared to recent performance and our 2016 targets.

FIGURE 4 –
IMPACT INDICATORS REPORT – MAIN MEASURES

Impact indicator	Recent performance	Current performance	Target: June 2016
More customers are able to self-manage⁴			
% of customers who are aware of their obligations and entitlements increases	Year end June 2012: 80%	Year end June 2013: 78%	Increase to 85% or more
% of customers who find it easy to comply increases	Year end June 2012: 71%	Year end June 2013: 69%	Increase to 75% or more
Factors that influenced target setting: This impact is key to enabling improved customer compliance and cost-effectiveness in a fiscally constrained environment.			
More customers register and report accurate information when required			
% of returns filed without errors increases	Year end June 2012: 85% ⁵	July 2012 – March 2013: 86%	Increase to 90% or more
% of applications submitted without errors increases	Year end June 2012: 89%	Year end June 2013: 83%	Maintain at 80% or more
Employer registrations follow an appropriate trend ⁶	Year end June 2012: correlation 99%	Year end June 2013: correlation 99%	n/a
GST assessed to consumer spending follows an appropriate trend ⁷	Year end March 2012: Correlation of 94% ⁸	Year end March 2013: Correlation of 96%	n/a
Factors that influenced target setting: This impact is key to improving customer self-management, reducing unnecessary contacts and improving end-to-end processing.			
More customers claim their correct entitlements			
% of accurate Working for Families Tax Credits payments increases ⁹	Tax year 2011: 69%	Tax year 2012: 67%	Tax year 2015: Increase to 70% or more
Working for Families Tax Credits registrations follow an appropriate trend ¹⁰	Year end June 2012: correlation 67%	Year end June 2013: correlation 13%	Increase to 80% or more
Factors that influenced target setting: The expected impact of the changes to Working for Families Tax Credits eligibility rules has been taken into account when assessing our ability to improve accuracy.			

⁴ We only include results for the contextual indicator under this impact "customer compliance costs are minimised" when the data is less than two years old. The survey that this indicator uses was last undertaken in 2009 and results were included in the 2011 Annual Report.

⁵ Result updated to June 2012 (results reported in 2012 Annual Report were to March 2012).

⁶ We report on this indicator to provide additional contextual information. Employers' correlation is between the number of employers who register for PAYE and the percentage of the labour force that is employed (from the Statistics New Zealand Household Labour Force Survey).

⁷ We report on this indicator to provide additional contextual information. This measure highlights a link between consumers spending and the amount of GST assessed, showing the completeness of information provided by GST customers. As this is an indicator that is beyond our influence, no target has been set.

⁸ Correlation results updated as a result of revised historical data from Statistics New Zealand for gross national expenditure.

⁹ Payments are considered accurate if customers' total yearly payments are within \$1,000 of their entitlement. The accuracy of payments is primarily a reflection of the quality of information provided to us by our customers.

¹⁰ We report on this indicator to provide additional contextual information. Working for Families Tax Credits correlation is between the number of customers who receive payments from Inland Revenue and the number of households with dependent children (from the Statistics New Zealand Household Labour Force Survey).

FIGURE 4 –
IMPACT INDICATORS REPORT – MAIN MEASURES (CONTINUED)

Impact indicator	Recent performance	Current performance	Target: June 2016
More customers pay and file information on time			
% of returns filed on time increases	Tax year 2011: 82%	Tax year 2012: 83%	Tax year 2015: Increase to 85% or more
% of payments made by customers on time increases	Tax year 2011: 86%	Tax year 2012: 86% ¹¹	Tax year 2015: Increase to 90% or more
Factors that influenced target setting: This impact is a key compliance driver and consequently, stretch targets are appropriate.			
The behaviour of non-compliant customers improves			
The compliance behaviour of customers who received an audit intervention increases	Year end June 2012: 86%	Year end June 2013: 85%	Maintain at 80% or more
% of collectable debt to total debt increases	Year end June 2012: 65%	Year end June 2013: 63%	Increase to 70% or more
% of collectable debt recovered increases ¹²	Year end June 2012: 10.1% ¹³	Year end June 2013: 10.3%	Maintain at 10% or more
% of collectable debt to revenue assessed decreases	Year end June 2012: 7.6%	Year end June 2013: 7.1%	Decrease to 7.0% or less
Factors that influenced target setting: The economic environment is a significant factor in debt performance. Maintaining or making small improvements will be challenging.			

The results show a small decrease in customers' awareness of their obligations and entitlements and the proportion of those who find it easy to comply. These perceptions, as measured in our quarterly survey, may be related to customers having difficulty accessing our telephone services this year (see page 23).

There has been little change in the accuracy of submitted returns. The result is still above our target of 80% accuracy.

The accuracy of Working for Families Tax Credits (WFFTC) payments received by customers has declined for the first time since 2006, having steadily increased towards our target of 70% over this time. This is mainly due to this year's legislative changes to WFFTC eligibility. This change may also explain why WFFTC registrations no longer follow the previous trend, as change in legislation has led to fewer families registering, but the number of families with dependent children continues to increase.

On-time filing and paying compliance levels, after having declined in each of the previous five years, remained stable this year.

The impact indicators for non-compliance have remained steady over the 2012–13 year. Customers who have been audited continue to show a high degree of compliance in the following year.

We continue to improve our debt management activity. The ratio of collectable debt to total debt has decreased since June 2012 due to an increase in the proportion of collectable debt recovered in 2012–13. The ratio of collectable debt to assessed revenue has fallen to 7.1% and we are well placed to achieve our target of 7.0% by 2016.

In 2012–13 we added an indicator of the impact of our collections activity. The proportion of collectable debt recovered has improved over the last two years, above our target of 10%, as a result of our effort to increase debt recovery.

¹¹ Measured using provisional results. Final results will be confirmed in October 2013.

¹² This indicator replaced "% of cash collected to collectable debt increases". We have updated the wording and methodology for this indicator to more clearly and accurately reflect the effect our activities are having on debt recovery.

¹³ To enable comparison with the prior year, 2012 data was refactored using new methodology.

OUTPUT PERFORMANCE

Our outputs are the services we provide. They are grouped into five output classes:

- Policy advice
- Services to inform the public about entitlements and meeting obligations
- Services to process obligations and entitlements
- Management of debt and outstanding returns
- Taxpayer audit.

Detail of the specific measures can be found in Part 5.

Policy advice

This year, our tax policy work continued to focus on making the tax system fairer and more efficient, and to support the Government's goals.

Contributing to responsible management of finances

The tax system contributes to the Government's objectives for the economy by seeking to raise revenue by ensuring that more people pay the tax they should pay.

This year, we undertook significant policy development work aimed at making the tax system fairer and protecting the revenue base. A number of consultation papers containing proposals to further protect the tax base were released, including:

- review of the thin capitalisation rules
- the taxation of lease inducement payment.

A key feature of the Taxation (Annual Rates, Foreign Superannuation, and Remedial Matters) Bill, introduced on 20 May 2013, was a proposal to more closely align the tax treatment of miners of specified minerals such as gold, silver and iron sands with that of other taxpayers.

The Taxation (Livestock Valuation, Assets Expenditure and Remedial Matters) Bill, introduced to Parliament in September 2012, contained measures to improve the fairness of the tax system. The bill (passed by Parliament in July 2013) includes proposals to address the tax treatment of assets, such as holiday houses used for both private and income-earning purposes, and to ensure that farmers cannot take inappropriate advantage of the livestock valuation rules.

On 29 March 2013, the Student Loan Scheme Amendment Bill No. 2 was enacted. The new legislation contains a number of measures intended to improve the fairness of the student loan scheme. The new legislation allows Inland Revenue to match

data with the New Zealand Customs Service to locate serious student loan defaulters as they return to New Zealand. It also broadens the definition of income, bringing it into line with the definition used for Working for Families Tax Credits and other social policy programmes, from 1 April 2014.

An important focus has been international cooperation to combat tax avoidance and tax evasion. In particular, we have been closely involved in an OECD/G20 project, which is developing measures that countries can implement to counter aggressive tax planning by multinationals (base erosion and profit-shifting). This builds on our existing involvement in OECD tax working parties.

Supporting a more competitive and productive economy

The Taxation (Annual Rates, Returns Filing, and Remedial Matters) Bill received Royal Assent on 2 November 2012. This legislation allows the Commissioner to accept applications from data storage providers to store their clients' business records offshore, clarifies the tax treatment of profit distribution plans, and better aligns the tax treatment of income and related deductions to relieve over-taxation of interests in controlled foreign companies.

The Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Bill, introduced in September 2012 contained GST changes designed to help businesses competing globally by minimising the potential for our GST rules to be an impediment to transactions between non-resident and New Zealand businesses.

We also support business by negotiating and maintaining double tax agreements to support international cross-border trade and investment partnerships. A new agreement was signed with Papua New Guinea and an updated agreement was negotiated and signed with Japan.

We started work on the following Budget 2013 proposals, designed to support businesses.

- A proposal to allow tax losses arising from R&D expenditure to be refunded up to a certain limit. It will be targeted at R&D-intensive start-up firms.
- A tax deductibility proposal for six areas of "black hole"¹⁴ business expenditure.

¹⁴ For example certain expenditure for patent applications or resource consents which was previously not deductible.

Better public services

Changes which simplify returns filing and record-keeping requirements for taxpayers were included in the Taxation (Annual Rates, Returns Filing, and Remedial Matters) Act, enacted in November 2012.

Rebuilding Christchurch

Supplementary Order Paper (257) to the Taxation (Annual Rates, Foreign Superannuation, and Remedial Matters) Bill extended the time limit for several tax measures introduced to address Canterbury earthquake-specific issues until the end of 2018–19.

Services to inform the public about entitlements and meeting obligations

The channels available to support our customers to comply are self-service, telephone, correspondence and counter. Our Community Compliance teams deliver a range of events to educate and inform customers about their entitlements and obligations. We also give customers certainty about the correct interpretation of tax law through resolving technical issues and disputes.

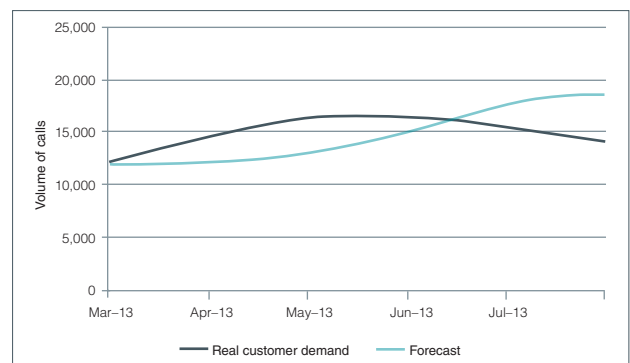
Answering customer contacts

Over the past few years we have been focused on providing our customers with more self-service options. The increased use of customer self-services has reduced the number of simple enquiries we receive through our other contact channels, eg, changing personal details over the phone, but we have not yet seen a decrease in overall demand for our traditional channels. We have seen a downward trend in face-to-face counter contacts, but phone and correspondence volumes have not consistently reduced.

Most of our contacts are during our expected peak season, from May to September. We use a range of methods to deal with demand during this period including cross-training our people to be able to move between service areas to meet demand, hiring temporary staff, outsourcing some simple work, and overtime. This year, our peak season started in April, which was earlier than we expected given the historical trend of contacts. Call centre staff were undergoing training at this time in preparation for the peak season starting in May. The higher than expected call demand continued into May and June. Figure 5 shows the early start to our peak season and

We received 45% (2.1 million) of our phone calls in the last four months of the year.

FIGURE 5 – TREND FOR CUSTOMER PHONE CALLS: ACTUAL AND FORECAST¹⁵



higher than expected customer demand between April and June. Peak season also finished earlier than expected. We are studying the causes of the change in demand to improve our forecasting process. Call demand in July 2013 was lower than expected which has put us in a good position for the coming year.

We answered 73% of attempted calls, against our target of 75%. This was, in part, due to the higher than expected volumes received early in the peak season.

Our difficulty in answering calls also contributed to a decrease in customer satisfaction with our service this year. This decrease was primarily related to the accessibility of our service to customers.

¹⁵ Real customer demand is total attempted calls adjusted for repeat calls due to a customer not getting through the first time.

FIGURE 6 –
CUSTOMER CONTACTS

	2010–11	2011–12	2012–13
Website visits	17,823,263	18,204,485	18,414,608
Total registrations for online services (cumulative)	964,904	1,240,629	1,611,688
Self-help and online services	16,056,536	15,810,023	17,952,500
Look at account information	12,397,006	12,113,609	13,638,906
Agent client maintenance	507,824	658,829	834,368
0800 self-service	695,498	654,347	852,349
KiwiSaver member scheme provider requests	2,456,208	2,383,238	2,627,877
Telephone contacts¹⁶			
Calls received	5,142,339	4,077,317	4,683,126
Calls answered	3,894,454	3,670,987	3,448,585
Average handling time (min:sec)	10:48	10:40	11:59
Correspondence contacts			
Paper	823,426	793,046	687,017
Electronic	684,734	755,117	828,104

We had a high volume of aged electronic correspondence carried over from 2011–12, along with increased volumes this year, but our people worked overtime to clear the high volumes. We missed our target of answering 70% of this correspondence within one week. We met our target for replying to paper correspondence this year.

Overall, we decreased our time to reply to correspondence from an average of 10.5 working days, to 8.8. We replied to 80% of electronic correspondence within two weeks. In 2013–14, there will be a single target for all correspondence—75% answered within two weeks.

Educating and assisting customers

We use a number of approaches to educate customers about their obligations and entitlements, and help customers who want to comply but need some assistance. Our community compliance teams deliver a range of events to individuals, tax agents and businesses across the country covering:

- advice and education
- local compliance
- managing relationships.

FIGURE 7 –
COMMUNITY COMPLIANCE

Event	Total delivered	Total attendees
Seminar/Workshop	2,926	31,932
Expos	132	8,057
Heartland, Community Link, mobile office	2,669	19,192
Business – one-to-one advisories	12,781	12,781
Tax agents – one-to-one visits	3,340	3,340
Total	21,848	75,302

We continue to improve the way our people work to assist our customers. By standardising our internal Knowledge Base our people have faster and improved access to the latest information. We have developed a series of videos to help people going into business understand their obligations. The videos can be found on our website, business.govt.nz and YouTube.

Providing certainty about the law

We provide taxpayer rulings and adjudications to give customers certainty about the correct interpretation of tax law and resolve technical issues or disputes. This is an important means of maintaining confidence in the tax system and improving compliance.

We issued an interpretation statement on tax avoidance, to give taxpayers greater certainty.

¹⁶ This includes all calls received from customers. The output performance measures are based on contact centre calls only.

Providing taxpayer rulings as quickly as possible is important for our customers to understand the tax implications of their plans. We completed 100% of our adjudications and rulings within the timeframes set out in our timeliness performance measures.

On 1 July 2013, we issued Inland Revenue's interpretation statement about tax avoidance following a public consultation period, which opened in December 2011. The statement now gives both Inland Revenue and the tax community greater certainty on the principles that Inland Revenue will apply in reaching a view on whether an arrangement is tax avoidance or not. See page 28 for more information.

We also helped provide taxpayers with certainty by reviewing approximately 600 *Public Information Bulletins* and *Tax Information Bulletins* that were published before 1996, to ensure the content is relevant and correct. This was a more valuable use of our people than we would have achieved by the publication or finalisation of new public items. As a result, we did not meet our target in that area. We completed 11 new public items this year, compared to our target of 25.

Listening to our customers' feedback

We measure customer satisfaction and perceptions of Inland Revenue through our Customer Satisfaction and Perceptions survey and our Online Customer Satisfaction Survey.

This year, 82% of voice and correspondence customers were satisfied and 64% were very satisfied with our service. This was a decrease from 86% satisfied and 69% very satisfied in 2011–12. A significant reason for the decrease in customer satisfaction was customers having difficulty accessing our services during our busy periods in the first and fourth quarters of the year.

Customer satisfaction with our online service remains high with 94% of customers satisfied and 78% of customers very satisfied. This compares to 95% satisfied and 80% very satisfied in 2011–12.

We also measure customers' general perceptions of Inland Revenue. This year 64% of customers perceived Inland Revenue to be changing or beginning to change for the better. This is the same as last year.

See Additional Information on page 140 for detailed results from these surveys.

Complaints and ministerial services

The number of complaints and ministerial enquiries we received was similar to last year (up 3% and down 1% respectively from 2011–12).

We received 1,349 complaints (2011–12: 585) about our telephone services. This is a significant increase (131%) over the previous year, with the majority of complaints relating to difficulties accessing our service during our busy periods. This is in line with our expectation, given the performance issue discussed on page 23. We also received 499 parliamentary questions compared to 127 in 2011–12. This increase was in part due to 2011 being an election year, which typically produces fewer parliamentary questions.

See figures 19 and 20 on page 141 for more information.

Services to process obligations and entitlements

We are providing improved channels for our customers to meet their obligations. Online registrations and returns are a cheaper, quicker, easier alternative than the traditional paper options.

We have made significant productivity improvements by introducing Operations Management (OM)—a business efficiency tool—and a continuous improvement culture.

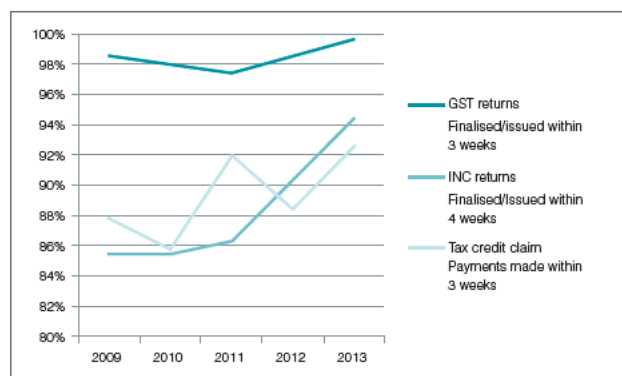
Operations Management helps us provide efficient, high quality and timely services for our customers by giving frontline leaders new operational skills, tools and processes to manage work.

We have 200 leaders using these skills and tools to plan and manage work for 1,900 team members. We have seen up to 20% increases in productivity in the areas we have implemented Operations Management. We have also implemented over 1,000 three-monthly continuous improvement initiatives since 2011, focused on improving teams' cost, quality or customer service. This capability is built through a 20-week change programme, with team leaders, managers and central "champions" accredited by external consultants.

This improvement in productivity can be seen in figure 8, which shows the increasing proportion of returns, registrations and tax credit claims being processed within our target timeframe.

We have seen up to a 20% increase in productivity in the areas we have implemented Operations Management.

**FIGURE 8 –
PROCESSING TIME FOR GST AND INCOME TAX RETURNS
AND TAX CREDIT CLAIMS**



This year, we saw particular improvements in the proportion of registrations processed within five days, and income tax refunds being issued within six weeks.

Social policy obligations and entitlements

KiwiSaver

KiwiSaver is a voluntary, work-based savings initiative that was introduced in 2007. At 30 June 2013 more than 2.1 million people were KiwiSaver members and more than \$3 billion was passed to KiwiSaver scheme providers during 2012–13. This year we received almost \$2.4 billion of member contributions, up from \$2.2 billion in 2011–12.

- **Member tax credit**—the Government pays out member tax credits (MTC) in July each year. This year, MTC payments decreased from \$1 for every dollar of a member's annual contribution up to a maximum of \$1,042.86, to 50 cents for every dollar of member's annual contribution up to a maximum payment of \$521.43. This resulted in total MTC payments decreasing from \$799 million in 2011–12 to \$455 million in 2012–13 (see figure 23).
- **Retirement withdrawals**—Since July 2012, when the first retirement withdrawals became possible, 30,000 members have retired, withdrawn their savings and closed their accounts.
- **Minimum contribution rate**—from April 2013, the minimum contribution rate increased from 2% to 3%.
- **Trans-Tasman portability**—from 1 July 2013, under the trans-Tasman portability agreement with Australia, KiwiSaver accounts and complying Australian superannuation schemes can be transferred between New Zealand and Australia.

Student loans

In the year to June 2013, student loan repayments rose by 37.3%, (see figure 9).

**FIGURE 9 –
STUDENT LOAN REPAYMENTS**

Repayments	2010–11 \$ million	2011–12 \$ million	2012–13 \$ million	2012–13 % change
PAYE deductions	491.6	528.0	599.6	13.6%
Directly from borrower	199.0	239.7	454.3	89.5%
Total	690.6	767.7	1,053.9	37.3%

The main cause of the increase in repayments was borrowers taking advantage of the voluntary repayment bonus scheme, which ended on 31 March 2013. Repayments through the PAYE system also increased because of:

- the increase in the number of borrowers repaying through the PAYE system
- mandatory use of the "SL" tax code in the tax system for all borrowers (online services are available to borrowers to arrange exemptions if they study full-time and expect to earn under the repayment threshold, or require special deduction rates)
- holding the repayment threshold at \$19,084 since 2010
- the increase of the repayment rate from 10 to 12 cents per dollar in the final quarter of the financial year (ie, April–June 2013)
- improved compliance among New Zealand-based borrowers.

Student loan repayments increased by \$286 million (37%), mainly because borrowers took advantage of the voluntary repayment bonus scheme.

Child support

We administer child support assessments and payments. This year, we collected \$435 million from 179,000 paying parents and distributed \$226 million to custodial parents. The reforms in the Child Support Amendment Act 2013, which will be implemented on 1 April 2014 and 1 April 2015, will make significant changes for both child support custodial and liable parents. Information about child support debt can be found in the Additional Information section on page 144.

Working for Families Tax Credits

This year, the total amount of Working for Families Tax Credits (WfFTC) distributed by Inland Revenue and the Ministry of Social Development was \$2,593 million. Inland Revenue distributed \$1,877 million (72%) of the WfFTC paid.

Customers can choose to receive their entitlements weekly, fortnightly or as a lump sum at year-end. This year, legislation changed to broaden the definition of family income for WfFTC eligibility. The abatement threshold was lowered, the abatement rate increased, and the inflation adjustments for children aged 16 and over will be stopped until the rate for children aged 13-15 catches up. These changes were the first of the incremental changes planned over the next seven years. They have resulted in fewer families receiving WfFTC and a decrease in the average weekly payment.

Paid parental leave

Paid parental leave (PPL) is a government-funded entitlement paid to parents when they take parental leave from their work to care for their newborn or adopted child.

The maximum amount of PPL is inflation-indexed each year. The maximum weekly rate increased from \$475.16 to \$488.17 from 1 July 2013.

This year, we:

- distributed \$165.1 million to eligible applicants (2011–12: \$157.6 million)
- processed 26,368 applications for PPL (2011–12: 26,057).

Management of debt and outstanding returns

Collecting outstanding returns

Collecting overdue returns gives New Zealanders confidence that we take action when customers don't meet their tax obligations, one of which is to file a return on time.

We help to prevent our customers from missing their filing due dates and we follow up when returns are not filed on time. Getting customers to file outstanding returns gives us a better idea of the associated tax, debt or refund owed, which we quickly follow up on. Filing a return is the first acknowledgement by a customer that they have an amount to pay, so maintaining the collection momentum once a return has been filed, is an important way to get them to make payments on time and prevent debt arising.

During 2012–13:

- we had a 3.5% decrease in the number of outstanding returns. This is the first time we have seen a year-on-year reduction in ten years. The decrease was in part because the extra funding we received in Budget 2012 meant we were able to increase our focus on collecting outstanding returns.
- we finalised 85.6% of outstanding employer monthly schedules (EMSs) within three months (target 85%). The number of overdue EMSs is the lowest they have been in ten years. Finalising EMSs is important. They are critical to the deduction and payment of tax for salary or wage earners, as well as social policy programmes such as KiwiSaver, child support and student loans.

Managing overdue debt

We continue to have success by using a customer-centred approach to manage debt aimed at preventing our customers from going into debt, intervening early where necessary and focusing our collection efforts on the cases that have the greatest prospect of cash collection. We use this approach because, in the long-term, debt prevention is the most effective way of improving compliance and will generate more revenue for government.

Where prevention has been unsuccessful, we concentrate on assisting customers to get out of debt early, before it becomes unmanageable for them. The earliest possible intervention matters because it gives customers peace of mind and, as debt ages, it becomes increasingly difficult for the customer to manage and expensive for us to collect.

During 2012–13:

- we reduced the value of debt less than two years old by 8%
- we collected \$3.4 billion cash, of which \$1.4 billion was from tax pooling
- total overdue debt increased by \$62 million (1%) to \$6 billion. This is an improvement from an increase of more than 7% in each of the past two years.

We have adopted a mix of new and innovative interventions for managing debt. They include reminder letters, text messages and online advertising (including Facebook and Twitter) to remind customers, at risk of going into debt, about their payments before the due date. We also use outbound calling campaigns to intervene early when customers do not pay on time. We do this using supporting technology, which has significantly improved the capacity and effectiveness of our targeting of debtors.

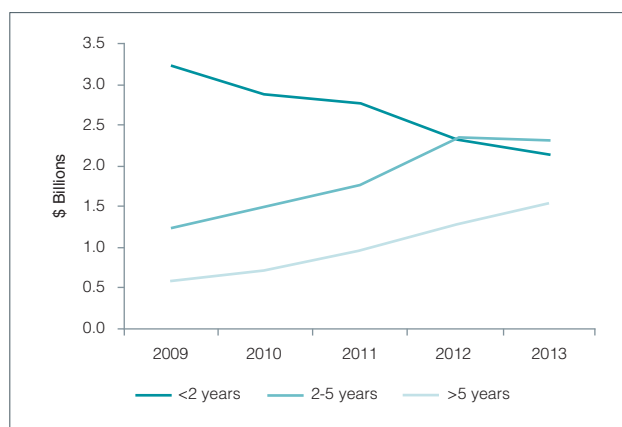
We again ran a successful campaign to improve on-time payment by customers with payments due on 7 February. This year, 84% of tax due on 7 February was paid on time compared to 81% last year. This shows that our pre-due date work, eg, sending reminder texts and letters to customers, is having an effect.

This year, we balanced our work to keep new debt at a controlled and sustainable level with an increased focus on older and more complex debt that has a high probability for a cash payment. A substantial proportion of the increase in older debt is penalties and interest, which now makes up 48% of total overdue debt compared to 46% last year and 43% in 2011 (see figure 11 and figure 24 in Additional Information). Our priority areas for recovery and enforcement include audit-assessed debt, a selection of the top 1,000 high-risk customers, debt associated with large enterprises and high-wealth individuals. Overall the trend of outstanding debt reflects continuing economic conditions, which have proved more volatile than expected over the past two years. An example of this is the amount of outstanding tax under payment arrangement, which has increased by just over 31% since 2010.

We will continue to find it challenging to meet the target of less than 50% collectable debt value over two years old next year, as we continue to focus on debt prevention as well as clear aged debt.

Figure 10 shows the effect of our focus on debt prevention and early intervention on the age of debt.

**FIGURE 10 –
AGED DEBT OVER TIME**



**FIGURE 11 –
CORE DEBT VS PENALTIES AND INTEREST CHARGED (AS AT
30 JUNE 2013)**



More detail about the composition of our debt portfolio and the age of debt is in the Additional Information section on page 143.

Specially funded collections initiatives

In Budget 2010 and 2012, we received funding to carry out initiatives to improve collection of outstanding returns and overdue debt.

The Budget 2010 debt initiative continued to focus on early intervention with customers who have incurred new debt, and customers who failed to comply with instalment payment arrangements.

This year, we collected \$261 million (target \$200 million), a return on investment of \$12.5:1 (target: \$9.5:1). We also focused on closing new debt cases within 90 days of opening. This initiative achieved a 65.3% (target: 65%) closure rate, a significant improvement from the 62.3% result in 2011–12.

We received extra funding in Budget 2012 to improve our collection of older debt and outstanding returns. The debt initiative uses a combination of case management and a campaign approach. We select cases with a potential for cash recovery and apply tailored interventions to them. We collected \$47.7 million (target \$37.5 million), a return on investment of \$8.4:1 (target: \$5.5:1).

For the returns initiative, we finalised returns with an assessed value of \$47.1 million (target \$7 million assessment value), a return on investment of \$12.6:1 (target: \$1.4:1). We also had a significant improvement in employer monthly schedule (EMS) performance with the number of outstanding EMSs decreasing by 38% this year.

Overseas-based student loan borrowers compliance initiative

The objective of the initiative, which targets student loan borrowers in Australia and the United Kingdom, is to improve

the paying behaviour of overseas-based student loan customers using direct campaigns and advertising (mainly online, but also on billboards at airports). Options to pay by credit card or use online payment services are offered on a “fee-free” basis to make it easier for overseas borrowers to make payments. We have also used private sector debt collection services to track and trace borrowers, collect debt, process serve and start legal action against non-compliant overseas-based borrowers. Most payments to date have come from Australia. Since the initiative’s introduction in 2010, we have received \$70.2 million in payments, a return on investment of over \$10 per dollar invested.

Information matching with other government agencies is also helping us to improve compliance of overseas-based borrowers. We have an information-matching agreement with the New Zealand Customs Service to match arrivals of overseas-based borrowers in serious default and allowing follow-up to collect outstanding loans. In May 2013, public consultation started on a proposed information-matching agreement with the Department of Internal Affairs to share contact information with Inland Revenue about borrowers renewing or applying for passports.

Taxpayer audit

Confidence in the effectiveness of the tax system is maintained by our ability and willingness to address non-compliance. Each year, we carry out investigations of the tax affairs of businesses and individuals that may lead to an adjustment of the tax they have to pay. If our investigations detect serious non-compliance we follow up with legal action where appropriate.

**FIGURE 12 –
AUDIT DISCREPANCIES**

Audit category	Actual 2011–12 \$ million	Actual 2012–13 \$ million
Total discrepancies	\$1,204.1	1,222.1
Adjustments		
Less loss reduction adjustments	\$265.0	\$325.2
Less imputation credit adjustments	\$180.7	\$84.7
Additional tax assessed	\$758.4	\$812.2

An important part of our compliance work involves dealing with tax avoidance that makes use of complex arrangements that taxpayers have put into place to reduce the tax they pay. These arrangements often lead to disputes that are resolved by litigation. Our compliance work also includes major, multi-year initiatives such as those for the hidden economy, property and fraud.

Specially funded compliance programmes

In Budget 2010 and 2012, we also received funding to carry out initiatives to improve compliance in specific sectors such as the hidden economy, property and aggressive tax planning. The additional funding has been used to develop campaigns that educate customers, as well as following up non-compliance and increasing revenue from the targeted areas.

The hidden economy

This initiative continues to target businesses and individuals that deliberately choose to avoid the payment of tax through under-reporting or operating outside the tax system. This may be by not declaring jobs done for cash, not reporting some business transactions, failing to declare offshore income, receiving income from illegal activities, taking cash or goods from businesses for personal use, or paying wages in cash and not deducting PAYE.

We have used several interventions to address this, ranging from visiting customers to ensure they understand their obligations to prosecution for evasion. We have raised an additional \$45 million in tax revenue against a target of \$44 million, giving a return on investment of \$5.60 per dollar spent, compared to a target of \$5.00.

We have continued our research and evaluation programme to help us understand how and why people participate in the hidden economy, and are using the results to improve our approach.

We are updating our industry benchmark information in collaboration with Statistics New Zealand to cover a total of 45 industries. This information is available on our website from September 2013 and allows taxpayers to compare their performance with similar-sized businesses in their industry. Taxpayers reporting income outside the range of industry benchmarks will come to our attention and we will follow up with them to determine the reason for the variance.

Property

In this sector we continued to focus on residential property speculation and expanding our monitoring of property “hot spots”, where we monitored over 23,000 properties. We also continued to support the initiative by providing educational material on our website.

We achieved our annual target, finding discrepancies of \$53.8 million against a target of \$45 million. The rate of return for the initiative was \$8.42 per dollar spent against a target of \$6.80.

Aggressive tax planning

We used specific funding from Budget 2012 to continue work on complex financing structures that was originally started with funding from earlier budgets. We are also addressing emerging risks with complex financing structures and trust losses.

In particular, with complex financing, we have seen that taxpayers are using convertible instruments to take advantage of international tax arbitrage opportunities. This is not a significant compliance concern in itself, but gives rise to concerns about non-compliance, when these convertible instruments are used in contrived or artificial ways to obtain the advantages of the arbitrage.

Our work has led to successful adjudication decisions on a number of arrangements and we have reached settlements for significant amounts of extra revenue.

Our research into losses made by trusts has identified several areas that need to be looked at more closely. The research showed a large number of trusts in a perpetual loss position, and significant growth in the tax losses made by trusts that do not use tax agents. We have also found that trust administration is often very poor and is seen as a way of “getting around the rules”.

Trusts have become a common way for some taxpayers to avoid or lower their liability for income tax by setting up arrangements that create deductions for items that are not real economic losses. Others enter into schemes that misuse losses or keep losses that should be forfeited. We are continuing to review these arrangements and identify taxpayers who use them.

This year, we identified \$206 million of discrepancies against a target of \$70.8 million. This was a return on investment of \$42.90 per dollar spent against a target \$11.40.¹⁷

Fraud

We have developed new analytical processes to screen and identify potentially fraudulent claims for review before they are released, as well as reviewing selected prior-year claims. These initiatives are designed to help ensure the integrity of our online systems and, in conjunction with appropriate investigation, prosecution and collection actions, act as important deterrents against such threats.

¹⁷ This result includes the closure of several cases that we have been working on for a number of years. Complex financing cases can take several years to resolve and we often resolve multiple related cases at the same time. We do not expect to achieve a similar return on investment in 2014–15.

This year, we identified and prevented over \$4.5 million in fraudulent claims from being issued against a target of \$5 million. This was a return on investment of \$3.00 per dollar spent against a target of \$2.80. Several cases relating to significant offending are before the courts.

Avoidance

Avoidance is where taxpayers seek to reduce or even eliminate their obligation to pay tax. This often involves structures with complex financial arrangements between companies, trusts, or charities, sometimes with international links. Our approach to countering avoidance has been to:

- gather intelligence and conduct research on inappropriate use of these structures
- assist and educate taxpayers if they are unsure of their obligations
- investigate their tax affairs and take legal action where there is deliberate non-compliance.

Recent judgments have generally upheld our position on avoidance and we have a firm legal basis that supports our view.

Tax avoidance interpretation statement

On 1 July 2013, we issued Inland Revenue’s interpretation statement about tax avoidance following a public consultation period which opened in December 2011. The statement now gives both Inland Revenue and the tax community greater certainty on the principles that Inland Revenue will apply in reaching a view on whether an arrangement is tax avoidance or not.

Under sections BG 1 and GA 1 of the Income Tax Act, if an arrangement is a tax avoidance arrangement, it is void and the Commissioner has powers to counteract any tax advantage an individual or an entity has sought to gain under it.

The statement is particularly based upon the Supreme Court’s judgment and approach to the law in the Ben Nevis case in 2008. In short, there will be tax avoidance if the use of the Income Tax Act is not what Parliament contemplated, having regard to the commercial and economic reality of the arrangement. If the tax avoidance is more than merely an incidental purpose of the arrangement, it is a tax avoidance arrangement.

Follow up to the Penny and Hooper case

In 2011, in the Penny and Hooper case, the Supreme Court upheld an earlier decision by the Court of Appeal that found in favour of Inland Revenue’s position in a case relating to the use of tax avoidance arrangements.

After the release of the Supreme Court decision, we launched an extensive education campaign to outline the Commissioner's position and publicise the implications for individual taxpayers who had comparable arrangements in place. We received 870 voluntary disclosures following a joint roadshow with the New Zealand Institute of Chartered Accountants (NZICA) to contact intermediaries and taxpayers who may have taken tax positions similar to those in Penny and Hooper. The total tax assessed for these cases was \$13.5 million. There is ongoing support from NZICA and the feedback from agents is that they are generally positive with our approach.

Incorrect valuation of dairy herds

During the year we also worked on issues concerning dairy farmers who had incorrectly used livestock valuation methods. They made an election under the tax law that allows them to value their opening herd livestock in the 2009 income tax year, claiming they had retired from farming after selling their livestock to what appeared to be related entities.

We worked with tax agents who have large numbers of affected clients. An additional \$13 million in tax has been paid through voluntary disclosure, or where cases have conceded to Inland Revenue.

Complex arrangements—the Alesco case

We have continued our efforts to counter large enterprises that use complex tax structures involving convertible notes to gain a tax advantage. These arrangements involve mandatory or optional convertible notes (MCNs and OCNs).

Legal action arising from the use of such structures has been successful to date, and in March 2013 the Court of Appeal unanimously held that the OCN arrangement entered into by Alesco and 12 other taxpayers involved tax avoidance. It also confirmed that our assessments of abusive tax position shortfall penalties were correct. The total amount of tax at issue in the Alesco case is about \$8.6 million including penalties and interest. The total amount at issue for all OCN cases is over \$300 million.

The Alesco judgment also has important implications for the MCN cases, which are still in the early stages of litigation. The Supreme Court has granted Alesco leave to appeal the Court of Appeal decision.

ORGANISATIONAL ECONOMY, EFFICIENCY AND EFFECTIVENESS

Our outcomes framework (see figure 2) also provides the basis for demonstrating value for money using indicators that reflect the economy, efficiency and effectiveness of our operations.

Financial results

Our operating budget for the 2012–13 financial year was \$684.9 million, an increase of \$12.8 million compared to the previous financial year. Most of this increase was for Budget 2012 revenue investment initiatives and funding for reform of the Child Support Scheme.

Actual expenditure was \$30.5 million (4.5%) under budget. A large portion of this (\$16.4 million) will be transferred to 2013–14 for business transformation and legislative projects. Within this year's outturn we have managed costs associated with our business transformation programme as well as pressures such as remuneration and restructuring.

Although overall output expenses reduced by \$5.5 million (0.8%) compared to the prior year, we had additional expenditure of \$18.2 million, which included expenditure on legislative projects, business transformation, remuneration and IT infrastructure costs.

Economy

In 2012–13 we worked to achieve better economy in our operations through organisational improvement and the adoption of all-of-government contracts for services from third parties.

Over the year our procurement processes have continued to mature. We have a team of procurement specialists recruited from New Zealand and overseas and are partnering with internal business areas to provide good procurement outcomes. Our improvement programme will continue over the next twelve months with an initial focus on the implementation of a contract management system and implementation of the Government Rules of Sourcing.

We delivered savings of \$23.7 million to offset the additional expenditure and ensure that we met our agreed baseline. We saved more than \$15 million of personnel costs through internal restructuring and staff reductions through attrition and delayed recruitment. Operational cost savings were delivered in telecommunications, accommodation rentals, and general contract and operating efficiencies.

Although some of the savings we delivered in 2012–13 are ongoing and will position us to meet fiscal challenges in upcoming financial years, we expect the cost pressures and increased demand for our services to continue.

In addition to managing our business transformation programme we will continue to identify further savings to meet demand and cost pressures.

Efficiency

Over the past year we have made significant progress with operational initiatives that have improved the efficiency of our operations, in particular:

- Voice ID—this initiative produced time savings of at least 40 seconds per call for customers using the service. We estimated that the benefits for Inland Revenue would be about \$700,000 in the first year of operation, but they were \$818,000. (See page 35 for more information on voice ID.)
- myIR—by encouraging customers to use our secure online services we have reduced the need for customers to contact us and speak to our contact centres for simple enquiries, eg, updating their personal information. Customers filing GST returns through myIR improves data quality and reduces our return processing costs.
- Cross-agency cooperation—in Christchurch we share a building with the Ministry of Social Development and are working on ways to collaborate on providing customer service. We are also trialling a programme to share call centre resources with StudyLink so each organisation can take best advantage of the resources available in their respective peak periods.

Cost-effectiveness

We track our cost-effectiveness with a range of indicators that reflect our operational costs for customer-initiated contacts, such as phone calls. We also track processing costs for our major tax return streams, the cost of following up overdue returns and performing child support reviews.

Our operational innovations are designed to improve the speed and quality of customer service, but at the same time they are also important ways of managing and even reducing costs, especially by encouraging customers to move to cost effective contact channels.

The results for 2012–13 show that all our functional costs were under target for all but one area. We received fewer and more complex counter contacts this year, which increased completion times.

The cost per telephone contact was down because of lower overhead allocations. Fixed overhead costs are allocated based on the number of people. As our collections and audit activities have grown, our contact business has become relatively smaller, reducing the cost per contact.

The decrease in the average cost to process returns was due to the inclusion of employer deductions schedules in the number of total returns processed. We amended the calculation to include these schedules as part of the number of employer monthly schedules processed, to better reflect the total returns processed.

**FIGURE 13 –
FUNCTIONAL COST INDICATORS**

Indicator	2011–12 Actual	2012–13 Target	2012–13 Actual
Cost per telephone contact	\$33.28	\$31.00	\$29.02
Cost per correspondence contact	\$37.50	\$41.00	\$38.31
Cost per counter contact	\$48.31	\$45.00	\$61.44
Average cost per customer-initiated contact	\$35.06	\$34.00	\$32.92
Cost per income tax return processed	\$5.49	\$5.20	\$5.14
Cost per GST return processed	\$1.45	\$1.60	\$1.27
Cost per employer monthly schedule processed	\$7.12	\$6.20	\$4.67
Average cost per return processed	\$4.39	\$4.00	\$3.78
Cost of collecting an overdue return	\$7.96	\$15.00	\$9.13
Cost per child support administrative review processed	\$768.57	\$750.00	\$723.84

Effectiveness

We measure our effectiveness through:

- our impact indicators (see figure 4)
- evaluating our work programmes

Evaluations

We regularly evaluate the results of policies and major business projects against their objectives. The findings help us understand the underlying factors that contribute to their success or if they are not working as intended. This year, we continued evaluating the outcomes of the KiwiSaver programme, focusing on the withdrawal of funds now that the scheme is five years old.

Major legislative changes to the Child Support system have been made. The first phase of an evaluation of the impact of the changes has been completed, which provides baseline information on payers and recipients' attitudes to the system. This will be compared against the viewpoints after the changes come into effect to see whether they have improved fairness of the system in the eyes of participants.

We continue to carry out research to better understand student loan borrowers and evaluate initiatives to collect debt, particularly from borrowers living overseas who have lost contact with Inland Revenue. This work assists the design of the student loan collection initiatives and informs legislative change.

Benchmarking

Inland Revenue regularly participates in benchmarking exercises to compare our activities with other organisations. These studies give us insight into our relative efficiency and are important ways of exchanging information and ideas to promote improvement. Because the basis of comparison varies depending on the objectives and purpose of the survey, the results can lead to different conclusions.

We continued our participation in the Better Administrative and Support Services (BASS) benchmarking work that has been conducted by the Treasury¹⁸ over the last four years. This year the results were little changed from previous years, with Inland Revenue rating relatively well in the BASS benchmarks in terms of the cost of our human resources, finance, and legal services functions. Our Information and Communications Technology costs remain higher than average, but this reflects the size and complexity of the IT systems needed to administer revenue collection and disbursement of payments.

We also participated in the OECD's comparative information study¹⁹, which compares tax administrations and provides detailed operational and costing information, as well as highlighting developments in international best practice. The current study was published in May 2013.

The OECD survey covers a wide range of topics that affect 52 tax agencies, including costs. In its discussion of IT costs in relation to overall expenditure, it observed that:

"Of the ten revenue bodies reporting IT expenditure consistently in excess of 15% of total expenditure over the five year period, just about all perform favourably across a series of performance-related measures calculated and reported in other parts of this series..."²⁰

Inland Revenue's IT spend is 23% of total expenditure and is among the ten revenue bodies that the OECD has highlighted above. Of the six performance indicators that reflect service and efficiency levels, Inland Revenue scored above average in overall e-filing rates, electronic payment rates, average staffing rates, and debt levels to net revenue. For two other measures the score was average: total costs to GDP and costs to net revenue.

¹⁸ See treasury.govt.nz/statesector/performance/bass/benchmarking/2011-12

¹⁹ See Tax Administration 2013, Comparative Information on OECD and other Advanced and Emerging Economies, available at www.oecd.org

²⁰ Ibid, p177.

Part 3

IMPROVING HOW WE WORK

IMPROVING HOW WE WORK

CHANGING HOW WE DELIVER CUSTOMER SERVICES

We are responding to our customers' changing expectations by implementing a wide range of customer service initiatives. These include both process and technology enabled change and are designed to make it easier for our customers to comply with their obligations.

We are developing an integrated channel strategy so we can consolidate our online and other self-service channels, services delivered through third parties and information sharing with other agencies. This will be a core part of our transformation. When the strategy is fully implemented:

- customer services will only be delivered by the most appropriate channel
- the digital channel will be the predominant channel for all services
- we will operate four core channels
- paper, phone, and face-to-face channels will be smaller and perform a limited range of specified services that complement digital channels
- channel considerations will become ingrained in Inland Revenue's culture.

Developing our digital channels

We have two primary digital channels:

- myIR—a customer-facing portal for individuals and business customers to use self-service as well as a mobile web app
- a business-to-business data-sharing service (B2B).

Supporting customer self-service

Our secure online services, "myIR", provide a way for customers to look up and update their own information and file returns without having to contact us. We also have a mobile app, which provides a mobile version of some key digital services.

At 30 June 2013 we had over 1.6 million customers registered for myIR, 30% more than last year. More than 1.3 million of these accounts have been activated by customers.

We launched our new online GST return and registration process for businesses in August 2012. This has provided an easy-to-use, authenticated service for business customers that is secure, saves time and provides them with immediate confirmation once they've filed their return. The service also provides us with greater certainty about the compliance of GST customers and provides better value for money from reduced handling of paper returns and returns having fewer errors.

We launched the GST service with a marketing campaign designed to drive uptake and to move customers already using our existing unauthenticated GST online service to the new authenticated service. By June 2013 more than half of these customers had moved to the new authenticated service. We have developed this marketing capability to take a more proactive approach towards channel shifting, which is supported by the work on our Integrated Channel Strategy.

Digital communication with customers

We have recently developed the capability to email e-alert notifications to myIR customers. It includes the ability to send a customer a reminder three days before a return filing due date if they have not already filed their return. Customers are enthusiastic about this reminder service and we expect it will help them to comply with their obligations. The service also has the potential to reduce the amount of paper correspondence we send to customers each year. Initially, we are using this capability for GST returns and we will apply it to other tax services in the future.

Improving satisfaction among customers

Our research has found that customers who use myIR like it, use it frequently and intend to use it more. Customer satisfaction with myIR is significantly higher than our telephone and correspondence channels—in 2012–13, 94% of myIR customers were satisfied with our service and 82% of customers were satisfied with our telephone and correspondence services.

"I liked the fact that I could do the transaction online, I could pay online, I could fill out the form online, just the convenience of doing it online."

Growing an integrated digital service

Our business-to-business (B2B) capability enables us to share data automatically with other government agencies and businesses.

Our information matching with the Ministry of Social Development (MSD) has resulted in MSD cancelling thousands of benefits people were not entitled to, saving millions of dollars (see page 40 for more detail about our information-matching work).

We also use B2B to make automated transactions for student loans and KiwiSaver.

- Our daily datasharing with StudyLink, implemented in 2012, has improved our student loan borrower information, enabling us to have an accurate and up-to-date view of borrowers' account.
- Since KiwiSaver was introduced, we have used our B2B capability to make payment transactions between Inland Revenue and KiwiSaver scheme providers.

In May 2013, we launched a new B2B service to exchange data with tax refund intermediaries (PTSLs). On behalf of their customers they can electronically request, amend and confirm returns or update customer details (eg, bank account and address details) in near real time. Three of the four major tax refund intermediaries representing more than 400,000 customers are using the new service with one other expected in the near future. We expect a significant decrease in peak season contacts from PTSLs in the future as use of this service increases.

We are continuing to build on our B2B capability to provide access to digital services directly from third party software and service providers. This lets customers, who already work digitally in their own businesses, seamlessly access Inland Revenue's digital services.

Improving our telephone self-service

We are continuing to invest in new technology to improve the quality and accessibility of our telephone services for our customers.

Voice ID

We are seen internationally as a leader in the design and customer adoption of technologies like speech navigation and voice biometrics (voice ID). We now have more than 750,000 customers enrolled for voice ID. This is the highest enrolment of voice biometrics customers per capita in the world. Customers verified by voice ID save themselves at least 40 seconds and sometimes up to 60 seconds per call.

The increasing number of customers using the system each day has significantly reduced the amount of manual authentication required by our people, which enables them to get straight into resolving customers' requests.

Voice ID has the highest enrolment of voice biometrics customers per capita in the world.

Voice ID complements our online services because customers can reset their online password and activate their online account by phone at any time. We've also seen an increase in other customer self-services, particularly after we're closed for the day, because voice ID enables secure access to our self-service functionality.

Of the customers enrolled for voice ID:

- 95% are enrolled for KiwiSaver
- 35% receive Working for Families Tax Credits
- 27% have student loans
- 21% are either custodial or paying parents for child support.

As well as providing better service to our customers, voice ID also provides lower costs for us (see page 30) and better customer security by deterring fraud and improving our ability to detect it.

Info blasts

This year, we added info blasts to our self-service voice system (SPK2IR) for voice ID-verified customers. Where appropriate, it automatically plays student loan or child support balance and payment information to customers. Our customers get the information they require without having to wait to talk to one of our customer services specialists.

USING INTELLIGENCE TO BETTER UNDERSTAND OUR CUSTOMERS

We have been using customer insight and intelligence in our design of services for over a decade. By understanding what motivates the behaviour of individuals and businesses, and by joining with stakeholders, we have been able to improve the way we manage compliance and make informed decisions when we design services.

As well as continuing this work, our insight and intelligence work will be closely associated with our change programme. We will engage with our customers in designing services as we change Inland Revenue. To advance this work we have integrated closely associated activities into a new business group, Information, Intelligence and Communications.

Some of our work to better understand our customers includes:

- improving the way we use analytical tools to take information and analysis from third parties and our own data, to identify and predict risks. For GST, this is now done in a near real-time environment, speeding up intelligence gathering and its application to the screening of assessments and refund claims.

- carrying out research into adverse events on the tax compliance behaviour of small and medium sized companies, specifically after the Canterbury earthquakes. We used the results to target and tailor or approach to customers in Canterbury and also shared the results with other agencies involved in the Canterbury rebuild.
- using behavioural insights to train our debt collection teams to better understand and respond to customers over the phone.
- working with other agencies to target fraud, eg, welfare fraud, and ensure that the right people are receiving the right services.

In the short-term, using intelligence helps us better differentiate and target interventions early in the compliance lifecycle. It also plays an important role in integrating services across agencies, particularly in supporting our work on the Better Public Services (BPS) initiatives. We are using our customer insight and design experience to advance initiatives for BPS result 9, which aims to improve government services to business.

We have also run a pilot programme that can identify patterns of behaviour which will assist in identifying non-compliance and organised crime. This could contribute to BPS result 7. In the pilot study we used disparate data sets to look for connections that might not be apparent from a single source.

Research—understanding our customers

Inland Revenue has a research programme to better understand our customers. We plan to publish more of our research and evaluation findings on Inland Revenue's website.

Here are selected extracts from some of the responses we have published online in the past year (ird.govt.nz/aboutus/ourpublications/reports).

People's attitudes to secrecy and information sharing:

"As long as there's clear rules I don't have any problem with agencies sharing for the ... purpose that it's meant. It's the situation where the information could get out, and not be used for the purpose for which it's meant."

The impact of the Christchurch earthquakes on our small business taxpayer base:

"Most people did nothing for some time after the earthquakes. It was a combination of trauma due to the quakes, and low anxiety about tax. People were not too worried about tax at the time."

"It's been an incredibly difficult year for business. For some months we couldn't draw wages. We had to use our savings, we sold personal items."

We have an ongoing focus on the attitudes, motivators and behaviour of people in the hidden economy. We use the insights we get from this research into why people take part in the hidden economy in our strategies to ensure everyone pays their fair share of tax. Many people disapprove of not paying tax that is due. We were told:

"[Cash jobs] bring down the whole level of funding for the government who tries to better our lives. It's theft, you're stealing from future generations. If you're not paying the rightful tax, you're stealing from the country. If the government does not have funds to do what is necessary there is a major fall-out down the road."

"I think it's detrimental to society. It reduces the ability for government to offer money for health, education, law and order. All those sorts of things."

"Weakens the society and morally affects the society. Weakens a person's moral character."

We also heard:

"That's the way life is in New Zealand. There's nothing wrong with it and it's part of New Zealand's history."

Inland Revenue will continue to use research insights to develop strategies to help people to comply.

NEW LEADERSHIP AND GOVERNANCE ARRANGEMENTS

In late 2012, we reviewed our senior management structure and our approach to governance. The review established a new Executive Leadership Team (ELT) with nine second-tier managers reporting direct to the Commissioner (see figure 14). The new structure includes changes to the responsibilities of some deputy commissioners, new deputy commissioner roles and adds three chief officer roles to the ELT.

Our new ELT ensures we have the leadership required to drive our change programme over the next few years.

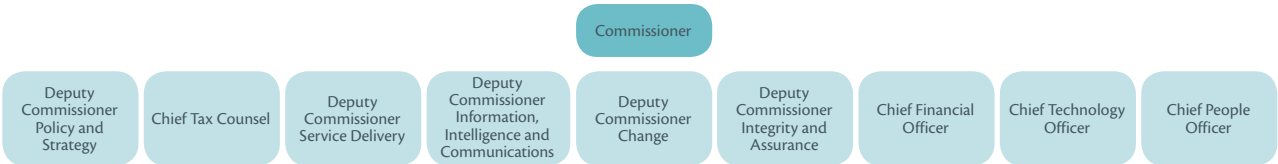
The ELT took up its role on 4 February 2013. It provides greater focus on delivering our services for customers and ensures that we have leadership required to drive our change programme over the next few years. Reporting lines in the new structure were aligned progressively during the first half of 2013.

We also created three new governance boards:

- Strategy Board – focuses on longer-term organisational strategy development including environmental scanning, strategic planning, and resourcing implications.
- Investment Board – focuses on investment-related decisions for Inland Revenue.
- Business Performance Board – focuses on shorter-term financial and business performance, resource management, and operational and financial planning.

The new governance boards will significantly strengthen the quality of our governance and decision-making, particularly as we increase the pace of our change.

FIGURE 14 – OUR EXECUTIVE LEADERSHIP TEAM STRUCTURE



STRENGTHENING CROSS-GOVERNMENT WORK

Inland Revenue is becoming increasingly involved in work with other government agencies, which is helping to make the public sector more effective and provide better services.

We are contributing to the Government's Better Public Services results, sharing information with other agencies to improve performance, and sharing service delivery and facilities.

DELIVERING BETTER PUBLIC SERVICES

Our change programme is one of the key ways we are working with other government agencies to deliver Better Public Services (BPS), and is aligned with the all-of-government Information and Communication Technology (ICT) strategy.

We are contributing significantly to the achievement of results 9 and 10 and to a lesser extent, result 7. Results 9 and 10 are about improving people's interaction with government through better online services for businesses and individuals. Result 7 is about reducing crime.

The Government has appointed three functional leaders for the BPS programme for ICT, property and procurement. They are the Chief Executives of the Department of Internal Affairs (ICT), Ministry of Social Development (property) and Ministry of Business Innovation and Employment (procurement). We are working with them to improve effectiveness and reduce the overall costs to government.

Result 9

New Zealand businesses have a one-stop shop for all government advice and support they need to run and grow their business.

The targets for result 9 are:

- cut the cost of dealing with government by 25% by reducing effort required to work with agencies by 2017
- key performance ratings for government services to business to match leading private sector firms by 2017.

Inland Revenue is one of seven agencies working on this result. Our contribution to result 9 includes working with other agencies to:

- help design the future "one-stop online shop" for business—developing a shared online "front door" that integrates all information, government-to-business

Our change programme is one of the key ways we are working with other government agencies to deliver Better Public Services.

transactions and online services provided by the public and private sectors.

- support the introduction of a New Zealand Business Number (NZBN), which is a key enabler for delivering integrated services for business across government, and will support enhanced, secure information sharing.
- help create an integrated New Zealand business register—this service is an interdependency of the NZBN. It will be built on the existing Companies Office service that enables co-registration for an IRD number and GST. We are working with the Companies Office on the first version of the integrated registration service.
- measure progress against result 9 targets—we are working to develop measures to quantify the reduction in business costs of dealing with government and satisfaction ratings.

Result 10

New Zealanders can complete their transactions with government easily in a digital environment.

The target for result 10 is to have an average of 70% of New Zealanders' most common transactions with government completed in a digital environment by 2017. The specific measures we have committed to, which all have a target of 70%, are:

- File individual tax return—this year, 83% of individual tax returns were filed electronically, compared with 75% in 2011–12.
- Pay individual tax—this year, 70% of individual tax payments were made electronically, compared with 66% in the same period last year.
- Apply for an IRD number—currently, IRD numbers cannot be applied for online. We will examine the options for enabling IRD numbers to be applied for electronically as part of our transformation programme. The IRD numbers for newborns initiative (see below) is the basis for letting people apply for an IRD number online in the future, when the Department of Internal Affairs develops a digital channel for registering births.

IRD numbers for newborns

Parents of about half of the 60,000 children born each year apply for a child's IRD number within the child's first year. This can be very time-consuming as parents acquire documents and are verified in person.

From 1 July 2013, parents of newborns can apply for an IRD number for their child by ticking a box on the Department of Internal Affairs (DIA) birth registration form. This new,

paper-based service means parents no longer need to duplicate details on separate forms to access social policy entitlements or open a child's bank account.

By 31 August we had received 2,547 applications for an IRD number from the 2,722 new birth registration forms received by DIA, a take-up rate of 94%.

Result 7

Reduce the rates of total crime, violent crime and youth crime.

We've been working with the Ministry of Justice, Police and other agencies on a government proposal to share certain Inland Revenue information that could help prevent serious crime. The Ministers of Revenue, Justice and Police released the proposal for public consultation from April to early June 2013. Consultation was through an interactive online forum and a formal submission process. The agencies are now analysing the feedback, and Government will consider that report and make any decisions required.

We are also sharing information on incomes and employment with the Ministry of Social Development to help detect benefit fraud (see page 40).

NEW SERVICE APPROACHES IN CHRISTCHURCH

The Christchurch Rebuild programme is one of Inland Revenue's top priorities. It fits with our future direction, providing piloting opportunities and a testing ground for the type of innovative, cost-effective, joined-up public services set out in *IR for the future* and the Government's Better Public Services programme.

We are providing leadership and governance capabilities to cross-government and private sector groups in both Christchurch and Wellington. This includes contributing to Canterbury Earthquake Recovery Authority's (CERA) Economic and Social Recovery Plans through the delivery of the Effective Government Services programme.

We contribute staff to the New Zealand Government Centre, which gives Christchurch people access to a range of direct and online services from the Ministry of Social Development and Inland Revenue. Self-service work-stations are now up and running, where customers look up information and complete simple online transactions themselves. Our front-of-house staff can support customers, especially people unused to technology, to navigate systems and gain confidence in using online government services. In future, we will use this site to trial better ways for agencies to work together to support their customers.

Christchurch accommodation

Over the past year we have reduced our footprint in Christchurch to three sites—Moorhouse Ave, Russley Road and Mid City—from a peak of 33 sites. With our move into the Mid City premises we became the first government agency to return to the Christchurch CBD. Our

new accommodation has provided stability for our workforce and allowed us to re-establish full operations in Christchurch. We share our Russley Road building with the Ministry of Social Development (MSD). Staff from each agency perform similar functions, which has the potential for future collaboration between the agencies. We also have reduced operating costs from sharing facilities with MSD.

We are working with the Canterbury Integrated Government Accommodation project to identify long-term CBD property solutions for government agencies that will deliver joined up services and provide a catalyst for the economic recovery and rebuild of the Christchurch CBD.

Working with other agencies in Christchurch

Other Christchurch initiatives that involve collaborating with other agencies include:

- **Earthquake support coordinators**—staff from 26 government and non-government organisations help families and households most affected by the earthquakes, connect to the services they need. It offers a joined-up support service with a “no wrong door” approach.
- **People resilience**—The Public Sector Organisational Resilience Team are working with CERA's Community Wellbeing team and Canterbury government agencies to deliver initiatives that facilitate building a resilient public sector workforce. This includes targeted workshops such as “Sleep smarter”, designed to address identified needs. These cross-government teams share best practices, resources and insights.

As part of our resilience work, we have been asked to join the Greater Christchurch Psychosocial Committee, with the Canterbury DHB and CERA, which is developing a cross-sectorial public sector workforce psychosocial strategic plan for 2014–16.

We are the first government agency to return to the Christchurch CBD.

INFORMATION SHARING WITH OTHER AGENCIES

Our information sharing with other government agencies is helping them to improve their customer compliance and improving our customers' compliance.

In March 2013, the Ministry of Social Development (MSD) started using Inland Revenue's employer monthly schedule information to identify all current working-age beneficiaries who also have employment income. The information sharing is showing good results. At 30 June 2013, 3,139 benefits had been cancelled because the recipient was not entitled to them. This has saved the taxpayer \$33.7 million per year.

In April 2013, we implemented a new information match with the New Zealand Customs Service to identify non-compliant overseas-based student loan borrowers as they cross the New Zealand border. In the first three months we were notified of 1,095 arrivals.

We are developing an information sharing agreement with the Department of Internal Affairs to share the contact details of overseas-based child support liable parents and student loan borrowers who apply to renew a passport. This new agreement is planned to come into effect in October 2013.

We also have a range of existing information-sharing agreements that have been in place for some time, which are helping to improve compliance, eg, we share information with New Zealand Customs to identify parents with child support liabilities as they cross the border.

SHARING PEOPLE WITH STUDYLINK

This year we are trialling a programme to share temporary Customer Service Specialists (CSS) with StudyLink. Each year StudyLink experiences a peak season which typically runs from October to March. Similarly, Inland Revenue traditionally experiences an annual peak season period from May to September. StudyLink employ up to 150 temporary staff during their peak period to service their voice channel.

As a result of information we shared, MSD cancelled or adjusted several thousand benefits, which saved millions of taxpayer dollars.

In April 2013, we employed 60 temporary CSSs to answer telephone calls. These people had been employed by Studylink and they will return to StudyLink on secondment in October 2013. They are answering simple enquiries, which frees up our permanent people to respond to other calls from our customers.

Part 4

ORGANISATIONAL HEALTH AND CAPABILITY

DEVELOPING OUR ORGANISATIONAL CAPABILITY

We need an engaged, capable, diverse and productive workforce to ensure that we can make the changes required in the coming years while maintaining the delivery of our core services. This is reflected in our strategic priority, “We retain, develop and attract high-calibre people with the skills required in the future – enabling a culture of service and excellence”.

To do this we have three focus areas:

- Enabling high performance
- Creating change agility and resilience
- People with the right skills.

ENABLING HIGH PERFORMANCE

We have identified the key actions required to build high performance in Inland Revenue, which will inform our future decisions. These actions cover leadership, engagement and culture, talent management, improving performance and accountability.

This year we will be reviewing our leadership programme to ensure our leaders are equipped to lead.

Nearly 500 of our people leaders have taken part in our internal coaching programme. The programme aims to strengthen our leadership capability and performance by building leadership and coaching skills and focusing on the role of the leader to increase performance.

There has been a steady year-on-year increase in sick leave taken by our people and we have one of the highest sick leave rates in the public sector. To better understand the causes we completed an analysis of our sick leave usage and our people’s views about sick leave. We identified a range of initiatives to ensure our people come to work ready and motivated to do their best when they are well and stay home when they are sick. We will implement these initiatives during the coming year. Early indicators show use of sick leave is decreasing and we expect the positive attendance initiatives to continue this trend.

We have piloted a talent programme in some areas and this will become part of our annual performance and development cycle.

We need an engaged, capable, diverse and productive workforce to ensure we can make the changes required in the coming years

We continue to use the Gallup engagement survey and will sharpen our approach to engagement and our employee relationship to ensure Inland Revenue is a great place for our people to work.

CREATING CHANGE AGILITY AND RESILIENCE

We are taking a more integrated approach to managing change. We have already carried out significant restructures that will put Inland Revenue in a better position to deliver the transformation required over the next decade.

To help manage change, we have developed a set of resources to help our leaders guide their teams through times of change, and make sure they maintain the wellbeing of their people in uncertain situations.

PEOPLE WITH THE RIGHT SKILLS

We have established a Workforce Strategy function that will work with the business on the makeup of the future workforce and ensure we are prepared for the skills requirements of our future business.

We are reviewing our national learning and development function to ensure we enable our people to develop the right skills and capabilities now and in the future. We will work with business units to ensure learning and developing initiatives and services are aligned to our strategic priorities.

Inland Revenue supports diversity of perspective. Our diversity and inclusion framework forms part of the design and implementation of our people initiatives.

MANAGING OUR RISKS

Risk management enables us to identify the risks to our ability to deliver our agreed outcomes and *IR for the future*. Effective implementation of risk management is important in implementing good management practice and provides greater clarity in decision-making.

Risk management operates at all levels in Inland Revenue. There are several ways that we manage risk:. We:

- develop and maintain risk registers within each business unit and project
- have an independent corporate risk management team, whose function is to develop and facilitate the implementation of our risk management processes, and provide an independent perspective on risks
- embed “risk champions” within business areas, who are responsible for developing appropriate risk-related activity
- periodically assess the effectiveness of our risk processes by running an Inland Revenue-wide risk management maturity assessment.

The new governance structure implemented in February 2013 (see page 37) consists of three Boards chaired by the Commissioner. Each Board focuses on different organisational priorities, including different risks:

- Business Performance Board – identifies and monitors organisational risks
- Investment Board – identifies and monitors investment portfolio risks
- Strategy Board – identifies and monitors strategic risks.

A Risk and Assurance Committee provides independent advice to the Commissioner on carrying out her statutory responsibilities and accountabilities. The Committee is made up of independent members and also has an independent chair.

RISK MANAGEMENT FRAMEWORK

Our risk management framework is consistent with the AS/NZS ISO 31000:2009 risk management standard. This framework sets out:

- risk management responsibilities across operational, portfolio, programme and project environments
- risk assessment frameworks
- risk management processes.

Our framework uses established processes for managing risks at the strategic, operational, portfolio, programme, and project

levels. We regularly review it to ensure it provides value to the organisation through informing decision-making.

We are improving the way we manage risk through a programme that will make us a more risk-intelligent organisation. This will ensure that an understanding of emerging, strategic, organisational, operational and investment portfolio risks support effective decision-making and enhances our ability to meet or exceed our objectives.

The strategic risk and mitigations we have put in place to address them are set out in figure 15. We regularly monitor our risk mitigations to ensure the risks are being addressed. In some cases, the mitigations are covered by actions as part of our business-as-usual work, initiatives discussed elsewhere in this document or by specific risk treatment plans.

As part of our review processes we will refresh the strategic risks in figure 15 to ensure they are relevant and incorporate an understanding of the strategic outcomes.

FIGURE 15–
OUR STRATEGIC RISKS

Strategic risk area	Statement of risk	Our mitigation approaches include:
Revenue	Inland Revenue needs to administer all tax and social policies to optimise revenues and disbursements to support government objectives.	- ensuring we have effective management practices and controls in place - development of intelligence-led capability to identify and manage compliance risks.
Reputation	Inland Revenue needs to maintain the confidence of the public and government.	- Deputy Commissioner (Corporate Integrity and Assurance) is responsible for providing assurance of the integrity of the tax system - ongoing focus on training our people and measuring performance through customer satisfaction and community perceptions reporting.
People capability	Inland Revenue needs the right people in the right place at the right time, now and in the future.	people and workforce capability strategy developed to focus on future needs.
Information technology	Inland Revenue needs to apply timely technology solutions to meet our delivery requirements.	- IT infrastructure plan developed to focus on future system needs, which will form part of Inland Revenue's change portfolio - investment in the stabilisation of Inland Revenue's IT systems.
Information management	Inland Revenue needs reliable data, and effective management information systems and processes to make informed decisions, and ensure our information asset is kept secure.	- actively managing data security and data privacy processes - strong governance and security management processes, including visibility at governance board level, training and use of technology.
Finance	Inland Revenue needs to ensure future capital investment and operational funding is sufficient to provide services, now and in the future.	- future financial plans set out in the four-year plan and ten-year capital plan - strong governance focus through the Investment Board and Business Performance Board.
External interactions	Inland Revenue needs to ensure that competing priorities are managed when working together with other agencies and private providers.	- taking a coordinated approach to managing our cross-government interactions - working closely with other agencies on Better Public Services - relationship management meetings with key stakeholders (such as NZICA and software developers).

Part 5

STATEMENT OF SERVICE PERFORMANCE

STATEMENT OF RESPONSIBILITY

In terms of the Public Finance Act 1989 I am responsible, as Chief Executive of Inland Revenue, for the preparation of the department's financial statements and statements of service performance, and for the judgements made in them.

I have the responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements fairly reflect the financial position and operations of the department for the year ended 30 June 2013.



Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue

26 September 2013

Countersigned by:



Giles Southwell
Chief Financial Officer

26 September 2013

STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2013

REPORTING PERFORMANCE

Our service performance is divided into two groups:

- **Activity forecasts**—these are forecasts of expected customer demand for our services that provide context for our results. Significant variation from the forecast figures can influence the achievement of the targets set for our performance measures.
- **Performance measures**—these are measures we use to set our performance targets. They measure our performance in terms of quantity, quality, timeliness and cost.

The following sections report on our performance against our targets. Where a performance measure is expressed in terms of a range of characteristics that the output should meet, the result is reported as “achieved” or “not achieved” (eg, see Output Expense 1). We have provided additional information to explain our performance for these performance measures.

We have provided comments for:

- key activity forecasts where actual demand was outside the expected range
- performance measures that were not achieved
- performance measures with a positive variance greater than 10%.

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

Comparative performance data

Where appropriate, we have included comparative performance information against the activity forecast and performance measures for the previous year (2011–12 actual). We have not included comparative performance information for new performance measures, or where there has been a change in the performance measure or measurement methodology that made the results incomparable. These are indicated by “n/a”.

Performance context

We have included information to give context to the performance achieved. For each output expense we have included a summary of the impacts we want to contribute to. Further information about our performance measurement framework can be found in Part 2. This forms part of the overall performance picture and should be read in conjunction with the activity forecasts and narrative in the other sections of this report. We have included forecast and target information¹ for the following financial year for the first time. From next year the Public Finance Amendment Act 2013 requires us to publish our future operating intentions. We have taken the opportunity to include our financial forecasts and our non-financial performance targets we have set for the coming year. Our aim is to increase transparency by providing the reader with further context on this year’s results by providing next year’s forecast for comparison.

¹ The forecast and target information is not subject to audit.

SUMMARY OF SERVICE PERFORMANCE

Figure 16 summarises the performance measures where our targets were achieved. We achieved 44 (76%) of the performance targets that we set at the start of the year.

FIGURE 16 – PERFORMANCE TARGETS ACHIEVED

2010–11	2011–12	Output expense	2012–13
6 of 6	5 of 5	Policy advice	1 of 1*
12 of 14	9 of 14	Services to inform the public about entitlements and meeting obligations	12 of 18
15 of 17	11 of 17	Services to process obligations and entitlements	17 of 20
9 of 15	6 of 12	Management of debt and outstanding returns	6 of 11
9 of 9	7 of 7	Taxpayer audit	8 of 8
51 of 61	38 of 55	Total	44 of 58*

* This total excludes one performance measure that was not measured due to the change in Minister of Revenue.

Review of 2012–13 output performance measures

As in previous years, we reviewed our output measures before the start of the new financial year. The purpose of this review was to:

- ensure that we focus on the vital few external measures
- create or update measures to reflect changes in our business
- rationalise multiple or repeating measures
- remove items that were not true measures of our performance.

We have 49 measures which are comparable with last year. Our performance improved for 22 of these measures (45%), remained the same for 7 measures (14%) and deteriorated for 20 measures (41%). For 16 (80%) of the 20 measures where performance deteriorated, the change in performance between years was less than 5%. The 49 comparable measures exclude the child support administrative review timeliness measure, which could not be reported accurately, and the Ministerial satisfaction measure, which was not measured due to the appointment of a new Minister of Revenue in June 2013.

OUTPUT EXPENSE 1 POLICY ADVICE

Description

This output expense provides policy advice services (including second opinion advice and contributions to policy advice led by other agencies) to support decision making by Ministers on government policy matters.

Performance context

The impacts we contribute to

Providing policy advice services protects and maintains the integrity of the tax system while ensuring that our tax system is as simple as possible and is internationally competitive. This contributes to achieving all of our impacts:

- More customers self-manage
- More customers register and report accurate information when required
- More customers claim their correct entitlements
- More customers pay and file information on time
- The behaviour of non-compliant customers improves.

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on our performance during 2012-13

We continued to support the Government's priorities through delivering the Government's tax policy work programme. Highlights for 2012-13 include:

- consultation on a range of issues, eg taxation of foreign superannuation
- supporting the passage of legislation through Parliament, eg Child Support Amendment Bill (introduced in October 2011, enacted in April 2013)
- work on other policy initiatives such as negotiating our double tax agreements and international co-operation to combat tax avoidance and tax evasion
- Budget 2013 initiatives.

See page 20 for more information about our policy work.

Financial performance for the year ended 30 June 2013 (\$000)

Revenue	Expenses	Net surplus/(deficit)
8,409	7,912	497

OUTPUT 1.1 POLICY ADVICE IN RELATION TO TAX AND SOCIAL POLICY

Description

This output involves:

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

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
100%	Percentage of regulatory impact statements assessed as adequate—advice is complete, convincing, consulted, clear and concise.	100%	100%	–	Measure removed
n/a	Minimum percentage of policy advice papers that meet quality standards.	–	–	–	90%
Achieved	We will ensure that the Minister is satisfied with the quality of: • policy advice • tax legislation • revenue forecasts.	Achieved	Not measured ²	–	Measure removed
n/a	Minimum percentage of ministerial satisfaction for policy advice.	–	–	–	95%
n/a	Maximum average cost per hour of producing policy advice outputs (new measure 2013–14).	–	–	–	\$150.00

* As explained in the Performance context, these figures are not subject to audit.

² Under normal circumstances, this performance is measured by surveying the Minister near the end of the year. There was a change of Minister in June 2013 and it was not appropriate to survey the new Minister immediately.

OUTPUT STATEMENT: POLICY ADVICE

FOR THE YEAR ENDED 30 JUNE 2013³

	2011–12 Actual	2012–13 Budget*	2012–13 Revised Budget*	2012–13 Actual	2013–14 Forecast*
	\$000	\$000	\$000	\$000	\$000
Revenue					
Crown	15,934	7,806	8,265	8,265	8,098
Other	215	2	2	144	2
Total revenue	16,149	7,808	8,267	8,409	8,100
Expenses					
Annual appropriations	15,842	7,808	8,267	7,912	8,100
Total expenses	15,842	7,808	8,267	7,912	8,100
Net surplus/(deficit)	307	–	–	497	–

* The statement of accounting policies in part 6 provide explanations of these figures which are not subject to audit.

³ The Relationship Management Unit of Ministerial Services moved from this output class to output class 2, in 2012–13. There are two associated performance measures that have also moved across.

OUTPUT EXPENSE 2

SERVICES TO INFORM THE PUBLIC ABOUT ENTITLEMENTS AND MEETING OBLIGATIONS

Description

This output expense provides services that help taxpayers and other customers to meet their payment obligations of their own accord and to receive payments they are entitled to. This is achieved through a range of proactive and reactive services to make people aware of their entitlements and obligations, and the services available to help them comply. This output expense also contributes to confidence in the tax administration system through managing individual customer complaints quickly, fairly and in confidence. It also provides services to Ministers to enable them to discharge their portfolio (other than policy decision-making responsibilities).

Performance context

The impacts we contribute to

Providing customers with relevant information and advice, certainty in relation to the application of the law, and a choice in how they engage with us, ensures that customers are aware of and understand their obligations and entitlements. This means more customers can self-manage and consequently, more customers:

- register and report accurate information when required
- claim their correct entitlements
- pay and file information on time.

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2012-13

Our performance targets for answering telephones came under pressure because we received more calls than forecast in the fourth quarter. We also had fewer staff available to answer telephones in March and April, consistent with our forecast, because we were training contact centre staff in preparation for the expected start of peak season in May. These factors resulted in us failing to achieve our target for attempted calls answered.

The high volume of unanswered correspondence, particularly electronic correspondence, that was carried over from 2011-12 had a detrimental effect on our correspondence performance this year.

Customer satisfaction with our online services remained high and there was a similar level of confidence that Inland Revenue takes appropriate action to ensure customers receive their social support entitlements. Customer satisfaction with our telephone and correspondence channels decreased from last year. A significant reason for this decrease was customers having difficulty accessing our services during peak season.

Financial performance for the year ended 30 June 2013 (\$000)

Revenue	Expenses	Net surplus/(deficit)
259,864	243,448	16,416

OUTPUT 2.1 INFORMATION SERVICES

Description

This output involves responding to customer enquiries on tax and social support programmes (including child support and KiwiSaver) through electronic channels, correspondence, telephone⁴, personal appointments, actively providing advice through a range of communication approaches delivered in the community, and through our complaints management service.

Activity forecasts

2011–12		2012–13		2013–14**
Actual	Activity forecast	Forecast*	Actual	Forecast*
5.85 million	Number of customer service contacts	5.10–5.60 million	6.41 million	4.70–5.20 million
15.81 million	Number of self-help service contacts	13.90–15.30 million	17.95 million	13.40–14.80 million

* As explained in the Performance context, these figures are not subject to audit.

** Forecasts being reviewed in light of actual for 2012–13.

Commentary for demand outside forecast range

Number of customer services contacts (person to person)

This year, an increase of 15% in the number of telephone contacts was the driver behind the overall increase in customer service contacts. The correspondence and counter contacts were slightly under forecast volumes.

Number of self-help services contacts

All types of self-help service contacts have increased this year, in particular, KiwiSaver member scheme provider requests. This reflects our policy of encouraging customers to use self-service channels.

⁴ There were two full days where no data was captured within TelstraClear databases. There was no significant impact on our telephone performance measures.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
85.5%#	Minimum percentage of customers who are satisfied with the quality of the services provided.	85%	82.2%#	(3.3%)	85%
n/a	Minimum percentage of customers who are satisfied with the quality of online services.	85%	94.5%	11.2%	90%
72.3%#	Minimum percentage of all initial telephone enquiries fully resolved at the time.	75%	72.5%#	(3.3%)	Measure removed
71.0%#	Minimum percentage of customers confident that Inland Revenue takes appropriate action to ensure people receive their social support entitlements.	70%	70.5%#	0.7%	70%
	Quantity				
89.5%	Minimum percentage of attempted calls that we answer.	75%	73.2%	(2.4%)	75%
	Timeliness				
69.2%	Minimum percentage of priority telephone calls answered within one minute.	70%	64.3%	(8.1%)	Measure replaced (see below)
75.7%	Minimum percentage of general telephone calls answered within four minutes.	70%	78.3%	11.9%	
–	Minimum percentage of telephone calls answered within two minutes (new measure 2013–14).	–	–	–	75%
69.5%	Minimum percentage of paper correspondence answered within three weeks.	75%	76.6%	2.1%	Measure replaced (see below)
54.1%	Minimum percentage of electronic correspondence answered within one week.	70%	50.4%	(28.0%)	
–	Minimum percentage of correspondence answered within two weeks (new measure in 2013–14).	–	–	–	75%
	Cost				
\$35.06	Maximum average cost of a customer-initiated contact.	\$34.00	\$32.92	3.2%	\$34.00

Measured using a sample of the customer population.

* As explained in the Performance context, these figures are not subject to audit.

Commentary on targets not achieved

Minimum percentage of customers who are satisfied with the quality of the services provided.

This measures our telephone and correspondence services only. Customer satisfaction decreased because of our less than satisfactory response times during high-demand periods.

Minimum percentage of all initial telephone enquiries fully resolved at the time.

This measure is now out of date and does not align to our strategy to increase people's ability to manage their information online through self-help channels. This continues to increase the complexity of telephone enquiries we receive, making them more difficult to resolve at first contact.

Minimum percentage of attempted calls that we answer.

Performance was impacted by higher than forecast total call volumes for the whole of the fourth quarter. This increase of 11% above forecast for the quarter was due to peak season starting in April (earlier than expected) and a higher than forecast volume of calls during the traditional peak period. This increase in volume, combined with reduced capacity as per our forecast training period in March and April, contributed to the performance result.

Minimum percentage of priority telephone calls answered within one minute.

Since December 2009, we have offered a “call-back” service to assist in managing telephone contacts. The impact of using this facility is that these calls take precedence over dealing with other calls (including those in our priority queue). This particularly impacts during busy peak times. Call demand during our peak season was also higher than forecast. For example, in June, we received 30.6% more priority calls than forecast.

Minimum percentage of all electronic correspondence answered within one week.

Performance was affected by increased work on hand at the beginning of the year. While volumes reduced considerably over the first eight months of the year, they increased again towards the end of the year during our peak period.

We have reviewed our correspondence targets for 2013–14 to support a more balanced approach to the way in which we prioritise resources across all of our channels.

Commentary on significant positive variance

Minimum percentage of customers who are satisfied with the quality of online services.

This is the first year in which we have set a target, and we underestimated the high level of customer satisfaction with our online services. For 2013–14 the target has been increased to 90%.

Minimum percentage of general telephone calls answered within four minutes.

Our performance reflects the seasonal nature of call demand. In periods of lower demand we are able to answer a significantly higher percentage of calls within targeted timeframes.

In 2013–14 we have set a combined target for both priority and general calls that better reflects our approach to providing a more balanced service for all calls.

OUTPUT 2.2 ADJUDICATION AND RULINGS

Description

This output involves:

Adjudication

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

Taxpayer rulings

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

Public rulings

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

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
100%	Percentage of all rulings reports, adjudication reports, public items and technical correspondence or advice meets the applicable purpose, logic, alternatives, consultation and practicality standards.	100%	100%	0.0%	100%
	Quantity				
25	Minimum number of published or finalised public items that give the Commissioner's interpretation of the law.	25	11	(56.0%)	25
	Timeliness				
94.7%	Minimum percentage of adjudication cases completed within three months of receipt.	90%	100%	11.1%	90%
100%	Minimum percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt.	90%	100%	11.1%	90%
100%	Minimum percentage of non-qualifying ruling applications that have a draft ruling completed within the timeframe agreed with the applicant (which will not be more than six months from the receipt of the application).	90%	100%	11.1%	90%
92.3%	Minimum percentage of public items (including relevant public consultation), completed within 18 months of allocation	90%	100%	11.1%	90%
–	Minimum percentage of submissions by the applicant on any draft ruling responded to within one month of receipt (new measure in 2013–14).	–	–	–	90%

* As explained in the Performance context, these figures are not subject to audit.

Commentary on targets not achieved

Minimum number of published or finalised public items that gives the Commissioner's interpretation of the law.

We have not published as many public items as expected, due to our commitment to the Public Information Bulletin review project. This involved reviewing past published items to confirm their continued relevance and correctness. This review has recently been completed.

Commentary on significant positive variances

Minimum percentage of adjudication cases completed within three months of receipt.

We have experienced an even flow of inward referrals throughout the year that has contributed to the positive variance.

Minimum percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt, and

Minimum percentage of non-qualifying taxpayer ruling applications within the timeframe agreed with the applicant (which will not be more than six months from the receipt of the application).

We continued to see benefits from our improved rulings processes.

Minimum percentage of public items (including relevant public consultation), completed within 18 months of allocation.

Our continued focus on timeliness to complete public items has brought positive year-end results.

OUTPUT 2.3 MINISTERIAL SERVICES

Description

This output involves all activities associated with ministerial services, including responding to ministerial correspondence and parliamentary questions. It includes all tax, child support, student loan, KiwiSaver and family assistance ministerial correspondence and supply of information.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Timeliness				
96%	Minimum percentage of ministerial correspondence responded to within 10 days.	95%	98%	3.2%	95%
100%	Percentage of parliamentary questions responded to within required timeframes.	100%	100%	0.0%	100%

* As explained in the Performance context, these figures are not subject to audit.

OUTPUT STATEMENT: SERVICES TO INFORM THE PUBLIC ABOUT ENTITLEMENTS AND MEETING OBLIGATIONS

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Actual	2012–13 Budget*	2012–13 Revised Budget*	2012–13 Actual	2013–14 Forecast*
	\$000	\$000	\$000	\$000	\$000
Revenue					
Crown	254,105	252,742	254,601	254,601	265,541
Other	4,230	3,361	1,841	5,263	1,961
Total revenue	258,335	256,103	256,442	259,864	267,502
Expenses					
Annual appropriations	255,204	256,103	256,442	243,448	267,502
Total expenses	255,204	256,103	256,442	243,448	267,502
Net surplus/(deficit)	3,131	–	–	16,416	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

OUTPUT EXPENSE 3

SERVICES TO PROCESS OBLIGATIONS AND ENTITLEMENTS

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to, including tax refunds. This is achieved through services designed to achieve timely, efficient and effective assessment and processing of:

- tax payments, tax credit claims and refunds for taxpayers
- entitlements for social support programmes.

Performance context

The impacts we contribute to

Accurate, timely, complete and efficient processing of notices, statement and social policy entitlements increases customers' confidence in the tax system. When customers have confidence in the tax system they are more likely to self-manage their compliance obligations. This means more customers:

- register and report accurate information when required
- claim their correct entitlements
- pay and file information on time.

When customers comply with their obligations and receive their entitlements, we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on our performance during 2012–13

This year, we focused our efforts on critical activities with high transaction volumes, eg, timely processing of refunds and registrations. We maintained or improved our performance in nine out of eleven comparable measures from last year.

We did not achieve the timeliness target for issuing administrative review decisions. During the year we changed the measurement methodology for this performance measure to better reflect the time taken to issue a review decision. The new methodology includes the time the customer needs to review and amend incomplete application details. We are not able to report a final result to the level of accuracy required for reporting. We have an amended process in place that is designed to improve performance and reporting.

Student loan repayments were 37% higher this year than last year. The increase was due to borrowers taking advantage of the voluntary repayment bonus scheme before it ended on 31 March 2013. This contributed to us exceeding both our targets.

Financial performance for the year ended 30 June 2013 (\$'000)

Revenue	Expenses	Net surplus/(deficit)
125,293	116,645	8,648

OUTPUT 3.1 REGISTRATIONS, APPLICATIONS AND PROCESSING

Description

This output involves processing all registrations, applications and assessments for the tax and social policy programmes we administer.

Activity forecasts

2011–12 Actual	Activity forecast	Forecast*	2012–13 Actual	2013–14 Forecast*
647,154	Number of tax and social policy registrations (excluding child support) received.	680,000–750,000	726,902	680,000–750,000
47,174	Number of child support applications received.	48,000–53,000	41,268	46,000–51,000
4,201	Number of applications for administrative review of child support assessments received.	4,300–4,800	4,130	4,300–4,800
6.89 million	Number of returns received.	7.10–7.85 million	9.28 million	8.40–9.30 million
53.2%	Percentage of returns filed electronically.	55%	53.0%	55%
n/a	Percentage of income tax returns filed electronically.	80%	84.1%	86%
n/a	Percentage of GST returns filed electronically.	35%	47.6%	55%
8.27 million	Number of payments received.	8.10–9.00 million	8.38 million	8.10–9.00 million
66.1%	Percentage of payments received electronically.	70%	69.8%	75%

* As explained in the Performance context, these figures are not subject to audit.

Commentary on forecasts outside range

Number of child support applications received.

The trend of reduced volumes can be seen across the range of child support activities. The forecast range for 2013–14 has been reduced.

Number of returns received.

During the year, we amended the calculation to include IR 345 employment payment forms as part of this activity forecast.

Percentage of returns filed electronically.

While 84.7% of all income tax returns have been filed electronically, results for FBT returns, EMS schedules and tax credit claims all average under 55%, and while increasing year on year, are down on forecast.

Percentage of GST returns filed electronically.

From August 2012, GST returns were able to be filed via customers' online services accounts. This had a higher than expected impact on the number of GST returns filed electronically. 440,000 GST returns were filed using this new authenticated online service for the eleven month period 1 August 2012 to 30 June 2013.

Minimum percentage of payments received electronically.

This was an improvement on the previous year's performance and narrowly missed our 70% target.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
Timeliness					
90.4%	Minimum percentage of income tax returns finalised within four weeks.	85%	94.4%	11.1%	90%
n/a	Minimum percentage of GST returns finalised within three weeks.	95%	99.6%	4.8%	95%
n/a	Minimum percentage of employer monthly schedule employee deductions finalised within four weeks.	95%	99.8%	5.1%	95%
83.7%	Minimum percentage of social policy and tax registrations processed within five working days.	85%	85.0%	0.0%	85%
99.2%	Minimum percentage of payments banked on the day of receipt.	99%	99.3%	0.3%	99%
Quality					
99.8%	Minimum percentage of payments correctly processed to customers' accounts.	99.5%	99.7%	0.2%	99.5%
Cost					
\$4.39	Maximum average cost of processing income tax returns, GST returns and employer monthly schedules.	\$4.00	\$3.78 ⁴	5.5%	\$4.00

* As explained in the Performance context, these figures are not subject to audit.

Commentary on significant positive variance

Minimum percentage of income tax returns finalised within four weeks.

In recognition of the follow-on impact this activity has on wider performance levels across telephones, correspondence and work-on-hand volumes, we gave greater focus to this work. The target for 2013–14 has been increased to better reflect our performance and the importance of this work.

⁴ This year, we amended the calculation methodology to better reflect the average cost of processing returns. We have not restated any prior year figures.

OUTPUT 3.2 STATEMENTS, NOTICES, REFUNDS AND PAYMENTS

Description

This output involves:

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

It covers all the tax and social policy programmes that we administer.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
99.2%#	Minimum percentage of notices and statements produced without error.	98.5%	99.5%#	1.0%	98.5%
	Timeliness⁵				
83.4% ⁶	Minimum percentage of income tax refunds issued within six weeks.	85%	86.2%	1.4%	85%
97.3%	Minimum percentage of GST refunds issued within four weeks.	95%	97.7%	2.8%	95%
88.5%	Minimum percentage of tax credit claim payments made within three weeks.	90%	92.7%	3.0%	90%
96.1%	Minimum percentage of Working for Families Tax Credits payments made on the first regular payment date following an application.	95%	95.1%	0.1%	95%
97.2%	Minimum percentage of paid parental leave payments issued to customers on the first regular payday following the agreed date of entitlement.	97%	97.8%	0.8%	97%

Measured using a sample of the customer population:

* As explained in the Performance context, these figures are not subject to audit.

⁵ This year is the first time that targets have been set for the income tax refund and GST refund measures.

⁶ The 2012 Annual Report did, however, include commentary on the results as at 30 June 2012. The result of the income tax refund performance was reported as 78.2% in the 2012 Annual Report, but improvements in methodology have resulted in the figure being revised to 83.4%.

OUTPUT 3.3 STUDENT LOANS

Description

This output involves the receiving and processing of student loan payments.

Performance measures⁷

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
127.3%	Minimum percentage of New Zealand-based student loan borrowers' repayments collected.	100%	125.8%	25.8%	Measure removed
	Timeliness				
97.3%	Minimum percentage of New Zealand-based student loan borrowers who pay on time.	95%	96.7%	1.8%	Measure removed

* As explained in the Performance context, these figures are not subject to audit.

Commentary on significant positive variance

Minimum percentage of New Zealand-based student loan borrowers' repayments collected.

This result reflects increased compliance by New Zealand based borrowers. It includes voluntary repayments made by borrowers who have paid more than required, meaning the overall result can exceed 100%. We believe the removal of the voluntary repayment bonus scheme from 1 April 2013 influenced this result.

⁷ These measures are no longer fit for purpose, due to Student Loan legislation changes. Also, Student Loan outputs are already covered in other generic measures, such as correspondence timeliness and payment processing. A new impact measure has also been introduced, in 2013–14, that covers Student Loan repayment increases.

OUTPUT 3.4 CHILD SUPPORT

Description

This output involves dealing with child support assessments and providing an administrative process for reviewing child support assessments that is both inexpensive and readily accessible to custodians and paying parents.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Timeliness				
82.7%	Minimum percentage of child support assessments issued within two weeks.	80%	82.2%	2.8%	80%
82.9%	Minimum percentage of child support administrative review decisions issued within seven weeks.	85%	Not achieved ⁸	–	85%
67.9%	Minimum percentage of New Zealand-based child support assessments received by the due date.	68%	63.4%	(6.8%)	Measure removed ⁹
	Quantity				
75.0%	Minimum percentage of New Zealand-based child support assessments collected.	75%	74.5%	(0.7%)	Measure removed ¹⁰
	Cost				
\$768.57	Maximum average cost of child support administrative review.	\$750	\$723.84	3.5%	Measure removed

* As explained in the Performance context, these figures are not subject to audit.

Commentary on targets not achieved

Minimum percentage of New Zealand-based child support assessments received by the due date, and

Minimum percentage of New Zealand-based child support assessments collected.

Our focus on the critical high-volume transaction work and the timely issuing of child support assessments to ensure our customers had surety over their entitlements and liabilities, impacted on our performance.

⁸ As noted on page 59, the measurement methodology was reviewed during the year and we are unable to report a final achievement percentage to the level of accuracy required.

⁹ New Zealand-based child support assessments received by the due date will be reported as an impact indicator in 2013–14.

¹⁰ New Zealand-based child support assessments collected will be reported as an impact indicator in 2013–14.

OUTPUT STATEMENT: SERVICES TO PROCESS OBLIGATIONS AND ENTITLEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Actual \$000	2012–13 Budget* \$000	2012–13 Revised Budget* \$000	2012–13 Actual \$000	2013–14 Forecast* \$000
Revenue					
Crown	94,181	103,092	102,619	102,619	112,514
Other	22,137	21,697	20,937	22,674	20,997
Total revenue	116,318	124,789	123,556	125,293	133,511
Expenses					
Annual appropriations	114,077	124,789	123,556	116,645	133,511
Total expenses	114,077	124,789	123,556	116,645	133,511
Net surplus/(deficit)	2,241	–	–	8,648	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

OUTPUT EXPENSE 4

MANAGEMENT OF DEBT AND OUTSTANDING RETURNS

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes. This involves all activities associated with collecting outstanding returns and overdue payments, taking appropriate action, and providing people with assistance on the actions they need to take to meet their obligations.

Performance context

The impacts we contribute to

Using a tailored approach to our interventions, based on the PARE model¹¹, that reflects customers' individual circumstances and compliance behaviour should ensure that the behaviour of non-compliant customers improves. Consequently, more customers will pay and file information on time in the future.

If more customers comply with their obligations and receive their entitlements, we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2012-13

Our approach to managing debt is aimed at preventing our customers from going into debt, intervening early where necessary, and focusing our collection efforts on the cases that have the greatest prospect of cash collection.

We use a mix of interventions including reminder letters, text messages and online advertising such as Facebook and Twitter to engage with customers before the due date. We also use outbound calling campaigns to intervene early when customers do not pay on time.

Our approach to managing debt, and an increase in staff, has contributed to a reduction in debt book growth and a reduction in the number of outstanding returns this year.

Focusing on early intervention has affected our ability to achieve targets for the aged proportion of collectable debt and returns. We expect targets for aged debt and returns will continue to be challenging next year as we balance our staffing across new and aged debt and returns work.

We continue to focus on older debt through targeting the top 1,000 high-risk customers, audit-assessed debt cases and cases with a value greater than one million dollars. It is a slow process to improve the aged debt position, with a large portion of this being penalties and interest.

We have focused on the top 1,000 non-compliers for outstanding returns. Total outstanding returns for this group decreased by 84.4% this year. We have also focused on employer monthly schedules (EMS) and GST returns. Outstanding EMS are at the lowest level since 2003.

Our performance to finalise returns within six months was below target again this year. For 2013-14 there will be a dedicated focus on following up on returns between August and December following the 7 July filing date. We have engaged an external provider to assist with this work.

We reduced the child support debt owed by custodial parents by 4.9% and contained the growth in assessment debt for liable parents, although we could not stop an overall growth in child support debt as a result of incremental penalties. We improved performance in the fourth quarter through targeted case management, which means we are in a better position for the start of 2013-14. The priority focus for our child support customers is to ensure collections flow directly to the benefit of children.

¹¹ Prevention, assistance, recovery or enforcement.

We have a student loan overseas-based borrower initiative that targets borrowers predominately in Australia and the United Kingdom. For the year, we have collected \$43 million. Since the initiative began in October 2010 we have received more than \$70 million in repayments from overseas-based student loan borrowers with a rate of return of over \$10 per dollar invested, against a target of \$3.

Financial performance for the year ended 30 June 2013 (\$000)

Revenue	Expenses	Net surplus/(deficit)
119,717	116,251	3,466

OUTPUT 4.1 OUTSTANDING RETURNS

Description

This output involves all activities associated with collecting outstanding returns, including taking appropriate follow-up action against taxpayers who do not file a return.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
Quantity					
11.7%	Maximum percentage growth in outstanding returns.	0%	(3.5%)	3.5%	0%
60.5%	Maximum percentage of outstanding returns over one year old.	57%	62.3%	(9.3%)	57%
Timeliness					
63.4%	Minimum percentage of outstanding returns finalised within six months.	65%	61.9%	(4.8%)	65%
n/a	Minimum percentage of outstanding employer monthly schedules finalised within three months.	85%	85.6%	0.7%	85%
Cost					
\$7.96	Maximum average cost of finalising an outstanding return.	\$15.00	\$9.13	39.1%	\$15.00

* As explained in the Performance context, these figures are not subject to audit.

Commentary on targets not achieved

Maximum percentage of outstanding returns over one year old.

The number of outstanding returns aged over one year old continues to increase as a consequence of our focus on collecting newer returns. We are progressively balancing our focus across new and aged outstanding returns.

Minimum percentage of returns finalised within six months.

As in previous years, our performance was below target this year. In 2013–14, with direct focus from an external provider, we expect to improve our performance result markedly. In addition to targeting GST and employer returns, throughout the year we also focused on returns with the highest tax value or informational benefit.

Commentary on significant positive variance

Maximum average cost of finalising an outstanding return.

The cost of providing this service has increased due to additional resources being applied to this area as part of the successful strategy to reduce outstanding returns. The average cost is still well below the \$15.00 maximum target.

OUTPUT 4.2 OVERDUE DEBT

Description

This output covers all activities associated with collecting overdue debt (excluding child support debt). It involves taking appropriate follow-up action when customers do not meet their obligations, including providing them with assistance on how they can meet their tax obligations.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
Quantity					
126.0%	Minimum debt value cleared, as a percentage of debt book (debt turnover).	100%	78.3%	(21.7%)	100%
51.0%	Maximum percentage of collectable debt value over two years old.	50%	53.3%	(6.6%)	50%
Timeliness					
62.3%	Minimum percentage of debt cases resolved within three months.	65%	65.3%	0.4%	65%
82.0%	Minimum percentage of debt value resolved for those who did not have a debt at the start of the year.	65%	68.7%	5.7%	65%
Cost					
\$61.28	Minimum cash collected for every debt dollar spent.	\$40.00	\$45.88	14.7%	\$40.00

* As explained in the Performance context, these figures are not subject to audit.

Commentary on targets not achieved

Minimum debt value cleared, as a percentage of debt book (debt turnover).

This year our performance was affected by the reduced value of debt created that was paid through tax pooling in the last quarter. The timing of pooling transfers before and after due date for payment is outside our control but has a substantial impact on the achievement of this target.

Maximum percentage of collectable debt value over two years old.

The proportion of debt aged over two years old continues to increase as a consequence of our success at collecting new debt. The application of penalties and interest has also contributed to the increase in debt over two years old. We are progressively balancing our capacity across new and aged debt with the aim of improving our performance in relation to older debt, but we recognise that it may be some time before we can meet this target.

Commentary on significant positive variance

Minimum cash collected for every debt dollar spent.

This result is influenced by the degree to which tax pooling is used by Large Enterprise customers.

OUTPUT 4.3 CHILD SUPPORT DEBT MANAGEMENT

Description

This output involves all activities associated with the recovery of overdue child support payments. It includes taking appropriate enforcement action against non-compliers.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Timeliness				
71.9%	Minimum percentage of New Zealand paying parent child support debt cases resolved within 12 months.	70%	67.5%	(3.6%)	70%

* As explained in the Performance context, these figures are not subject to audit.

Commentary on target not achieved

This year, our performance has been affected by our focus on much older cases earlier in the year. During the third quarter our focus shifted to include newer work resulting in improved performance. We expect this to continue in 2013–14 with the use of a campaign approach and texting reminders.

OUTPUT STATEMENT: MANAGEMENT OF DEBT AND OUTSTANDING RETURNS

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Actual	2012–13 Budget*	2012–13 Revised Budget*	2012–13 Actual	2013–14 Forecast*
	\$000	\$000	\$000	\$000	\$000
Revenue					
Crown	107,178	127,385	115,831	115,831	121,934
Other	3,765	3,487	2,917	3,886	2,962
Total revenue	110,943	130,872	118,748	119,717	124,896
Expenses					
Annual appropriations	109,661	130,872	118,748	116,251	124,896
Total expenses	109,661	130,872	118,748	116,251	124,896
Net surplus/(deficit)	1,282	–	–	3,466	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

OUTPUT EXPENSE 5 TAXPAYER AUDIT

Description

This output expense provides services to ensure that the revenue base for funding government programmes is protected. This is achieved by verifying through audit activity, that all taxpayer groups are meeting their obligations, specifically targeting risk areas, and taking appropriate enforcement action when obligations are not being met. It also includes managing tax litigation.

Performance context

The impacts we contribute to

We use intelligence analysis to target our compliance activities to customers who are non-compliant or at risk of non-compliance. This creates an environment where customers believe we will detect non-compliance and are deterred from providing inaccurate information. It also protects the revenue base and provides certainty to customers in relation to the application of the law.

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

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2012–13

We continue to target our investigations, based on risk. This year, our return on investment was 0.9% higher than the target with over \$1.2 billion in discrepancies being assessed.

Inland Revenue received additional funding in Budget 2010 to address the hidden economy (2012–13: \$8.7 million) and property compliance (2012–13: \$6.6 million).

In the hidden economy area we continued targeting businesses and individuals that deliberately choose to avoid the payment of tax through under-reporting or operating outside the tax system. We identified \$45 million in discrepancies, 2.3% above the target of \$44 million.

In the property compliance area we identified \$53.8 million in discrepancies against the target of \$45 million. We continue to focus on individuals who speculate on residential property and expanding our monitoring of property "hot spots", where we monitored over 23,000 properties.

We also received additional funding in Budget 2012 to address aggressive tax planning (2012–13: \$6.2 million) and fraud (2012–13: \$1.8 million). This year, in our aggressive tax planning work we identified \$206 million of discrepancies (target \$70.8 million), a return on investment of \$42.90:1 (target \$11.40:1).¹²

This year, we identified and prevented over \$4.5 million in fraudulent claims from being issued with a return on investment of \$3.00 per dollar invested. There are several cases relating to significant offending currently before the courts.

Financial performance for the year ended 30 June 2013 (\$000)

Revenue	Expenses	Net surplus/(deficit)
182,161	171,769	10,392

¹² This result includes the closure of several cases that we have been working on for a number of years. Complex financing cases can take several years to resolve and we often resolve multiple related cases at the same time. We do not expect to achieve similar return on investment in 2014–15.

OUTPUT 5.1 TAXPAYER AUDIT

Description

This output involves the auditing of taxpayers including individuals, small and medium size businesses and larger businesses. It includes audits of duties and non-residents.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
	Quality				
95.4%#	Minimum percentage of cases completed that are correct, complete, clear and appropriately referenced.	90%	94.9%#	5.4%	85%
75.0%#	Minimum percentage of audited customers who are satisfied with their experience.	65%	74.4%#	14.5%	65%
75.3%	Minimum percentage of customers confident that Inland Revenue takes appropriate action against those who don't comply.	72%	75.4%	4.7%	75%
71.3%	Minimum percentage of audits that result in a material discrepancy.	70%	77.4%	10.6%	75%
	Timeliness				
n/a	On average, we will complete audits within agreed timeframes: 4 months for general audits 12 months for risk-based audits 16 months for evasion and fraud audits 28 months for aggressive tax planning audits.	Achieved	Achieved	–	Achieved
75.7%	Minimum percentage of disputed cases completed within fifteen months.	75%	78.5%	4.7%	75%
	Cost				
\$7.67	Minimum discrepancy identified for every output dollar spent.	\$7.40	\$7.47	0.9%	\$7.70

Measured using a sample of audit cases.

* As explained in the Performance context, these figures are not subject to audit.

Commentary on significant positive variances

Minimum percentage of audited customers who are satisfied with their experience.

This is measured once per annum by surveying audited customers and is only the second year of measurement. We continue to review the suitability of our target.

Minimum percentage of audits that result in a material discrepancy.

This is the first year that customer requested adjustments have been included in this measure, and these have impacted on our performance. The target has been increased to 75% for 2013–14.

OUTPUT 5.2 LITIGATION MANAGEMENT

Description

This output involves the management of litigation of disputed tax cases, including the requirement to state the case through to resolution by the courts.

Performance measures

2011–12 Actual	Measure	Target*	2012–13 Actual	Variance	2013–14 Target*
68.6%	Quality Minimum percentage of litigation judgments found in favour of the Commissioner.	66%	77.0%	16.7%	66%

* As explained in the Performance context, these figures are not subject to audit.

Commentary on significant positive variances

Minimum percentage of litigation judgments found in favour of the Commissioner.

This achievement reflects a total of 52 judgments for the year. This result is influenced by the small number of cases. Any slight variation in judgments found in the Commissioner's favour can alter the percentage achievement significantly.

OUTPUT STATEMENT: TAXPAYER AUDIT

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Actual	2012–13 Budget*	2012–13 Revised Budget*	2012–13 Actual	2013–14 Forecast*
	\$000	\$000	\$000	\$000	\$000
Revenue					
Crown	167,021	171,201	177,684	177,684	182,531
Other	2,392	1,140	190	4,477	265
Total revenue	169,413	172,341	177,874	182,161	182,796
Expenses					
Annual appropriations	166,775	172,341	177,874	171,769	182,796
Total expenses	166,775	172,341	177,874	171,769	182,796
Net surplus/(deficit)	2,638	–	–	10,392	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

Part 6

DEPARTMENTAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2011–12	2012–13	2012–13	2012–13	2013–14
		Actual	Budget*	Revised	Actual	Forecast*
		\$000	\$000	Budget*	\$000	\$000
Income						
Revenue Crown		638,419	662,226	659,000	659,000	690,618
Other income	1	32,739	29,687	25,887	36,444	26,187
Total income		671,158	691,913	684,887	695,444	716,805
Expenditure						
Personnel	2	409,666	433,788	421,536	395,992	447,965
Operating	3	174,400	177,366	184,449	181,350	187,264
Depreciation	4	16,542	19,818	19,315	18,994	18,339
Amortisation and impairment	5	44,337	39,613	38,641	37,085	41,549
Capital charge	6	20,939	21,328	20,796	20,796	21,628
Finance costs	7	–	–	150	150	60
Total Output Expenses		665,884	691,913	684,887	654,367	716,805
Other expenses	8	6,152	–	–	–	–
Total expenditure		672,036	691,913	684,887	654,367	716,805
Net surplus/(deficit)		(878)	–	–	41,077	–
Other comprehensive income		–	–	–	–	–
Total comprehensive income		(878)	–	–	41,077	–

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

Refer to Note 26 for explanation of major variances.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2011–12	2012–13	2012–13 Revised Budget*	2012–13	2013–14
		Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Balance at start of year		261,737	266,606	259,951	259,951	270,346
Total comprehensive income		(878)	–	–	41,077	–
Repayment of surplus to the Crown	9	(5,777)	–	–	(41,080)	–
Capital contribution		4,869	6,476	11,041	11,041	3,177
Capital repayment		–	–	(646)	(646)	–
		(908)	6,476	10,395	(30,685)	3,177
Balance at end of year		259,951	273,082	270,346	270,343	273,523

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

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Notes	2011–12 Actual \$000	2012–13 Budget* \$000	2012–13 Revised Budget* \$000	2012–13 Actual \$000	2013–14 Forecast* \$000
Taxpayers' funds						
Taxpayers' funds		259,951	273,082	270,346	270,343	273,523
Total taxpayers' funds		259,951	273,082	270,346	270,343	273,523
Represented by:						
Current assets						
Cash and cash equivalents		44,540	12,000	46,000	45,631	12,000
Debtor Crown		156,886	113,097	132,661	198,755	149,568
Debtors and prepayments	10	15,773	15,405	17,119	18,698	15,422
Inventories held for distribution	11	1,233	1,200	1,298	1,365	1,200
Total current assets		218,432	141,702	197,078	264,449	178,190
Non-current assets						
Prepayments	10	1,274	268	450	402	136
Property, plant and equipment	4	54,551	77,046	60,308	53,552	63,246
Intangible assets	5	124,288	166,678	128,741	117,126	143,171
Total non-current assets		180,113	243,992	189,499	171,080	206,553
Total assets		398,545	385,694	386,577	435,529	384,743
Current liabilities						
Creditors and other payables	12	36,061	27,500	29,537	35,385	27,200
Surplus payable to the Crown	9	5,777	–	–	41,080	–
Employee entitlements	13	50,513	43,000	44,040	46,148	43,078
Provision for other liabilities	14	1,105	2,009	1,062	1,056	116
Derivative financial instruments	15	503	–	30	3	–
Finance leases	16	1,867	–	381	381	253
Other financial liabilities	17	113	168	100	131	111
Total current liabilities		95,939	72,677	75,150	124,184	70,758
Non-current liabilities						
Employee entitlements	13	38,881	36,000	38,199	38,945	37,942
Provision for other liabilities	14	2,577	2,918	1,739	839	1,743
Finance leases	16	487	–	540	540	286
Other financial liabilities	17	710	1,017	603	678	491
Total non-current liabilities		42,655	39,935	41,081	41,002	40,462
Total liabilities		138,594	112,612	116,231	165,186	111,220
Net assets		259,951	273,082	270,346	270,343	273,523

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

Refer to Note 26 for explanation of major variances.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2011–12	2012–13	2012–13	2012–13	2013–14
		Actual	Budget*	Revised	Actual	Forecast*
		\$000	\$000	Budget*	\$000	\$000
Cash flows – operating activities						
Receipts from Crown		628,602	715,515	683,225	617,131	685,811
Receipts from government departments		9,221	5,830	1,663	2,758	1,219
Receipts from third parties		24,658	25,045	25,180	34,029	25,065
Payments to employees		(397,563)	(436,746)	(428,691)	(400,294)	(449,184)
Payments to suppliers		(165,688)	(181,624)	(192,516)	(189,375)	(189,171)
Payments for capital charge		(20,939)	(21,328)	(20,796)	(20,796)	(21,628)
Goods and Services tax (net)		867	(735)	(1,624)	1,894	449
Net cash flow from operating activities	18	79,158	105,957	66,441	45,347	52,561
Cash flows – investing activities						
Receipts from sale of property, plant and equipment		67	–	–	1,500	–
Purchase of property, plant and equipment		(19,513)	(37,803)	(25,833)	(19,022)	(21,277)
Purchase of intangible assets		(34,060)	(65,130)	(42,333)	(29,918)	(55,979)
Net cash flow from investing activities		(53,506)	(102,933)	(68,166)	(47,440)	(77,256)
Cash flows – financing activities						
Capital contribution		4,869	6,476	11,041	11,041	3,177
Repayment of surplus		(647)	(9,500)	(5,777)	(5,777)	(9,100)
Capital repayment		–	–	(646)	(646)	–
Payments of finance leases		–	–	(1,433)	(1,434)	(382)
Net cash flow from financing activities		4,222	(3,024)	3,185	3,184	(6,305)
Net increase/(decrease) in cash and cash equivalents		29,874	–	1,460	1,091	(31,000)
Opening cash and cash equivalents		14,666	12,000	44,540	44,540	43,000
Closing cash and cash equivalents		44,540	12,000	46,000	45,631	12,000

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

The Goods and Services tax (net) component of operating activities reflects the net GST paid to and received from Inland Revenue. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF COMMITMENTS

AS AT 30 JUNE 2013

	Note	2011–12 Actual \$000	2012–13 Actual \$000
Capital commitments			
Property, plant and equipment		7,339	2,406
Intangible assets		338	1,654
Total capital commitments		7,677	4,060
Operating commitments			
<i>Non-cancellable accommodation leases</i>			
Not later than one year		28,523	27,755
Later than one year and not later than five years		79,249	88,537
Later than five years		78,030	86,548
Total operating commitments		185,802	202,840
Total commitments	19	193,479	206,900

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

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS AT 30 JUNE 2013

	Note	2011–12 Actual \$000	2012–13 Actual \$000
Contingent liabilities			
Legal proceedings and disputes – taxpayer		230	1,097
Legal proceedings and disputes – departmental		3,958	–
Personal grievances		–	33
Total contingent liabilities	20	4,188	1,130
Contingent assets			
Insurance claims		20,000	–
Legal proceedings and disputes – taxpayer		–	3,486
Total contingent assets	20	20,000	3,486

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

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Expenditure ¹ \$000	2012–13 Budget* \$000	2012–13 Revised Budget** ² \$000	2012–13 Expenditure ¹ \$000	2013–14 Forecast* \$000
Vote: Revenue					
<i>Output expenses</i>					
Policy advice ¹	15,842	7,808	8,267	7,912	8,100
Services to inform the public about entitlements and meeting obligations ¹	255,204	256,103	256,442	243,448	267,502
Services to process obligations and entitlements ¹	114,077	124,789	123,556	116,645	133,511
Management of debt and outstanding returns ¹	109,661	130,872	118,748	116,251	124,896
Taxpayer audit ¹	166,775	172,341	177,874	171,769	182,796
Total output expenses¹	661,559	691,913	684,887	656,025	716,805
Recovery from Canterbury earthquake	6,152	–	–	–	–
Total expenditure	667,711	691,913	684,887	656,025	716,805
<i>Departmental capital expenditure</i>					
Property, plant and equipment	19,513	38,000	25,833	19,022	21,277
Intangible assets	34,060	66,000	45,167	29,918	55,723
Total departmental capital expenditure	53,573	104,000	71,000	48,940	77,000

¹ Excludes remeasurement of \$1,658,000 (2011–12, \$4,325,000).

² Includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act 1989.

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

Refer to Note 26 for explanation of major variances.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2013

In the 2012–13 financial year there were no instances of:

- expenses and capital expenditure incurred in excess of appropriation (2011–12, \$nil).
- expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation (2011–12, \$nil).

In the 2012–13 financial year there were no breaches of projected departmental net asset schedules (2011–12, \$nil).

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

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. It is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than making a financial return. Accordingly, Inland Revenue has designated itself as a public benefit entity for the purpose of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

REPORTING PERIOD

The reporting period for these financial statements is for the year ended 30 June 2013. The financial statements were authorised for issue by the Chief Executive and Commissioner of Inland Revenue on 26 September 2013.

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 Treasury Instructions. These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for public benefit entities.

BASIS OF PREPARATION

The accounting policies set out below 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, unless otherwise stated.

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.

JUDGEMENTS AND ESTIMATIONS

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision 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 the carrying amount of assets and liabilities within the next financial year are related to retiring and long-service leave.

An analysis is provided in Note 13 of the exposure in relation to estimates and uncertainties surrounding retiring and long-service leave liabilities.

Finance leases

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to Inland Revenue. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the *Statement of Financial Position* as property, plant and equipment, whereas with an operating lease no such asset is recognised.

Inland Revenue has exercised its judgement on the appropriate classification of equipment leases, and has determined that one of these arrangements included a finance lease.

STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

The External Reporting Board (XRB) was given the responsibility for issuing accounting standards on 1 July 2011. Prior to that date the Accounting Standards Review Board (ASRB) issued standards. The XRB is a legal continuation of the ASRB. All accounting standards on issue on 30 June 2011 have been carried across to the XRB.

The Minister of Commerce has approved a new Framework (incorporating a Tier Strategy) developed by the External Reporting Board. Under this Framework, Inland Revenue is classified as a Tier 1 reporting entity and it will be required to apply full Public Benefit Entity Accounting Standards. These standards are being developed by the External Reporting Board based on current International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means Inland Revenue will transition to the new standards in preparing its 30 June 2015 financial statements. As the Public Benefit Entity Accounting Standards are still under development, Inland Revenue is unable to assess the implications of the new Framework at this time.

Due to the change in the Framework for public benefit entities, all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to public benefit entities. Therefore, the External Reporting Board has effectively frozen the financial reporting requirements for public benefit entities up until the new Framework is effective.

There are no new relevant standards and interpretations issued this year and Inland Revenue has not early adopted any new standards and interpretations.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial results, financial position, and output statements within the *Statement of Service Performance* have been applied.

Budget and forecast figures

The budget figures are those included in the *Information Supporting the Estimates of Appropriations (Budget) for the year ending 30 June 2013* and the *Information Supporting the Supplementary Estimates of Appropriations (Revised Budget) for the year ending 30 June 2013* (the Budget is 2012 Budget Economic and Fiscal Update (BEFU 2012) out-year 1 figures and the Revised Budget is SUPPS 2013 out-year 0 figures).

The forecast figures are those included in the *Information Supporting the Estimates of Appropriations (Forecast) for the year ending 30 June 2014* (the Forecast is 2013 Budget and Economic and Fiscal Update (BEFU 2013) out-year 1 figures).

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

Forecast information has been included for the following financial year for the first time. From next year the Public Finance Amendment Act 2013 requires this. The opportunity has been taken to include our financial forecasts for the coming year. The aim of this is to increase transparency by providing the reader with further context of this year's results by providing next year's forecast for comparison.

GST (goods and services tax)

All items in the financial statements, including appropriation statements, are stated exclusive of 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 to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in "creditors and other payables" or "debtors and prepayments" in the *Statement of Financial Position*.

The net GST paid to or received from Inland Revenue, 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, so accordingly, no charge for income tax has been provided for.

Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised as follows:

Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Sale of services

Sale of services are recognised in the accounting period the services are provided in, by reference to completion of specific transactions, assessed on the basis of actual services provided as a proportion of the total services to be provided.

Revenue from recoveries

Revenue from recoveries is recognised as revenue when earned.

Sub-leases

Income from sub-leased property is recognised in the *Statement of Comprehensive Income* on a straight-line basis over the term of the lease.

Insurance proceeds

Insurance claim proceeds are recognised as revenue when the claim has been accepted by the insurer or when receipt of the insurance proceeds is considered virtually certain. The insurance proceeds will be disclosed as a contingent asset if the receipt is only probable.

Cost allocations

Inland Revenue uses an integrated cost allocation process to derive the cost of its outputs. This process involves the initial costing of business processes followed by the full costing of outputs.

Business processes represent Inland Revenue's key functional activities. These business processes are used to capture direct costs.

Direct personnel costs are charged to business processes, based on actual hours and standard activity rates. Other related direct costs, including depreciation, are allocated to business processes, based on planned hours or relevant activity drivers.

Premises lease costs are charged to business processes based on headcount or relevant activities.

Other indirect costs and corporate overheads that cannot be attributed directly to a business process are apportioned to outputs, based on planned business process activity allocation to outputs.

There have been no material changes in cost accounting policies since the date of the last audited financial statements.

Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of an asset, whether or not title is eventually transferred. 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.

Operating leases

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 incentive to enter into an operating lease are also recognised evenly over the term of the lease as a reduction in the rental expense.

Contractual arrangements considered to be operating leases have been recognised during the reporting period.

Finance leases

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether Inland Revenue will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Contractual arrangements considered to be finance leases have been recognised during the reporting period.

Financial instruments

Financial assets

Inland Revenue classifies its financial assets into two categories: financial assets at fair value through surplus or deficit, and debtors and receivables. The classification depends on the purpose for which the assets were acquired.

- a) **Financial assets at fair value through surplus or deficit**
Financial assets designated at fair value through surplus or deficit are recorded at fair value with any realised and unrealised gains or losses recognised in the *Statement of Comprehensive Income*. Gains or losses from foreign exchange and other fair value movements are separately reported in the

Statement of Comprehensive Income. Transaction costs are expensed as they are incurred. Derivatives (eg, foreign currency forward exchange contracts) are classified under this category.

Derivative financial instruments are recognised both initially on the date a derivative contract is entered into and subsequently 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. The fair value gains or losses on derivatives are recognised in the *Statement of Comprehensive Income*.

b) Debtors and receivables

Debtors and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Debtors and receivables issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material.

Impairment of financial assets

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

The amount of the provision is the difference between the asset's carrying amount and the estimated impaired value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the *Statement of Comprehensive Income*.

Financial liabilities

Inland Revenue classifies its financial liabilities into two categories: financial liabilities at fair value through surplus or deficit, and financial liabilities measured at amortised cost. The classification depends on the purpose for which the liabilities were incurred.

a) Financial liabilities at fair value through surplus or deficit

Financial liabilities designated at fair value through surplus or deficit are recorded at fair value with any realised and unrealised gains or losses recognised in the *Statement of Comprehensive Income*. Gains or losses from foreign exchange and other fair value movements are reported separately in the *Statement of Comprehensive Income*. Transaction costs are

expensed as they are incurred. Derivatives (eg, foreign currency forward exchange contracts) are classified under this category.

b) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. "Creditors and other payables" are recognised at their nominal value as the effect of discounting is immaterial.

Cash and cash equivalents

Cash and cash equivalents include all cash 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.

Inventories held for distribution

Inventories held for distribution comprise forms, booklets and returns held for distribution to the public at no or nominal consideration in the ordinary course of operations.

Inventories held for distribution for public benefit purposes are carried at cost, calculated using the first-in, first-out (FIFO) cost method, adjusted where applicable for any loss of service potential. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

The carrying amount is recognised as an expense in the period in which the goods are distributed. The amount of any write-down of inventories and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period the reversal occurs in.

Hedge accounting, hedging activities and foreign currency transactions

Inland Revenue's activities expose it primarily to risks of changes in foreign exchange rates. Inland Revenue uses derivative financial instruments (primarily, foreign currency forward exchange contracts) to mitigate its risks associated with foreign currency fluctuations relating to certain commitments. The use of financial derivatives is governed by Inland Revenue's foreign exchange policy, which provides

written principles on the use of financial derivatives consistent with Inland Revenue's risk management strategy.

Inland Revenue does not hold or issue derivative financial instruments for trading purposes. It also has not adopted hedge accounting.

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the *Statement of Comprehensive Income*.

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 – desktop computers and laptops all
- IT equipment – other \$2,000 and over (or \$20,000 for bulk purchased IT equipment)
- Furniture and office equipment \$2,000 and over (or \$20,000 for bulk purchased furniture)
- Motor vehicles \$2,000 and over
- Leasehold improvements \$20,000 and over

Property, plant and equipment are shown at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset and 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 future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. All repairs and maintenance are charged to the *Statement of Comprehensive Income* during the financial period in which they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than assets under construction. The rate of depreciation will write off the cost of the asset to the estimated residual value over the useful life of the asset. The useful life of major classes of assets have been estimated as follows:

- IT equipment 3 to 6 years
- Furniture and office equipment 5 to 7 years
- Motor vehicles 5 to 7 years
- Leasehold improvements up to 10 years

All fixed assets other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 20% residual value.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease, or the estimated remaining useful life of the improvements, whichever is shorter, up to a maximum of 10 years.

Assets under construction are 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 sheet date.

Impairment

Property, plant and equipment that has a finite useful life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication of impairment exists, the recoverable amount is estimated to determine the extent of the impairment loss, if any.

If an asset's recoverable amount is less than its carrying amount, the asset is impaired and it will be reported at its recoverable amount. The impairment loss is recognised in the *Statement of Comprehensive Income*.

The reversal of an impairment loss is also recognised in the *Statement of Comprehensive Income*.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the *Statement of Comprehensive Income*.

Intangible assets

Inland Revenue has intangible assets in the form of software, licences, and business process design.

Additions

Intangible assets are initially recorded at cost. Inland Revenue only has intangible assets with finite useful lives. The three main categories are: software – developed, software and licences – purchased, and business process design.

a) Software – developed

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The cost of developed computer software comprises direct labour, material purchased and an appropriate portion of relevant overheads. These costs are directly associated with the development of identifiable and unique software controlled by Inland Revenue, and will generate future economic benefits.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs of configuring and customising purchased software for intended use are capitalised.

Staff training costs are recognised as an expense when incurred.

b) Software and licences – purchased

Intangible assets acquired by Inland Revenue such as computer software and licences are stated at cost less accumulated amortisation and impairment losses. Acquired computer software and licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs of configuring and customising purchased software for intended use are capitalised.

c) Business process design

Expenditure on development activities, where research findings are applied to a plan or design for new or substantially improved business processes, is capitalised if the business process is technically and commercially feasible and Inland Revenue has sufficient resources to complete development. Other development expenditure is recognised in the *Statement of Comprehensive Income* as an expense as incurred.

The capitalisation thresholds for intangible assets are:

- | | |
|-------------------------------------|-------------------|
| • Software – developed | \$50,000 and over |
| • Software and licences – purchased | \$5,000 and over |
| • Business process design | \$50,000 and over |

Subsequent cost

The cost of intangible assets with finite lives is subsequently recorded at cost less any amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the *Statement of Comprehensive Income*.

The useful lives of major classes of intangible assets have been estimated as follows:

- | | |
|-------------------------------------|---------------|
| • Software – developed | 5 to 10 years |
| • Software and licences – purchased | 5 to 10 years |
| • Business process design | 5 to 10 years |

Assets under construction are not amortised. The total cost of a capital project is transferred to the appropriate asset class on its completion and then amortised.

Impairment

Intangible assets including assets under construction are reviewed for impairment at each balance date. If any indication of impairment exists, the recoverable amount is estimated to determine the extent of the impairment loss, if any.

If an intangible asset's recoverable amount is less than its carrying amount, the asset is impaired and it will be reported at its recoverable amount. The impairment loss is recognised in the *Statement of Comprehensive Income*.

The reversal of an impairment loss is also recognised in the *Statement of Comprehensive Income*.

De-recognition

The gain or loss arising from the de-recognition of an intangible asset is recognised in the *Statement of Comprehensive Income* when the asset is de-recognised.

Employee entitlements

Short-term entitlements

Employee entitlements that Inland Revenue expects to be settled within 12 months of balance date are measured at nominal values 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, retiring, long-service leave and sick leave entitlements expected to be settled within 12 months.

Inland Revenue recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Inland Revenue anticipates it will be used by staff to cover those future absences.

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created a constructive obligation.

Long-term entitlements

Employee entitlements that are payable beyond 12 months such as long-service leave and retiring leave have been calculated on an actuarial basis.

The actuarial calculations for long-service leave and retiring leave liabilities are based on:

- Employee contractual entitlements.
- Years of service accrued to balance date and years remaining to entitlement.
- Present value of the estimated future cash outflows using an applicable discount rate and salary inflation rate.

Superannuation schemes

Obligations for contributions to the Inland Revenue Superannuation Scheme, State Sector Retirement Savings Scheme, KiwiSaver, and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the *Statement of Comprehensive Income* as they fall due.

Termination benefits

Termination benefits are payable when an employee's employment contract is terminated before their normal retirement or when an employee accepts voluntary redundancy in exchange for these benefits. Inland Revenue recognises the expenditure in the *Statement of Comprehensive Income* 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.

Provisions

Inland Revenue recognises a provision for future expenditure of uncertain amounts or timing where there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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.

Taxpayers' funds

This is the Crown's net investment in Inland Revenue. It is measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified into a number of components:

- Capital contribution
- Capital repayment
- Repayment of surplus to the Crown

Statement of Cash Flows

Cash and cash equivalents mean cash balances in bank accounts.

Operating activities include cash received from all income sources of Inland Revenue, and cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

Commitments

Expenses and liabilities yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that they are unperformed obligations.

Contingent liabilities and assets

Contingent liabilities and assets are recorded in the *Statement of Contingent Liabilities and Contingent Assets* at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised. Insurance claim proceeds will be disclosed as a contingent asset if the receipt of the insurance proceeds is probable.

Comparatives

Certain comparative information has been reclassified, where required, to conform with the current year's presentation.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies and cost allocation policies since the date of the last audited financial statements. All policies have been applied on a basis consistent with the previous year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: OTHER INCOME

	2011–12 Actual \$000	2012–13 Actual \$000
Accident Compensation Corporation (ACC) – agency fees	20,500	20,500
Insurance proceeds	–	9,101
Court costs recovery	2,475	3,178
Net gains on derivative financial instruments	–	1,943
Rulings	794	781
Net gains on property, plant and equipment	–	476
Sub-leases	58	252
Secondment to other agencies – salary recovery	1,773	150
Supply of information to other agencies	13	13
State Services Commission – SSRSS and KiwiSaver recovery	7,121	–
Other	5	50
Total other income	32,739	36,444

NOTE 2: PERSONNEL

	2011–12 Actual \$000	2012–13 Actual \$000
Salaries and wages	354,531	350,352
Contractors and temporary staff	21,789	26,578
Employer contributions to defined contribution plans	9,517	9,816
Retiring, long-service and sick leave	4,964	2,704
ACC levies	1,681	1,224
Annual leave	1,214	1,160
Terminating benefits	13,585	948
Bonuses	102	192
Other	2,283	3,018
Total personnel	409,666	395,992

NOTE 3: OPERATING

	2011–12 Actual \$000	2012–13 Actual \$000
Information technology costs	40,491	43,549
Operating lease rentals	31,719	30,223
Consultants	17,478	26,223
Printing and postage	18,586	17,249
Communication	17,193	14,195
Premises costs	9,541	8,747
Travel and transport	7,582	7,934
Training and employee-related costs	6,332	7,412
Legal expenses	7,839	5,723
Office supplies	4,020	4,044
Bank fees	3,260	3,437
Advertising and publicity	1,472	2,368
Equipment maintenance	1,806	1,739
Net foreign exchange losses	584	1,447
Audit fees for audit of the financial statements	1,033	1,033
Disbursements for audit of the financial statements	55	55
Fees to Audit NZ for other services	–	13
Bad debts written off	24	26
Net loss on disposal of property, plant and equipment	762	–
Net loss on disposal of intangible assets	15	–
Inc/(Dec) in provision for debt impairment	(6)	–
Inc/(Dec) in provision for onerous leases	(1,416)	(391)
Other operating expenses	6,030	6,324
Total operating	174,400	181,350

NOTE 4: PROPERTY, PLANT AND EQUIPMENT BY CATEGORY

	IT equipment \$000	Furniture and office equipment \$000	Motor vehicles \$000	Leasehold improvements \$000	Assets under construction – leasehold \$000	Total \$000
Cost						
Balance as at 1 July 2012	63,572	31,189	4,594	54,620	4,312	158,287
Additions by purchase	4,701	2,147	3,260	5,540	4,286	19,934
Reductions – other ¹	–	–	–	(559)	–	(559)
Transfers between category	11	–	–	3,969	(4,264)	(284)
Disposals	(2,663)	(4,038)	(2,950)	(10,567)	–	(20,218)
Balance as at 30 June 2013	65,621	29,298	4,904	53,003	4,334	157,160
Depreciation and impairment losses						
Balance as at 1 July 2012	46,762	21,967	2,882	32,125	–	103,736
Depreciation charge – expensed	10,845	2,688	509	4,457	–	18,499
Depreciation charge – capitalised ²	–	67	–	–	–	67
Impairment losses	(44)	238	–	301	–	495
Transfers between category	5	–	–	–	–	5
Disposals	(2,616)	(3,770)	(2,268)	(10,540)	–	(19,194)
Balance as at 30 June 2013	54,952	21,190	1,123	26,343	–	103,608
Carrying amount as at 30 June 2013	10,669	8,108	3,781	26,660	4,334	53,552
Cost						
Balance as at 1 July 2011	56,793	32,590	4,594	85,652	566	180,195
Additions by purchase	14,083	1,251	–	991	2,618	18,943
Reductions – other ¹	–	–	–	(662)	–	(662)
Transfers between category	–	–	–	175	1,128	1,303
Disposals	(7,304)	(2,652)	–	(31,536)	–	(41,492)
Balance as at 30 June 2012	63,572	31,189	4,594	54,620	4,312	158,287
Depreciation and impairment losses						
Balance as at 1 July 2011	45,779	20,994	2,403	52,457	–	121,633
Depreciation charge – expensed	8,095	3,195	479	4,773	–	16,542
Depreciation charge – capitalised ²	65	6	–	–	–	71
Impairment losses	–	–	–	–	–	–
Transfers between category	–	–	–	–	–	–
Disposals	(7,177)	(2,228)	–	(25,105)	–	(34,510)
Balance as at 30 June 2012	46,762	21,967	2,882	32,125	–	103,736
Carrying amount as at 30 June 2012	16,810	9,222	1,712	22,495	4,312	54,551

¹ This relates to the addition/reduction of lease make-good costs on leased buildings.

² Refers to the depreciation charge for existing assets that are used in the development of new intangible assets under construction.

Finance leases – The net carrying amount of IT equipment held under finance leases is \$890,000 (2011–12, \$2,354,000).

NOTE 5: INTANGIBLE ASSETS BY CATEGORY

	Software – developed \$000	Business process design \$000	Software and licences – purchased \$000	Assets under construction – intangibles \$000	Total \$000
Cost					
Balance as at 1 July 2012	437,190	8,262	120,285	20,231	585,968
Additions by purchase	–	–	4,069	–	4,069
Additions internally developed	9,681	–	–	15,888	25,569
Transfers between category	9,897	–	(11)	(9,602)	284
Disposals	(29)	–	–	–	(29)
Balance as at 30 June 2013	456,739	8,262	124,343	26,517	615,861
Amortisation and impairment losses					
Balance as at 1 July 2012	358,492	6,104	94,137	2,947	461,680
Amortisation charge – expensed	27,046	1,036	8,857	–	36,939
Amortisation charge – capitalised ¹	4	–	–	–	4
Impairment losses	146	–	–	–	146
Transfers between category	(1,647)	–	(5)	1,647	(5)
Disposals	(29)	–	–	–	(29)
Balance as at 30 June 2013	384,012	7,140	102,989	4,594	498,735
Carrying amount as at 30 June 2013	72,727	1,122	21,354	21,923	117,126
Cost					
Balance as at 1 July 2011	414,025	8,262	114,877	14,776	551,940
Additions by purchase	–	–	5,450	–	5,450
Additions internally developed	13,282	–	–	16,641	29,923
Transfers between category	9,883	–	–	(11,186)	(1,303)
Disposals	–	–	(42)	–	(42)
Balance as at 30 June 2012	437,190	8,262	120,285	20,231	585,968
Amortisation and impairment losses					
Balance as at 1 July 2011	332,131	5,068	77,217	2,947	417,363
Amortisation charge – expensed	26,336	1,036	9,514	–	36,886
Amortisation charge – capitalised ¹	9	–	–	–	9
Impairment losses ²	16	–	7,435	–	7,451
Transfers between category	–	–	–	–	–
Disposals	–	–	(29)	–	(29)
Balance as at 30 June 2012	358,492	6,104	94,137	2,947	461,680
Carrying amount as at 30 June 2012	78,698	2,158	26,148	17,284	124,288

There is no restriction over the title of Inland Revenue's intangible assets, nor are any intangible assets pledged as security for liabilities.

¹ Refers to the amortisation charge for existing assets that are utilised in the development of new intangible assets.

² Software and licences – purchased includes a software license impairment related to student loan redesign.

Software – developed and business process design includes the following items and carrying amounts: FIRST technology environment \$42,114,000, KiwiSaver \$11,684,000, student loans \$20,055,000 (2011–12, FIRST technology environment \$47,766,000, KiwiSaver \$19,359,000, student loans \$13,732,000). The amortisation period for these intangible assets range from 5–10 years.

Software and licences – purchased includes the following items and carrying amounts: FIRST technology environment \$20,206,000, KiwiSaver \$1,144,000 (2011–12, FIRST technology environment \$24,602,000, KiwiSaver \$1,543,000). The amortisation period for these intangible assets range from 5–10 years.

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. The capital charge rate for the year ended 30 June 2013 was 8.0% per annum (2011–12, 8.0%).

NOTE 7: FINANCE COSTS

	2011–12 Actual \$000	2012–13 Actual \$000
Interest on finance leases	–	150
Total finance costs	–	150

NOTE 8: OTHER EXPENSES

	Note	2011–12 Actual \$000	2012–13 Actual \$000
Canterbury earthquakes – disposal of leasehold improvements	4	6,152	–
Total other expenses		6,152	–

NOTE 9: REPAYMENT OF SURPLUS TO THE CROWN

	Note	2011–12 Actual \$000	2012–13 Actual \$000
Total comprehensive income		(878)	41,077
Inc/(Dec) Other expense	8	6,152	–
Inc/(Dec) Unrealised losses/(gains) in relation to forward foreign exchange contracts		503	3
Repayment of surplus to the Crown		5,777	41,080

NOTE 10: DEBTORS AND PREPAYMENTS

	2011–12 Actual \$000	2012–13 Actual \$000
Current assets		
<i>Debtors</i>		
Accounts receivable	3,657	2,923
Less provision for impairment	(4)	(9)
Other debtors	322	243
<i>Net debtors</i>	3,975	3,157
Prepayments	11,798	15,541
Total current assets	15,773	18,698
Non-current assets		
Prepayments	1,274	402
Total non-current assets	1,274	402
Total debtors and prepayments	17,047	19,100

Given their short-term nature, the carrying value of accounts receivable and other debtors approximates their fair value.

Overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

Net debtors	Gross debtors \$000	Impairment \$000	Net debtors \$000
2012–13			
Due within 30 days	2,837	–	2,837
Overdue by 31 to 60 days	82	–	82
Overdue by 61 to 90 days	144	–	144
Overdue by > 90 days	103	(9)	94
Total	3,166	(9)	3,157
2011–12			
Due within 30 days	3,573	–	3,573
Overdue by 31 to 60 days	158	–	158
Overdue by 61 to 90 days	110	–	110
Overdue by > 90 days	138	(4)	134
Total	3,979	(4)	3,975

The provision for impairment has been calculated based on expected losses for Inland Revenue's pool of debtors. Expected losses have been determined based on a review of each debtor.

Movements in the provision for impairment are as follows:

	2011–12 Actual \$000	2012–13 Actual \$000
Opening balance	(5)	(4)
Additional provisions made during the year	(7)	(11)
Unused amounts reversed	–	–
Receivables written off during the year	8	6
Closing balance	(4)	(9)

NOTE 11: INVENTORIES HELD FOR EXTERNAL DISTRIBUTION

Inventories comprise forms, booklets and returns held for external distribution. The carrying amount of inventories held for distribution that are measured at cost as at 30 June 2013 amounted to \$1,365,000 (2011–12, \$1,233,000).

The write-down of inventories held for distribution amounted to \$404,000 (2011–12, \$127,000). There have been no reversals of write-downs. The carrying amount of inventories held for distribution included the write-down of \$404,000.

No inventories are pledged as security for liabilities.

NOTE 12: CREDITORS AND OTHER PAYABLES

	2011–12 Actual \$000	2012–13 Actual \$000
Accounts payable	9,236	6,455
Accrued expenses – other	19,650	19,859
GST payable	7,175	9,071
Total creditors and other payables	36,061	35,385

Creditors and other payables are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 13: EMPLOYEE ENTITLEMENTS

	2011–12 Actual \$000	2012–13 Actual \$000
Current liabilities		
Annual leave	23,835	24,383
Terminating benefits	8,071	2,410
Accrued salaries and wages	14,915	15,637
Sick leave	1,290	1,259
Retiring leave	1,368	1,552
Long-service leave	1,013	901
Time off in lieu	21	6
Total current liabilities	50,513	46,148
Non-current liabilities		
Retiring leave	30,715	30,796
Long-service leave	8,166	8,149
Total non-current liabilities	38,881	38,945
Total employee entitlements	89,394	85,093

The present value of retiring and long-service leave obligations depend on a number of factors that are determined on an actuarial basis by an independent actuary using a number of assumptions. Two key assumptions used in calculating these liabilities include the discount rate and the salary inflation factor. Any changes in these assumptions will impact on 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 Treasury published forward rates at 30 June 2013. The long-term salary inflation assumption is based on Treasury published rates at 30 June 2013 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 4.00%.

In 2012–13 there was a decrease in the Treasury published forward discount rates. The impact of the forward discount rate movement was to increase the carrying amounts of the retiring leave liability by \$1,339,000 and the long-service leave liability by \$319,000.

The following table provides a sensitivity analysis for the key assumptions:

	Discount rate		Salary inflation factor	
	–1.0%	+1.0%	–1.0%	+1.0%
	\$000	\$000	\$000	\$000
Retiring leave	1,876	(1,672)	(1,722)	1,898
Long-service leave	478	(423)	(438)	485

Movements in the provision for terminating benefits are as follows:

	2011–12 Actual \$000	2012–13 Actual \$000
Terminating benefits		
Opening balance	615	8,071
Additional provisions made	13,585	916
Amounts used	(6,129)	(6,577)
Unused amounts reversed	–	–
Closing balance	8,071	2,410

The closing 2012–13 provision is expected to be fully utilised in the 2013–14 year.

NOTE 14: PROVISION FOR OTHER LIABILITIES

	2011–12 Actual \$000	2012–13 Actual \$000
Current liabilities		
Lease make-good	713	1,056
Onerous contracts	392	–
Total current liabilities	1,105	1,056
Non-current liabilities		
Lease make-good	2,577	839
Onerous contracts	–	–
Total non-current liabilities	2,577	839
Total provision for other liabilities	3,682	1,895

	Onerous contracts \$000	Lease make-good \$000	Total \$000
2012–13			
Opening balance	392	3,290	3,682
Additional provisions made	–	789	789
Amounts used	(392)	(584)	(976)
Unused amounts reversed	–	(1,304)	(1,304)
Discount unwind	–	(296)	(296)
Closing balance	–	1,895	1,895
2011–12			
Opening balance	1,808	3,816	5,624
Additional provisions made	–	65	65
Amounts used	(1,416)	(317)	(1,733)
Unused amounts reversed	–	(749)	(749)
Discount unwind	–	475	475
Closing balance	392	3,290	3,682

Onerous contracts

The provision for onerous contracts arises from non-cancellable operating leases where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. Inland Revenue does not currently have any leases where it is no longer able to use the surplus space due to restructuring and floor plan revision.

Lease make-good

For a number of its leased premises, Inland Revenue is required at the expiry of the lease term to make-good any damage caused to the premises and remove any fixtures and fittings it has installed.

In some cases, Inland Revenue has the option to renew these leases, which impacts on the timing of expected cash flows to make-good the premises.

NOTE 15: DERIVATIVE FINANCIAL INSTRUMENTS

To hedge its currency risk Inland Revenue enters into foreign currency forward exchange contracts with the New Zealand Debt Management Office (NZDMO).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2013 was NZ \$627,981 (2011–12, NZ \$34,000,000). The contracts consist of the purchase of AU \$485,000 and UK £25,136 (2011–12, US \$26,467,640). The unrealised loss on the forward exchange contract derivative as at 30 June 2013 is NZ \$3,000 (2011–12, NZ \$503,000).

The US \$26,467,640 forward exchange contract held at 30 June 2012 matured on 1 March 2013, with these funds now being held in a USD bank account. These funds are reported as *cash and cash equivalents* in the *Statement of Financial Position* with a NZD value of \$34,033,226.

The fair value of forward exchange contracts entered into during the financial year was determined by reference to published price quotations in an active market.

NOTE 16: FINANCE LEASES

	2011–12 Actual \$000	2012–13 Actual \$000
Total minimum lease payments payable		
Not later than one year	1,988	441
Later than one year and not later than five years	539	587
Later than five years	–	–
Total minimum lease payments	2,527	1,028
Future finance charges	(173)	(107)
Present value of minimum lease payments	2,354	921
Present value of minimum lease payments payable		
Not later than one year	1,867	381
Later than one year and not later than five years	487	540
Later than five years	–	–
Total present value of minimum lease payments	2,354	921
Represented by:		
Current	1,867	381
Non-current	487	540
Total finance leases	2,354	921

Inland Revenue has entered into an agreement for the provision of telecommunications services that includes finance leases. The leased items are included within the net carrying amount of IT equipment in note 4 property, plant and equipment.

There are no restrictions placed on Inland Revenue by any of the finance leasing arrangements.

Finance lease liabilities are effectively secured, as the rights to the leased assets reverts to the lessor in the event of default in payment.

NOTE 17: OTHER FINANCIAL LIABILITIES

	2011–12 Actual \$000	2012–13 Actual \$000
Current liabilities		
Leasing incentives	113	131
Total current liabilities	113	131
Non-current liabilities		
Leasing incentives	710	678
Total non-current liabilities	710	678
Total other financial liabilities	823	809

NOTE 18: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2011–12 Actual \$000	2012–13 Actual \$000
Net surplus/(deficit)	(878)	41,077
Add non-cash items		
Depreciation and impairment	16,542	18,994
Amortisation and impairment	44,337	37,085
Total non-cash items	60,879	56,079
Add items classified as investing or financing activities		
Net loss/(gain) on disposal of property, plant and equipment	6,914	(476)
Net loss on disposal of intangible assets	15	–
Total items classified as investing or financing activities	6,929	(476)
Add/(less) working capital movements		
(Inc)/Dec in debtor Crown	(9,817)	(41,869)
(Inc)/Dec in debtors and prepayments	1,246	(2,053)
(Inc)/Dec in inventories held for distribution	(116)	(133)
Inc/(Dec) in creditors and other payables	8,649	(676)
Inc/(Dec) in derivative financial instruments	503	(500)
Inc/(Dec) in provision for employee benefits	12,101	(4,301)
Inc/(Dec) in provision for other liabilities	(1,941)	(1,787)
Inc/(Dec) in other financial liabilities	(751)	(14)
Inc/(Dec) in finance lease liabilities	2,354	–
Net movements in working capital items	12,228	(51,333)
Net cash inflow from operating activities	79,158	45,347

NOTE 19: COMMITMENTS

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or recognised as a liability at the balance sheet date.

Operating commitments

Operating commitments for non-cancellable accommodation leases relate to Inland Revenue's long-term leases on its premises at many locations throughout New Zealand. The annual lease payments are regularly reviewed and the amounts disclosed as future commitments are based on current rental rates. These commitments also include office space vacated by Inland Revenue as a result of organisational restructuring and sub-leased. Provision has been made in the financial statements for the expected net expenses for the duration of these leases.

The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is \$3,625,049 (2011–12, \$77,000). The increase is due to the establishment of a co-located contact centre with the Ministry of Social Development in 2012–13.

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.

NOTE 20: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Legal proceedings and disputes – taxpayer

This contingent liability relates to potential claims against Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. It only relates to court costs; the actual revenue (tax) under dispute is recognised as a Crown contingency (refer to *Schedule of contingent liabilities and contingent assets – Crown as administered by Inland Revenue*).

The expected value of the contingent liability is calculated using an outcome probability model that weighs the total potential liability against outcome probabilities. Independent confirmation on the liability has been ascertained on all legal proceedings and tax disputes.

In 2011–12 and prior years the court costs recoverable (contingent asset) were netted against the contingent liability. In 2012–13 the contingent liability and the court costs recoverable have been separately disclosed. The change was made to reflect the latest 2012–13 outcome probability model that has resulted in an increase in the contingent asset, and therefore warrants separate disclosure. The contingent liability as at 2012–13 (excluding court costs recoverable) was \$1,096,938 (2011–12, \$530,700).

Legal proceedings and disputes – departmental

This contingent liability relates to disputes such as claims made by departmental suppliers.

Personal grievances

Personal grievances represent amounts claimed by employees for alleged breaches of contract against Inland Revenue.

Contingent assets

Legal proceedings and disputes – taxpayer

This contingent asset relates to potential court costs recoverable by Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. It only relates to court costs; the actual revenue (tax) under dispute is recognised as a Crown contingency (refer to *Schedule of contingent liabilities and contingent assets – Crown as administered by Inland Revenue*).

The expected value of the contingent asset is calculated using an outcome probability model that weighs the total potential court costs recoverable against outcome probabilities.

In 2011–12 and prior years the court costs recoverable (contingent asset) were netted against the contingent liability. In 2012–13 the contingent liability and the court costs recoverable have been separately disclosed. The change was made to reflect the latest 2012–13 outcome probability model that has resulted in an increase in the contingent asset, and therefore warrants separate disclosure. The contingent asset as at 2012–13 was \$3,485,927 (2011–12, \$300,730).

Insurance claims – Canterbury earthquakes

Inland Revenue leased a building in Christchurch that sustained damage as a result of the 4 September 2010 and subsequent earthquakes. Damage was sustained to leasehold improvements, furniture, IT equipment, and office equipment. In 2012–13 Inland Revenue settled all outstanding insurance claims for the material damage caused by the earthquakes and associated business interruption. The final insurance claim proceeds received in 2012–13 totalled \$9,100,000 (2011–12, \$nil).

NOTE 21: 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. In 2012–13 Inland Revenue has been provided with operating funding from the Crown of \$659 million (2011–12, \$638 million) for specific purposes as set out in the scope of relevant government appropriations.

Inland Revenue enters into related party transactions with other government departments, Crown agencies and state-owned enterprises which are controlled, significantly influenced, or jointly controlled by the Crown. All related party transactions have been entered into on an arms' length basis.

In 2012–13 the purchase of goods and services by Inland Revenue from entities controlled, significantly influenced, or jointly controlled by the Crown totalled \$29 million (2011–12, \$30 million). These purchases include postal services from New Zealand Post, and air travel from Air New Zealand.

In 2012–13 Inland Revenue paid capital charge on taxpayers' funds to the Crown totalling \$21 million (2011–12, \$21 million).

In 2012–13 the services provided by Inland Revenue to entities controlled, significantly influenced, or jointly controlled by the Crown totalled \$21 million (2011–12, \$23 million). These services include the collection of levies payable by earners on behalf of the Accident Compensation Corporation (ACC), and the supply of information to other agencies. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

No related party transactions were entered into with key management personnel during the year.

Compensation to key management personnel

The remuneration of key management personnel during the year was as follows:

	2011–12 Actual \$000	2012–13 Actual \$000
Short-term employee benefits	2,655	2,835
Post-employment benefits	56	47
Other long-term benefits	33	5
Total key management personnel compensation	2,744	2,887

Key management personnel include the Commissioner, five Deputy Commissioners, Chief Tax Counsel, Chief Financial Officer, Chief Technology Officer, Chief People Officer and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined and paid by the State Services Commission.

The number of key management personnel increased by two from February 2013.

NOTE 22: FINANCIAL INSTRUMENTS – CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ IAS 39 categories are as follows:

	Notes	2011–12 Actual \$000	2012–13 Actual \$000
Debtors and receivables			
Cash and cash equivalents		44,540	45,631
Debtor Crown		156,886	198,755
Net debtors	10	3,975	3,157
Total debtors and receivables		205,401	247,543
Fair value through surplus or deficit			
Derivative financial instrument liabilities	15	503	3
Total fair value through surplus or deficit		503	3
Financial liabilities measured at amortised cost			
Creditors and other payables	12	36,061	35,385
Finance lease liabilities	16	2,354	921
Other financial liabilities	17	823	809
Total financial liabilities measured at amortised cost		39,238	37,115

NOTE 23: FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY DISCLOSURES

For those instruments recognised at fair value in the *Statement of Financial Position*, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Statement of Financial Position*.

	Valuation technique			Total \$000
	Quoted market price \$000	Observable inputs \$000	Significant non - observable inputs \$000	
2012–13				
Financial liabilities				
Foreign exchange derivatives	–	3	–	3
2011–12				
Financial liabilities				
Foreign exchange derivatives	–	503	–	503

There were no transfers between the different levels of the fair value hierarchy.

NOTE 24: FINANCIAL INSTRUMENTS – FINANCIAL INSTRUMENT RISKS

Market risk

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates is called currency risk.

Because Inland Revenue purchases fixed assets and services from overseas suppliers it is exposed to currency risk arising from various currency exposures, primarily for the United States and Australian dollars. Currency risk arises from future purchases of fixed assets and services which are denominated in a foreign currency.

Inland Revenue has policies in place to manage the risks associated with financial instruments and, being risk averse, seeks to minimise exposure from its treasury activities. Inland Revenue does not enter into transactions that are speculative in nature.

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 Treasury and is in line with the requirements of Treasury *“Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure”*.

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 trade debtors is concentrated with the Crown and other government agencies.

The carrying amount of financial assets recognised in the *Statement of Financial Position* best represents Inland Revenue’s maximum exposure to credit risk at balance date.

Inland Revenue does not require any collateral, security, or other credit enhancements to support financial instruments with financial institutions that it deals with or the New Zealand Debt Management Office, because these entities have high credit ratings. For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not material.

Liquidity risk

Liquidity risk is the risk that Inland Revenue will encounter difficulty raising liquid funds to meet commitments as they fall due.

As all but an insignificant proportion of funds come from the New Zealand Government and cash is drawn down on a fortnightly basis, Inland Revenue does not have significant liquidity risk. In meeting its liquidity requirements, Inland Revenue closely monitors its forecast cash requirements with expected cash drawdowns from the New Zealand Debt Management Office. Inland Revenue maintains a target level of available cash to meet liquidity requirements.

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses Inland Revenue’s financial liabilities that will be settled, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Notes	Carrying amount \$000	Contractual cash flows \$000	Up to 1 year \$000	1 to 5 years \$000	Over 5 years \$000	Total \$000
2012–13							
Creditors and other payables	12	35,385	35,385	35,385	–	–	35,385
Finance lease liabilities	16	921	1,028	441	587	–	1,028
Other financial liabilities	17	809	809	131	489	189	809
Closing balance		37,115	37,222	35,957	1,076	189	37,222
2011–12							
Creditors and other payables	12	36,061	36,061	36,061	–	–	36,061
Finance lease liabilities	16	2,354	2,527	1,988	539	–	2,527
Other financial liabilities	17	823	823	113	437	273	823
Closing balance		39,238	39,411	38,162	976	273	39,411

Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses Inland Revenue's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Note	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows NZ\$ \$000	Less than 6 months NZ\$ \$000	6–12 months NZ\$ \$000	1–2 years NZ\$ \$000
2012–13							
Gross settled forward foreign exchange contracts	15	3	–	–	–	–	–
–Outflow		–	–	628	628	–	–
		3	–	628	628	–	–
2011–12							
Gross settled forward foreign exchange contracts	15	503	–	–	–	–	–
–Outflow		–	–	34,000	–	34,000	–
		503	–	34,000	–	34,000	–

The following provides a sensitivity analysis for the key assumptions:

At 30 June 2013, if the NZ dollar had strengthened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$1,619,000 (2011–12, \$1,621,000) higher. At 30 June 2013, if the NZ dollar had weakened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$1,790,000 (2011–12, \$1,791,000) lower. This movement is attributable to translation of US dollar-denominated creditors.

At 30 June 2013, if the NZ dollar had strengthened by 5% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$28,000 (2011–12, \$1,000) higher. At 30 June 2013, if the NZ dollar had weakened by 5% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$30,000 (2011–12, \$2,000) lower. This movement is attributable to translation of Australian dollar-denominated creditors.

NOTE 25: CAPITAL MANAGEMENT

Inland Revenue's capital is its equity (or taxpayers' funds), which comprise of general funds. Equity is represented by net assets.

Inland Revenue manages its revenues, expenses, assets, liabilities and general financial dealings prudently. Inland Revenue's equity is largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions and the Public Finance Act 1989.

The objective of managing Inland Revenue's equity is to ensure that it effectively achieves its strategic direction, while remaining a going concern.

NOTE 26: EXPLANATION OF MAJOR VARIANCES

Statement of Comprehensive Income

The following major budget variations occurred between the 2012–13 Actuals and the 2012–13 *Estimates of Appropriations (Budget)* in the *Statement of Comprehensive Income*:

- *Other income* was higher than budget by \$6,757,000 (23%). This variance was due to the \$9,100,000 finalisation of the insurance settlement for claims relating to the Canterbury earthquakes.
- *Personnel expenses* were lower than budget by \$37,796,000 (9%). The variance mainly reflects expense transfers of \$7,011,000 and in-principle expense transfers of \$16,414,000 to 2013–14 that were proposed as part of the March Baseline Update (MBU). This transferred personnel expenditure will now be incurred in 2013–14. The remaining underspend of \$14,000,000 reflects timing delays between the attrition and recruitment of staff across the organisation.
- *Operating expenses* were higher than budget by \$3,984,000 (2%). This is mainly due to consultancy expenditure on the business transformation programme that was initially planned to be incurred in the 2013–14 financial year, but was brought forward.
- *Amortisation and impairment* was lower than budget by \$2,528,000 (6%). The variance was mainly due to planned mainframe expenditure and capitalisation of IT projects which will now occur in 2013–14.

Statement of Financial Position

The following major budget variations occurred between the 30 June 2013 Actuals and the 2012–13 *Estimates of Appropriations (Budget)* in the *Statement of Financial Position*:

- *Cash and cash equivalents* were higher than budget by \$33,631,000 (280%). The variance was due to holding \$34,033,226 funds in a USD bank account for an infrastructure purchase.
- *Debtor Crown* was higher than budget by \$85,658,000 (76%). The variance was due to funding in Debtor Crown that we have not yet drawn down due to deferred capital expenditure and operating underspending.
- *Debtors and prepayments* were higher than budget by \$3,293,000 (21%). This was due to an increase in prepaid IT maintenance contracts and mainframe capacity.
- *Property, plant and equipment* was lower than budget by \$23,494,000 (30%). The variance was due to the planned purchase of \$19,000,000 of IT storage assets that did not eventuate. The nature of the agreement changed to a service model resulting in operating expenditure being incurred. The remainder of the variance was due to less than planned IT infrastructure spend.
- *Intangible assets* were lower than budget by \$49,552,000 (30%). The variance mainly relates to \$25,000,000 of planned mainframe capital spend that did not eventuate, and will now occur in 2013–14. There was also \$13,000,000 of IT licenses included in the Budget that have not eventuated with some of the underspend being carried into 2013–14, and also a \$4,178,000 underspend in the student loans redesign project, now due to occur in 2013–14.
- *Creditors and other payables* were higher than budget by \$7,885,000 (29%). This was mainly due to the timing of trade payables and business transformation project accruals.
- *Employee entitlements* were higher than budget by \$6,093,000 (8%). This was mainly driven by macro-economic changes in the actuarial valuations for retiring and long-service leave in 2012–13, as well as higher than planned restructuring costs.
- *Provision for other liabilities* were lower than budget by \$3,032,000 (62%). This was due to a reduction in lease make-good arrangements for buildings that Inland Revenue leases.

Statement of Departmental Expenses and Capital Expenditure against Appropriations

The following major variations occurred in the *Statement of Departmental Expenses and Capital Expenditure against Appropriations* between the 30 June 2013 Actuals and the 2012–13 Appropriations:

- *Property, plant and equipment* was lower than the Appropriation by \$6,811,000 (26%). This was mainly due to lower than planned IT infrastructure spend and the planned capital purchase of IT storage assets that did not occur. The nature of the agreement changed to a storage service model with operating rather than capital expenditure being incurred.
- *Intangible assets* were lower than the Appropriation by \$15,249,000 (34%). This was due to the following:
 - Timing of spend in the student loans redesign project, with \$4,178,000 of spending now to occur in 2013–14.
 - A change in the purchasing model for certain licenses with the licences now considered operating expenditure.

NOTE 27: EVENTS AFTER BALANCE DATE

No events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements.

Part 7

NON-DEPARTMENTAL FINANCIAL SCHEDULES

SCHEDULE OF REVENUE – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12	2012–13	2012–13 Revised Budget*	2012–13 Actual	2013–14 Forecast*
	Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Direct taxation					
Income tax					
Individuals					
Source deductions	20,959,663	22,053,000	21,909,000	21,860,369	23,099,000
Other persons	4,231,982	4,386,000	5,026,000	5,210,418	5,083,000
Refunds	(1,736,357)	(1,567,000)	(1,473,000)	(1,644,078)	(1,488,000)
Fringe benefit tax	461,876	458,000	460,000	479,803	477,000
Sub-total individuals	23,917,164	25,330,000	25,922,000	25,906,512	27,171,000
Corporate tax					
Gross companies tax	8,818,946	9,247,000	9,648,000	10,176,526	10,264,000
Refunds	(201,593)	(279,000)	(197,000)	(151,183)	(197,000)
Non-resident withholding tax	499,785	455,000	448,000	420,219	447,000
Foreign-source dividend withholding payments	3,895	–	–	1,757	–
Sub-total corporate tax	9,121,033	9,423,000	9,899,000	10,447,319	10,514,000
Other direct income tax					
Resident withholding tax on interest income	1,678,586	1,673,000	1,602,000	1,630,885	1,671,000
Resident withholding tax on dividend income	292,396	375,000	394,000	516,262	607,000
Employer superannuation contribution tax	672,697	924,000	906,000	907,203	1,039,000
Gift duties	146	–	–	43	–
Sub-total other direct income tax	2,643,825	2,972,000	2,902,000	3,054,393	3,317,000
Total direct taxation	35,682,022	37,725,000	38,723,000	39,408,224	41,002,000

SCHEDULE OF REVENUE – CROWN AS ADMINISTERED BY INLAND REVENUE (CONTINUED)

	2011–12	2012–13	2012–13	2012–13	2013–14
	Actual	Budget*	Revised	Actual	Forecast*
	\$000	\$000	Budget*	\$000	\$000
Indirect taxation					
Goods and services tax					
Gross goods and services tax	23,746,090	24,795,000	24,315,000	23,928,121	25,988,000
Refunds	(10,626,609)	(11,052,000)	(10,085,000)	(9,919,736)	(10,695,000)
Sub-total goods and services tax	13,119,481	13,743,000	14,230,000	14,008,385	15,293,000
Other indirect taxation					
Cheque duties	3,537	3,000	3,000	2,913	3,000
Approved issuer levy	85,167	86,000	77,000	81,535	84,000
Gaming duties	270,740	281,000	275,000	266,576	278,000
Other indirect taxation	4,895	10,000	5,000	3,155	5,000
Sub-total other indirect taxation	364,339	380,000	360,000	354,179	370,000
Total indirect taxation	13,483,820	14,123,000	14,590,000	14,362,564	15,663,000
Total taxation	49,165,842	51,848,000	53,313,000	53,770,788	56,665,000
Other revenue					
Child support	279,448	654,000	546,000	494,447	632,000
Interest unwind – student loans	474,452	601,000	581,000	589,500	600,000
Other revenue	32,033	6,300	101,400	95,179	96,800
Total other revenue	785,933	1,261,300	1,228,400	1,179,126	1,328,800
Total operating revenue	49,951,775	53,109,300	54,541,400	54,949,914	57,993,800

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

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF EXPENDITURE – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12	2012–13	2012–13	2012–13	2013–14
	Actual	Budget*	Revised	Actual	Forecast*
	\$000	\$000	Budget*	\$000	\$000
Benefits and other unrequited expenses					
Child tax credit	1,998	1,600	1,700	1,711	1,400
Family tax credit	2,071,040	2,113,000	2,047,000	2,017,841	2,026,000
In-work tax credit	567,046	565,000	541,000	544,474	511,000
KiwiSaver: Fee subsidy	(18)	–	–	(12)	–
KiwiSaver: Interest	5,848	7,000	7,000	5,060	8,000
KiwiSaver: Kick-start payment	212,566	177,000	220,000	223,762	165,000
KiwiSaver: Tax credit	469,819	504,000	511,000	494,152	575,000
Minimum family tax credit	11,091	11,000	12,000	12,077	12,000
Paid parental leave payments	157,615	163,000	167,000	165,101	176,000
Parental tax credit	18,385	17,000	17,000	17,109	15,000
Payroll subsidy	1,947	3,000	2,600	2,503	3,000
Research and development tax credit	(68,475)	–	–	–	–
Total benefits and other unrequited expenses	3,448,862	3,561,600	3,526,300	3,483,778	3,492,400
Borrowing expenses					
Adverse event interest	3	10	10	(1)	10
Environmental restoration account interest	1,570	2,000	2,000	1,636	2,000
Income equalisation interest	3,494	7,000	7,000	6,221	8,000
Total borrowing expenses	5,067	9,010	9,010	7,856	10,010
Other expenses					
Bad debt write-offs	848,618	894,000	975,000	924,731	931,000
Impairment of debt ¹	263,940	246,522	269,000	(36,861)	266,234
Impairment of debt relating to child support	72,276	422,000	328,000	282,214	392,000
Impairment of debt relating to student loans	(286,000)	110,000	332,000	484,000	110,000
Initial fair value write-down – student loans ²	103,175	651,242	538,000	535,630	537,000
Total other expenses	1,002,009	2,323,764	2,442,000	2,189,714	2,236,234
Total expenditure	4,455,938	5,894,374	5,977,310	5,681,348	5,738,644

¹ Impairment of debt relates to tax, Working for Families Tax Credits and KiwiSaver debt.

² Inland Revenue is responsible for meeting the initial fair value write-down expense on new lending from 1 April 2012. Previously the Ministry of Social Development was responsible for this.

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF ASSETS – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2013

	Notes	2011–12	2012–13	2012–13	2012–13	2013–14
		Actual	Budget*	Revised	Actual	Forecast*
		\$000	\$000	Budget*	\$000	\$000
Assets						
Current assets						
Cash and cash equivalents		1,418,317	1,000,000	2,350,000	2,834,321	2,000,000
Receivables	1	6,341,051	6,108,274	6,579,422	7,383,403	6,928,917
Receivables – child support	2	3,030	48,406	3,030	13,720	3,030
Receivables – other		30,670	45,000	75,000	79,022	85,000
Student loans	3	930,000	1,054,000	1,020,000	1,020,000	1,079,000
Total current assets		8,723,068	8,255,680	10,027,452	11,330,466	10,095,947
Non-current assets						
Receivables	1	409,300	321,383	434,329	438,400	457,400
Receivables – child support	2	54,749	–	54,749	53,325	76,749
Student loans	3	7,360,882	7,727,092	7,423,785	7,268,177	7,909,577
Total non-current assets		7,824,931	8,048,475	7,912,863	7,759,902	8,443,726
Total assets		16,547,999	16,304,155	17,940,315	19,090,368	18,539,673

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF LIABILITIES – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2013

	Notes	2011–12	2012–13	2012–13 Revised Budget*	2012–13	2013–14
		Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Liabilities						
Payables and provisions						
Child support		25,875	24,004	25,875	30,096	24,004
Refundables and payables	4	3,323,245	3,340,199	3,339,945	3,514,165	3,933,216
Unclaimed monies	5	9,828	6,750	9,828	12,475	9,828
Total payables and provisions		3,358,948	3,370,953	3,375,648	3,556,736	3,967,048
Reserve schemes						
Reserve schemes	6	278,175	302,865	336,175	288,968	334,175
Total value of the reserve schemes		278,175	302,865	336,175	288,968	334,175
Total liabilities		3,637,123	3,673,818	3,711,823	3,845,704	4,301,223

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF MOVEMENTS BETWEEN DEPARTMENTS – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12	2012–13	2012–13 Revised Budget*	2012–13	2013–14
	Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Opening balance	10,677,157	12,357,441	12,910,876	12,910,876	14,422,492
Net result from operating activities	45,495,837	47,214,926	48,564,090	49,268,566	52,255,156
Asset transfer between departments – Ministry of Social Development – student loans	1,711,108	1,543,260	1,482,903	1,481,330	1,527,792
New Zealand Debt Management Office	(44,973,226)	(48,485,290)	(48,729,377)	(48,416,108)	(53,966,990)
Closing balance	12,910,876	12,630,337	14,228,492	15,244,664	14,238,450

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS – CROWN AS ADMINISTERED BY INLAND REVENUE

AS AT 30 JUNE 2013

	Notes	2011–12 Actual \$000	2012–13 Actual \$000
Contingent liabilities			
Legal proceedings and disputes – assessed	7	365,417	640,758
Unclaimed monies	5	79,516	100,933
Total contingent liabilities		444,933	741,691
Contingent assets			
Disputes – non-assessed	7	150,451	169,313
Total contingent assets		150,451	169,313

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

STATEMENT OF APPROPRIATIONS – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12	2012–13	2012–13	2012–13	2013–14
	Actual	Budget*	Revised	Actual	Forecast*
	\$000	\$000	Budget*	\$000	\$000
Vote: Revenue¹					
Benefits and other unrequited expenses					
Child support payments PLA	215,636	227,000	227,000	227,404	237,000
Child tax credit PLA	1,998	1,600	1,700	1,711	1,400
Family tax credit PLA	2,071,040	2,113,000	2,047,000	2,017,841	2,026,000
In-work tax credit PLA	567,046	565,000	541,000	544,474	511,000
KiwiSaver: Fee subsidy	(18)	–	–	(12)	–
KiwiSaver: Interest	5,848	7,000	7,000	5,060	8,000
KiwiSaver: Kick-start payment	212,566	177,000	220,000	223,762	165,000
KiwiSaver: Tax credit	469,819	504,000	511,000	494,152	575,000
Minimum family tax credit PLA	11,091	11,000	12,000	12,077	12,000
Paid parental leave payments PLA	157,615	163,000	167,000	165,101	176,000
Parental tax credit PLA	18,385	17,000	17,000	17,109	15,000
Payroll subsidy PLA	1,947	3,000	2,600	2,503	3,000
Research and development tax credit	(68,475)	–	–	–	–
Total benefits and other unrequited expenses	3,664,498	3,788,600	3,753,300	3,711,182	3,729,400
Borrowing expenses					
Adverse event interest PLA	3	10	10	(1)	10
Environmental restoration account interest PLA	1,570	2,000	2,000	1,636	2,000
Income equalisation interest PLA	3,494	7,000	7,000	6,221	8,000
Total borrowing expenses	5,067	9,010	9,010	7,856	10,010
Other expenses					
Bad debt write-offs	848,618	894,000	975,000	924,731	931,000
Impairment of debt ²	263,940	246,522	269,000	(36,861)	266,234
Impairment of debt relating to child support	72,276	422,000	328,000	282,214	392,000
Impairment of debt relating to student loans ³	(371,000)	110,000	316,000	283,000	110,000
Initial fair value write-down – student loans ⁴	103,175	651,242	538,000	535,630	537,000
Total other expenses	917,009	2,323,764	2,426,000	1,988,714	2,236,234
Total appropriations	4,586,574	6,121,374	6,188,310	5,707,752	5,975,644

¹ PLA refers to appropriations established under a permanent legislative authority.

² Impairment of debt relates to tax, Working for Families Tax Credits and KiwiSaver debt.

³ 2012–13 actual excludes remeasurement of \$201.0 million (2011–12 actual excludes remeasurement \$85.0 million).

⁴ Inland Revenue is responsible for meeting the initial fair value write-down expense on new lending from 1 April 2012. Previously the Ministry of Social Development was responsible for this.

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

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF UNAPPROPRIATED EXPENDITURE – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	Actual	Authority	Expenses in excess of appropriation
	\$000	\$000	\$000
Benefits and other unrequited expenses			
KiwiSaver: Kick-start payment	223,762	220,000	3,762

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

In the 2012–13 financial year:

- there were no instances of expenditure incurred outside of appropriation (2011–12 \$nil).
- there were no instances of expenditure incurred without appropriation or other authority (2011–12 \$nil).
- there was one instance of expenditure incurred in excess of appropriation (2011–12 \$nil).

KiwiSaver: Kick-start payments totalled \$223.762 million for the year, \$3.762 million in excess of the appropriation. The breach is due to an increase in enrolments in the latter four months of the 2012–13 year. This increase was due to the entry of a new provider into the scheme. Although an increase was already built into the forecasts, the degree of additional uptake surpassed expectations.

SCHEDULE OF TRUST MONEY – CROWN AS ADMINISTERED BY INLAND REVENUE

FOR THE YEAR ENDED 30 JUNE 2013

	2011–12 Actual \$000	2012–13 Contributions \$000	2012–13 Distributions \$000	2012–13 Actual \$000
Child support				
Child support trust account	22,222	224,752	(224,974)	22,000
Reciprocal child support agreement trust account	287	12,014	(11,964)	337
Total child support	22,509	236,766	(236,938)	22,337
KiwiSaver				
KiwiSaver returned transactions trust account	204	69	–	273
Total KiwiSaver	204	69	–	273
Total trust money	22,713	236,835	(236,938)	22,610

The child support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991. Inland Revenue administers these trust accounts for amounts collected from liable parents and the subsequent child support payments that are paid to the custodial parents.

The KiwiSaver trust account was established in accordance with section 74(4) of the KiwiSaver Act 2006. Inland Revenue administers this account to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, pending the completion of the financial transaction.

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

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013.

STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

These Crown financial schedules and statements present financial information on public funds managed by Inland Revenue on behalf of the Crown.

These Crown balances are consolidated into the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2013. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the *Financial Statements of the Government*.

REPORTING PERIOD

The reporting period for these financial schedules is for the year ended 30 June 2013. The financial schedules were authorised for issue by the Chief Executive and Commissioner of Inland Revenue on 26 September 2013.

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 Treasury Instructions. Compliance with NZ GAAP in this instance means the figures for the year ended 30 June 2013 comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and where appropriate, standards issued by the International Public Sector Accounting Standards Board (IPSAS) as appropriate for public benefit entities and New Zealand equivalents to International Accounting Standards (NZ IAS).

BASIS OF PREPARATION

The Crown schedules and statements have been prepared in accordance with the accounting policies of the *Financial Statements of the Government*, Treasury Instructions, and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these schedules and statements are consistent with New Zealand generally accepted accounting practice as appropriate for public benefit entities.

JUDGEMENTS AND ESTIMATIONS

In preparing these financial statements, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Material judgements, estimates and assumptions impact on receivables, child support receivables, student loan debt and refundables and payables. See notes 1, 2, 3 and 4 for more information on these.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

Budget and forecast figures

The budget figures are those included in the *Information Supporting the Estimates of Appropriations (Budget) for the year ending 30 June 2013 and the Information Supporting the Supplementary Estimates of Appropriations (Revised Budget) for the year ending 30 June 2013* (the Budget is 2012 Budget Economic and Fiscal Update (BEFU 2012) out-year 1 figures and the Revised Budget is SUPPS 2013 out-year 0 figures).

The forecast figures are those included in the *Information Supporting the Estimates of Appropriations (Forecast) for the year ending 30 June 2014* (the Forecast is 2013 Budget and Economic and Fiscal Update (BEFU 2013) out-year 1 figures).

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

Forecast information has been included for the following financial year for the first time. From next year the Public Finance Amendment Act 2013 requires this. The opportunity has been taken to include our financial forecasts for the coming year. The aim of this is to increase transparency by providing the reader with further context of this year's results by providing next year's forecast for comparison.

Revenue

Operating revenue

The payment of tax in itself, does not entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers, that is, tax revenue is a non-exchange transaction.

Tax revenue is recognised when a taxable event has occurred

and the tax revenue can be reliably measured. The taxable event is defined as follows:

Tax type	Taxable activity
Income tax	The earning of assessable income during the taxation period by the taxpayer.
Goods and services tax	The purchase or sale of taxable goods and services during the taxation period.

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. Inland Revenue has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by Inland Revenue. 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 estimate the amount of unreported tax.

Initial fair value write-down – student loans

When new borrowings are made to students, they are written down immediately to the fair value. The initial write-down ratio is used to determine this write-down, which is an expense.

Interest unwind – student loans

Interest unwind on student loans is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. From 1 January 2013 there has been a change in methodology for the initial fair value write-down of student loans. Effective interest rates are assigned to new lending each year on a 'year of lending' basis, previously rates were assigned to the borrower on a 'year of first lending' basis.

Comparative information has not been restated as it is impractical to re-estimate the entire carrying value of the loan portfolio as at 1 July 2012. The new methodology has only been applied to new lending from 1 July 2012.

Expenses

General

Expenses are recognised in the period to which they relate.

Benefits and other unrequited expenses

Expense type	Definition
Child tax credit	Extra assistance for low to middle income families who do not depend on the state for financial support (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Family tax credit	Family support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
In-work tax credit	Extra assistance for low to middle income families where the person works a minimum of 20 hours per week and does not have a partner, or a person and their partner work a minimum of 30 hours per week (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
KiwiSaver: Fee subsidy	Fee subsidy to KiwiSaver members in respect of their scheme provider fees as set out in the KiwiSaver Act 2006. This ceased on 31 March 2009.
KiwiSaver: Interest	Interest on KiwiSaver contributions as set out in the KiwiSaver Act 2006.
KiwiSaver: Kick-start payment	One-off payment made on opening a KiwiSaver account for members who meet the required eligibility criteria as set out in the KiwiSaver Act 2006.
KiwiSaver: Tax credit	Tax credit to KiwiSaver members and the payment of residual tax credits to employers as set out in the Income Tax Act 2007.
Minimum family tax credit	Extra payment made to families where at least one parent is working for salary or wages (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Paid parental leave payments	Paid parental leave payments made to parents eligible under the Parental Leave and Employment Protection Act 1987.
Parental tax credit	Additional financial support made to working families for the eight-week period following the birth of a child (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Payroll subsidy	Subsidy to a payroll agent undertaking employers' payroll-related tax compliance activities on their behalf (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Research and development tax credit	Tax credits for expenditure on research and development where the required eligibility criteria is met as set out in the Income Tax Act 2007. Expenditure incurred up until 31 March 2009 may be eligible for credits, where claims have been filed by 31 March 2012.

Borrowing expenses

Expense type	Definition
Adverse event interest	Interest on adverse event income equalisation reserve accounts held by taxpayers in the farming and agriculture business (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Environmental restoration account interest	Interest on environmental restoration accounts (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Income equalisation interest	Interest on income equalisation reserve scheme accounts held by taxpayers in the farming, fishing or forestry industries (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

Other expenses

Expense type	Definition
Bad debt write-offs	Bad debt write-offs for Crown debt administered by Inland Revenue. These write-offs relate to general tax, KiwiSaver and Working for Families Tax Credits debt.
Impairment of debt	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the Crown debt book. This impairment relates to general tax, KiwiSaver and Working for Families Tax Credits debt.
Impairment of debt relating to child support	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of child support debt.
Impairment of debt relating to student loans	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the loan, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loan debt.
Initial fair value write-down – student loans	The initial fair value write-down is the amount by which a student loan is discounted at the time the loan is made. The discounting reflects the expected cash flows over the life of the loan.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in bank accounts administered by Inland Revenue.

Receivables

Receivables include taxes, levies and fines (and any penalties and interest associated with these activities) as well as social benefit receivables.

Receivables are initially assessed at nominal value, that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment annually. Interest and penalties charged on receivables are presented as revenue in the *Schedule of Revenue*.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Impairment movements are recognised in the *Schedule of Expenditure*. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

Financial models have been constructed for Inland Revenue to calculate the impairment of Crown debt. These models apply a number of assumptions on future repayment behaviour as well as economic assumptions such as the discount rate and inflation.

Financial instruments

Financial assets

Student loans

Student loans are designated as loans and receivables under NZ IAS 39. Student loans are recognised initially at fair value, plus

transaction costs, and subsequently measured at amortised cost using the effective interest rate method, and adjusted for impairment movements. Fair value on initial recognition of student loans is determined by projecting forward expected repayments and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and a loss event has an impact on the estimated future cash flows of the loan that can be reliably measured. The amount of the provision is the difference between the asset's carrying amount and estimated impaired value. The impairment losses are recognised in the *Schedule of Expenditure*.

Impairment losses can be reversed where there is evidence that the impaired value of the financial asset has increased.

Actuarial models have been constructed by a third party to calculate the impairment of student loan debt. Refer to Note 3 for more information on this model.

Financial liabilities

Financial liabilities are recognised initially at fair value, less transaction costs. Financial liabilities entered into with a duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material.

Contingent liabilities

Contingent liabilities are recorded in the *Schedule of Contingent Liabilities* at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote.

Contingent assets

Contingent assets are recorded in the *Schedule of Contingent Assets* at the point at which the contingency is evident. Contingent assets are disclosed if it is probable that the benefits will be realised.

Changes in accounting policies

There have been no changes in accounting policies applicable to the preparation of financial schedules of Crown administered by Inland Revenue. All policies have been applied on a basis consistent with the previous year.

There has been a change in the methodology for the initial fair value write-down of student loans. Information on this change is available in Note 3 of the Notes to the Financial Schedules.

Comparatives

When presentation or classification of items in the financial schedules is amended or accounting policies are changed, comparative figures have been restated to ensure consistency with the current period, unless it is impracticable to do so.

The comparative for the initial fair value write-down of student loans has not been restated after the methodology change as it is impracticable to do so. Refer Note 3 for further details.

NOTES TO THE FINANCIAL SCHEDULES

NOTE 1: RECEIVABLES

Receivables include tax, Working for Families Tax Credits and KiwiSaver debt, and excludes student loans and child support debt.

The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

As at 30 June 2013, \$4.309 billion of tax pooling funds are being held in Crown bank accounts (refer to the *Financial Statements of the Government*) and have been netted off against the receivables. These funds have been deposited by a commercial intermediary and allow taxpayers to pool tax payments to reduce their use-of-money-interest exposure. Underpayments and overpayments are offset within the same pool. We estimate that the majority of pooling funds relate to income accruals already included in not yet due receivables.

	2011–12 \$000	2012–13 \$000
Receivables		
Gross receivables	11,157,058	12,191,649
Impairment receivables	(4,406,707)	(4,369,846)
Carrying value receivables	6,750,351	7,821,803
Current and non-current apportionment		
Receivables – current	6,341,051	7,383,403
Receivables – non-current	409,300	438,400
Carrying value receivables	6,750,351	7,821,803
Ageing profile of receivables – gross		
Not due	5,752,946	6,849,356
Past due¹		
Less than 6 months	883,894	903,865
6–12 months	453,053	362,726
1–2 years	899,137	788,041
Greater than 2 years	3,168,028	3,287,661
Total past due	5,404,112	5,342,293
Total receivables – gross	11,157,058	12,191,649
% Past due	48%	44%
Receivables – impairment		
Opening balance	4,142,767	4,406,707
Impairment losses recognised	1,112,558	887,870
Amounts written off as uncollectable	(848,618)	(924,731)
Closing balance	4,406,707	4,369,846

¹ Figures are based on debt elements. They are not comparable with the figures in Additional Information section, which are based on debt cases and also include overdue student loan debt.

Receivables are classified as past due when any outstanding revenue is not paid by the taxpayer's due date. Due dates will vary, depending on the type of revenue outstanding (eg, income tax, GST, KiwiSaver) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio and significant assumptions underpinning the valuation are:

	2011–12 \$000	2012–13 \$000
Recoverable amount of receivables not due	5,734,710	6,823,227
Recoverable amount of receivables past due	1,015,641	998,576
Use-of-money interest rate	8.40%	8.40%
Discount rate	5.60%	5.10%
Impact on the recoverable amount of a 2% increase in discount rate	(18,000)	(20,000)
Impact on the recoverable amount of a 2% decrease in discount rate	20,000	21,000

The fair value of receivables is not materially different from the carrying value.

Credit risk

In determining the recoverability of receivables Inland Revenue uses information about the extent to which the taxpayer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment and other information obtained from credit collection actions taken.

Under the Tax Administration Act 1994 Inland Revenue has broad powers to ensure that people meet their obligations. Part 10 of the Act sets out the powers of the Commissioner to recover unpaid tax.

The Crown does not hold any collateral or any other credit enhancements over receivables which are past due.

Receivables are widely dispersed over a number of taxpayers and as a result the Crown does not have any material individual concentrations of credit risk.

NOTE 2: RECEIVABLES – CHILD SUPPORT

The Crown collects monies from liable parents and remits this to custodial parents. The child support receivable represents penalties which have been incurred as a result of the under-payment of the debt, and in the main, relates to penalties imposed on liable parents who default on their payments.

Child support penalties grow exponentially due to their compounding nature. The recovery of debt is challenging and 97% of child support debt is impaired as we do not expect to collect it. There are limited provisions under child support legislation to remit penalties. The non-recoverability of penalties has been allowed for in the impairment figure. Impairment is calculated by forecasting the expected repayments of this penalty debt based on analysis of historical debt data, deducting an estimate of service costs and then discounted.

The concentration of credit risk is limited and this is not a risk that is actively managed. The Crown does not hold any collateral or other credit enhancements over these receivables.

	2011–12 \$000	2012–13 \$000
Receivables – child support		
Gross receivables	1,817,551	2,109,031
Impairment receivables	(1,759,772)	(2,041,986)
Total receivables – child support	57,779	67,045
Current and non-current apportionment		
Receivables – current	3,030	13,720
Receivables – non-current	54,749	53,325
Carrying value receivables	57,779	67,045
Ageing profile of receivables – gross		
Not due	–	–
Past due		
Less than 12 months	81,501	296,558
1–2 years	316,999	81,501
Greater than 2 years	1,419,051	1,730,972
Total past due	1,817,551	2,109,031
Total receivables – gross	1,817,551	2,109,031
% Past due	100%	100%
Impairment of receivables – child support		
Opening balance	1,687,496	1,759,772
Impairment losses recognised	72,276	282,214
Closing balance	1,759,772	2,041,986

NOTE 3: STUDENT LOANS

StudyLink (Ministry of Social Development) transactions are transferred to Inland Revenue on a daily basis. Inland Revenue holds the total nominal debt and carrying value of the scheme. Vote Revenue is responsible for meeting the initial fair value write-down expense on new lending, and any subsequent impairment.

From 1 January 2013 there has been a change in methodology for the initial fair value write-down of student loans. Effective interest rates are assigned to new lending each year on a 'year of lending' basis, previously rates were assigned to the borrower on a 'year of first lending' basis.

Comparative information has not been restated as it is impractical to re-estimate the entire carrying value of the loan portfolio as at 1 July 2012. The new methodology has only been applied to new lending from 1 July 2012.

	2011–12 \$000	2012–13 \$000
Nominal value student loans	12,968,652	13,562,221
Adjustment to nominal value	(4,677,770)	(5,274,044)
Carrying value student loans	8,290,882	8,288,177
Current and non-current apportionment		
Student loans – current	930,000	1,020,000
Student loans – non-current	7,360,882	7,268,177
Carrying value student loans	8,290,882	8,288,177
Movement during the year		
Opening balance	6,690,213	8,290,882
Impairment	286,000	(484,000)
Loans transferred from Ministry of Social Development	2,840,784	1,481,333
Fair value write-down on loans transferred from Ministry of Social Development	(1,129,676)	-
Initial fair value write-down ¹	(103,175)	(535,630)
Repayments	(767,716)	(1,053,908)
Interest unwind	474,452	589,500
Carrying value student loans	8,290,882	8,288,177
Fair value student loans		
Opening balance	6,443,000	8,527,000
Loans transferred from Ministry of Social Development	1,711,108	1,481,333
Initial fair value write-down ¹	(103,175)	(535,630)
Repayments	(767,716)	(1,053,908)
Interest unwind	480,783	524,205
Administration costs	31,000	35,000
Change in expense assumption	(37,000)	27,000
Change in fair value discount rate	436,000	(201,000)
Impairment	333,000	(506,000)
Fair value student loans	8,527,000	8,298,000

¹ Inland Revenue is responsible for meeting the initial fair value write-down expense on new lending from 1 April 2012. Previously Ministry of Social Development was responsible for this.

Student loan valuation model

The student loan valuation model reflects current student loan policy and macro-economic assumptions. As such, the book value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macro-economic factors such as inflation and the discount rates used to determine the effective interest rate on new borrowers.

The student loan valuation model uses an integrated dataset compiled by Statistics New Zealand. The dataset files are provided by Inland Revenue, Ministry of Social Development and Ministry of Education. The current data is up to 31 March 2012. It contains information on borrowings, repayments, income, educational factors and socio-economic factors amongst others which had been used in the valuation model. Given the lead time required to compile and analyse the detailed integrated data it is expected that there will always be a lag time between the integrated dataset and balance date. This integrated data has been supplemented by 2013 Employer Monthly Schedule (EMS) information which summarises income from salaries and wages i.e. more recent data to value student loans at balance date.

The significant assumptions behind the carrying value and fair value are:

	2011–12	2012–13
Carrying value		
Carrying value (\$000)	8,290,882	8,288,177
Effective interest rate	7.20%	7.08%
Interest rate applied to loans for overseas borrowers	6.4%-6.6%	5.9%-6.4%
Consumer Price Index	1.8%-2.5%	1.4%-2.5%
Future salary inflation	3.2%-3.5%	2.2%-3.5%

	2011–12	2012–13
Fair value		
Fair value (\$000)	8,527,000	8,298,000
Discount rate	6.03%	6.45%
Impact on fair value of a 1% increase in discount rate (\$000)	(396,000)	(423,000)
Impact on fair value of a 1% decrease in discount rate (\$000)	432,000	471,000

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2013. It is determined by discounting the future cash flows at an appropriate discount rate.

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes whereas the fair value was calculated on a discount rate that was current at 30 June 2013. At that date, the fair value was calculated on a discount rate of 6.45% which excludes expenses whereas a weighted average discount rate of 7.08% including expenses was used for the carrying value. For reference, the representative discount rate for fair value including an allowance for expenses is 7.06%. The difference between fair value and carrying value does not represent an impairment of the asset.

The *Student Loan Scheme Annual Report* contains more information on the student loan scheme.

Impairment of student loans in 2012-13 totalled \$484 million. This impairment is due to lower than expected incomes and repayments as well as changes to macroeconomic assumptions for income recovery and earnings inflation. This explanation may appear contrary to the significant increase in repayments reported. This significant increase was driven by borrowers making one-off payments to qualify for the voluntary repayment bonus which ceased on 31 March 2013. However, repayments not attracting a bonus did not meet forecast expectations, reflecting lower incomes.

In 2011–12 there was a reversal of impairment of the student loan asset totalling \$286.0 million which was mainly driven by the Budget 2012 policy decision to increase the student loan repayment rate from 10% to 12%.

The valuation data is still very sensitive to changes in certain areas as can be seen from the sources of impairment set out below:

	2011–12 \$000	2012–13 \$000
Sources of impairment		
Policy and legislative changes	268,000	(27,000)
Revision of predictive sub-models	57,000	64,000
Experience variance	26,000	(303,000)
Change in demographic profile of participants	24,000	(29,000)
Revision of mortality and bankruptcy rates	(36,000)	–
Macroeconomic changes ¹	(85,000)	(201,000)
Remaining model and data changes	32,000	12,000
Total sources of impairment	286,000	(484,000)

¹ The remeasurement portion of the impairment is \$201.0 million. The *Schedule of Expenditure* and the note above includes remeasurement adjustments in the impairment figure. However, the *Statement of Appropriations* excludes remeasurement adjustments. The remeasurement relates to changes in the macroeconomic assumptions used for the valuation of the receivable.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The student loan scheme does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the student loan scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by collection of compulsory repayments through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the Government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the Government.

NOTE 4: REFUNDABLES AND PAYABLES

Refundables and payables are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to taxpayers as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete.

	2011–12 \$000	2012–13 \$000
KiwiSaver payable	568,256	801,097
Paid parental leave payable	5,387	5,791
Research and development tax credits payable	5,000	3,952
Taxes refundable	2,744,602	2,703,325
Total refundables and payables	3,323,245	3,514,165

NOTE 5: UNCLAIMED MONIES

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

NOTE 6: RESERVE SCHEMES

	2011–12 \$000	2012–13 \$000
Adverse event income equalisation	63	176
Environmental restoration	54,927	54,927
Income equalisation	223,185	233,865
Total reserve schemes	278,175	288,968

The adverse event income equalisation scheme operates in addition to the income equalisation scheme. Interest at a rate of 6.5% is paid on deposits. Deposits can be withdrawn immediately, but are transferred to the main income equalisation account if not withdrawn within 12 months of the deposit.

The environmental restoration account allows businesses to set aside money to cover restoration costs for monitoring, avoiding, remedying or mitigating the detrimental environmental effects which may occur in later years. Interest at a rate of 3% is paid on the deposit while it is held in the scheme. Payment is made when the environmental restoration costs are incurred.

The income equalisation scheme allows taxpayers in the farming, fishing and forestry industries to make payments during the year by way of income equalisation deposits. Interest is paid at a rate of 3%, provided that no withdrawals are made within 12 months of the date of the deposit.

NOTE 7: CONTINGENCIES

Contingent liabilities

Legal proceedings and disputes - assessed

Contingent liabilities arise if a legal case is still not resolved at the end of the disputes process, Inland Revenue will issue an amended assessment to the taxpayer and recognise revenue. The taxpayer is then able to file proceedings with the Taxation Review Authority or the High Court disputing the assessment. These are recorded in the *Schedule of Contingent Liabilities* as legal proceedings and disputes – assessed. The contingent liability is the maximum liability Inland Revenue has in respect of these cases.

Unclaimed monies

Unclaimed monies are repaid to the entitled owner on proof of identification. Based on trends from prior years, the estimated likely amount of unclaimed monies that will be paid out is recorded as a liability in the *Schedule of Liabilities* and the remainder is recorded as a contingent liability in the *Schedule of Contingent Liabilities*.

Contingent assets

Disputes – non-assessed

Contingent assets arise as part of the tax dispute process, for example, when Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment through a notice of proposed adjustment. At this point there has been no amended assessment issued and no revenue has been recognised so these adjustments are recorded in the *Schedule of Contingent Assets* as disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely cash collectable from the disputes process based on experience and similar prior cases, net of losses carried forward.

Contingent assets can also arise where the taxpayer has not filed an assessment but Inland Revenue believes they are liable for tax. In this situation Inland Revenue will issue an assessment. Where the taxpayer chooses to dispute the Inland Revenue initiated assessment, the assessment is not recognised as revenue and a contingent asset is recorded in the *Schedule of Contingent Assets*. The value of the asset is based on the likely cash collectable portion of the default assessment, net of losses carried forward.

NOTE 8: COLLECTION OF EARNER LEVY

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation and passes the monies directly to them. The levies do not appear on the Crown schedules.

	2011–12 \$000	2012–13 \$000
Earners levy	1,688,720	1,529,912
Total collection of earners levy	1,688,720	1,529,912

NOTE 9: EVENTS AFTER BALANCE DATE

After balance date, we received two Statements of Claim, in relation to adjudication decisions made before 30 June 2013. These statements confirm that the taxpayers have commenced legal proceedings in relation to their disputes. We have increased contingent liabilities by \$217 million to reflect these events in the *Statement of Contingent Liabilities*.

No other events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements.

AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT

To the readers of Inland Revenue's financial statements, non-financial performance information and schedules of non-departmental activities for the year ended 30 June 2013

The Auditor-General is the auditor of Inland Revenue (the Department). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, non-financial performance information and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- the financial statements of the Department on pages 76 to 109, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2013, the statement of comprehensive income, statement of changes in taxpayers' funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenditure and capital expenditure 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 non-financial performance information of the Department that comprises the statement of service performance on pages 47 to 73 and the report about impact indicators on pages 18 to 19; and
- the schedules of non-departmental activities of the Department on pages 112 to 134 that comprise the schedule of assets, schedule of liabilities, schedule of contingent liabilities and contingent assets as at 30 June 2013, the schedule of expenditure, statement of appropriations, statement of unappropriated expenditure, schedule of revenue, schedule of trust money and the schedule of movements between departments, for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department on pages 76 to 109:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Department's:
 - financial position as at 30 June 2013;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2013; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2013.
- the non-financial performance information of the Department on pages 18 to 19 and 47 to 73:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

- the schedules of non-departmental activities of the Department on pages 112 to 134 fairly reflect, in accordance with the Treasury Instructions:
 - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2013 managed by the Department on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 26 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the appropriateness of the reported non-financial performance information within the Department's framework for reporting performance;
- the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. Also we did not evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflect its service performance and outcomes; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that fairly reflect those activities managed by the Department on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error. The Chief Executive is also responsible for the publication of the financial statements, and non-financial performance information and schedules of non-departmental activities, whether in printed or electronic form.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have provided assurance services over the process to select a prime contractor for the Department's Business Transformation Programme, which is compatible with the independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Department.



Ajay Sharma
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

ADDITIONAL INFORMATION

ADDITIONAL INFORMATION

This section contains statistical tables and some supporting commentary that provides additional information to the material in Parts 1 to 4.¹

MEASURING PERFORMANCE (SEE P23)

FIGURE 16 –
CUSTOMER SATISFACTION – VOICE AND CORRESPONDENCE CHANNELS²

Overall satisfaction Customer group	2010–11		2011–12		2012–13	
	Satisfied	Very satisfied	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	86%	69%	86%	69%	82%*	64%*
Individuals (overall)	84%	66%	85%	68%	79%*	62%*
Working for Families Tax Credits	88%	71%	88%	72%	90%	69%
Child support	76%	52%	75%	54%	74%	52%
KiwiSaver (employees)	87%	71%	92%	76%	83%*	75%
Student loan	85%	70%	84%	67%	71%*	58%
Business (overall)	89%	72%	86%	69%	85%	66%*
Small and medium enterprises	88%	74%	86%	70%	84%	67%
Large enterprises	89%	71%	88%	75%	85%	68%*
Tax agents	90%	71%	90%	70%	87%	68%
Not for profits	88%	71%	81%	61%	82%	60%
General public						
Contacted Inland Revenue in the last three months	81%	64%	87%	70%	86%	71%
Not contacted Inland Revenue in the last three months	78%	40%	76%	36%	76%	36%

* Statistically significant difference at the 95% confidence level between 2011–12 and 2012–13

¹ Figures in the tables may not add up to the stated totals due to rounding.

² Some prior year numbers have been restated as a weighted average, taking sample size into consideration, rather than a straight average.

FIGURE 17 –
CUSTOMER SATISFACTION – ONLINE SERVICES

Overall satisfaction Customer group	2011–12**		2012–13	
	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	95%	80%	94%	78%
Individuals (overall)	92%	75%	93%	75%
Working for Families Tax Credits	93%	76%	94%	76%
Child support	94%	80%	96%	78%
KiwiSaver (employees)	94%	75%	90%	76%
Student loan	88%	64%	91%	72%
No social policy	91%	78%	94%	75%
Business (overall)	99%	85%	96%*	81%*
Small and medium enterprises	98%	84%	95%*	81%
Large enterprises	99%	83%	99%	83%
Tax agents	100%	87%	97%	82%
Not for profits	99%	87%	93%*	77%*

* Statistically significant difference at the 95% confidence level between 2011–12 and 2012–13

** Survey was only conducted for three quarters during 2011–12

FIGURE 18 –
CUSTOMER PERCEPTIONS OF THE TAX SYSTEM³

	2010–11		2011–12		2012–13	
	Agree	Strongly agree	Agree	Strongly agree	Agree	Strongly agree
Overall fairness	81%	55%	82%	56%	83%	54%
Overall operational effectiveness	83%	59%	85%	60%	83%	56%
Makes it easy to get it right	76%	44%	79%	47%	78%	46%
Appropriate action against non-compliance	76%	54%	79%	55%	80%	54%
Paying tax contributes to New Zealand	96%	86%	96%	87%	96%	86%

FIGURE 19 –
COMPLAINTS, MINISTERIAL CORRESPONDENCE AND
OTHER CONTACTS

Contact type	2011–12	2012–13
Complaints	7,337	7,591
Ministerial correspondence	1,273	1,263
Commissioner's correspondence	288	272
Commissioner's Helpdesk	289	326
Ombudsmen/Privacy/Official Information Act	169	193
Parliamentary questions	127	499

FIGURE 20 –
REASON FOR COMPLAINTS AND MINISTERIAL
CORRESPONDENCE

Reason for contact	2011–12	2012–13
Telephone services	585	1,349
General services	4,035	4,235
Information/explanation required	1,792	1,916
Legislation	937	933
Procedures	749	689
Staff	472	405

³ Some prior year numbers have been restated as a weighted average, taking sample size into consideration, rather than a straight average.

FIGURE 21 –
CORRESPONDENCE CONTACTS

Tax type	2010–11	2011–12	2012–13	2010–11	2011–12	2012–13
	Paper			Electronic		
Income tax	426,533	405,779	343,024	470,749	517,556	461,483
GST	97,161	78,576	64,240	85,827	92,536	170,862
Working for families	30,127	29,722	25,427	23,028	27,796	34,193
PAYE	53,220	62,271	55,076	15,142	20,094	26,727
Student loan	12,111	16,261	14,568	23,876	30,502	39,750
Child support	57,381	46,478	45,423	18,303	14,825	33,593
Other tax types	136,435	145,287	129,339	26,088	24,111	25,926
KiwiSaver	10,458	8,672	9,920	21,721	27,697	35,570
Total	823,426	793,046	687,017	684,734	755,117	828,104

KIWISAVER (SEE P24)

FIGURE 22 –
KIWISAVER MEMBERSHIP (AT 30 JUNE)

Enrolment method	2011	2012	2013
Automatically enrolled	646,725	742,751	830,461
Opted in through employer	232,131	247,950	256,302
Opted in through provider	877,076	975,743	1,060,080
Total members	1,755,932	1,966,444	2,146,843
Members on a contribution holiday	63,707	83,370	101,415

FIGURE 23 –
KIWISAVER FUNDS TO PROVIDERS

Contributions from	2010–11 \$ million	2011–12 \$ million	2012–13 \$ million
<i>Members</i>			
Employee	\$1,156	\$1,322	\$1,537
Employer	\$740	\$866	\$833
Voluntary	\$16	\$16	\$23
Total member	\$1,911	\$2,204	\$2,393
<i>Crown</i>			
Member tax credit	\$664	\$799	\$455
Kick-start	\$331	\$239	\$217
Fee subsidy	–	–	–
Interest	\$5	\$6	\$5
Total Crown	\$1,000	\$1,044	\$677
Total to providers	\$2,911	\$3,248	\$3,070

COMPLYING WITH OBLIGATIONS – AUDIT AND DEBT TABLES (SEE P25)

FIGURE 24 –
COMPOSITION OF OUR DEBT PORTFOLIO (AT 30 JUNE)

Debt type (\$ million)	2011	2012	2013	One-year change	One-year change (%)
Debt under instalments	\$1,146.6	\$1,176.3	\$1,230.2	\$53.9	4.6%
Other collectable debt	\$2,663.5	\$2,582.7	\$2,561.5	-\$21.2	-0.8%
Total collectable debt*	\$3,810.2	\$3,759.0	\$3,791.7	\$32.7	0.9%
Total non-collectable debt**	\$1,711.9	\$2,157.4	\$2,186.4	\$29.1	1.3%
Total debt	\$5,522.1	\$5,916.4	\$5,978.2	\$61.8	1.0%
Income tax debt	\$2,207.8	\$2,372.4	\$2,365.7	-\$6.7	-0.3%
GST	\$1,908.5	\$1,947.2	\$1,873.9	-\$73.3	-3.8%
PAYE	\$622.6	\$642.1	\$586.8	-\$55.3	-8.6%
Student loan	\$411.7	\$512.3	\$635.9	\$123.6	24.1%
Working for Families Tax Credits	\$275.1	\$320.8	\$371.8	\$51.0	15.9%
KiwiSaver	\$19.8	\$21.5	\$22.5	\$0.9	4.4%
Other	\$76.6	\$100.1	\$121.6	\$21.5	21.5%
Total debt	\$5,522.1	\$5,916.4	\$5,978.2	\$61.8	1.0%
Penalties and interest	\$2,359.0	\$2,711.3	\$2,862.6	\$151.3	5.6%
Penalties and interest (%)	42.7%	45.8%	47.9%		
Customers in debt (total cases)	389,947	408,606	436,299	27,694	6.8%
Annual debt change (%)	7.2% ⁴	7.1%	1.0%		

Notes

*Collectable debt:

Debt cases where the assessment value is overdue and collections activity is in progress. This activity includes instalment arrangements, deduction notices, cases linked to legal actions and other manual or automatic actions.

**Non-collectable debt:

Debt cases where the assessed value is pending or in dispute and we are unable to proceed with collection activity at present. This includes cases:

- linked to investigations
- linked to objections
- pending write-off action
- with limited or no collection activity due to insolvency.

⁴ This figure is different to the 2012 Annual Report as it has been recalculated.

FIGURE 25 –
AGE OF DEBT (AT 30 JUNE)

	2011		2012		2013		One-year change	
	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases
< 1 year	\$1,377.7	220,597	\$1,254.7	224,520	\$1,245.6	221,601	-\$9.2	-2,919
1–2 years	\$1,387.7	89,063	\$1,079.1	72,219	\$901.9	84,469	-\$177.2	12,250
2–5 years	\$1,787.7	63,840	\$2,310.9	92,119	\$2,304.8	105,636	-\$6.1	13,517
5–10 years	\$653.9	15,667	\$903.0	18,569	\$993.3	22,645	\$90.2	4,076
> 10 years	\$315.1	780	\$368.6	1,178	\$532.7	1,948	\$164.0	770
Total	\$5,522.1	389,947	\$5,916.4	408,606	\$5,978.2	436,299	\$61.8	27,694

FIGURE 26 –
OVERDUE STUDENT LOAN REPAYMENTS

Overdue repayments	2010–11 \$ million	2011–12 \$ million	2012–13 \$ million
Borrowers based:			
– in New Zealand	\$122.8	\$102.6	\$100.8
– overseas	\$288.9	\$409.7	\$535.1
Total	\$411.7	\$512.3	\$635.9

FIGURE 27 –
CHILD SUPPORT DEBT (AT 30 JUNE)⁵

Child support debt type (\$million)	2010–11	2011–12*	2012–13*	One year change	One year change (%)
Penalty debt	\$1,666.0	\$1,809.5	\$2,102.3	\$292.8	16.2%
Assessment debt	\$604.5	\$642.9	\$678.3	\$35.4	5.5%
Debt under arrangement	\$1,122.7	\$1,067.9	\$1,166.6	\$98.7	9.2%
Uncollectable debt	\$310.9	\$348.6	\$390.5	\$41.9	12.0%
Not yet under arrangement	\$836.9	\$1,035.9	\$1,223.5	\$187.6	18.1%
Total child support debt	\$2,270.5	\$2,452.4	\$2,780.6	\$328.2	13.4%
Customers in debt (cases)	141,464	147,177	146,566	(611)	(0.4%)

* From June 2012, penalties charged on Australian Child Support Program cases being collected in New Zealand are included in the total child support debt figure.

⁵ Child Support debt figures do not match the figures in Part 7 because the Crown financial schedules include accruals and only show the portions of overdue debt due to the Crown, ie, penalties.

FIGURE 28 –
RECIPROCAL AGREEMENT FOR COLLECTION OF CHILD SUPPORT (AT 30 JUNE)

	Total debt cases		Debt owed \$ million		Debt collected \$ million	
	2012	2013	2012	2013	2012	2013
New Zealand cases handled by Australian Child Support Program	11,198	11,345	\$403.4	\$442.2	\$49.2	\$51.5
Australian cases handled by Inland Revenue	5,136	5,032	\$116.7	\$130.6	\$11.4	\$11.9

FIGURE 29 –
AGE OF CHILD SUPPORT DEBT (AT 30 JUNE)

	2011		2012		2013		One-year change	
	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases	Debt (\$ million)	Debt cases
< 1 year	\$72.3	52,944	\$71.5	51,710	\$71.8	51,967	\$0.3	257
1–2 years	\$106.7	23,122	\$114.7	23,332	\$115.3	21,333	\$0.6	(1,999)
2–5 years	\$353.6	31,994	\$381.5	35,667	\$409.5	34,779	\$28.0	(888)
5–10 years	\$669.5	20,503	\$678.1	22,412	\$723.8	23,240	\$45.7	828
> 10 years	\$1,068.4	12,901	\$1,206.6	14,056	\$1,460.2	15,247	\$253.6	1,191
Total	\$2,270.5	141,464	\$2,452.4	147,177	\$2,780.6	146,566	\$328.2	(611)

CAPABILITY AND EEO (SEE P42)

FIGURE 30 –
WORKFORCE INDICATORS

	2010–11	2011–12	2012–13	Public sector comparison
Staff FTEs	5,646	5,301	5,475	SSC Cap: 5,946
Staff turnover	7.4%	11.8% ⁶	11.0%	2012 public sector average: 11.4%*
Staff engagement (mean)	3.77/5	n/a**	3.78/5	52nd percentile, Gallup New Zealand state sector database 2012

* State Services Commission (2012), Human Resource Capability (HRC) Survey of Public Sector Departments (June 2012).

** We did not hold an engagement survey in 2011–12.

FIGURE 31 –
EEO STATISTICS

	2010–11	2011–12 ⁷	2012–13
Percentage of female staff	65%	64%	64%
Percentage of female team leaders	64%	62%	63%
Percentage of female managers	45%	43%	45%

⁶ 2011–12 figure restated from provisional 9.4%.

⁷ Figures restated using new methodology.

FIGURE 32 –
PROPERTY INFORMATION (AT 30 JUNE)

	2011	2012	2013
Accommodation area	121,481	100,736	101,678
Other area (m ²)	5,519	927	927
Total area leases (m ²)	127,000	101,663	102,605
Vacant accommodation (m ²)	13,862	5,571	1,003
Vacant as a % of total	10.9%	5.5%	1%
Average space per person (m ²)	18.5	17.4	17.9
Annual rental per person (\$)	5,909	5,760	5,727
Utility costs per person (\$)	857	823	799
Occupancy cost per person (\$)	6,766	6,583	6,526

FIGURE 33 –
HISTORICAL EXPENDITURE ON CONSULTANTS AND CONTRACTORS

	2010–11	2011–12	2012–13
Expenditure on consultants and contractors (\$000)	\$35,173	\$47,305	\$52,907
% of total operating expenditure	5.5%	7.0%	8.1%
% of total capital and operating expenditure	5.2%	6.5%	7.5%

FIGURE 34 –
EXPENDITURE ON CONSULTANTS AND CONTRACTORS

	2010–11 Actual \$000	2011–12 Actual \$000	2012–13 Actual \$000
Information technology	14,829	14,023	17,882
Specialist advice and project management	13,127	26,552 ⁸	29,151
HR and change management services	744	938	778
Tax issues	780	1,473	669
Property	2,936	1,964	2,074
Research	1,660	1,448	1,113
Communications	257	156	343
Other	840	751	897
Total	35,173	47,305	52,907

⁸ The increase in specialist advice and project management from 2010–11 is related to Inland Revenue's transformation programme.

Annual Report 2014



Inland Revenue
Te Tari Taake

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From the Commissioner

Welcome



Inland Revenue is making tax simpler, more open and more certain. We've made great strides towards that in the past year.

The next time you file a tax return, claim a refund, pay GST or look for information online, you will find it easier.

Businesses and customers across New Zealand have been telling us what they expect from Inland Revenue: what would save most time and cut costs, what would remove barriers, what would make it easier for people to get on with their lives while still paying their fair share of tax and claiming the right entitlements.

We have been listening and making changes that make a real difference for taxpayers. Coming years will see even more improvement as our business transformation begins to roll out.

Delivering today's services better

Our continuous improvement approach is already bringing new opportunities for New Zealanders as we prepare for major business transformation.

We are talking with software developers about building tax reporting into everyday business transactions, and with small, medium and corporate businesses about future needs. We are talking with tax agents about new relationships and support for clients as Inland Revenue simplifies tax requirements.

To deliver more seamless services for New Zealanders we're working jointly with many other agencies across government. The Better Public Services programme and Government ICT Strategy are supporting increased information-sharing that benefits customers and reduces costs.

Much has changed for the better for our customers over the past year—we celebrate these and further highlights on the next page:

- 1.8 million customers are signed up to manage their tax, file GST and make payments online through myIR secure digital services
- businesses can now register for PAYE when they incorporate online via the Companies Office: more than 2,000 companies using this service have saved \$1.2 million through time saved on compliance
- joint delivery of many government services to shared customers cuts out duplication and makes life easier
- using crowd-sourcing to identify and start work on a mobile app with great benefits for business
- public consultation on tax legislation to simplify tax laws, ensure fairness and support growth
- major court decisions which upheld Inland Revenue's position in favour of taxpayers on the long-running Sovereign case

- continuing support for the Christchurch Rebuild.

Altogether, Inland Revenue reached 85% of our performance targets—an important indication of our continuous improvements in service.

Keeping the tax field level

Our involvement in international tax matters affecting New Zealand continues to grow. We took a leading role in developing OECD responses to the global problem of “base erosion and profit shifting” (BEPS) by multinationals, and supported proposed solutions with our own legislation.

We consulted on and shepherded through legislation to ensure fairness across sectors, to simplify laws so they’re easier to understand, to remove tax loopholes, and to support growth and innovation.

While Child Support Reforms were delayed for a year, we are on track to deliver these in April 2015.

We continued to refresh our approach to debt management and encouraging compliance with tax laws. We now intervene earlier and with a range of options to prevent people and businesses falling into debt and we are examining the current penalties regime. We use sophisticated intelligence systems to tailor compliance approaches to different customer groups, and to tackle ongoing issues like the hidden economy where no tax is paid, deliberate fraud, and tax avoidance.

We over-delivered against our targets in these areas. We continue to investigate fresh ways to encourage behaviour change and make it easier for people to pay.

Together these measures are showing success. New debt has declined by more than 20% and outstanding tax returns continue to decrease. Our investigations work uncovered \$1.24 billion in tax owed.

Building a tax system for the future

We have started work on one of New Zealand’s biggest business transformations that will completely change how Inland Revenue provides service.

There will be real value for New Zealanders as we simplify and streamline the tax system, transform tax policies, business processes and customer services, and make full use of new technology to modernise the tax system.

In future, businesses will be able to manage their tax easily as part of their normal online business processes—not a separate compliance requirement. PAYE, employer monthly schedule and complicated taxes will be simplified. Relevant statistics that Inland Revenue gathers can be shared with other agencies to cut endless duplication—while privacy is still protected.

Individual customers will be able to manage their own tax and entitlements easily online at any time—and be certain they’ve got it right with rapid confirmation. Payments will be lined up with real life and coordinated across agencies.

To provide benefits as early as possible our programme will be delivered in a series of stages. We are talking with customers, businesses and providers as we design our changes so we understand and meet their needs.

Conclusion

This is an exciting time to be leading Inland Revenue. I’m proud of the differences we’re making in people’s lives. I want to acknowledge our staff who are deeply committed to excellent customer service and finding innovative ways to meet ever-changing needs.

We still have many challenges ahead but I am confident Inland Revenue has the people, the skills and the foresight to overcome them.



Naomi Ferguson

Chief Executive and Commissioner
of Inland Revenue

Highlights

**\$56.2
Billion**

Tax revenue collected

**\$1.1
Billion**

other revenue
collected

Over one million customers
have registered for our
Voice ID service.



www.ird.govt.nz – 2013

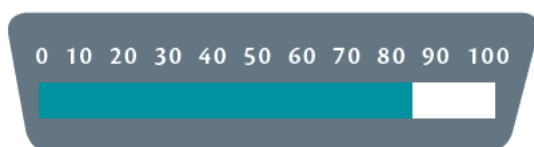
NetGuide Award's best
government website for the
seventh time in eight years.



Nearly 95% of new parents
chose to apply for an IRD
number for their baby when
they registered the birth with
Department of Internal Affairs.



We achieved 85% of our performance
targets, compared with 76% last year.



**85% of our voice and
correspondence customers
are satisfied with our service.**

TransTasman Department-of-the-year: Inland Revenue was chosen as the top-performing government department “based on [our] clear improvement in customer engagement” during the previous 12 months.



We collected total cash in relation to overdue debt of \$4.1 billion, an increase of \$752 million compared to last year.

Our specific debt initiative funded through Budget 2010 collected \$293.8 million, 54.6% more than the target of \$190 million. The return on investment was \$13.79:\$1 (target \$8.70).

Through our Budget 2012 debt initiative, we collected \$99 million of aged debt, 164% above our target of \$37.5 million. The return on investment was \$11.45:\$1 (target \$5.50).



Cabinet approved the Business Case for our change programme.



Alesco and 11 other companies agreed to an out-of-court settlement \$355.8 million in discrepancies over the use of optional convertible notes. The High Court ruled this to be tax avoidance.

PART 01

About Inland Revenue

About us

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

- 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.

At 30 June 2014 we had 5,641¹ full-time equivalent employees.

Our scope

In the tax year ending March 2013²:

- **Individuals**—about 1.15 million filed annual tax returns
- **Employers**—about 195,000 employers filed over 2.0 million employer monthly schedules with PAYE deductions for employees
- **Companies**—over 380,000 company returns were filed
- **GST filers**—630,000 registered customers filed 3.0 million GST returns.

We manage or share the administration of:

- **Working for Families Tax Credits**—we distributed, with the Ministry of Social Development, \$2.5 billion in entitlements to support working families.
- **Child support**—we collected \$449 million from 175,183 paying parents and distributed \$242 million to custodial parents.
- **KiwiSaver**—we administer the scheme by collecting contributions and transferring them to scheme providers for investment. At 30 June 2014 2.35 million people were

enrolled in KiwiSaver. We distributed \$4.1 billion to scheme providers.

- **Student loans**—we jointly administer this programme with the Ministries of Education and Social Development (StudyLink). We had 721,437 student loan borrowers and collected \$1.0 billion in repayments.
- **Paid parental leave**—we make payments, for the Ministry of Business, Innovation and Employment, to parents who take leave from their job or business to care for a baby. We made \$165 million in payments to 25,836 parents.

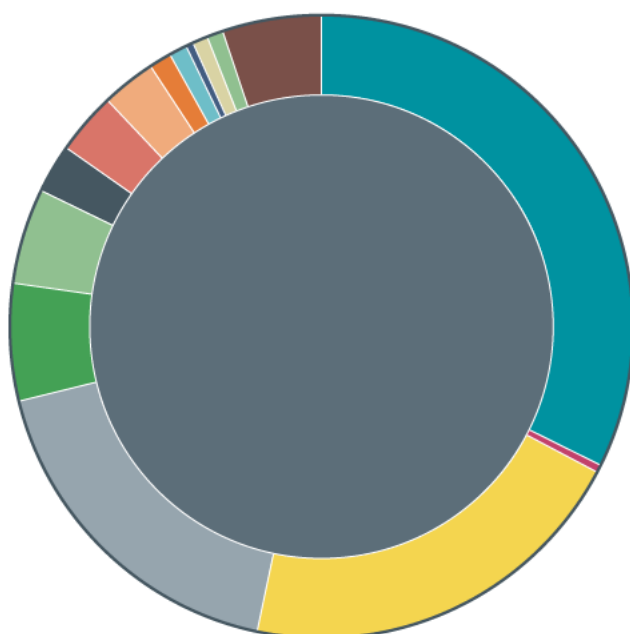
¹ Excludes vacancies.

² 2014 data not available.

Why paying tax matters

In 2013–14, Inland Revenue collected \$56.2 billion in tax revenue, which is more than 80% of the money government uses to pay for services that all New Zealanders benefit from, including healthcare, education, and law and order.

Figure 1 – Breakdown of core Crown expenses by functional classification



Actual 30 June 2013	
GSF pension expenses	\$278 million
Housing and community development	\$283 million
Environmental protection	\$530 million
Other	\$603 million
Primary services	\$659 million
Heritage, culture and recreation	\$804 million
Defence	\$1,804 million
Economic and industrial services	\$1,978 million
Transport and communications	\$2,255 million
Law and order	\$3,456 million
Finance costs	\$3,619 million
Core government services	\$4,294 million
Education	\$12,504 million
Health	\$14,498 million
Social security and welfare	\$22,741 million
Total core Crown expenses (excluding losses)	\$70,306 million

Figures from the Treasury's financial statements.

Our tax system is broad-base and low-rate

An effective tax and social policy system comprises good policy settings plus good administration. Both are needed to have an efficient, functioning system. A well-functioning tax system supports a more competitive and productive economy and helps the Government achieve its fiscal, economic and social objectives.

Most of New Zealand's tax revenue is from three tax bases (personal tax, company tax and GST). All have broad bases, allowing substantial amounts of tax to be collected at modest tax rates.

Where we're going

We set out our long-term intentions in our guiding document *IR for the future*. It describes our role, outcomes and goals for the future.

Figure 2 – *IR for the future* – What we want to be

What we want to be

A world-class revenue organisation recognised for service and excellence

We work with customers and other organisations to make compliance easy and to give New Zealanders confidence that everyone pays and receives the right amount.

To be recognised for service and excellence we aim to achieve the performance goals that define a world-class revenue organisation. These are:

> Speed > Certainty > Compliance > Value

Our strategic intentions

Our strategic priorities referenced in our 2013–16 *Statement of Intent* are:

- We retain, develop and attract high-calibre people with the skills required in the future—enabling a culture of service and excellence
- We proactively influence voluntary compliance and address the causes of compliance risk and threats through a range of interventions
- We move customers to cost-effective channels while creating an environment to make it easy for customers to self-manage
- We improve the efficiency and effectiveness of government through working with other agencies and private providers
- We use our information to make timely decisions and build an intelligence-led organisation
- Our systems meet current and future needs.

The above priorities will help us make progress in relation to our three main areas of focus:

- Implementing our transformation change agenda

- Contributing to government policy and priorities
- Delivering and improving our core business, including enhancing the customer experience.

Our financial performance

Our operating budget for the 2013–14 financial year was \$744.2 million, an increase of \$59.3 million compared to the previous financial year. Most of this increase was for Business Transformation and funding for reform of the Child Support Scheme.

Actual expenditure was \$44.7 million (6%) under budget. A significant portion of this (\$16.8 million) will be transferred to 2014–15 for work on the child support legislative initiative, Budget 2013 legislative initiatives and information technology mainframe services. These were planned to be undertaken in 2013–14 but will now occur in 2014–15.

Since the Operations Management programme started in March 2011, we have produced capacity savings equivalent to \$17.9 million (\$3.2 million above target).

Our tax and social policy settings were designed to work well within our existing revenue collection system, FIRST. We have delivered major initiatives during the past decade through modifying and developing systems, manual interventions and workarounds. By doing this, we've added layers of complexity and risk to our business processes and core technology infrastructure.

We're committed to delivering our services today and tomorrow and recognise that we need to change. So, we're transforming Inland Revenue to achieve the goals in *IR for the future*. This work will:

- make it easier for our customers to pay tax, meet their social policy obligations and receive their entitlements

- increase certainty for our customers
- increase the efficiency of our debt collection
- reduce compliance and administration costs
- support all-of-government goals
- ensure the integrity of our tax system
- allow faster implementation of government policy.

PART 02

How we help you

Making it easy to pay tax and receive entitlements

We aim to make it easy for our customers to manage their tax obligations and entitlements by providing information, assistance and tools so they can do it for themselves.

We asked our customers how we could improve our services and how tax could be simplified. We made changes to our website so customers can easily find the information they need and know how to contact us when they need to.

We provided new ways of giving customers information. We created five new “how-to” YouTube videos to help customers understand income and provisional tax, business expenses, business structures, depreciation and how to register for GST. These videos are also available in sign language and Te Reo. We made a “getting it right” video to help our customers who are closing their businesses.

We started work to enhance our eAlerts service, to notify customers when GST statements and notices appear in their myIR accounts.

You can view our videos at:
www.ird.govt.nz/help/demo/intro-bus-vids



Voice ID

We reached the goal of one million registrations for our voice ID service this year. Callers save up to a minute of time by not having to answer personal security questions to verify their identity. Voice ID complements our online services because customers can reset their online password by phone at any time.

App4IR Challenge

We held a competition to find an innovative mobile app so small businesses could interact with us more easily. The winners of the App4IR Challenge, Matt Innes and Josh Lee, are working with us to develop their idea.

Savetime campaign

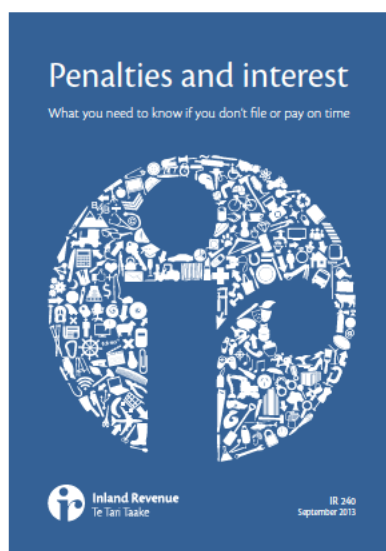
In May 2014 we ran a Savetime campaign in Hawkes Bay, asking small-business owners to rank six improvements we could make to save them time. We asked for other suggestions on what else we can do to help them.

We targeted 70% of small businesses in Hawkes Bay with our advertising. The campaign was promoted through our website and other business channels. We received over 1,400 submissions and around 300 individual suggestions for ways to save time. The Taxpayers Simplification Panel and our Business Transformation programme will use this feedback to inform the prioritisation, development and delivery of changes that benefit small-business customers.

Taxpayers Simplification Panel

We set up a Taxpayers Simplification Panel to give New Zealanders an active voice in simplifying, modernising and transforming the way we pay tax. Owners of small to medium-sized businesses and individuals make up the panel. The panel will evaluate customer feedback from our Savetime campaign and our customer research.

Ensuring that our customers are satisfied with our services contributes to voluntary compliance. In 2013–14, 79% of customers thought we made it easy to get it right, and 82% of our customers were confident that we were fair.



Our customer information guides won the “Best Plain English Turnaround” category at the WriteMark 2013 Plain English Awards. The rewritten guides presented clear and customer-focused tax information.

Helping student loan borrowers manage their loans

We made improvements to make it easier for student loan borrowers to manage their loans. Our new online calculator shows borrowers how much they need to repay, how long it will take to repay their loan in full and how making extra repayments can help them pay their loan faster.

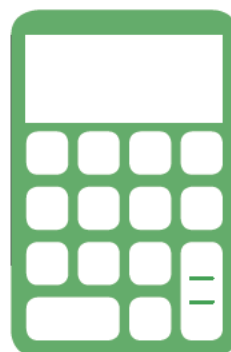
We made it easier for overseas-based borrowers to repay their loans by removing fees for their payments.

Working with KiwiSaver scheme providers

The overall KiwiSaver membership has continued its steady increase during the last year. There are now 2.35 million members in KiwiSaver. We have continued to share a productive working partnership with KiwiSaver scheme providers. This year Inland Revenue transferred \$4.096 billion to scheme providers on behalf of members, an increase of 33% on the previous year.

Privacy

Inland Revenue is committed to ensuring that customer information is protected. Any personal information that is provided to us will be kept for as long as necessary to achieve the purpose we collected it for. For information about privacy breaches, see the Additional Information section.



Providing customers with certainty

Tax and social policy can be difficult to understand. We continued to make it easier for customers to understand their obligations by providing education and assistance in the community, and certainty through interpreting tax and social policy laws and their application.

Growing community contact

Our community compliance officers were out and about in the community at 118 mobile office sites through the year. This meant fewer customers needed to travel to see someone in a branch office. We delivered 3,858 seminars, expos, workshops and appointments, which involved 41,896 customer contacts.

We told our customers about activities that could result in us taking a closer look at their business practices, and followed this up with a booklet giving small and large enterprises clear information about their tax obligations.

Interpreting the law and clarifying its application

We provided certainty by issuing binding rulings for taxpayers with specific transactions, public rulings and statements. We reviewed tax disputes to ensure that we applied the law correctly, which gives taxpayers confidence in the integrity of the tax system and helps them meet their tax obligations.

We finalised 27 public rulings and statements, which included a significant Interpretation Statement clarifying the tax residence rules and two public rulings on the tax treatment of some standard terms in Public Private Partnership contracts.

Understanding what influences customer behaviour

We have a compliance model that helps us design strategies and interventions to facilitate customer compliance. We are redesigning the model to provide us with a more comprehensive view of the factors that influence customer behaviour. The additional factors reflected in the new model will relate to customers' capabilities, motivation and opportunities. Understanding customer behaviour makes it easier for us to design more effective approaches to improve compliance.

Updating tax and social policy laws

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An important part of our approach to the development and review of tax policy is public consultation. This provides greater transparency of our policy-making process, and allows us to listen and respond to New Zealanders, tax professionals and associations.

During the year we worked on six tax and social policy-related bills, which are now enacted. The bills focused on:

- tightening laws to ensure fairness
- simplifying the law to make it easy to understand
- supporting growth and innovation.

Tightening laws to ensure fairness

The Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Act 2013 included changes to ensure fairness in the tax system. These included tightening the tax rules for assets like holiday homes, boats and aircraft used by the owners privately and to earn income. It introduced new rules for the disposal of herd scheme livestock to prevent some farmers switching between the two main livestock valuation methods to receive an unfair tax advantage.

The Student Loan Scheme Amendment Act 2014 introduced tougher ways to deal with overseas-based student loan borrowers who continually refuse to make repayments. It introduced higher repayment obligations for overseas-based borrowers so they pay off their loans sooner. For more information see *Child support and Student loan debt* on pages 24–25.

We developed the policies in the Taxation (Annual Rates, Foreign Superannuation, and Remedial Matters) Act 2014. This simplified the rules for taxing foreign superannuation interests, making it

easier for people to understand and comply with their obligations. It aligned the tax treatment of certain mineral miners with other taxpayers to make the rules fairer in this sector.

Simplifying the law to make it easy to understand

The Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Act 2014 introduced practical rules to make it easier for businesses and other taxpayers to understand their tax obligations. It included ways to give businesses more certainty about how to apply employee allowances, such as employer-provided accommodation and other payments made to employees to reimburse them for expenses. It helps businesses understand what is taxable and what is not. Changes to the thin capitalisation rules³ are intended to protect our tax base by ensuring that offshore companies with New Zealand subsidiaries pay their fair share of New Zealand tax.

The financial reporting obligations for some medium-sized companies have been simplified following changes introduced by the Financial Reporting Act 2013. This act came into effect on 1 April 2014 and means lower compliance costs for most companies with annual revenue between \$2 million and \$30 million.

We have also clarified GST rules and various other tax rules to make them easier for people to understand and apply.

³ The thin capitalisation rules are part of New Zealand's international tax rules and are designed to protect our tax base by limiting how much debt foreign companies can allocate to their New Zealand investments. The use of debt is one way that non-residents can use to take profits out of New Zealand by claiming a deduction for the interest they pay on this debt. This reduces the amount of tax they have to pay here.

Student loan redesign project

We completed an extensive programme of work to implement changes to the administration of the student loan scheme. This was the result of legislative amendments and included significant changes to our systems.

Supporting growth and innovation

Changes have been made to help support business growth and innovation by clarifying and removing distortions in the previous rules. The new rules clarify what is able to be deducted for certain company running costs and money spent on abandoned applications for patents, resource consents and plant variety rights. We have removed some distortions relating to Research & Development to encourage businesses to undertake these activities.

Implementing changes to the child support scheme

We have delayed implementing changes to the child support scheme. The changes relate mainly to new payment formulas. The complexity of these changes and flow-on effects for our IT systems contributed to delaying the implementation by a year, from April 2014 to April 2015. The Government requested the delay in December, and Parliament legislated the deferment in the Taxation (Annual Rates, Foreign Superannuation, and Remedial Matters) Act 2014.

As a result of the delay, we commissioned an independent review of the way we had managed the project. In March, external consultants produced a report examining the reasons for missing the original implementation date, as well as assessing

the feasibility of the new implementation date. The report concluded the revised date was achievable. It also made a number of recommendations, which we accepted and are putting into effect. The recommendations covered:

- project governance arrangements
- planning
- forecasting and change control
- project team structure
- reporting
- stakeholder management.

Our contribution in helping to address international tax issues

Base erosion and profit shifting⁴ by multinationals is a global problem. Over the past year we have strengthened our involvement in international tax through the OECD-led work programme. The G20/OECD Action Plan was released in July 2013. The first set of proposals is expected around the time of the G20 Finance Ministers' Meeting in September 2014.

On 1 March 2014 the Multilateral Convention on Mutual Administrative Assistance in Tax Matters took effect. This was approved by New Zealand in November 2013. The convention allows us to request information and assistance from other tax authorities to collect outstanding debts from tax evaders who move overseas.

⁴ Base erosion and profit shifting (BEPS) refers to tax planning strategies that exploit gaps and mismatches in tax rules to make profits "disappear" for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low resulting in little or no overall corporate tax being paid.

The United States requires information to be shared with it on relevant financial transactions under its Foreign Account Tax Compliance Act (FATCA). This US law is aimed at reducing international tax avoidance by its citizens. New Zealand and the United States entered into an intergovernmental information-sharing agreement to minimise costs to New Zealand financial institutions complying with FATCA.

Three new double tax agreements (DTAs) came into force during the year. DTAs help encourage growth and promote cross-border trade by preventing businesses and individuals from being taxed twice on income earned. They are important in helping authorities prevent tax evasion and avoidance. DTAs that came into force were with Japan, Papua-New Guinea and Viet Nam.

New legislation included:

- The Taxation (Livestock Valuation, Assets Expenditure, and Remedial Matters) Bill, introduced in September 2012, enacted in July 2013.
- The Student Loan Scheme Amendment Bill No 3, introduced in August 2013, enacted in March 2014.
- The Taxation (Annual Rates, Foreign Superannuation, and Remedial Matters) Bill introduced in May 2013, enacted in February 2014.
- The Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill introduced in November 2013, enacted 30 June 2014.
- The Budget Measures (Miscellaneous Fiscal Matters) Bill and the Budget Measures (Financial Support for Newborn Children) Bill, introduced on 15 May 2014 as part of Budget 2014, resulting in the Cheque Duty Repeal Act 2014 and the Taxation (Parental Tax Credit) Act 2014.

Our response to people who don't file and pay on time

We try to make it easy for people to pay the right amount on time. Most people do this and they expect us to take action against those who don't. When people don't file and pay, the government has less money for the things we all need.

Filing returns and making payments on time

We encourage people to file their returns and pay on time. Two key payment dates are 7 February and 7 April. Payments for outstanding income tax, student loans and Working for Families Tax Credits fall on these dates. Customers using a tax agent have until the later date to pay. We sent more than 37,000 letters and more than 100,000 text messages to remind individuals and businesses of these deadlines.

After each deadline passed, we ran a direct-contact campaign to follow up on those who had not paid. By 30 June 2014 we had resolved 86.2% of the amount overdue at 7 April compared with 83.9% last year. For those with the 7 February payment date, the result was 58.1%, compared with 57.6% last year.

The number of outstanding returns continued its year-on-year downward trend, falling 7.1%. This was helped by concentrating on high-value outstanding returns from companies, which often involve large amounts of tax. Our target was to achieve assessed value of \$14 million. The year's result was more than seven times above this, at \$105 million. The return on investment was \$19.64:\$1 (target: \$2.90).

This year we received (relating to the 2012 tax year):

- 7.3 million returns for PAYE, GST and income tax of which 83% were filed on time.
- 4.5 million payments of which 86% were paid on time.

Tax debt

Collecting and reducing tax debt

We know that when people and businesses fail to file their tax returns on time, they may struggle to pay their tax on time. Early action to get them to file their returns helps us to work with them to meet their payment obligations.

We aim to minimise debt, maximise debt recovery and deal effectively with uncollectable debt.

This year, there has been a relatively small growth in the total overdue tax debt, although the rate of increase is slightly higher than last year. Total tax debt is \$6.2 billion, which is an increase of 4% from 2012–13. Penalties and interest charges continue to increase debt and were \$3 billion of the total tax debt outstanding. The older the debt, the higher the ratio of penalties and interest to debt.

Our overall cash collections result improved this year. We collected total cash of \$4.1 billion, an increase of \$752 million compared to last year. 69% of total cash collected came from making direct contact with people and businesses in default.

Collecting debt early

We focused on collecting newer debt, which resulted in over 565,000 cases being resolved during the year. We resolved 66% of overdue debt cases within three months of opening. The amount of debt up to two years old has declined. It was \$2.88 billion in 2010 and \$2.24 billion at 30 June 2014, a drop of 22.6%.

Managing older debt

Overdue debt more than two years old increased from \$2.26 billion in June 2010 to \$4 billion in June 2014. 76% of this growth occurred by June 2012, which included some large cases and student loan overseas-based borrower debt. From June 2012, the main driver of the increase was penalties and interest charges.

Our Budget 2012 debt initiatives helped slow the growth in aged debt value. The value of debt aged over two years increased by \$173.8 million this year, compared to \$248.1 million last year. More than half of the aged debt increase from June 2010 relates to debt more than five years old where penalties and interest account for more than the principal of the debt.

Specifically funded compliance programmes

We received funding to carry out initiatives to improve collection of outstanding returns and overdue debt.

New collection initiatives have enabled us to intervene early with customers who have newer debt and we follow up with customers who fail to keep up instalment plans as soon as they default. These initiatives have produced extremely good results. During the year we collected \$293.8 million, 54.6% more than the target of \$190 million. This result was 12.5% higher than last year's. The return on investment was \$13.79:\$1 (target \$8.70).

Penalties and interest

We have started reviewing the implications of our penalties and interest regime, particularly its effect on compliance. Customers are more likely to pay their debt if we contact them early, and before penalties and interest become larger than the original debt.

We realise that sometimes payments or returns are late for a reason. This is why we have measures in places such as:

- grace periods, which means that people who normally meet their obligations are not penalised unfairly
- instalment plans
- remission/relief from penalties and interest in limited circumstances.

We charge late filing or payment penalties and interest consistently. Penalties and interest can quickly add up, so it's important that we encourage people and businesses to file and pay on time. When they don't, we aim to get them into an instalment plan as soon as possible after they miss a filing or payment date.

We reviewed how we apply penalties and interest to debt⁶, particularly non-collectable debt. This is a growing proportion of overall debt. Any changes to the way we apply penalties and interest will require legislative change.

Penalties and interest charged as at 30 June 2014 was \$3 billion, which is 48.1% of the total overdue debt. At June 2013, penalties and interest was \$2.9 billion and 47.9% of the overdue debt.

This year, 80.7% of penalties and interest is linked to cases aged two years or over. Last year, 79.4% of penalties and interest was linked to debt cases aged two years and over. This shows the continuing debt growth caused by penalties and interest and the impact of our focus on new debt.

⁶ Excluding child support debt.

Child support and student loan debt

Child support debt

We collect child support from liable parents and distribute these payments to custodial parents. This year, we collected \$449.5 million and forwarded \$241.6 million to custodial parents⁷.

There are 136,000 child support customers in debt, down 7% on a year ago. However, the total dollar amount overdue was up 9.6% at \$3.05 billion driven by penalties. Penalties charged on child support debt increased by 12.4% from last year and represent 77.6% of the total debt.

We have been successful in dealing with new child support cases before debt and penalties begin to accumulate. We have resolved 75.5% of new cases within 12 months. This compares to the previous year's result of 67.5%. We have increased our focus on liable parents living overseas who are not paying their child support debt.

About two-thirds of overseas-based liable parents who are not meeting their child support obligations live in Australia. We renewed our agreement with the Australian Department of Human Services (ADHS) to assist in the collection of child support. We collected \$50.2 million with the assistance of ADHS. This compares to the previous year's result of collecting \$51.5 million.

We are using tracing information from the ADHS and a commercial collection agency to make direct contact with Australian-based liable parents from New Zealand. We also used the debt collection company to collect debt directly from liable parents. We are using a similar approach in the United Kingdom. Passport details supplied by the Department of Internal Affairs under an information-sharing agreement have aided our efforts.

We began taking legal proceedings directly from New Zealand to recover money from more resistant New Zealand-liable parents in Australia. We have received positive judgment for two cases and are lodging these with the Australian courts.

We contacted liable parents who have recently left the country to remind them of payment dates to prevent them getting into debt. Of those contacted, 70% paid by the first due date.

Overdue student loan repayments

As at 30 June 2014, we had 110,000 borrowers with overdue payments⁸. Of these 74% were overseas. The total overdue amount was \$769.4 million, 89% of which was owed by overseas-based borrowers.

To target overseas-based borrowers we began an initiative in November 2010 to contact borrowers and remind them of their obligations and current position. We continued to issue more notices to overseas-based borrowers to help reduce the potential for default.

We are adding a fifth provider to our fee-free payment channels to make it easier for borrowers to keep up with repayments. This direct debit option will be available in Australia early in the next financial year. This year we received \$33.5 million of payments from free payment channels.

Many overseas-based defaulters live in Australia. We used a commercial company to help bring in payments, which totalled \$6.7 million from 1,782 borrowers during the year.

We launched an online advertising campaign to encourage overseas-based borrowers to meet their obligations. The campaign began in June 2014 and runs for 12 months.

In March 2014 changes to the student loan scheme made it a criminal offence for borrowers living overseas who are in default to knowingly fail or refuse to make reasonable efforts to pay. The legislative

⁷ The balance is collected for the Government as an off-set for custodial families supported through the benefit system.

⁸ Overdue amounts are any unpaid amounts where the due date for the amount is passed and may include late payment interest.

For more information on the student loan scheme, please read the Student Loan Annual Report available at www.educationcounts.govt.nz

changes allow us to request an arrest warrant for persistent defaulters returning to or leaving the country. Other changes have allowed us to increase repayments from compliant overseas-based borrowers, obtain the contact details of any borrower from third parties, and align the treatment of student loans with those of other tax types.

How we take action against those who try to avoid paying their tax

Our investigators use risk assessments and intelligence to identify potential non-compliance by individuals, companies and sectors of the economy. The immediate goal is to uncover undeclared or under-declared income. The wider goal is to strengthen public confidence in the tax system and encourage voluntary compliance.

We also investigate complicated areas of tax law that can allow taxpayers to put in place complex arrangements to reduce the tax they pay. Disputes about such arrangements can end up before the courts. Disputes usually focus on the difference between the tax position filed by a taxpayer and the position determined by our investigators. We call this difference a discrepancy. We identified discrepancies during the year of \$1.24 billion⁹. The overall return on investment was \$8.00:\$1 (target \$7.70).

Aggressive tax planning

Work to counter aggressive tax planning contributed \$539.8 million toward the total discrepancies result. Of this, \$414.2 million came from work examining complex finance and trust losses. This produced a return on investment of \$62.40:\$1 (target \$11.40).

The most significant contribution came as a result of an out-of-court settlement with Alesco New Zealand Limited over its use of optional convertible notes, which the courts had ruled to be tax avoidance. Eleven other companies agreed to be bound by the outcome of the Alesco action because of their similar use of optional convertible notes. Alesco and the other companies agreed to discrepancies of \$355.8 million.

The hidden economy

We set a target of identifying discrepancies of \$44 million in the hidden economy. We exceeded that target by \$5.8 million. Areas subjected to greater scrutiny included the hospitality, construction, inbound tourism and independent contracting sectors. The return on investment for this initiative was \$5.51:\$1 (target \$5.00). We supplemented investigations work with seminars, compliance checks and providing online tools to ensure more people in these sectors declared all income.

⁹ We do not necessarily collect the amount in question because assessments often relate to loss adjustments and future values.

Property

Property is another sector where short-term trading and other speculation produces undeclared or under-declared income. We identified discrepancies during the year of \$52.4 million. At the end of four years we identified discrepancies for the Budget 2010-funded programme of \$195.1 million¹⁰. The target was \$180 million. The return on investment was \$7.88:\$1 (target \$6.80).

We concentrated on identifying developer speculation, particularly in Auckland and Queenstown, and examining residential property sales. We visited 2,500 property industry participants and other interest groups to increase awareness of tax-related responsibilities. We monitored about 26,000 properties and property-related assets.

Fraud

We identified fraud-related discrepancies totalling \$10.4 million (target \$10 million), a return on investment of \$3.73:\$1 (target \$3.10) for this Budget 2012-funded work. Most discrepancies were connected with Working for Families Tax Credits or personal tax summaries, and involved improper use of documentation or obtaining a financial gain which the taxpayer was not entitled to.

Legal action

The Court of Appeal upheld the High Court finding against Sovereign over certain financial reinsurance arrangements. A 2012 High Court judgment found Sovereign had not given the right tax treatment to reinsurance arrangements with three reinsurers. A subsequent leave to appeal request to the Supreme Court against that finding was rejected, leaving Sovereign with a tax liability of up to \$90 million (\$47.5 million tax plus interest). The result is important in defining the boundary between insurance and financial arrangements and the tax treatment applicable to each.

During the year, we completed 74 prosecutions for tax evasion or knowledge offences.¹¹ This compared with 92 last year. The decrease was related to the timing of cases before the courts. At 30 June 2014, there were 89 such cases pending.

¹⁰ To the year ended 30 June 2014.

¹¹ Knowledge offences relate to knowingly breaching a tax obligation, such as deliberately not keeping legally required books and documents, or not providing information.

PART 03

How we work with other agencies

Better public services

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We are increasingly working with other government agencies to build better public services that are more innovative, open and responsive, and offer “joined-up” services for customers.

Inland Revenue is supporting a number of cross-agency initiatives through the Government’s Better Public Services programme. We are continuing to contribute significantly to the achievement of Better Public Services Result areas 9 and 10. We also contribute to a third, result 7.

Result 9—New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business

Result 9 roadmap and blueprint

We worked with other agencies to develop the Result 9 Roadmap and Blueprint. These documents describe the future development of government services for business to 2023. This approach was endorsed by Cabinet in July 2014.

Employer registration

We worked with the Companies Office to develop a new digital service to help New Zealand companies register with the Companies Office. The Integrating Employer Registration service gives new companies the option to electronically register with Inland Revenue as an employer at the same time.

New Zealand Business Number (NZBN)

Inland Revenue contributed to the design of the New Zealand Business Number initiative and supported the Ministry of Business, Innovation and Employment (MBIE) in developing its business case. The New Zealand Business Number is a unique number, assigned to each New Zealand business to make it easier to interact with government agencies and other businesses. The number will make a big difference to compliance time and costs for businesses. We will work with MBIE to incorporate the NZBN into our Business Transformation programme.

Result 10—New Zealanders can complete their transactions with government easily in a digital environment

Result 10 blueprint

We worked with other agencies to develop the blueprint outlining the approach to achieving 70% of common transactions being completed digitally by 2017. This was endorsed by ministers as government policy for digital services in July 2014.

Digital registration for immigrants

We worked collaboratively with MBIE to develop a business case that looked at creating a service for new immigrants that integrates digital registration for an IRD number with their digital visa application. This is now being considered as part of our Business Transformation programme.

IRD numbers for newborns

From 1 July 2013, parents of newborns can apply for an IRD number for their child by ticking a box on the Department of Internal Affairs (DIA) birth registration form. Since we signed the agreement over 48,000 people—that’s nearly 95%—have used this service. This new, paper-based service means parents no longer need to duplicate details on separate forms to access social policy entitlements or open a child’s bank account. DIA is looking at moving this application process online.

Result 7—Reduce the rates of total crime, violent crime and youth crime

We have worked with the New Zealand Police to implement an Approved Information Sharing Agreement to allow a reciprocal sharing of Inland Revenue information with the Police in relation to serious offences. We signed this agreement in June 2014 and it comes into effect on 22 September 2014. It assists with the prevention, detection, investigation, or use as evidence of a serious crime.

We continue to manage the systems that run our core tax and social policy systems to a level that meets our commitments to New Zealanders, as well as ensuring that technology and information remain safe.

All of Government ICT

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We are investing in our ICT systems and infrastructure to provide better, smarter and more cost-effective services. Through the year we have taken advantage of the all-of-government services, in particular Infrastructure as a Service and Storage as a Service.

We are simplifying our technology environment and taking advantage of externally provided common and repeatable services. We will continue to take advantage of these services where it makes sense to do so.

In October 2013, we signed an agreement with Unisys to buy a mainframe service to replace an ageing mainframe platform. This service will provide Inland Revenue with the necessary continuity of core tax and social policy systems while we transform. Our initial plan was that this would be operational before our 2013–2014 peak season. We decided to reschedule this implementation until November 2014 to ensure successful implementation outside our peak period.

We share and match information with other agencies

People tell us it's not easy dealing with different government agencies over the same thing. We have been working to fix this. One way is collecting information once and sharing that information with other agencies. Information sharing and matching is important because it reduces duplication of processes and saves our customers time.

Sharing information between agencies allows us to check whether customers are paying what they need to and getting what they are entitled to. We are continuing to work with other agencies to develop approved information sharing agreements, in particular those related to welfare, business and serious crime.

Over the past year we signed six Memoranda of Understanding with other government agencies. This has enabled us to reduce duplication of some activities for some customers.

Department of Internal Affairs (DIA)

We developed an information-sharing agreement with DIA to share the contact details of overseas-based child support liable parents and student loan borrowers who apply to renew a passport. This agreement came into effect in October 2013.

We have an information-matching agreement with DIA. This allows us to follow up on defaulters living overseas when they apply to renew their passports. We were able to collect \$6.7 million from 1,501 defaulters through this arrangement, which came into effect in October 2013.

We have been working with DIA to establish a new information-sharing agreement regarding overseas-based student loan borrowers who are not in default, but whose contact details seem to be out of date. This will take effect in August 2014. For details on this agreement, please see the "Additional Information" section.

Your privacy and sharing agreements

We take customers' privacy seriously when we share information.

Full details of our sharing agreements with New Zealand Police and the Department of Internal Affairs are available on the "About Us" section of our website www.ird.govt.nz

New Zealand Customs

In July 2013, we started a new information match with the New Zealand Customs Service. Now we get an alert when persistent student loan defaulters return to New Zealand. Using this information we made contact with 1,095 student loan borrowers in default and collected \$3.1 million from 471 borrowers during the year. We began taking court action from New Zealand to obtain judgment against Australian-based borrowers in default. Legal action against United Kingdom-based borrowers resulted in payments of \$1.3 million.

Ministry of Education

We signed an agreement with the Ministry of Education to help deal with the problem of people in serious default on their student loans.

Ministry of Social Development (MSD)

We have been sharing information with MSD since March 2013. We identified all working-age beneficiaries who also have employment income. At 30 June 2014 over 6,000 benefits had been cancelled because the person was not entitled to them, with just under 5,000 benefits identified as being overpaid (valued at \$47.7 million), and 30 benefits identified as being underpaid (valued at \$32,000).

We also identified 67 instances of suspected benefit fraud. These were referred to MSD.

Integrated services with other government agencies

Shared services with DIA

We completed a project to put in place a shared financial management information system with DIA. We also now provide other financial services for DIA, including accounts receivable, accounts payable and bank reconciliations. The project went live in three stages:

- trust accounts—November 2013
- Crown financial services—April 2014
- Departmental financial services—1 July 2014.

Sharing offices with other government agencies

We continued to reduce property overheads to lower our running costs. This year we made the best use of existing office space through sharing offices with other government agencies where possible. Options taken up this year included sharing with the Ministry of Education in Rotorua and with DIA in Dunedin and Invercargill.

Helping rebuild Christchurch

Inland Revenue has continued to contribute to the rebuilding and recovery of Christchurch, which is a Government priority. Our work in the reconstruction falls into three categories:

- compliance
- social recovery
- working with other agencies to deliver coordinated and innovative services.

Unique compliance initiatives required

The rebuild has created an environment with unique compliance risks associated with increased cash payments. We have identified and addressed risks as they arise to help ensure that the Government receives the appropriate revenue from the considerable investment in rebuilding Christchurch. This has included focusing resources to ensure GST and PAYE obligations are met, especially by new businesses. We strengthened local relationships with industry associations, funding distributors, insurance companies and government agencies. With MBIE, we increased migrant workers' and their employers' awareness about their tax obligations.

Our people working on social recovery

Some of our people worked as earthquake support coordinators to provide government agency support to Cantabrians. We continued to provide additional support to our own Christchurch people and worked with other government agencies to support the government sector in Christchurch.

Working with other agencies in Canterbury

We continued to work with the Canterbury Earthquake Recovery Authority and other agencies in various forums to support the overall reconstruction effort. This included planning for the Public Sector Precinct.

We also worked with MBIE and the Christchurch Central Development Unit in the procurement process for big government-funded projects.

We continue to work with other agencies to investigate co-location opportunities as they arise.

Evaluating work in Christchurch

Inland Revenue is leading a long-term study of the impacts of the Christchurch earthquakes on small and medium enterprises (SMEs). The study looks at compliance behaviour, tax debt, potential hidden economy activity, and how Inland Revenue's responses influenced SME behaviour. This study began in 2012 and results can be found on our website www.ird.govt.nz under the Research and Evaluation section of "About Us".

Over the past year we have been involved in an evaluation of the immediate and long-term economic effects of the Christchurch Rebuild. We are also involved in research into the Christchurch Rebuild Workforce—understanding their characteristics and compliance challenges. This research will enable us to assess the impact the rebuild has on our revenue streams.

PART 04

How we are transforming

We have started work to change the way we deliver our services. Our Business Transformation programme is our key mechanism to achieve the long-term change required to create our new modern revenue system. At the same time, we're making everyday improvements that help us keep pace with New Zealanders' diverse needs and expectations for an efficient tax administration.

Our challenge is to create a modern revenue system that makes managing tax easier and faster for customers, that is able to implement government policy changes with greater agility and that delivers better value for New Zealand. This means providing services that are cost-effective, digital by default and the product of agencies working together with the goal of making it easier for the customer. This also supports the Government's Better Public Service Results 9 and 10.

Inland Revenue is responding to this challenge by planning changes that will overhaul the entire organisation and how it works with the wider revenue system. This includes:

- how we administer tax policy
- the services we provide
- the way customers interact with us
- the systems required to support our future direction.

Our plans take into account Inland Revenue's portfolio of tax and social policy products, and New Zealanders' expectations that we will keep pace with their diverse and changing needs.

Cabinet confirmed our business case for change

During the past few years, we have been in the planning phase of our Business Transformation programme. In late 2013, Cabinet confirmed the case for change and the need for investment, and agreed to modernise the revenue system through a business-led, technology-enabled transformation programme. We achieved these key milestones for engaging a

strategic programme design partner:

- received expressions of interest from potential providers
- completed a "competitive dialogue" process with the two providers we selected to progress to the next stage
- issued a Request for Proposal (RFP) for the design phase.

The Business Transformation programme's investment objectives are as follows:

- improving agility so that policy changes can be made in a timely and cost-effective manner
- delivering more effective services to improve customer compliance and help support the outcomes of social policies
- improving productivity and reducing the cost of providing our services
- improving the customer experience by making it easier and simpler for our taxation and social policy customers
- increasing the secure sharing of intelligence and information across government to improve delivery of services to New Zealanders and improve public sector performance
- minimising the risk of protracted system outages and intermittent systems failure.

Cabinet also confirmed our programme roadmap. The programme roadmap was developed as a plan to deliver the Business Transformation programme in a number of steps and enables the Government to make investment choices throughout the life of the programme. The roadmap's four stages are:

Stage 1: Enabling secure digital services—to enable the majority of customers to self-manage and reduce businesses' compliance burden in fulfilling their PAYE obligations.

Stage 2: Streamline income and business tax processes—this will leverage the foundations delivered in the previous stage and further reduce businesses' compliance burden to fulfil their tax obligations.

Stage 3: Streamline social policy delivery—this will improve the delivery of the social policies that Inland Revenue administers.

Stage 4: Complete delivery of the future revenue system—this will include transitioning any remaining tax and social policies to a new platform, and decommissioning technical platforms that are no longer required.

We started work on business cases for further investment decisions. The first business cases will seek approval for the scope of the design phase, and for initiatives aimed at improving our digital services.

Getting ready for change

Since approval of the Programme Business Case in March 2014, we have been undertaking further work. This has included:

- strengthening our governance frameworks
- establishing core programme management capabilities and delivery methodologies
- mapping the current state processes, and undertaking a detailed assessment of all current state technology, in preparation for transition to new processes and systems
- developing personas and scenarios to show how customer experiences will change, and developing a future state architecture
- assessing what our systems and people currently deliver, what needs to be changed, and the order in which to make those changes

Stage 1

Stage 1 focuses on modernising and expanding our online and digital capacity, improving information collection processes from businesses and streamlining PAYE. Process modernisation, supported by new technology systems, will lower compliance costs and improve customer service as well as give us more flexibility and capacity to deal with future change.

- conducting a robust procurement process to select a transformation services provider(s) to provide design services
- putting in place risk management and assurance plans
- learning from the experiences of other organisations, including site visits to major transformation projects carried out by the two shortlisted Request for Proposal (RFP) participants
- educating ourselves about core tax and social policy technology platforms.

Selecting a provider

In early October 2013, we asked for expressions of interest from vendors interested in providing design services for our Business Transformation programme. We held workshops and forums to explain the programme to interested industry groups and the public. We received nine responses and chose Accenture and Capgemini to engage in the next stage of competitive dialogue.

The use of the competitive dialogue process was a first for us. This process helps manage large, complex procurement contracts and it aligns with the Government's Procurement Strategy. It involves a two-way discussion of options, leading to an RFP for the design stage. We discussed the design, commercial and legal frameworks for both the RFP and the contract for design services, and the cultural and organisational change implications.

In April 2014, we issued an RFP to Accenture and Capgemini to undertake the detailed design for stage 1 of the programme and the high-level design for stages 2, 3 and 4. A decision on the preferred provider is scheduled for late 2014.

A separate part of our work has been investigating off-the-shelf commercial software options. This helps us understand their capabilities before we start on our design phase. This work continues into 2015.

Engaging New Zealanders

Creating a modern revenue system will have a significant impact on the lives of many New Zealanders, and we have been talking with a range of industry groups and taxpayers on what people want from the change. Among the groups we engaged with this year were ICT industry groups, accounting and financial services professionals, academics and businesses.

The recent "Tax Administration for the 21st Century" conference highlighted strong levels of engagement among stakeholders, identifying a number of issues that the future tax system needs to address.

Our Transformation Reference Group also provides us with external advice on the programme and related issues.

Further input from the New Zealand ICT industry is planned for the 2014–15 year when we will launch our ICT reference group. The group will ensure ICT industry perspectives are heard at a high level, and be an opportunity for an open exchange of views.

In December 2013, we began the first of a series of discussions with sections of the community to get their input into the change programme. Our business designers held talks with employers, tax agents and bookkeepers in Auckland, Christchurch and Napier to get their views on how to improve the PAYE system. We held a session with a group of software developers in Wellington. How our customers interact with us and their preferences will help shape the design for the new system.

Our people

Our people offer the best service they can while learning new skills and new ways of working. We want to be an organisation that has a healthy, inclusive culture where our people thrive and are valued.

Working with unions representing our people

Over the past year, Inland Revenue reached agreement about staff employment conditions with the three unions representing our employees: the Public Service Association (PSA), Taxpro and the National Union of Public Employees.

The PSA and Taxpro agreements run until February 2015 and the National Union of Public Employees until May 2015. We are working with the unions to develop new performance and remuneration arrangements for their members.

Developing our leaders to lead change

We want our leaders to provide change leadership and strong direction. We are helping them develop the skills to achieve this through:

- a talent management and succession process to identify and grow our future leaders
- creating common expectations and development plans for senior leaders
- participating in the State Services Commission's Career Board
- "Leader as Coach" training for 228 leaders

- 78 people participating in our "EMERGE" leadership programme for future leaders, and 54 people participating in our "LEAD" programme for frontline leaders.

Training our frontline leaders

We train our frontline leaders to improve our processes, while making sure we are offering taxpayers value for money.

Training by our Operations Management programme helps improve efficiency by ensuring our frontline leaders get the skills, tools and processes to plan and manage their work. We have 187 leaders managing about 2,100 staff from our customer services, collections and investigations areas. The Operations Management programme enabled us to complete an extra 350,000 hours of work during the year, to the value of \$8.57 million.

Training our tax technical staff

Inland Revenue now provides advice across a wider range of topics and handles more complex customer contacts. Ensuring our people have high levels of technical knowledge is critical for delivering the services our customers need.

This year we continued to run regular tax technical training sessions. A particular highlight was our Tax Technical Conference for our senior tax technical staff. This conference helped our staff gain new knowledge into emerging tax and policy issues.

Supporting staff wellbeing

We launched a Supporting Positive Attendance initiative to support the wellbeing of our people. This initiative aims to get people to come to work ready to do their best when they are well and stay away when they are sick. The initiative has contributed to a decrease in the use of sick leave.

Keeping our people safe

Providing a safe working environment for our people is something we take very seriously. We are continually assessing our workplaces to ensure that we minimise risks and concerns so that our staff feel safe.

Where we work

We relocated 400 staff between various offices in Wellington. Half were moved into the Asteron Centre after we made better use of space in the building.

Our goal is to get our office footprint to no more than 14 m² of office space per FTE. This year we reduced our office footprint from 16.0 m² to 14.8 m² per FTE.

Risks to our business

Risk management is an important part of Inland Revenue's good governance and management practice. We use an enterprise risk management approach to managing risks across Inland Revenue. We improved our enterprise risk management policy, framework and guidelines to provide greater clarity to our decision-making processes.

A summary of our enterprise risks and associated mitigations is set out below.

We regularly review our enterprise risks to ensure the mitigation strategies are appropriate and effective.

FIGURE 3 – ENTERPRISE RISKS

Enterprise risk	Our mitigations include the following actions:
We fail to balance all-of-government strategies effectively with the delivery of our core business leading to sub-optimal outcomes	We will align our long-term planning with the Government's Better Public Services goals. We will participate in all-of-government steering groups to understand and anticipate impending public sector changes.
We are unable to source sufficient government funding to deliver our Business Transformation programme	Our four-year and 10-year plans will make a compelling case for the investment we need to implement changes. We will present rigorous, well-considered business cases for government funding that set out the costs and benefits of proposed spending. Our Investment Board will provide strong governance oversight of our Business Transformation programme investments.
Natural hazards such as earthquakes disrupt delivery of critical services	We will identify and assess potential business impacts and regularly review our response plans, which include business impact assessments, business continuity plans, disaster recovery plans and business continuity emergency management procedures.
We don't have enough experienced and qualified people to deliver the Business Transformation programme and other programmes	We will develop and implement strategies to promote workforce capability, employment relations, leadership and workplace culture.
The expanding availability of our information in digital form to others reduces our ability to control that information	We will ensure our security policies, procedures and standards are strong and enforced. We will develop and monitor information-sharing protocols. We will align our protocols with government security and privacy standards. We will continue to review staff training and awareness. We will continue to assess our security processes and performance.
Individuals and organisations represent themselves as Inland Revenue, affecting the integrity of the tax system	We will keep our security incident database up to date. We will monitor social media and internet sites for signs of security breaches. We will respond rapidly to reports of misrepresentation. We will develop communications strategies to alert the public to scams.

FIGURE 3 – ENTERPRISE RISKS (CONTINUED)

Enterprise risk	Our mitigations include the following actions:
Outdated technology and unsupported software result in systems failures that affect delivery of critical services	We will continue to invest in stabilising our IT systems. We will invest in the upgrade of some key systems and applications. We will increasingly buy technology services, rather than buy technology for in-house operation.
Ineffective or incomplete delivery of the Business Transformation programme reduces our ability to meet government revenue forecasts	We will continue to work towards reaching our target operating model. Our governance boards will monitor progress of the Business Transformation programme. Our management will coordinate and report on progress of the Business Transformation programme.
Ineffective or incomplete delivery of the Business Transformation programme reduces our ability to implement government policy	We will continue to work towards reaching our target operating model. Our governance boards will monitor progress of the Business Transformation programme. Our management will coordinate and report on progress of the Business Transformation programme.
Confidence among customers and stakeholders in our ability to protect their data as a result of information-sharing with government agencies results in a drop in voluntary compliance	We will ensure our security policies, procedures and standards are strong. We will develop and monitor information-sharing protocols. We will align our protocols with government security and privacy standards. We will continue to review staff training and awareness. We will align our security processes with other agencies and continuously monitor performance.
A downturn in the world's economy affects New Zealand's ability to fund and deliver government priorities	We will continuously identify and monitor changes in overseas economic trends through research and forecasting.
The changing customer profile affects voluntary compliance	We will monitor and report on the effect of changes to the customer base. We will use research and planning to develop tailored responses to customer base changes.
We lose the trust and confidence of stakeholders by not recognising or understanding how their expectations change	We will continue to work closely with the Ministers' offices. The Executive Leadership Team will engage closely with key stakeholders. We will monitor and respond to changes in the integrity of the tax system. We will monitor and respond to emerging trends in policy and strategy. We will take part in forums with our key stakeholders.
Complex international transactions affect our ability to collect revenue	We are members of the OECD and work with overseas tax administrations to identify changes to practices. We are joint advisors with the Treasury in developing policy and strategies to work on complex international practices.

PART 05

Measuring our performance

Our outcomes framework

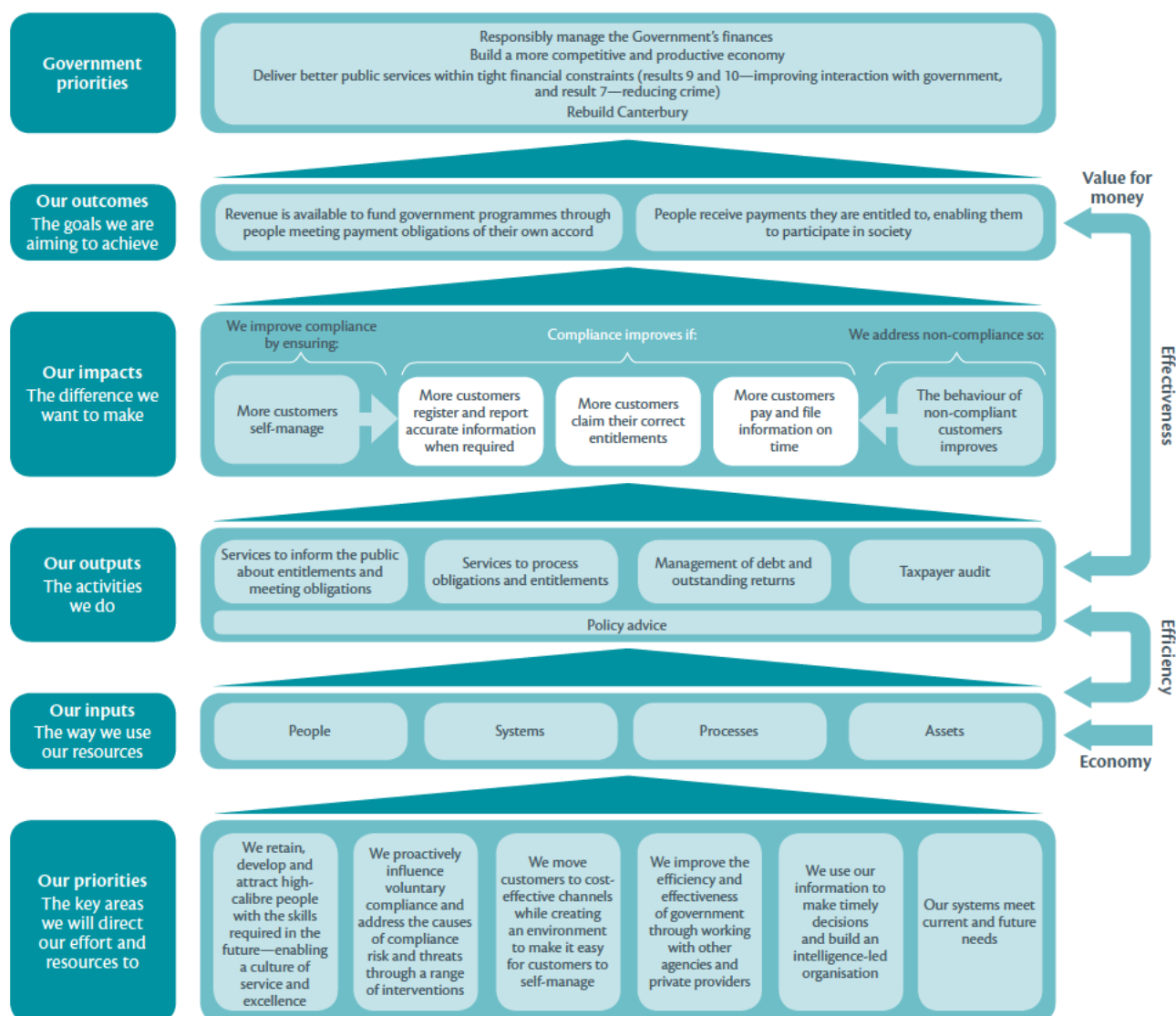
Our outcomes framework sets out what we want to achieve. It shows how we intend to organise and use our resources to deliver services to New Zealanders, and contribute to the social and economic wellbeing of New Zealand by collecting and distributing money.

We must provide the best value for money from public funds. The framework shows how we carefully consider the relationship between

our resources, outputs and impacts to ensure we stay focused on delivering value for money. Three elements contribute to this:

- Economy—getting and using our resources as economically as possible
- Efficiency—producing more for the same or less
- Effectiveness—operating in a way that achieves our outcomes.

FIGURE 4 – OUR OUTCOMES FRAMEWORK



Impact indicators

Our impacts describe the difference we want our activities and interventions to make to improve customer compliance and achieve our outcomes. We use impact indicators to measure the effectiveness of our activities on customer compliance.

We set targets that take into account our strategic intentions (including transformation goals), our operating environment (including government priorities), the economy, our resources and customer expectations.

We have refined our impact indicators, including improving measurement methodologies, and added four new

indicators to broaden our social policy coverage. See figure 5 for information on our performance and our 2016 targets.

We have 14 impact indicators and four contextual indicators that provide information on Inland Revenue's progress towards maintaining and improving customer compliance. The results show improvements in the accuracy of submitted returns, driven by lower error rates for individual income tax returns submitted electronically. On time filing and paying, customer satisfaction and perceptions levels remained high.

Social policy-related compliance levels remained stable. Two new social policy

indicators for child support were introduced this year. These were previously reported as output performance measures.

Non-compliance impact indicator results have remained high in 2013–14, except for the collectable debt to total debt ratio. This is the fourth consecutive annual decrease in this impact indicator. A lower collectable debt ratio was the result of our improved performance in reducing new debt (preventative initiatives) and collecting new debt, without a corresponding reduction to the value of non-collectable debt. This is consistent with the significant improvement on the impact indicator “% of collectable debt recovered increases”.

FIGURE 5 – OUR IMPACT INDICATORS

Impact indicator	Recent performance	Current performance	Target by June 2016
More customers are able to self-manage¹²			
% of customers who are aware of their obligations and entitlements increases	Year end June 2013: 82% ¹³	Year end June 2014: 83%	Increase to 85% or more
% of customers who find it easy to comply increases	Year end June 2013: 79% ¹⁴	Year end June 2014: 80%	Increase to 80% or more ¹⁵
Factors that influenced target setting: this impact is key to enabling improved customer compliance and cost-effectiveness in a fiscally constrained environment.			
More customers register and report accurate information when required			
% of returns filed without errors increases	Year end June 2013: 85% ¹⁶	July 2013 – March 2014: 87%	Increase to 90% or more
% of applications submitted without errors increases	Year end June 2013: 83%	Year end June 2014: 90%	Maintain at 80% or more ¹⁷
% of correct student loan deductions for NZ-based borrowers is maintained	Year end June 2013: 99% ¹⁸	July 2013 – March 2014: 99%	Maintain at 98% ¹⁹
Employer registrations follow an appropriate trend ²⁰	Year end June 2013: correlation of 99%	Year end June 2014: correlation of 98%	n/a (contextual)
GST assessed to consumer spending follows an appropriate trend ²¹	Year end March 2013: correlation of 97% ²²	Year end March 2014: correlation of 98%	n/a (contextual)
Factors that influenced target setting: this impact is key to improving customer self-management, reducing unnecessary contacts and improving end-to-end processing.			

¹² We only include results for the contextual indicator under this impact “customer compliance costs are minimised” when the data is less than two years old. The survey that this indicator uses was last undertaken in 2009 and results were included in the 2011 Annual Report.

¹³ Result was updated using revised methodology to enable comparison with current year. 2012–13 performance based on the previous methodology (reported in the 2013 Annual Report) was 78%. Satisfaction with online services is now included in this indicator.

¹⁴ Result was updated using revised methodology to enable comparison with current year. 2012–13 performance based on the previous methodology (reported in the 2013 Annual Report) was 69%. Satisfaction with online services is now included in this indicator.

¹⁵ Incorrect target was listed in the 2013 Annual Report.

¹⁶ Result updated to June 2013 (results reported in 2013 Annual Report were to March 2013).

¹⁷ Incorrect target was listed in the 2013 Annual Report.

¹⁸ This result has been measured retrospectively for 2012–13. It was a new measure introduced in 2013–14.

¹⁹ No target set in 2013–16 Statement of Intent. The target set in the 2014–18 Statement of Intent has been used.

²⁰ We report on this indicator to provide additional contextual information. Employers' correlation is between the number of employers who register for PAYE and the percentage of the labour force that is employed (from the Statistics New Zealand Household Labour Force Survey).

²¹ We report on this indicator to provide additional contextual information. This measure highlights a link between consumer spending and the amount of GST assessed, showing the completeness of information provided by GST customers. As this indicator is beyond our influence, no formal target has been set.

²² Correlation results updated as a result of Statistics New Zealand revising the historical data for gross national expenditure.

FIGURE 5 – OUR IMPACT INDICATORS (CONTINUED)

Impact indicator	Recent performance	Current performance	Target by June 2016
More customers claim their correct entitlements			
% of accurate Working for Families Tax Credits payments increases ²³	Tax year 2012: 67%	Tax year 2013: 67%	Tax year 2015: Increase to 70% or more
% of child support assessments collected increases	Year end June 2013: 74.5% ²⁴	Year end June 2014: 75%	Maintain at 75% or more
Working for Families registrations follow an appropriate trend ²⁵	Year end June 2013: correlation of 13%	Year end June 2014: correlation of 32%	n/a (contextual)
Donations rebates claimed follow an appropriate trend ²⁶	Tax year 2012: 59% ²⁷	Tax year 2013: 59%	n/a (contextual)
Factors that influenced target setting: the expected impact of the upcoming changes to Working for Families Tax Credits eligibility rules has been taken into account when assessing our ability to improve accuracy.			
More customers pay and file information on time			
% of returns filed on time increases	Tax year 2012: 83%	Tax year 2013: 83%	Tax year 2015: Increase to 85% or more
% of payments made by customers on time increases	Tax year 2012: 86%	Tax year 2013: 86% ²⁸	Tax year 2015: Increase to 90% or more
% of child support assessments paid on time increases	Year end June 2013: 63.4% ²⁹	Year end June 2014: 65%	Maintain at 68% or more
Factors that influenced target setting: this impact is a key compliance driver and consequently stretch targets are appropriate.			
The behaviour of non-compliant customers improves			
The compliance behaviour of customers who received an audit intervention improves	Year end June 2013: 85%	Year end June 2014: 86%	Maintain at 80% or more
% of collectable debt to total debt increases	Year end June 2013: 63%	Year end June 2014: 62%	Increase to 70% or more
% of collectable debt recovered increases	Year end June 2013: 10.3%	Year end June 2014: 13%	Maintain at 10% or more by year end
% of collectable debt to revenue assessed decreases	Year end June 2013: 7.1%	Year end June 2014: 6.8%	Decrease to 7.0% or less
Factors that influenced target setting: the current economic environment is a significant factor in debt performance. Maintaining or making small improvements will be challenging.			

²³ Payments are considered accurate if customers' total yearly payments are within \$1,000 of their entitlement. The accuracy of payments is primarily a reflection of the quality of information provided to us by our customers.

²⁴ This measure was reported as an output performance measure in the 2013 *Annual Report*.

²⁵ We report on this indicator to provide additional contextual information. Working for Families Tax Credits correlation is between the number of customers who receive payments from Inland Revenue and the number of households with dependent children (from the Statistics New Zealand Household Labour Force Survey). Incorrect target was listed in the 2013 *Annual Report*. Target of 80% was listed, the target should have been listed as n/a contextual.

²⁶ We report on this indicator to provide additional contextual information. A ratio between total donation claimed to Inland Revenue for taxation rebate and total donation reported to Charities Service was reported.

²⁷ This result has been measured retrospectively for 2012–13. It was a new measure introduced in 2013–14.

²⁸ Measured using provisional results. Final results will be confirmed in October 2014.

²⁹ This measure was reported as an output performance measure in the 2013 *Annual Report*.

PART 06

Statement of Service Performance

Statement of Responsibility

In terms of the Public Finance Act 1989 I am responsible, as Chief Executive of Inland Revenue, for the preparation of the department's financial statements and statements of service performance, and for the judgments made in them. I am also responsible for the preparation of the department's forecast financial statements including the appropriateness of the underlying assumptions and all other required disclosures.

I have the responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In my opinion, these financial statements fairly reflect the financial position and operations of the department for the year ended 30 June 2014 and the forecast financial statements reflect the financial position and operations of the department for the year ended 30 June 2015 based on Government decisions and information as at 29 April 2014.



Naomi Ferguson
Chief Executive and Commissioner
of Inland Revenue
29 September 2014

Countersigned by:



Giles Southwell
Chief Financial Officer
29 September 2014

Statement of Service Performance

For the year ended 30 June 2014

Reporting performance

Our service performance is divided into two groups:

- **Activity forecasts**—these are forecasts of expected customer demand for our services that provide context for our results. Significant variation from the forecast figures can influence the achievement of the targets set for our performance measures.
- **Performance measures**—these are measures we use to set our performance targets. They measure our performance in terms of quantity, quality, timeliness and cost.

The following sections report on our performance against our targets. Where a performance measure is expressed in terms of a range of characteristics that the output should meet, the result is reported as 'achieved' or 'not achieved' (eg, see Output Expense 5).

We have provided comments for:

- key activity forecasts where actual demand was outside the expected range
- performance measures that were not achieved
- performance measures with a positive variance greater than 10%.

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

Comparative performance data

Where appropriate, we have included comparative performance information against the activity forecast and performance measures for the previous year (2012–13 actual). We have not included comparative performance information for new performance measures, or where there has been a change in the performance measure or measurement methodology that made the results incomparable. These are indicated by "n/a".

Performance context

We have included information to give context to the performance achieved. For each output expense we have included a summary of the impacts we want to contribute to. Further information about our outcomes framework can be found in Part 5. This forms part of the overall performance picture and should be read in conjunction with the activity forecasts and narrative in the other sections of this report. Our non-financial performance targets for the coming year are also included, and provide context to this year's results. These reflect those approved as part of Budget 2014 and can be found in our 2014–18 *Statement of Intent*.

Summary of service performance

Figure 6 summarises the performance measure achievement. We achieved 45 of 53 performance targets (85%) set at the start of the year, compared with 76% last year.

FIGURE 6 – PERFORMANCE TARGETS ACHIEVED

Output expense	2011–12	2012–13	2013–14
Policy advice	5 of 5	1 of 1*	1 of 3
Services to inform the public about entitlements and meeting obligations	9 of 14	12 of 18	14 of 16
Services to process obligations and entitlements	11 of 17	17 of 20	14 of 15
Management of debt and outstanding returns	6 of 12	6 of 11	8 of 11
Taxpayer audit	7 of 7	8 of 8	8 of 8
Total	38 of 55	44 of 58*	45 of 53

* This total excludes one performance measure that was not measured due to change in Minister of Revenue.

Review of 2013–14 output performance measures and targets

As in previous years, we reviewed our output measures before the start of the new financial year. The purpose of this review was to:

- create or update measures to reflect changes in our business
- remove items that were not true measures of our performance.

We have 45 measures which are comparable with last year. Our performance improved for 27 of these measures (60%), remained the same for 9 measures (20%) and deteriorated for 9 measures (20%). For 7 (78%) of the 9 measures where performance deteriorated, the change in performance between years was less than 5%.

Output expense 1 Policy advice

Description

This output expense provides policy advice services (including second opinion advice and contributions to policy advice led by other agencies) to support decision making by Ministers on government policy matters.

Performance context

The impacts we contribute to

Providing policy advice services protects and maintains the integrity of the tax system while ensuring that our tax system is as simple as possible and is internationally competitive. This contributes to achieving all of our impacts:

- More customers self-manage.

- More customers register and report accurate information when required.
- More customers claim their correct entitlements.
- More customers pay and file information on time.
- The behaviour of non-compliant customers improves.

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on our performance during 2013–14

We continued to support the Government's priorities through delivering the Government's tax policy work programme.

Highlights for 2013–14 include:

- policy development for Budget 2014
- the enactment of six tax and social policy-related bills
- participation in the OECD-led international response to the global problem of base erosion and profit shifting
- entering into an intergovernmental information-sharing agreement with the United States to help New Zealand financial institutions meet the United States' Foreign Account Tax Compliance Act (FATCA) requirements
- the entry into force of:
 - the Multilateral Convention on Mutual Administrative Assistance in Tax Matters
 - new double tax agreements with Japan, Papua New Guinea, and Viet Nam
- consultation on proposals to:
 - clarify the tax rules for deregistered charities
 - improve cash flow and remove distortions on Research & Development (R&D) costs for start-up businesses
 - deal with problems around the tax deductibility of some types of business-related R&D expenditure
 - determine minimum financial reporting requirements for companies
 - clarify the GST treatment of bodies corporate.

See Part 2 for more information about our policy work.

Financial performance for the year ended 30 June 2014 (\$000)

Revenue	Expenses	Net surplus/(deficit)
8,172	8,118	54

Output 1.1 Policy advice in relation to tax and social policy

Description

This output involves:

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

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Minimum percentage of policy advice papers that meet quality standards.	n/a	90%	73.0%	–18.9%	90%
Minimum percentage of ministerial satisfaction for policy advice.	n/a	95%	87.0%	–8.4%	95%
Cost					
Maximum average cost per hour of producing policy advice outputs.	n/a				
Original formula		\$150.00	\$97.79	34.8%	\$150.00
Updated formula^		\$150.00	\$112.62	24.9%	\$150.00

* These figures are not subject to audit

^ This formula was recently updated by Treasury to align it with the amended definition of policy advice costs. Performance measures calculated using both the original and updated formulae are provided to help readers understand how this change has affected the assessment of performance.

Original formula		Updated formula
Total cost per output hour	$\frac{\text{Total policy advice costs}}{\text{Total policy output and non-policy output hours}}$	$\frac{\text{Total policy advice costs}}{\text{Total policy hours (excluding non-policy advice hours)}}$

Commentary on targets not achieved

Minimum percentage of policy advice papers that meet quality standards

This is the first year of external reporting on quality using the common performance indicators for agencies that provide policy advice. We are making improvements that were identified in the quality review.

Minimum percentage of ministerial satisfaction for policy advice

This is the first year of external reporting on ministerial satisfaction using the common performance indicators for agencies that provide policy advice. The target was deliberately set high.

Commentary on significant positive variance

Maximum average cost per hour of producing policy advice outputs.

This is the first year of external reporting for this performance measure, using the common performance indicators for agencies that provide policy advice. The maximum average cost per hour target of \$150 was set based on the best available information at the time.

Output statement: Policy advice

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Actual	2013–14 Budget*	2013–14 Revised Budget*	2013–14 Actual	2014–15 Forecast*
	\$000	\$000	\$000	\$000	\$000
Revenue					
Crown	8,265	8,098	8,166	8,166	8,051
Other	144	2	2	6	2
Total revenue	8,409	8,100	8,168	8,172	8,053
Expenses					
Annual appropriations	7,912	8,100	8,168	8,118	8,053
Total expenses	7,912	8,100	8,168	8,118	8,053
Net surplus/(deficit)	497	–	–	54	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

Output expense 2

Services to inform the public about entitlements and meeting obligations

Description

This output expense provides services that help taxpayers and other customers to meet their payment obligations of their own accord and to receive payments they are entitled to. This is achieved through a range of proactive and reactive services to make people aware of their entitlements and obligations, and the services available to help them comply. This output expense also contributes to confidence in the tax administration system through managing individual customer complaints quickly, fairly and in confidence. It also provides services to Ministers to enable them to discharge their portfolio responsibilities, other than those relating to policy decision-making.

Performance context

The impacts we contribute to

Providing customers with relevant information and advice, certainty in relation to the application of the law, and a choice in how they engage with us ensures that customers are aware of and understand their obligations and entitlements. This means more customers can self-manage and consequently:

- More customers register and report accurate information when required.
- More customers claim their correct entitlements.
- More customers pay and file information on time.

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2013–14

Successful peak planning and a balanced approach to managing our people across contact channels were key factors in improving our customer satisfaction and perception results this year. Satisfaction with our phone and correspondence service improved from last year and we achieved our target, while satisfaction with our online services remained high. Customers are also more confident that we are ensuring people receive their social support entitlements.

Demand for our phone service remains high and this year we have answered 90% of calls received from our customers, an improvement from 73% last year.

This year we introduced a single combined telephone timeliness measure to replace two separate measures for priority and general queues.

We also introduced a single combined correspondence timeliness measure, to replace two separate measures for electronic and paper items. Earlier in the year we had high volumes of aged correspondence on hand. As a result of a sustained effort and planning, performance in answering correspondence improved and the target was achieved in the final month of the year.

Financial performance for the year ended 30 June 2014 (\$000)

Revenue	Expenses	Net surplus/(deficit)
266,836	248,037	18,799

Output 2.1 Information services

Description

This output involves responding to customer enquiries on tax and social support programmes (including child support and KiwiSaver) through electronic channels, correspondence, telephone, personal appointments, actively providing advice through a range of communication approaches delivered in the community and through our complaints management service.

Activity forecasts

Activity forecast	2012–13 Actual	2013–14 Forecast*	2013–14 Actual	2014–15 Forecast*
Number of customer service contacts.	6.41 million	4.70–5.20 million	5.53 million	5.70–6.30 million
Number of self-help service contacts.	17.95 million	13.40–14.80 million	26.10 million	19.20–21.20 million

* Forecasts are not subject to audit.

Commentary on demand outside forecast range

Number of customer services contacts

We are focused on improving our processing of returns, payments and entitlements, making it easier for customers to self-manage and reducing unnecessary contacts. We received more correspondence and phone contacts than forecast. However, the number of contacts reduced by 14% from last year, as we received 794,000 fewer phone calls.

Number of self-help services contacts

All types of self-help services contacts have increased this year, which reflects our efforts to encourage customers to use self-service channels

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Minimum percentage of customers who are satisfied with the quality of phone and correspondence contacts. ²⁹	82.2%#	85%	85.0%#	0%	85%
Minimum percentage of customers who are satisfied with the quality of online services.	94.5%#	90%	94.5%#	5.0%	90%
Minimum percentage of customers confident that Inland Revenue takes appropriate action to ensure people receive their social support entitlements.	70.5%#	70%	72.5%#	3.6%	70%
Quantity					
Minimum percentage of attempted calls that we answer.	73.2%	75%	89.5%	19.3%	75%
Timeliness					
Minimum percentage of telephone calls answered within two minutes.	n/a	75%	68.8%	–8.3%	75%
Minimum percentage of correspondence answered within two weeks.	n/a	75%	76.0%	1.3%	75%
Cost					
Maximum average cost of a customer initiated contact.	\$32.92	\$34.00	\$32.96	3.1%	\$40.00

Measured using a sample of the customer population.

* These figures are not subject to audit.

²⁹ Phone service surveyed for the full 12 month, and correspondence for the last quarter only.

Commentary on target not achieved

Minimum percentage of telephone calls answered within two minutes.

Several factors have affected our ability to answer calls within the two minute target. These include a 7% (51 second) increase in the average call handling time (of more than 12 minutes) compared with last year. We believe that this increase is because more customers are using self-service to answer easier questions, so our phone channel is dealing with harder questions.

We consider this to be a critical performance measure which has flow-on impacts to the overall customer experience and satisfaction.

Commentary on significant positive variance

Minimum percentage of attempted calls that we answer.

Successful planning has enabled us to improve the percentage of calls answered throughout the year.

Output 2.2 Adjudication and rulings

Description

This output involves:

Adjudication

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

Taxpayer Rulings

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

Public Rulings

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

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Percentage of all rulings reports, adjudication reports, public items and technical correspondence or advice that meet the applicable purpose, logic, alternatives, consultation and practicality standards.	100%	100%	100%	0.0%	100%
Quantity					
Minimum number of published or finalised public items that give the Commissioner's interpretation of the law.	11	25	27	8.0%	25
Timeliness					
Minimum percentage of adjudication cases completed within three months of receipt.	100%	90%	98.2%	9.1%	90%
Minimum percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt.	100%	90%	100%	11.1%	90%
Minimum percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt.	100%	90%	100%	11.1%	90%
Minimum percentage of public items (including relevant public consultation), completed within 18 months of allocation.	100%	90%	92.0%	2.2%	90%
Minimum percentage of submissions by the applicant on any draft ruling responded to within one month of receipt.	n/a	90%	97.9%	8.8%	90%

* These figures are not subject to audit.

Commentary on significant positive variances

Minimum percentage of taxpayer ruling applications that have a draft ruling completed within three months of receipt.

Minimum percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt.

We continue to see longer term benefits from our improved rulings processes.

Output 2.3 Government and Executive Services

Description

This output involves all activities associated with ministerial services, including responding to ministerial correspondence and parliamentary questions. It includes all tax, child support, student loan, KiwiSaver and family assistance ministerial correspondence and supply of information.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Timeliness					
Minimum percentage of ministerial correspondence responded to within 10 days.	98.0%	95%	92.7%	–2.4%	95%
Percentage of parliamentary questions responded to within required timeframes.	100%	100%	100%	0.0%	100%

* These figures are not subject to audit.

Commentary on target not achieved

Minimum percentage of ministerial correspondence responded to within 10 days.

There were a number of contributing factors in not meeting the performance target this year. At the start of the year, we received a greater number of complex items than usual, requiring further consultation. A significant increase in overall workload also affected our results.

Output statement: services to inform the public about entitlements and meeting obligations

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13	2013–14	2013–14 Revised	2013–14	2014–15
	Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Revenue					
Crown	254,601	265,541	265,591	265,591	249,846
Other	5,263	1,961	1,461	1,245	1,461
Total revenue	259,864	267,502	267,052	266,836	251,307
Expenses					
Annual appropriations	243,448	267,502	267,052	248,037	251,307
Total expenses	243,448	267,502	267,052	248,037	251,307
Net surplus/(deficit)	16,416	–	–	18,799	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

Output expense 3

Services to process obligations and entitlements

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to, including tax refunds. This is achieved through services designed to achieve timely, efficient and effective assessment and processing of:

- tax payments, tax credit claims and refunds for taxpayers
- entitlements for social support programmes.

Performance context

The impacts we contribute to

Accurate, timely, complete and efficient processing of notices, statements and social policy entitlements increases customers' confidence in the tax system. When customers have confidence in the tax system they are more likely to self-manage their compliance obligations. This means:

- More customers register and report accurate information when required.
- More customers claim their correct entitlements.
- More customers pay and file information on time.

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on our performance during 2013–14

This year, we have maintained strong performance across our core high transactional activities involved in return and payment processing and issuing refunds and entitlements to customers.

Peak season planning also enabled us to maintain strong service levels across all our transactional channels over the peak season, in particular in our priority activities. These priorities include activities we believe help our customers the most, such as employer monthly schedules (EMS), income tax and GST refunds, returns and regular social policy payments.

Of the 15 performance measures in this output class, results for 10 of them were either the same or improved from last year. The results for the timeliness of processing refunds and entitlements in particular have improved.

We did not achieve the timeliness target for issuing child support administrative review decisions. While we had a full year using a new measurement methodology, it became apparent that this new methodology wasn't compatible with the current timeframe requirement of issuing a decision within seven weeks. For 2014–15, we have adjusted the timeframe requirement from seven weeks to ten weeks to better reflect the true amount of time taken to issue administrative review decisions.

Financial performance for the year ended 30 June 2014 (\$000)

Revenue	Expenses	Net surplus/(deficit)
158,286	144,965	13,321

Output 3.1 Registrations, applications and processing

Description

This output involves processing all registrations, applications and assessments for the tax and social policy programmes we administer.

Activity forecasts

Activity forecast	2012–13 Actual	2013–14 Forecast*	2013–14 Actual	2014–15 Forecast*
Number of tax and social policy registrations (excluding child support) received.	726,902	680,000–750,000	689,290	690,000–765,000
Number of child support applications received.	41,268	46,000–51,000	39,849	44,000–49,000
Number of applications for administrative review of child support assessments received.	4,130	4,300–4,800	3,718	4,300–4,700
Number of returns received.	9.28 million	8.40–9.30 million	9.14 million	8.10–8.90 million
Percentage of returns filed electronically.	53.0%	55%	59.8%	60%
Percentage of income tax returns filed electronically.	84.1%	84%	86.9%	86%
Percentage of GST returns filed electronically.	47.6%	50%	54.9%	55%
Number of payments received.	8.38 million	8.10–9.00 million	8.71 million	8.40–9.30 million
Percentage of payments received electronically.	69.8%	75%	74.2%	75%

* Forecasts are not subject to audit.

Commentary on forecasts outside range or not met

Number of child support applications received

The trend of reduced volumes year-on-year has continued. While the forecast range for this year was reduced from the previous year, we did not anticipate this larger reduction. It has been further reduced for 2014–15.

Number of applications for administrative review of child support assessments received

Forecast range further reduced for 2014–15 based on current trend.

Percentage of payments received electronically

Forecast increased this year from 70% to 75%. This reflected the increasing trend, consistent with our strategy of customers opting to pay electronically.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Timeliness					
Minimum percentage of income tax returns finalised within four weeks.	94.4%	90%	94.6%	5.1%	90%
Minimum percentage of GST returns finalised within three weeks.	99.6%	95%	99.6%	4.8%	95%
Minimum percentage of employer monthly schedule employee deductions finalised within four weeks.	99.8%	95%	99.7%	4.9%	95%
Minimum percentage of social policy and tax registrations processed within five working days.	85.0%	85%	89.6%	5.4%	85%
Minimum percentage of payments banked on the day of receipt.	99.3%	99%	99.3%	0.3%	99%
Quality					
Minimum percentage of payments correctly processed to customers' accounts.	99.7%	99.5%	99.8%	0.3%	99.5%
Cost					
Maximum average cost of processing income tax returns, GST returns and employer monthly schedules.	\$3.78	\$4.00	\$3.95	1.3%	\$5.00

* These figures are not subject to audit.

Output 3.2 Statements, notices, refunds and payments

Description

This output involves:

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

It covers all the tax and social policy programmes that we administer.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Minimum percentage of notices and statements produced without error.	99.5%#	98.5%	99.4%#	0.9%	98.5%
Timeliness					
Minimum percentage of Income Tax refunds issued within six weeks.	86.2%	85%	90.2%	6.1%	85%
Minimum percentage of GST refunds issued within four weeks.	97.7%	95%	97.8%	3.0%	95%
Minimum percentage of tax credit claim payments made within three weeks.	92.7%	90%	96.1%	6.8%	90%
Minimum percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application.	95.1%	95%	98.9%	4.1%	95%
Minimum percentage of paid parental leave payments issued to customers on the first regular pay day following the agreed date of entitlement.	97.8%	97%	98.4%	1.4%	97%

Measured using a sample of the customer population.

* These figures are not subject to audit.

Output 3.3 Child support

Description

This output involves dealing with child support assessments and providing an administrative process for reviewing child support assessments that is both inexpensive and readily accessible to custodians and paying parents.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Timeliness					
Minimum percentage of child support assessments issued within two weeks.	82.2%	80%	80.7%	0.9%	80%
Minimum percentage of child support administrative review decisions issued within seven weeks.	Not achieved ³¹	85%	55.9%	–34.2%	Measure removed
Minimum percentage of child support administrative review decisions issued within 10 weeks.	n/a	–	–	–	85%

* These figures are not subject to audit.

Commentary on target not achieved

Minimum percentage of child support administrative review decisions issued within seven weeks

This year we put in place a more relevant measurement methodology, measuring from the day we receive the review rather than from our first contact with the customer. For 2014–15 we have increased the measure timeframe to 10 weeks to better reflect the required processing time. During 2013–14 we issued 94% of decisions within 10 weeks.

Output statement: Services to process obligations and entitlements

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Actual \$000	2013–14 Budget* \$000	2013–14 Revised Budget* \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Revenue					
Crown	102,619	112,514	137,696	137,696	119,575
Other	22,674	20,997	20,997	20,590	20,997
Total revenue	125,293	133,511	158,693	158,286	140,572
Expenses					
Annual appropriations	116,645	133,511	158,693	144,965	140,572
Total expenses	116,645	133,511	158,693	144,965	140,572
Net surplus/(deficit)	8,648	–	–	13,321	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

³¹ The measurement methodology was reviewed during the year and we are unable to report a final achievement percentage to the level of accuracy required.

Output expense 4

Management of debt and outstanding returns

Description

This output expense provides services that contribute to the availability of revenue to fund government programmes. This involves all activities associated with collecting outstanding returns and overdue payments, taking appropriate action, and providing people with assistance on the actions they need to take to meet their obligations. This includes collection on behalf of other agencies and external parties.

Performance context

The impacts we contribute to

Using a tailored approach to our interventions, based on the PARE³² model, that reflects customers' individual circumstances and compliance behaviour should ensure that the behaviour of non-compliant customers improves. Consequently, more customers will pay and file information on time in the future.

If more customers comply with their obligations and receive their entitlements, we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2013–14

We conduct a range of activities to:

- collect revenue for Government
- collect overdue child support payments from parents who no longer live with their children
- help prevent customers from missing return filing deadlines and follow up when returns are overdue
- positively influence voluntary compliance.

We make earlier contact with customers when they get into debt or miss their filing deadline, and make greater use of targeted, high-volume messaging through letters and texts together with outbound calling campaigns.

Our approach towards overdue debt and returns collection with the budget funded initiatives has contributed to an increase in cash collected, slowed the growth of tax debt, improved our child support case closures and supported a continued reduction in the number of outstanding returns this year.

Focusing on early intervention has affected our ability to achieve targets for the aged proportion of collectable debt and outstanding returns. We have adjusted our aged debt target and removed the aged returns measure for next year to better align performance measures with our collections approach.

Our performance measure to finalise returns within six months achieved its target at year-end. This year we had a dedicated focus on overdue returns between July and December following the 7th July filing date. This focus has helped us achieve the performance target, to finalise returns within six months, for the first time since its introduction.

We have reduced the child support debt owed by custodial parents and contained the growth in assessment debt for liable parents. Our domestic child support portfolio has moved to "campaign approach", similar to that used by the tax debt portfolios. The "campaign approach" with early intervention as our main focus has helped increase our level of coverage. This approach has helped us achieve our "cases resolved" measure, for the first time since 2011–12. We will continue our active case management for those cases that require a greater level of focus until we receive payment in full, or a sustainable payment arrangement is in place.

Financial performance for the year ended 30 June 2014 (\$000)

Revenue	Expenses	Net surplus/(deficit)
136,647	132,610	4,037

³² Prevention, assistance, recovery or enforcement.

Output 4.1 Outstanding returns

Description

This output involves all activities associated with collecting outstanding returns, including taking appropriate follow-up action against taxpayers who do not file a return.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quantity					
Maximum percentage growth in outstanding returns.	–3.5%	0%	–7.1%	7.1%	0%
Maximum percentage of outstanding returns over one year old.	62.3%	57%	63.3%	–11.1%	Measure removed
Timeliness					
Minimum percentage of outstanding returns finalised within six months.	61.9%	65%	67.4%	3.7%	65%
Minimum percentage of outstanding employer monthly schedules finalised within three months.	85.6%	85%	92.0%	8.2%	85%
Cost					
Maximum average cost of finalising an outstanding return.	\$9.13	\$15.00	\$5.60	62.7%	\$15.00

* These figures are not subject to audit.

Commentary on target not achieved

Maximum percentage of outstanding returns over one year old

Our collections approach is targeting returns based on risk and assessment value, regardless of age. Based on this, our focus on newer returns has increased the proportion of older returns. This measure has been removed for 2014–15.

Commentary on significant positive variance

Maximum average cost of finalising an outstanding return

Efficiency gains through continuous improvement and managing our returns' cost has resulted in a lower cost to finalise.

Output 4.2 Overdue debt

Description

This output covers all activities associated with collecting overdue debt (excluding child support debt). It involves taking appropriate follow-up action when customers do not meet their obligations, including providing them with assistance on how they can meet their tax obligations.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quantity					
Minimum debt value cleared, as a percentage of debt book (debt turnover).	78.3%	100%	86.6%	–13.4%	Measure removed
Maximum percentage of collectable debt value over two years old.	53.3%	50%	52.2%	–4.4%	60%
Timeliness					
Minimum percentage of debt cases resolved within three months.	65.3%	65%	66.5%	2.2%	Measure removed
Minimum percentage of debt cases resolved within six months.	n/a	–	–	–	80%
Minimum percentage of debt value resolved for those who did not have a debt at the start of the year.	68.7%	65%	73.3%	12.8%	65%
Cost					
Minimum cash collected for every debt dollar spent.	\$45.88	\$40.00	\$45.95	14.9%	\$40.00

* These figures are not subject to audit.

Commentary on targets not achieved

Minimum debt value cleared, as a percentage of debt book (debt turnover)

Our performance against this target is heavily influenced by cash received from large-value cases making use of extension-of-time arrangements. This arrangement produces a variable result, which is not indicative of our overall collections activity for the majority of cases. The measure has been removed for 2014–15.

Maximum percentage of collectable debt value over two years old

Our focus on newer debt directly affects the proportion of aged debt, although this result is an improvement on last year. The target has been increased to 60% for 2014–15. This new target is more relevant to our debt strategy, reflects the current level of debt over two years old and our success in tackling new debt.

Commentary on significant positive variances

Minimum percentage of debt value resolved for those who did not have a debt at the start of the year

Our focus on new debt has seen an improvement in the result from last year. This measure is also influenced by the degree to which extension-of-time arrangements are used by large enterprise customers.

Minimum cash collected for every debt dollar spent

This measure is influenced by the degree to which extension-of-time arrangements are used by large enterprise customers. The result is in line with last year (\$45.88), with higher cash collected and similarly increased costs being captured.

Output 4.3 Child support debt management

Description

This output involves all activities associated with the recovery of overdue child support payments. It includes taking appropriate enforcement action against non-compliers.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Timeliness					
Minimum percentage of NZ paying parent child support debt cases resolved within 12 months.	67.5%	70%	75.5%	7.9%	75%

* These figures are not subject to audit.

Output statement: Management of debt and outstanding returns

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Actual \$000	2013–14 Budget* \$000	2013–14 Revised Budget* \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Revenue					
Crown	115,831	121,934	134,788	134,788	140,297
Other	3,886	2,962	2,962	1,859	2,962
Total revenue	119,717	124,896	137,750	136,647	143,259
Expenses					
Annual appropriations	116,251	124,896	137,750	132,610	143,259
Total expenses	116,251	124,896	137,750	132,610	143,259
Net surplus/(deficit)	3,466	–	–	4,037	–

* The statement of accounting policies provide explanations of these figures which are not subject to audit.

Output expense 5

Taxpayer audit

Description

This output expense provides services to ensure that the revenue base for funding government programmes is protected. This is achieved by verifying through audit activity, that all taxpayer groups are meeting their obligations, specifically targeting risk areas, and taking appropriate enforcement action when obligations are not being met. It also includes managing tax litigation.

Performance context

The impacts we contribute to

We use intelligence analysis to target our compliance activities to customers who are non-compliant or at risk of non-compliance. This creates an environment where customers believe we will detect non-compliance and are deterred from providing inaccurate information. It also protects the revenue base and provides certainty to customers in relation to the application of the law.

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

When customers comply with their obligations and receive their entitlements we make progress towards Inland Revenue's outcomes:

- 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.

Commentary on performance during 2013–14

We continue to target our investigations based on risk and intelligence. This year, our return on investment was 3.9% higher than the target, with a total of over \$1.2 billion in discrepancies being assessed.

In the hidden economy area we continued targeting businesses and individuals that deliberately choose to avoid the payment of tax through under-reporting or operating outside the tax system. We identified \$49.8 million in discrepancies, 13.1% above the target of \$44 million.

In the property compliance area we identified \$52.4 million in discrepancies against the target of \$45 million. We continue to focus on individuals speculating on residential property and expanding our monitoring of property hot spots, where we monitored over 26,000 properties.

This year, in our aggressive tax planning Budget work we identified \$414.2 million of discrepancies (target \$74 million). The most significant contribution came as a result of an out-of-court settlement with Alesco New Zealand Limited over its use of optional convertible notes, which the courts had ruled to be tax avoidance. Eleven other companies agreed to be bound by the outcome of the Alesco action because of their similar use of optional convertible notes. Alesco and the other companies agreed to discrepancies of \$355.8 million.

This year we identified and prevented over \$10.4 million in fraudulent claims from being issued.

Customers' perception of how we deal with non-compliers has improved since last year, with overall customer satisfaction at the same level. We continue to work on improving quality and will be measuring satisfaction each quarter of the coming year, instead of once per annum.

Timeliness of the completion of audits across all categories is well within targets and a review of our open cases indicates these positive results will continue.

Financial performance for the year ended 30 June 2014 (\$000)

Revenue	Expenses	Net surplus/(deficit)
172,031	165,269	6,762

Output 5.1 Taxpayer audit

Description

This output involves the auditing of taxpayers including individuals, small to medium businesses and larger businesses. It includes audits of duties and non-residents.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Minimum percentage of cases completed that are correct, complete, clear and appropriately referenced.	94.9%#	85%	95.1%#	11.9%	90%
Minimum percentage of audited customers who are satisfied with their experience.	74.4%#	65%	74.4%#	14.5%	65%
Minimum percentage of customers confident that Inland Revenue takes appropriate action against those who don't comply.	75.4%	75%	77.1%#	2.8%	75%
Minimum percentage of audits that result in a material discrepancy.	77.4%	75%	79.2%	5.6%	75%
Timeliness					
On average, we will complete audits within agreed timeframes:	Achieved	Achieved	Achieved	–	Achieved
• 4 months for general audits • 12 months for risk-based audits • 16 months for evasion and fraud audits • 28 months for aggressive tax planning audits.					
Minimum percentage of disputed cases completed within 15 months.	78.5%	75%	79.1%	5.5%	75%
Cost					
Minimum discrepancy identified for every output dollar spent.	\$7.47	\$7.70	\$8.00	3.9%	\$7.00

Measured using a sample of audit cases.

* These figures are not subject to audit.

Commentary on significant positive variances

Minimum percentage of cases completed that are correct, complete, clear and appropriately referenced

This is the first year of using a new methodology to measure this achievement, and we were uncertain what results might be achieved. For 2014–15, we have increased the target to 90%.

Minimum percentage of audited customers who are satisfied with their experience

This is measured annually by surveying audited customers and is the third year of measurement. From 2014–15, we expect to carry out surveys once per quarter, which may influence our results.

Output 5.2 Litigation management

Description

This output involves the management of litigation of disputed tax cases, including the requirement to state the case through to resolution by the courts.

Performance measures

Measure	2012–13 Actual	2013–14 Target*	2013–14 Actual	2013–14 Variance %	2014–15 Target*
Quality					
Minimum percentage of litigation judgments found in favour of the Commissioner.	77.0%	66%	83.3%	26.2%	66%

* These figures are not subject to audit.

Commentary on significant positive variance

Minimum percentage of litigation judgments found in favour of the Commissioner

This achievement reflects a total of 78 judgments for the year, up from 52 judgments last year. The result relates to cases that were found fully in the Commissioner's favour (ie, in relation to all issues). With the small number of cases, any slight variation in judgments found in the Commissioner's favour can alter the percentage achieved significantly.

Output statement: Taxpayer audit

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Actual \$000	2013–14 Budget* \$000	2013–14 Revised Budget* \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Revenue					
Crown	177,684	182,531	171,597	171,597	165,866
Other	4,477	265	265	434	265
Total revenue	182,161	182,796	171,862	172,031	166,131
Expenses					
Annual appropriations	171,769	182,796	171,862	165,269	166,131
Total expenses	171,769	182,796	171,862	165,269	166,131
Net surplus/(deficit)	10,392	–	–	6,762	–

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

PART 07

Departmental financial statements

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2012–13 Actual \$000	2013–14 Budget* \$000	2013–14 Estimated Actual* \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Income						
Revenue Crown		659,000	690,618	689,898	717,838	683,635
Other income	1	36,444	26,187	26,645	25,698	28,747
Total income		695,444	716,805	716,543	743,536	712,382
Expenditure						
Personnel	2	395,992	447,965	442,563	431,986	457,750
Operating	3	181,350	187,264	200,291	194,845	177,191
Depreciation	4	18,994	18,339	14,070	13,440	16,848
Amortisation and impairment	5	37,085	41,549	38,003	37,925	38,528
Capital charge	6	20,796	21,628	21,616	21,616	22,031
Finance costs	7	150	60	–	74	34
Total Output Expenses		654,367	716,805	716,543	699,886	712,382
Net surplus/(deficit)		41,077	–	–	43,650	–
Other comprehensive income		–	–	–	–	–
Total comprehensive income		41,077	–	–	43,650	–

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

Explanations of significant variances against budget are detailed in note 25.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF CHANGES IN TAXPAYERS' FUNDS

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2012–13	2013–14	2013–14	2013–14	2014–15
		Actual \$000	Forecast* \$000	Estimated Actual* \$000	Actual \$000	Forecast* \$000
Balance at start of year		259,951	270,346	270,343	270,343	275,393
Total comprehensive income		41,077	–	–	43,650	–
Repayment of surplus to the Crown	8	(41,080)	–	–	(43,651)	–
Capital contribution		11,041	3,177	5,329	5,329	2,336
Capital repayment		(646)	–	(279)	(279)	–
		(30,685)	3,177	5,050	(38,601)	2,336
Balance at end of year		270,343	273,523	275,393	275,392	277,729

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

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	Notes	2012–13	2013–14	2013–14	2013–14	2014–15
		Actual \$000	Budget* \$000	Estimated Actual* \$000	Actual \$000	Forecast* \$000
Taxpayers' funds						
Taxpayers' funds		270,343	273,523	275,393	275,392	277,729
Total taxpayers' funds		270,343	273,523	275,393	275,392	277,729
Represented by:						
Current assets						
Cash and cash equivalents		45,631	12,000	12,000	30,643	12,000
Debtor Crown		198,755	149,568	204,271	238,430	195,502
Debtors and prepayments	9	18,698	15,422	15,266	16,811	15,422
Inventories held for distribution	10	1,365	1,200	999	879	1,000
Total current assets		264,449	178,190	232,536	286,763	223,924
Non-current assets						
Prepayments	9	402	136	646	834	66
Property, plant and equipment	4	53,552	63,246	56,024	55,450	59,176
Intangible assets	5	117,126	143,171	112,015	107,853	113,487
Total non-current assets		171,080	206,553	168,685	164,137	172,729
Total assets		435,529	384,743	401,221	450,900	396,653
Current liabilities						
Creditors and other payables	11	35,385	27,200	38,595	44,303	33,200
Surplus payable to the Crown	8	41,080	–	–	43,651	–
Employee entitlements	12	46,148	43,078	46,190	47,931	43,815
Provision for other liabilities	13	1,056	116	116	53	–
Derivative financial instruments	14	3	–	–	1	–
Finance leases	15	381	253	253	386	274
Other financial liabilities	16	131	111	208	183	205
Total current liabilities		124,184	70,758	85,362	136,508	77,494
Non-current liabilities						
Employee entitlements	12	38,945	37,942	38,558	36,626	39,948
Provision for other liabilities	13	839	1,743	798	912	851
Finance leases	15	540	286	286	593	12
Other financial liabilities	16	678	491	824	869	619
Total non-current liabilities		41,002	40,462	40,466	39,000	41,430
Total liabilities		165,186	111,220	125,828	175,508	118,924
Net assets		270,343	273,523	275,393	275,392	277,729

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

Explanations of significant variances against budget are detailed in note 25.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2012–13	2013–14	2013–14	2013–14	2014–15
		Actual \$000	Budget* \$000	Estimated Actual* \$000	Actual \$000	Forecast* \$000
Cash flows – operating activities						
Receipts from Crown		617,131	685,811	684,382	678,163	692,404
Receipts from government departments		2,758	1,219	2,127	1,310	7,572
Receipts from third parties		34,029	25,065	24,531	21,977	21,397
Payments to employees		(400,294)	(449,184)	(442,908)	(432,522)	(458,735)
Payments to suppliers		(189,375)	(189,171)	(193,001)	(184,028)	(180,903)
Payments for capital charge		(20,796)	(21,628)	(21,616)	(21,616)	(22,031)
Goods and Services tax (net)		1,894	449	(1,292)	2,252	(1,779)
Net cash flow from operating activities	17	45,347	52,561	52,223	65,536	57,925
Cash flows – investing activities						
Receipts from sale of property, plant and equipment		1,500	–	–	114	–
Purchase of property, plant and equipment		(19,022)	(21,277)	(16,574)	(15,564)	(20,000)
Purchase of intangible assets		(29,918)	(55,979)	(32,868)	(29,102)	(40,008)
Net cash flow from investing activities		(47,440)	(77,256)	(49,442)	(44,552)	(60,008)
Cash flows – financing activities						
Capital contribution		11,041	3,177	5,329	5,329	2,336
Repayment of surplus		(5,777)	(9,100)	(41,080)	(41,080)	–
Capital repayment		(646)	–	(279)	(279)	–
Payments of finance leases		(1,434)	(382)	(382)	58	(253)
Net cash flow from financing activities		3,184	(6,305)	(36,412)	(35,972)	2,083
Net increase/(decrease) in cash and cash equivalents		1,091	(31,000)	(33,631)	(14,988)	–
Opening cash and cash equivalents		44,540	43,000	45,631	45,631	12,000
Closing cash and cash equivalents		45,631	12,000	12,000	30,643	12,000

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

The net Goods and Services tax (GST) component of operating activities reflects the net GST paid to and received from Inland Revenue. The GST components have been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF COMMITMENTS

AS AT 30 JUNE 2014

	Note	2012–13 Actual \$000	2013–14 Actual \$000
Capital commitments			
Property, plant and equipment		2,406	930
Intangible assets		1,654	2,841
Total capital commitments		4,060	3,771
Operating commitments			
<i>Non-cancellable accommodation leases</i>			
Not later than one year		27,755	32,642
Later than one year and not later than five years		88,537	115,685
Later than five years		86,548	77,667
Total operating commitments		202,840	225,994
Total commitments	18	206,900	229,765

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

STATEMENT OF CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS AT 30 JUNE 2014

	Note	2012–13 Actual \$000	2013–14 Actual \$000
Contingent liabilities			
Legal proceedings and disputes – taxpayer		1,097	843
Personal grievances		33	30
Total contingent liabilities	19	1,130	873
Contingent assets			
Legal proceedings and disputes – taxpayer		3,486	2,867
Total contingent assets	19	3,486	2,867

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

STATEMENT OF DEPARTMENTAL EXPENSES AND CAPITAL EXPENDITURE AGAINST APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Expenditure ¹	2013–14 Budget*	2013–14 Revised Budget** ²	2013–14 Expenditure ¹	2014–15 Forecast*
	\$000	\$000	\$000	\$000	\$000
Vote: Revenue					
<i>Output expenses</i>					
Policy advice	7,912	8,100	8,168	8,118	8,053
Services to inform the public about entitlements and meeting obligations	243,448	267,502	267,052	248,037	251,307
Services to process obligations and entitlements	116,645	133,511	158,693	144,965	140,572
Management of debt and outstanding returns	116,251	124,896	137,750	132,610	143,259
Taxpayer audit	171,769	182,796	171,862	165,269	166,131
Total departmental output expenses¹	656,025	716,805	743,525	698,999	709,322
Services to other agencies RDA ³	–	–	710	555	3,060
Total output expenses	656,025	716,805	744,235	699,554	712,382
Other expenses – administration and use of another department's appropriation	–	–	1,308	973	–
Total expenditure	656,025	716,805	745,543	700,527	712,382
<i>Departmental capital expenditure</i>					
Property, plant and equipment	19,022	21,277	17,000	15,564	20,000
Intangible assets	29,918	55,723	38,000	29,127	42,336
Total departmental capital expenditure	48,940	77,000	55,000	44,691	62,336

¹ Excludes remeasurement of \$641,000 (2012–13, \$1,658,000).

² Includes adjustments made in the Supplementary Estimates and transfers under the Public Finance Act 1989.

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

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

Explanations of significant variances against budget are detailed in note 25.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF UNAPPROPRIATED EXPENSES AND CAPITAL EXPENDITURE

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FOR THE YEAR ENDED 30 JUNE 2014

In the 2013–14 financial year there were no instances of:

- expenses and capital expenditure incurred in excess of appropriation (2012–13, \$nil).
- expenses and capital expenditure incurred without appropriation or other authority, or outside scope of appropriation (2012–13, \$nil).

In the 2013–14 financial year there were no breaches of the projected departmental net asset schedule (2012–13, \$nil).

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

Statement of accounting policies

These financial statements include financial statements for the year ended 30 June 2014 and forecast financial statements for the year ended 30 June 2015. The statements have been combined to provide a single view of budget, actual and forecast information.

References to the financial statements incorporate the forecast financial statements, unless otherwise stated.

REPORTING ENTITY

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled in New Zealand. It is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than making a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for the purpose of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS PBE).

REPORTING PERIOD

The reporting period for these financial statements is for the year ended 30 June 2014. The forecast financial statements are for the year ended 30 June 2015.

The financial statements were authorised for issue by the Chief Executive of Inland Revenue on 29 September 2014.

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 Treasury Instructions. These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS (PBE), and other applicable financial reporting standards, as appropriate for public benefit entities.

BASIS OF PREPARATION

The accounting policies set out below 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, unless otherwise stated.

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.

JUDGEMENTS AND ESTIMATIONS

In preparing these financial statements, judgements, estimates and assumptions have been made concerning the future. These estimates and their associated assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision 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 the carrying amount of assets and liabilities within the next financial year are related to retiring and long-service leave.

An analysis is provided in Note 12 of the exposure in relation to estimates and uncertainties surrounding retiring and long-service leave liabilities.

Finance leases

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to Inland Revenue. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the *Statement of Financial Position* as property, plant and equipment, whereas with an operating lease no such asset is recognised.

Inland Revenue has exercised its judgement on the appropriate classification of equipment leases, and has determined that one of these arrangements included a finance lease.

STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

The External Reporting Board (XRB) was given the responsibility for issuing accounting standards on 1 July 2011. Prior to that date the Accounting Standards Review Board (ASRB) issued standards. The XRB is a legal continuation of the ASRB. All accounting standards on issue on 30 June 2011 have been carried across to the XRB.

The Minister of Commerce has approved a new Framework (incorporating a Tier Strategy) developed by the External Reporting Board. Under this Framework, Inland Revenue is classified as a Tier 1 reporting entity and it will be required to apply full PBE accounting standards. These standards are being developed by the External Reporting Board based on current International Public Sector Accounting Standards (IPSAS). The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means Inland Revenue will transition to the new standards in preparing its 30 June 2015 financial statements.

The forecast financial statements for the 2014–15 year have been prepared in accordance with public sector PBE Accounting Standards (PBE IPSAS). This is a change from actual and budget figures as at 30 June 2014 which were prepared in accordance with NZ IFRS (PBE) as appropriate for public benefit entities. At this stage we have not identified any material changes between these standards that will impact the Forecast Financial Statements. A detailed assessment will be performed shortly for PBE IPSAS.

There are no new relevant standards and interpretations issued this year and Inland Revenue has not early adopted any new standards and interpretations.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial results, financial position, and output statements within the *Statement of Service Performance* have been applied.

Budget and forecast figures

The Budget figures for 2013–14 are those included in *The Estimates of Appropriations for the year ending 30 June 2014*.

The Revised Budget figures for 2013–14 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2014*.

The Estimated Actual figures for 2013–14 and the Forecast figures for 2014–15 are those included in *The Estimates of Appropriations for the year ending 30 June 2015*. The Estimated Actual figures represent forecasts submitted to Treasury based on all Government decisions and assumptions as at 29 April 2014.

No changes were made to the 2014–15 forecast figures in the *Pre-election Economic and Fiscal Update (PREFU) 2014*.

The Budget, Revised Budget, Estimated Actual 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.

GST

All items in the financial statements, including appropriation statements, are stated exclusive of 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 to or from Inland Revenue at balance date, being the difference between output GST and input GST, is included in “creditors and other payables” or “debtors and prepayments” in the *Statement of Financial Position*.

The net GST paid to or received from Inland Revenue, 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, so accordingly, no charge for income tax has been provided for.

Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised as follows:

Revenue Crown

Revenue earned from the supply of outputs to the Crown is recognised as revenue when earned.

Sale of services

Sale of services are recognised in the accounting period the services are provided in, by reference to completion of specific transactions, assessed on the basis of actual services provided as a proportion of the total services to be provided.

Revenue from recoveries

Revenue from recoveries is recognised as revenue when earned.

Sub-leases

Income from sub-leased property is recognised in the *Statement of Comprehensive Income* on a straight-line basis over the term of the lease.

Insurance proceeds

Insurance claim proceeds are recognised as revenue when the claim has been accepted by the insurer or when receipt of the insurance proceeds is considered virtually certain. The insurance proceeds will be disclosed as a contingent asset if the receipt is only probable.

Cost allocations

Inland Revenue uses an integrated cost allocation process to derive the cost of its outputs. This process involves the initial costing of business processes followed by the full costing of outputs.

Business processes represent Inland Revenue's key functional activities. These business processes are used to capture direct costs.

Direct personnel costs are charged to business processes, based on actual hours and standard activity rates. Other related direct costs, including depreciation, are allocated to business processes, based on planned hours or relevant activity drivers.

Premises lease costs are charged to business processes based on headcount or relevant activities.

Other indirect costs and corporate overheads that cannot be attributed directly to a business process are apportioned to outputs, based on planned business process activity allocation to outputs.

There have been no material changes in cost accounting policies since the date of the last audited financial statements.

Capital charge

The capital charge is recognised as an expense in the period to which the charge relates.

Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of an asset, whether or not title is eventually transferred. 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.

Operating leases

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 incentive to enter into an operating lease are also recognised evenly over the term of the lease as a reduction in the rental expense.

Contractual arrangements considered to be operating leases have been recognised during the reporting period.

Finance leases

At the commencement of the lease term, finance leases are recognised as assets and liabilities in the *Statement of Financial Position* at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the surplus or deficit over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether Inland Revenue will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Contractual arrangements considered to be finance leases have been recognised during the reporting period.

Financial instruments

Financial assets

Inland Revenue classifies its financial assets into two categories: financial assets at fair value through surplus or deficit, and debtors and receivables. The classification depends on the purpose for which the assets were acquired.

a) Financial assets at fair value through surplus or deficit

Financial assets designated at fair value through surplus or deficit are recorded at fair value with any realised and unrealised gains or losses recognised in the *Statement of Comprehensive Income*. Gains or losses from foreign exchange and other fair value movements are separately reported in the *Statement of Comprehensive Income*. Transaction costs are expensed as they are incurred. Derivatives (e.g., foreign currency forward exchange contracts) are classified under this category.

Derivative financial instruments are recognised both initially on the date a derivative contract is entered into and subsequently 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. The fair value gains or losses on derivatives are recognised in the *Statement of Comprehensive Income*.

b) Debtors and receivables

Debtors and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Debtors and receivables issued with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material.

Impairment of financial assets

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

The amount of the provision is the difference between the asset's carrying amount and the estimated impaired value. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the impairment loss is recognised in the *Statement of Comprehensive Income*.

Financial liabilities

Inland Revenue classifies its financial liabilities into two categories: financial liabilities at fair value through surplus or deficit, and financial liabilities measured at amortised cost. The classification depends on the purpose for which the liabilities were incurred.

a) Financial liabilities at fair value through surplus or deficit

Financial liabilities designated at fair value through surplus or deficit are recorded at fair value with any realised and unrealised gains or losses recognised in the *Statement of Comprehensive Income*. Gains or losses from foreign exchange and other fair value movements are reported separately in the *Statement of Comprehensive Income*. Transaction costs are expensed as they are incurred. Derivatives (e.g., foreign currency forward exchange contracts) are classified under this category.

b) Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with durations of less than 12 months are recognised at their nominal value, unless the effect of discounting is material. "Creditors and other payables" are recognised at their nominal value as the effect of discounting is immaterial.

Cash and cash equivalents

Cash and cash equivalents include all cash 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.

Inventories held for distribution

Inventories held for distribution comprise forms, booklets and returns held for distribution to the public at no or nominal consideration in the ordinary course of operations.

Inventories held for distribution for public benefit purposes are carried at cost, calculated using the first-in, first-out (FIFO) cost method, adjusted where applicable for any loss of service potential. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the current replacement cost at the date of acquisition.

The carrying amount is recognised as an expense in the period in which the goods are distributed. The amount of any write-down of inventories and all losses of inventories is recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period the reversal occurs in.

Hedge accounting, hedging activities and foreign currency transactions

Inland Revenue's activities expose it primarily to risks of changes in foreign exchange rates. Inland Revenue uses derivative financial instruments (primarily, foreign currency forward exchange contracts) to mitigate its risks associated with foreign currency

fluctuations relating to certain commitments. The use of financial derivatives is governed by Inland Revenue's foreign exchange policy, which provides written principles on the use of financial derivatives consistent with Inland Revenue's risk management strategy.

Inland Revenue does not hold or issue derivative financial instruments for trading purposes. It also has not adopted hedge accounting.

Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the *Statement of Comprehensive Income*.

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 – desktop computers and laptops | all |
| • IT equipment – other | \$2,000 and over (or \$20,000 for bulk purchased IT equipment) |
| • Furniture and office equipment | \$2,000 and over (or \$20,000 for bulk purchased furniture) |
| • Motor vehicles | \$2,000 and over |
| • Leasehold improvements | \$20,000 and over |

Property, plant and equipment are shown at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset and 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 future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to Inland Revenue and the cost of the item can be measured reliably. All repairs and maintenance are charged to the *Statement of Comprehensive Income* during the financial period in which they are incurred.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than assets under construction. The rate of depreciation will write off the cost of the asset to the estimated residual value over the useful life of the asset. The useful life of major classes of assets have been estimated as follows:

- IT equipment 3 to 6 years
- Furniture and office equipment 5 to 7 years
- Motor vehicles 5 to 7 years
- Leasehold improvements up to 10 years

All fixed assets other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 20% residual value.

The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease, or the estimated remaining useful life of the improvements, whichever is shorter, up to a maximum of 10 years.

Assets under construction are 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.

Impairment

Property, plant and equipment that has a finite useful life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication of impairment exists, the recoverable amount is estimated to determine the extent of the impairment loss, if any.

If an asset's recoverable amount is less than its carrying amount, the asset is impaired and it will be reported at its recoverable amount. The impairment loss is recognised in the *Statement of Comprehensive Income*.

The reversal of an impairment loss is also recognised in the *Statement of Comprehensive Income*.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the *Statement of Comprehensive Income*.

Intangible assets

Inland Revenue has intangible assets in the form of software, licences and business process design.

Additions

Intangible assets are initially recorded at cost. Inland Revenue only has intangible assets with finite useful lives. The three main categories are: software – developed, software and licences – purchased and business process design.

a) Software – developed

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The cost of developed computer software comprises direct labour, material purchased and an appropriate portion of relevant overheads. These costs are directly associated with the development of identifiable and unique software controlled by Inland Revenue, and will generate future economic benefits.

Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs of configuring and customising purchased software for intended use are capitalised.

Staff training costs are recognised as an expense when incurred.

b) Software and licences – purchased

Intangible assets acquired by Inland Revenue such as computer software and licences are stated at cost less accumulated amortisation and impairment losses. Acquired computer software and licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs of configuring and customising purchased software for intended use are capitalised.

c) Business process design

Expenditure on development activities, where research findings are applied to a plan or design for new or substantially improved business processes, is capitalised if the business process is technically and commercially feasible and Inland Revenue has sufficient resources to complete development. Other development expenditure is recognised in the *Statement of Comprehensive Income* as an expense as incurred.

The capitalisation thresholds for intangible assets are:

- Software – developed \$50,000 and over
- Software and licences – purchased \$5,000 and over
- Business process design \$50,000 and over

Subsequent cost

The cost of intangible assets with finite lives is subsequently recorded at cost less any amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each period is recognised in the *Statement of Comprehensive Income*.

The useful lives of major classes of intangible assets have been estimated as follows:

- Software – developed 5 to 10 years
- Software and licences – purchased 5 to 10 years
- Business process design 5 to 10 years

Assets under construction are not amortised. The total cost of a capital project is transferred to the appropriate asset class on its completion and then amortised.

Impairment

Intangible assets including assets under construction are reviewed for impairment at each balance date. If any indication of impairment exists, the recoverable amount is estimated to determine the extent of the impairment loss, if any.

If an intangible asset's recoverable amount is less than its carrying amount, the asset is impaired and it will be reported at its recoverable amount. The impairment loss is recognised in the *Statement of Comprehensive Income*.

The reversal of an impairment loss is also recognised in the *Statement of Comprehensive Income*.

De-recognition

The gain or loss arising from the de-recognition of an intangible asset is recognised in the *Statement of Comprehensive Income* when the asset is de-recognised.

Employee entitlements

Short-term entitlements

Employee entitlements that Inland Revenue expects to be settled within 12 months of balance date are measured at nominal values 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, retiring, long-service leave and sick leave entitlements expected to be settled within 12 months.

Inland Revenue recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent that Inland Revenue anticipates it will be used by staff to cover those future absences.

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created a constructive obligation.

Long-term entitlements

Employee entitlements that are payable beyond 12 months such as long-service leave and retiring leave have been calculated on an actuarial basis.

The actuarial calculations for long-service leave and retiring leave liabilities are based on:

- Employee contractual entitlements.
- Years of service accrued to balance date and years remaining to entitlement.
- Present value of the estimated future cash outflows using an applicable discount rate and salary inflation rate.

Superannuation schemes

Obligations for contributions to the Inland Revenue Superannuation Scheme, State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes and are recognised as an expense in the *Statement of Comprehensive Income* as they fall due.

Termination benefits

Termination benefits are payable when an employee's employment contract is terminated before their normal retirement or when an employee accepts voluntary redundancy in exchange for these benefits. Inland Revenue recognises the expenditure in the *Statement of Comprehensive Income* 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.

Provisions

Inland Revenue recognises a provision for future expenditure of uncertain amounts or timing where there is a present obligation (either legal or constructive) as a result of a past event, and it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

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.

Taxpayers' funds

This is the Crown's net investment in Inland Revenue. It is measured as the difference between total assets and total liabilities. Taxpayers' funds are disaggregated and classified into a number of components:

- Capital contribution
- Capital repayment
- Repayment of surplus to the Crown

Statement of Cash Flows

Cash and cash equivalents mean cash balances in bank accounts.

Operating activities include cash received from all income sources of Inland Revenue, and cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise capital injections by, or repayment of capital to, the Crown.

Commitments

Expenses and liabilities yet to be incurred on non-cancellable contracts that have been entered into on or before balance date are disclosed as commitments to the extent that they are unperformed obligations.

Contingent liabilities and assets

Contingent liabilities and assets are recorded in the *Statement of Contingent Liabilities and Contingent Assets* at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised. Insurance claim proceeds will be disclosed as a contingent asset if the receipt of the insurance proceeds is probable.

Comparatives

Certain comparative information has been reclassified, where required, to conform with the current year's presentation.

CHANGES IN ACCOUNTING POLICIES

For the preparation of the department's financial statements and statements of service performance as at 30 June 2014 there have been no changes in accounting policies and cost allocation policies since the date of the last audited financial statements. All policies have been applied on a basis consistent with the previous year.

The forecasts for the 2014–15 year have been prepared in accordance with PBE IPSAS. This is a change from actual and budget figures as at 30 June 2014 which were prepared in accordance with NZ IFRS (PBE) as appropriate for public benefit entities. At this stage we have not identified any material changes between these standards that will impact the Forecast Financial Statements.

FORECAST FINANCIAL STATEMENTS

The forecast financial statements have been prepared in accordance with the Public Finance Act 1989.

The purpose of the forecast financial statements is to facilitate Parliament's consideration of appropriations for, and planned performance of, the department. These forecast financial statements may not be appropriate for other purposes.

The forecast financial statements have been prepared in accordance with the accounting policies detailed above. Additional accounting policies relating to the forecasts are set out below.

The forecast financial statements comply with NZ GAAP and have been prepared in accordance with 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 and circumstances as at 29 April 2014.

The main assumptions are as follows:

- The department's main activities will remain substantially the same as for the previous year.
- Operating costs are based on historical experience. The general historical pattern is expected to continue.
- Estimated year-end information for 2013–14 is used as the opening position for the 2014–15 forecasts.

These assumptions are adopted as at 29 April 2014.

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these forecast financial statements and the actual reported results include:

- Changes to the budget through initiatives approved by Cabinet.
- Technical adjustments to the budget including transfers between financial years.
- The timing of expenditure relating to significant programmes and projects.

Any changes to budgets during 2014–15 will be incorporated into *The Supplementary Estimates of Appropriations for the year ending 30 June 2015*.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: OTHER INCOME

	2012–13 Actual \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Accident Compensation Corporation (ACC) – agency fees	20,500	20,500	20,500
Court costs recovery	3,178	2,081	2,828
Rulings	781	1,061	1,088
Services on behalf of other government agencies	–	1,009	–
Support services to other government agencies	–	555	3,060
Sub-leases	252	475	1,100
Secondment to other agencies – salary recovery	150	–	–
Net gains on property, plant and equipment	476	1	–
Insurance proceeds	9,101	–	–
Net gains on derivative financial instruments	1,943	–	–
Supply of information to other agencies	13	13	170
Other	50	3	1
Total other income	36,444	25,698	28,747

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

NOTE 2: PERSONNEL

	2012–13 Actual \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Salaries and wages	350,352	371,178	395,310
Contractors and temporary staff	26,578	37,489	39,926
Employer contributions to defined contribution plans	9,816	11,745	11,952
Terminating benefits	948	1,926	2,051
ACC levies	1,224	1,536	1,714
Annual leave	1,160	1,114	759
Retiring, long-service and sick leave	2,704	242	3,000
Bonuses	192	258	275
Other	3,018	6,498	2,763
Total personnel	395,992	431,986	457,750

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

NOTE 3: OPERATING

	2012–13 Actual \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Information technology costs	43,549	50,545	50,312
Accommodation lease rentals	30,223	31,471	33,280
Consultants	26,223	23,348	13,763
Printing and postage	17,901	17,943	18,623
Communication	14,195	15,845	15,404
Premises costs	8,747	9,505	8,120
Travel and transport	7,934	9,027	7,905
Legal expenses	5,723	8,568	8,642
Staff development	6,566	6,882	6,860
Office supplies	3,392	3,604	3,435
Bank fees	3,437	3,400	3,241
Realised foreign exchange losses	1,447	2,310	106
Advertising and publicity	2,368	1,881	2,086
Equipment maintenance	1,739	1,780	1,297
Audit fees for audit of the financial statements	1,033	1,033	1,100
Disbursements for audit of the financial statements	55	20	–
Fees to Audit NZ for other services	13	30	–
Bad debts written off	26	18	–
Net loss on disposal of intangible assets	–	478	–
Net loss on disposal of property, plant and equipment	–	87	8
Inc/(Dec) in provision for debt impairment	–	–	9
Inc/(Dec) in provision for onerous leases	(391)	–	–
Other operating expenses	7,170	7,070	3,000
Total operating	181,350	194,845	177,191

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT BY CATEGORY

	IT equipment \$000	Furniture and office equipment \$000	Motor vehicles \$000	Leasehold improvements \$000	Assets under construction – leasehold \$000	Total \$000
Cost						
Balance as at 1 July 2013	65,621	29,298	4,904	53,003	4,334	157,160
Additions by purchase	4,935	1,437	–	8,388	184	14,944
Other movements ¹	–	–	–	(175)	–	(175)
Transfers between category	25	–	–	3,905	(3,112)	818
Disposals	(13,910)	(11)	(309)	(3,110)	–	(17,340)
Balance as at 30 June 2014	56,671	30,724	4,595	62,011	1,406	155,407
Depreciation and impairment losses						
Balance as at 1 July 2013	54,952	21,190	1,123	26,343	–	103,608
Depreciation charge – expensed	6,100	2,638	547	4,455	–	13,740
Depreciation charge – capitalised ²	12	11	–	–	–	23
Impairment reversals	–	(300)	–	–	–	(300)
Transfers between category	–	–	–	–	–	–
Disposals	(13,832)	(11)	(162)	(3,109)	–	(17,114)
Balance as at 30 June 2014	47,232	23,528	1,508	27,689	–	99,957
Carrying amount as at 30 June 2014	9,439	7,196	3,087	34,322	1,406	55,450
Forecast carrying amount at 30 June 2015³	9,710	5,145	2,649	40,672	1,000	59,176
Cost						
Balance as at 1 July 2012	63,572	31,189	4,594	54,620	4,312	158,287
Additions by purchase	4,175	2,147	3,260	5,540	4,286	19,408
Other movements ¹	526	–	–	(559)	–	(33)
Transfers between category	11	–	–	3,969	(4,264)	(284)
Disposals	(2,663)	(4,038)	(2,950)	(10,567)	–	(20,218)
Balance as at 30 June 2013	65,621	29,298	4,904	53,003	4,334	157,160
Depreciation and impairment losses						
Balance as at 1 July 2012	46,762	21,967	2,882	32,125	–	103,736
Depreciation charge – expensed	10,845	2,688	509	4,457	–	18,499
Depreciation charge – capitalised ²	–	67	–	–	–	67
Impairment losses	(44)	238	–	301	–	495
Transfers between category	5	–	–	–	–	5
Disposals	(2,616)	(3,770)	(2,268)	(10,540)	–	(19,194)
Balance as at 30 June 2013	54,952	21,190	1,123	26,343	–	103,608
Carrying amount as at 30 June 2013	10,669	8,108	3,781	26,660	4,334	53,552

¹ This relates to the addition/reduction of lease make-good costs on leased buildings.

² The depreciation charge for existing assets that are used in the development of intangible assets under construction.

³ The statement of accounting policies provides explanations of these figures which are not subject to audit.

Finance leases – The net carrying amount of IT equipment held under finance leases is \$935,000 (2012–13, \$890,000).

NOTE 5: INTANGIBLE ASSETS BY CATEGORY

	Software – developed \$000	Business process design \$000	Software and licences – purchased \$000	Assets under construction – intangibles \$000	Total \$000
Cost					
Balance as at 1 July 2013	456,739	8,262	124,343	26,517	615,861
Additions by purchase	–	–	5,445	–	5,445
Additions internally developed	6,826	–	–	17,706	24,532
Transfers between category	13,009	–	369	(14,196)	(818)
Disposals	(5,969)	–	(4,354)	–	(10,323)
Balance as at 30 June 2014	470,605	8,262	125,803	30,027	634,697
Amortisation and impairment losses					
Balance as at 1 July 2013	384,012	7,140	102,989	4,594	498,735
Amortisation charge – expensed	26,902	1,036	8,338	–	36,276
Amortisation charge – capitalised ¹	32	–	–	–	32
Impairment losses	–	–	–	1,649	1,649
Transfers between category	–	–	–	–	–
Disposals	(5,971)	–	(3,877)	–	(9,848)
Balance as at 30 June 2014	404,975	8,176	107,450	6,243	526,844
Carrying amount as at 30 June 2014	65,630	86	18,353	23,784	107,853
Forecast carrying amount at 30 June 2015²	80,631	–	12,856	20,000	113,487
Cost					
Balance as at 1 July 2012	437,190	8,262	120,285	20,231	585,968
Additions by purchase	–	–	4,069	–	4,069
Additions internally developed	9,681	–	–	15,888	25,569
Transfers between category	9,897	–	(11)	(9,602)	284
Disposals	(29)	–	–	–	(29)
Balance as at 30 June 2013	456,739	8,262	124,343	26,517	615,861
Amortisation and impairment losses					
Balance as at 1 July 2012	358,492	6,104	94,137	2,947	461,680
Amortisation charge – expensed	27,046	1,036	8,857	–	36,939
Amortisation charge – capitalised ¹	4	–	–	–	4
Impairment losses	146	–	–	–	146
Transfers between category	(1,647)	–	(5)	1,647	(5)
Disposals	(29)	–	–	–	(29)
Balance as at 30 June 2013	384,012	7,140	102,989	4,594	498,735
Carrying amount as at 30 June 2013	72,727	1,122	21,354	21,923	117,126

There is no restriction over the title of Inland Revenue's intangible assets, nor are any intangible assets pledged as security for liabilities.

¹ Refers to the amortisation charge for existing assets that are utilised in the development of intangible assets.

² The statement of accounting policies provides explanations of these figures which are not subject to audit.

Software – developed and business process design includes the following items and carrying amounts: FIRST technology environment \$34,276,000, KiwiSaver \$4,587,000, student loans \$25,207,000 (2012–13, FIRST technology environment \$42,114,000, KiwiSaver \$11,684,000, student loans \$20,055,000). The amortisation period for these intangible assets range from 5–10 years.

Software and licences – purchased includes the following items and carrying amounts: FIRST technology environment \$17,372,000, KiwiSaver \$974,000 (2012–13, FIRST technology environment \$20,206,000, KiwiSaver \$1,144,000). The amortisation period for these intangible assets range from 5–10 years.

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. The capital charge rate for the year ended 30 June 2014 was 8.0% per annum (2012-13, 8.0%, forecast 2014-15, 8.0%).

NOTE 7: FINANCE COSTS

	2012-13 Actual \$000	2013-14 Actual \$000
Interest on finance leases	150	74
Total finance costs	150	74

NOTE 8: REPAYMENT OF SURPLUS TO THE CROWN

	2012-13 Actual \$000	2013-14 Actual \$000
Total comprehensive income	41,077	43,650
Inc/(Dec) Unrealised losses/(gains) in relation to forward foreign exchange contracts	3	1
Repayment of surplus to the Crown	41,080	43,651

NOTE 9: DEBTORS AND PREPAYMENTS

	2012–13 Actual \$000	2013–14 Actual \$000
Current assets		
<i>Debtors</i>		
Accounts receivable	2,923	5,098
Less provision for impairment	(9)	(8)
Other debtors	243	474
<i>Net debtors</i>	3,157	5,564
Prepayments	15,541	11,247
Total current assets	18,698	16,811
Non-current assets		
Prepayments	402	834
Total non-current assets	402	834
Total debtors and prepayments	19,100	17,645

Given their short-term nature, the carrying value of accounts receivable and other debtors approximates their fair value.

Overdue receivables have been assessed for impairment and appropriate provisions applied, as detailed below:

Net debtors	Gross debtors \$000	Impairment \$000	Net debtors \$000
2013–14			
Due within 30 days	3,076	–	3,076
Overdue by 31 to 60 days	2,093	–	2,093
Overdue by 61 to 90 days	299	–	299
Overdue by > 90 days	104	(8)	96
Total	5,572	(8)	5,564
2012–13			
Due within 30 days	2,837	–	2,837
Overdue by 31 to 60 days	82	–	82
Overdue by 61 to 90 days	144	–	144
Overdue by > 90 days	103	(9)	94
Total	3,166	(9)	3,157

The provision for impairment has been calculated based on expected losses for Inland Revenue's debtors. Expected losses have been determined based on a review of each debtor.

Movements in the provision for impairment are as follows:

	2012–13 Actual \$000	2013–14 Actual \$000
Opening balance	(4)	(9)
Additional provisions made during the year	(11)	(8)
Unused amounts reversed	–	–
Receivables written off during the year	6	9
Closing balance	(9)	(8)

NOTE 10: INVENTORIES HELD FOR EXTERNAL DISTRIBUTION

Inventories comprise forms, booklets and returns held for external distribution. The carrying amount of inventories held for distribution that are measured at cost as at 30 June 2014 amounted to \$879,000 (2012-13, \$1,365,000).

The write-down of inventories held for distribution amounted to \$331,000 (2012-13, \$404,000). There have been no reversals of write-downs. The carrying amount of inventories held for distribution included the write-down of \$331,000.

No inventories are pledged as security for liabilities.

NOTE 11: CREDITORS AND OTHER PAYABLES

	2012-13 Actual \$000	2013-14 Actual \$000
Accounts payable	6,455	9,164
Accrued expenses – other	19,859	23,816
GST payable	9,071	11,323
Total creditors and other payables	35,385	44,303

Creditors and other payables are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

NOTE 12: EMPLOYEE ENTITLEMENTS

	2012–13 Actual \$000	2013–14 Actual \$000
Current liabilities		
Annual leave	24,383	25,139
Terminating benefits	2,410	886
Accrued salaries and wages	15,637	18,212
Sick leave	1,259	1,138
Retiring leave	1,552	1,539
Long-service leave	901	1,007
Time off in lieu	6	10
Total current liabilities	46,148	47,931
Non-current liabilities		
Retiring leave	30,796	28,971
Long-service leave	8,149	7,655
Total non-current liabilities	38,945	36,626
Total employee entitlements	85,093	84,557

The present value of retiring and long-service leave obligations depend on a number of factors that are determined on an actuarial basis by an independent actuary using a number of assumptions. Two key assumptions used in calculating these liabilities are the discount rate and salary inflation. Any changes in these assumptions will impact on the carrying amount of the liabilities.

The following table provides a sensitivity analysis for the key assumptions:

	Discount rate		Salary inflation	
	–1.0% \$000	+1.0% \$000	–1.0% \$000	+1.0% \$000
Retiring leave	1,746	(1,558)	(1,695)	1,871
Long-service leave	446	(396)	(437)	404

Movements in the provision for terminating benefits are as follows:

	2012–13 Actual \$000	2013–14 Actual \$000
Terminating benefits		
Opening balance	8,071	2,410
Additional provisions made	916	1,907
Amounts used	(6,577)	(3,431)
Unused amounts reversed	–	–
Closing balance	2,410	886

The closing 2013–14 provision is expected to be fully utilised in the 2014–15 year.

NOTE 13: PROVISION FOR OTHER LIABILITIES

	2012–13 Actual \$000	2013–14 Actual \$000
Current liabilities		
Lease make-good	1,056	53
Total current liabilities	1,056	53
Non-current liabilities		
Lease make-good	839	912
Total non-current liabilities	839	912
Total provision for other liabilities	1,895	965

	Onerous contracts \$000	Lease make-good \$000	Total \$000
2013–14			
Opening balance	–	1,895	1,895
Additional provisions made	–	803	803
Amounts used	–	–	–
Unused amounts reversed	–	(999)	(999)
Discount unwind	–	(734)	(734)
Closing balance	–	965	965
2012–13			
Opening balance	392	3,290	3,682
Additional provisions made	–	789	789
Amounts used	(392)	(584)	(976)
Unused amounts reversed	–	(1,304)	(1,304)
Discount unwind	–	(296)	(296)
Closing balance	–	1,895	1,895

Onerous contracts

The provision for onerous contracts arises from non-cancellable accommodation leases where the unavoidable costs of meeting the lease contract exceed the economic benefits to be received from it. Inland Revenue does not currently have any leases where it is no longer able to use the surplus space due to restructuring and floor plan revision.

Lease make-good

For a number of its leased premises, Inland Revenue is required at the expiry of the lease term to make-good any damage caused to the premises and remove any fixtures and fittings it has installed. In some cases, Inland Revenue has the option to renew these leases, which impacts on the timing of expected cash flows to make-good the premises.

NOTE 14: DERIVATIVE FINANCIAL INSTRUMENTS

To hedge its currency risk Inland Revenue enters into foreign currency forward exchange contracts with the New Zealand Debt Management Office (NZDMO).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2014 was NZ \$95,146 (2012–13, NZ \$627,981). The contracts consist of the purchase of US \$82,720 (2012–13, AU \$485,000 and UK £25,136). The unrealised loss on the forward exchange contract derivative as at 30 June 2014 is NZ \$728 (2012–13, NZ \$3,000).

The fair value of forward exchange contracts entered into during the financial year was determined by reference to published price quotations in an active market.

NOTE 15: FINANCE LEASES

	2012–13 Actual \$000	2013–14 Actual \$000
Total minimum lease payments payable		
Not later than one year	441	456
Later than one year and not later than five years	587	637
Later than five years	–	–
Total minimum lease payments	1,028	1,093
Future finance charges	(107)	(114)
Present value of minimum lease payments	921	979
Present value of minimum lease payments payable		
Not later than one year	381	386
Later than one year and not later than five years	540	593
Later than five years	–	–
Total present value of minimum lease payments	921	979
Represented by:		
Current	381	386
Non-current	540	593
Total finance leases	921	979

Inland Revenue has entered into an agreement for the provision of telecommunications services that includes embedded finance leases. The leased items are included within the net carrying amount of IT equipment (refer note 4 Property, Plant and Equipment).

There are no restrictions placed on Inland Revenue by any of the finance leasing arrangements.

Finance lease liabilities are effectively secured, as the rights to the leased assets reverts to the lessor in the event of default in payment.

NOTE 16: OTHER FINANCIAL LIABILITIES

	2012–13 Actual \$000	2013–14 Actual \$000
Current liabilities		
Leasing incentives	131	183
Total current liabilities	131	183
Non-current liabilities		
Leasing incentives	678	869
Total non-current liabilities	678	869
Total other financial liabilities	809	1,052

NOTE 17: RECONCILIATION OF NET SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2012–13 Actual	In 2013 Budget*	2013–14 Estimated Actual*	2013–14 Actual
	\$000	\$000	\$000	\$000
Net surplus/(deficit)	41,077	–	–	43,650
Add non-cash items				
Depreciation and impairment	18,994	18,339	14,070	13,440
Amortisation and impairment	37,085	41,549	38,003	37,925
Total non-cash items	56,079	59,888	52,073	51,365
Add items classified as investing or financing activities				
Net loss/(gain) on disposal of property, plant and equipment	(476)	–	8	86
Net loss on disposal of intangible assets	–	–	–	478
Total items classified as investing or financing activities	(476)	–	8	564
Add/(less) working capital movements				
(Inc)/Dec in debtor Crown	(41,869)	(4,807)	(5,516)	(39,675)
(Inc)/Dec in debtors and prepayments	(2,053)	2,011	3,188	1,455
(Inc)/Dec in inventories held for distribution	(133)	98	366	485
Inc/(Dec) in creditors and other payables	(676)	(2,337)	3,210	8,917
Inc/(Dec) in derivative financial instruments	(500)	(30)	(3)	(2)
Inc/(Dec) in provision for employee benefits	(4,301)	(1,219)	(345)	(536)
Inc/(Dec) in provision for other liabilities	(1,787)	(942)	(981)	(930)
Inc/(Dec) in other financial liabilities	(14)	(101)	223	243
Inc/(Dec) in finance lease liabilities	–	–	–	–
Net movements in working capital items	(51,333)	(7,327)	142	(30,043)
Net cash inflow from operating activities	45,347	52,561	52,223	65,536

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

NOTE 18: COMMITMENTS

Capital commitments

Capital commitments are the aggregate amount of capital expenditure contracted for the acquisition of property, plant and equipment and intangible assets that have not been paid for or recognised as a liability at the balance date.

Operating commitments

Operating commitments for non-cancellable accommodation leases relate to Inland Revenue's long-term leases on its premises at many locations throughout New Zealand. The annual lease payments are regularly reviewed and the amounts disclosed as future commitments are based on current rental rates. These commitments also include office space vacated by Inland Revenue as a result of organisational restructuring and sub-leased. Provision has been made in the financial statements for the expected net expenses for the duration of these leases.

The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is \$12,294,537 (2012–13, \$3,625,049). The increase is due to the establishment of a co-located building in Wellington with other government agencies. The co-location is expected to take place in the latter half of the 2014–15 financial year.

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.

NOTE 19: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Legal proceedings and disputes – taxpayer

This contingent liability relates to potential claims against Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. It only relates to court costs; the actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to *Schedule of non-departmental contingent liabilities and contingent assets*).

The expected value of the contingent liability is calculated using an outcome probability model that weighs the total potential liability against outcome probabilities. Independent confirmation on the liability has been ascertained on all legal proceedings and tax disputes.

The contingent liability as at 2013–14 (excluding court costs recoverable) was \$843,283 (2012–13, \$1,096,938).

Legal proceedings and disputes – departmental

This contingent liability relates to disputes such as claims made by departmental suppliers.

Personal grievances

Personal grievances represent amounts claimed by employees for alleged breaches of contract against Inland Revenue.

Contingent assets

Legal proceedings and disputes – taxpayer

This contingent asset relates to potential court costs recoverable by Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. It only relates to court costs; the actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to *Schedule of non-departmental contingent liabilities and contingent assets*).

The expected value of the contingent asset is calculated using an outcome probability model that weighs the total potential court costs recoverable against outcome probabilities.

The contingent asset as at 2013–14 was \$2,867,162 (2012–13, \$3,485,927).

NOTE 20: 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. In 2013–14 Inland Revenue has been provided with operating funding from the Crown of \$718 million (2012–13, \$659 million) for specific purposes as set out in the scope of relevant government appropriations.

Inland Revenue enters into related party transactions with other government departments, Crown agencies and state-owned enterprises which are controlled, significantly influenced, or jointly controlled by the Crown. All related party transactions have been entered into on an arm's length basis.

In 2013–14 the purchase of goods and services by Inland Revenue from entities controlled, significantly influenced, or jointly controlled by the Crown totalled \$30 million (2012–13, \$29 million). These purchases include postal services from New Zealand Post, and air travel from Air New Zealand.

In 2013–14 Inland Revenue paid capital charge on taxpayers' funds to the Crown totalling \$22 million (2012–13, \$21 million).

In 2013–14 the services provided by Inland Revenue to entities controlled, significantly influenced, or jointly controlled by the Crown totalled \$22 million (2012–13, \$21 million). These services include the collection of levies payable by earners on behalf of the Accident Compensation Corporation (ACC), financial transaction processing services for the Department of Internal Affairs and the NZ Productivity Commission, and the supply of information to other agencies. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

No related party transactions were entered into with key management personnel during the year.

Compensation to key management personnel

The remuneration of key management personnel during the year was as follows:

	2012–13 Actual \$000	2013–14 Actual \$000
Salaries and other short-term employee benefits	2,835	3,270
Post-employment benefits	47	64
Other long-term benefits	5	–
Total key management personnel compensation	2,887	3,334

Key management personnel comprise the Minister of Revenue, the Commissioner, five Deputy Commissioners, Chief Tax Counsel, Chief Financial Officer, Chief Technology Officer, Chief People Officer and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined and paid by the State Services Commission.

Key management personnel compensation excludes the remuneration and other benefits the Minister of Revenue receives. The Minister's remuneration and other benefits are set out by the remuneration authority and are not paid by Inland Revenue.

NOTE 21: FINANCIAL INSTRUMENTS – CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of financial assets and financial liabilities in each of the NZ international accounting standard (PBE) 39 categories are as follows:

	Notes	2012–13 Actual \$000	2013–14 Actual \$000
Debtors and receivables			
Cash and cash equivalents		45,631	30,643
Debtor Crown		198,755	238,430
Net debtors	9	3,157	5,564
Total debtors and receivables		247,543	274,637
Fair value through surplus or deficit			
Derivative financial instrument liabilities	14	3	1
Total fair value through surplus or deficit		3	1
Financial liabilities measured at amortised cost			
Creditors and other payables	11	35,385	44,303
Finance lease liabilities	15	921	979
Other financial liabilities	16	809	1,052
Total financial liabilities measured at amortised cost		37,115	46,334

NOTE 22: FINANCIAL INSTRUMENTS – FAIR VALUE HIERARCHY DISCLOSURES

For those instruments recognised at fair value in the *Statement of Financial Position*, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.
- Valuation technique using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Statement of Financial Position*.

	Valuation technique			Total \$000
	Quoted market price \$000	Observable inputs \$000	Significant non - observable inputs \$000	
2013–14				
Financial liabilities				
Foreign exchange derivatives	–	1	–	1
2012–13				
Financial liabilities				
Foreign exchange derivatives	–	3	–	3

There were no transfers between the different levels of the fair value hierarchy.

NOTE 23: FINANCIAL INSTRUMENTS – FINANCIAL INSTRUMENT RISKS

Market risk

Currency risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates is called currency risk.

Because Inland Revenue purchases fixed assets and services from overseas suppliers it is exposed to currency risk arising from various currency exposures, primarily for the United States and Australian dollars. Currency risk arises from future purchases of fixed assets and services which are denominated in a foreign currency.

Inland Revenue has policies in place to manage the risks associated with financial instruments and, being risk averse, seeks to minimise exposure from its treasury activities. Inland Revenue does not enter into transactions that are speculative in nature.

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 Treasury and is in line with the requirements of Treasury *“Guidelines for the Management of Crown and Departmental Foreign Exchange Exposure”*.

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 trade debtors is concentrated with the Crown and other government agencies.

The carrying amount of financial assets recognised in the *Statement of Financial Position* best represents Inland Revenue's maximum exposure to credit risk at balance date.

Inland Revenue does not require any collateral, security, or other credit enhancements to support financial instruments with financial institutions that it deals with or the NZDMO, because these entities have high credit ratings. For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is not material.

Liquidity risk

Liquidity risk is the risk that Inland Revenue will encounter difficulty raising liquid funds to meet commitments as they fall due.

As all but an insignificant proportion of funds come from the New Zealand Government and cash is drawn down on a fortnightly basis, Inland Revenue does not have significant liquidity risk. In meeting its liquidity requirements, Inland Revenue closely monitors its forecast cash requirements with expected cash drawdowns from the NZDMO. Inland Revenue maintains a target level of available cash to meet liquidity requirements.

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses Inland Revenue's financial liabilities that will be settled, based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Notes	Carrying amount \$000	Contractual cash flows \$000	Up to 1 year \$000	1 to 5 years \$000	Over 5 years \$000	Total \$000
2013–14							
Creditors and other payables	11	44,303	44,303	44,303	–	–	44,303
Finance lease liabilities	15	979	1,093	456	637	–	1,093
Other financial liabilities	16	1,052	1,052	183	604	265	1,052
Closing balance		46,334	46,448	44,942	1,241	265	46,448
2012–13							
Creditors and other payables	11	35,385	35,385	35,385	–	–	35,385
Finance lease liabilities	15	921	1,028	441	587	–	1,028
Other financial liabilities	16	809	809	131	489	189	809
Closing balance		37,115	37,222	35,957	1,076	189	37,222

Contractual maturity analysis of derivative financial instrument liabilities

The table below analyses Inland Revenue's forward exchange contract derivatives into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Note	Liability carrying amount \$000	Asset carrying amount \$000	Contractual cash flows NZ\$ \$000	Less than 6 months NZ\$ \$000	6–12 months NZ\$ \$000	1–2 years NZ\$ \$000
2013–14							
Gross settled forward foreign exchange contracts	14	1	–	–	–	–	–
–Outflow		–	–	95	95	–	–
		1	–	95	95	–	–
2012–13							
Gross settled forward foreign exchange contracts	14	3	–	–	–	–	–
–Outflow		–	–	628	628	–	–
		3	–	628	628	–	–

The following provides a sensitivity analysis for the key assumptions:

At 30 June 2014, if the NZ dollar had strengthened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$4,769 (2012–13, \$1,619,000) higher. At 30 June 2014, if the NZ dollar had weakened by 5% against the US dollar, with all other variables held constant, the surplus for the year would have been \$5,271 (2012–13, \$1,790,000) lower. This movement is attributable to translation of US dollar-denominated creditors.

At 30 June 2014, if the NZ dollar had strengthened by 5% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$8,232 (2012–13, \$28,000) higher. At 30 June 2014, if the NZ dollar had weakened by 5% against the Australian dollar, with all other variables held constant, the surplus for the year would have been \$9,098 (2012–13, \$30,000) lower. This movement is attributable to translation of Australian dollar-denominated creditors.

NOTE 24: CAPITAL MANAGEMENT

Inland Revenue's capital is its taxpayers' funds, which comprise of general funds. Taxpayers' funds are represented by net assets.

Inland Revenue manages its revenues, expenses, assets, liabilities and general financial dealings prudently. Inland Revenue's taxpayers' funds are largely managed as a by-product of managing income, expenses, assets, liabilities, and compliance with the Government Budget processes and with Treasury Instructions and the Public Finance Act 1989.

The objective of managing Inland Revenue's taxpayers' funds is to ensure that it effectively achieves its strategic direction, while remaining a going concern.

NOTE 25: EXPLANATION OF MAJOR VARIANCES

The following major budget variances occurred between the 2013–14 Actuals and the 2013–14 Budget. The Budget figures for 2013–14 are those included in *The Estimates of Appropriations for the year ending 30 June 2014*.

	Notes	2013–14 Actual \$000	2013–14 Budget \$000	Variance \$000	Variance %
Statement of Comprehensive Income					
Income					
Revenue Crown	(a)	717,838	690,618	(27,220)	(4%)
Expenditure					
Personnel	(b)	431,986	447,965	15,979	4%
Operating	(c)	194,845	187,264	(7,581)	(4%)
Depreciation	(d)	13,440	18,339	4,899	27%
Amortisation and impairment	(e)	37,925	41,549	3,624	9%
Statement of Financial Position					
Current assets					
Cash and cash equivalents	(f)	30,643	12,000	(18,643)	(155%)
Debtor Crown	(g)	238,430	149,568	(88,862)	(59%)
Debtors and prepayments	(h)	16,811	15,422	(1,389)	(9%)
Non-current assets					
Property, plant and equipment	(i)	55,450	63,246	7,796	12%
Intangible assets	(j)	107,853	143,171	35,318	25%
Current liabilities					
Creditors and other payables	(k)	44,303	27,200	(17,103)	(63%)
Statement of Departmental Expenses and Capital Expenditure Against Appropriations					
Departmental capital expenditure					
Property, plant and equipment	(l)	15,564	21,277	5,713	27%
Intangible assets	(m)	29,127	55,723	26,596	48%

Statement of Comprehensive Income

a) *Revenue Crown* was higher than budget by \$27,220,000 (4%). The increase was mainly due to additional funding of \$19,000,000 for Business Transformation, which included a \$9,000,000 transfer from 2012–13. The remainder reflects expense transfers from 2012–13 of \$4,000,000 for personnel expenditure and \$3,214,000 for the child support legislative initiative.

b) *Personnel expenses* were lower than budget by \$15,979,000 (4%). The variance in expenditure was due to \$13,000,000 of expenditure for the child support legislative initiative and \$2,300,000 for Budget 2013 legislative initiatives that were planned to be incurred in 2013–14, but will now be incurred in 2014–15.

c) *Operating expenses* were higher than budget by \$7,581,000 (4%). This variance reflects additional funding for Business Transformation and increased technology costs for storage assets and mainframe services.

d) *Depreciation* was lower than budget by \$4,899,000 (27%). This variance was mainly due to lower spending on IT infrastructure, driven in part by a change towards infrastructure as a service resulting in operating expenditure rather than capital expenditure.

e) *Amortisation and impairment* was lower than budget by \$3,624,000 (9%). The variance was mainly due to capital expenditure on the child support legislative project occurring later than originally planned and a decision to deliver a mainframe upgrade through a service model rather than capital.

Statement of Financial Position

f) *Cash and cash equivalents* were higher than budget by \$18,643,000 (155%). This was due to holding cash for salaries and wages that were due on 2 July 2014.

g) *Debtor Crown* was higher than budget by \$88,862,000 (59%). This variance was mainly due to \$35,318,000 of underspending in intangible assets, \$7,796,000 of underspending in property, plant and equipment and the repayment of surplus to the Crown of \$43,651,000.

h) *Debtors and prepayments* were higher than budget by \$1,389,000 (9%). This is due to an invoice payment for a large debtor that occurred in July rather than June.

i) *Property, plant and equipment* was lower than budget by \$7,796,000 (12%). Most of the underspend is due to the planned purchase of \$7,600,000 of IT storage assets that did not eventuate. This storage will now be purchased through a service model resulting in operating expenditure being incurred rather than capital.

j) *Intangible assets* were lower than budget by \$35,318,000 (25%). The variance mainly relates to mainframe capital spend that was planned for 2013–14, but will now be delivered through a service model rather than capital. The remainder of the variance is attributable to capital expenditure for the child support legislative initiative that will now be incurred in 2014–15.

k) *Creditors and other payables* were higher than budget by \$17,103,000 (63%). This was due to the timing of trade payables and a higher than planned GST payment.

Statement of Departmental Expenses and Capital Expenditure against Appropriations

l) *Property, plant and equipment* was lower than the Appropriation by \$5,713,000 (27%). This was mainly due to lower spending on IT infrastructure, driven in part by a change towards infrastructure as a service resulting in operating expenditure rather than capital expenditure.

m) *Intangible assets* were lower than the Appropriation by \$26,596,000 (48%). This was mainly due to capital expenditure on the child support legislative project occurring later than originally planned and a decision to deliver a mainframe upgrade through a service model rather than capital.

NOTE 26: EVENTS AFTER BALANCE DATE

No events have occurred between the balance date and date of signing these financial statements that materially affect the actual results within these financial statements.

PART 08

Non- departmental financial schedules

SCHEDULE OF NON-DEPARTMENTAL REVENUE

FOR THE YEAR ENDED 30 JUNE 2014

	2012-13	2013-14	2013-14	2013-14	2014-15
	Actual	Budget*	Estimated	Actual	Forecast*
	\$000	\$000	Actual*	\$000	\$000
Direct taxation					
Income tax					
Individuals					
Source deductions	21,860,369	23,099,000	23,187,000	23,125,625	24,484,000
Other persons	5,210,418	5,083,000	5,161,000	5,216,335	5,428,000
Refunds	(1,644,078)	(1,488,000)	(1,531,000)	(1,573,264)	(1,395,000)
Fringe benefit tax	479,803	477,000	487,000	488,535	512,000
Sub-total individuals	25,906,512	27,171,000	27,304,000	27,257,231	29,029,000
Corporate tax					
Gross companies tax	10,176,526	10,264,000	10,481,000	10,617,384	10,686,000
Refunds	(151,183)	(197,000)	(195,000)	(192,338)	(207,000)
Non-resident withholding tax	420,219	447,000	421,000	427,714	481,000
Foreign-source dividend withholding payments	1,757	–	2,000	8,213	2,000
Sub-total corporate tax	10,447,319	10,514,000	10,709,000	10,860,973	10,962,000
Other direct income tax					
Resident withholding tax on interest income	1,630,885	1,671,000	1,642,000	1,643,787	2,007,000
Resident withholding tax on dividend income	516,262	607,000	472,000	445,867	495,000
Employer superannuation contribution tax	907,203	1,039,000	1,079,000	1,077,974	1,209,000
Gift duties	43	–	–	(70)	–
Sub-total other direct income tax	3,054,393	3,317,000	3,193,000	3,167,558	3,711,000
Total direct taxation	39,408,224	41,002,000	41,206,000	41,285,762	43,702,000

SCHEDULE OF NON-DEPARTMENTAL REVENUE (CONTINUED)

	2012–13	2013–14	2013–14	2013–14	2014–15
	Actual	Budget*	Estimated	Actual	Forecast*
	\$000	\$000	Actual*	\$000	\$000
Indirect taxation					
Goods and services tax					
Gross goods and services tax	23,928,121	25,988,000	25,890,000	25,751,108	27,946,000
Refunds	(9,919,736)	(10,695,000)	(11,079,000)	(11,191,411)	(11,632,000)
Sub-total goods and services tax	14,008,385	15,293,000	14,811,000	14,559,697	16,314,000
Other indirect taxation					
Cheque duties ¹	2,913	3,000	3,000	2,464	-
Approved issuer levy	81,535	84,000	90,000	90,522	90,000
Gaming duties	266,576	278,000	267,000	266,814	267,000
Other indirect taxation	3,155	5,000	5,000	2,709	5,000
Sub-total other indirect taxation	354,179	370,000	365,000	362,509	362,000
Total indirect taxation	14,362,564	15,663,000	15,176,000	14,922,206	16,676,000
Total taxation	53,770,788	56,665,000	56,382,000	56,207,968	60,378,000
Other revenue					
Child support	494,447	632,000	520,000	459,309	573,000
Interest unwind – student loans	589,500	600,000	572,000	579,318	601,000
Other revenue	95,179	96,800	84,000	86,059	92,000
Total other revenue	1,179,126	1,328,800	1,176,000	1,124,686	1,266,000
Total operating revenue	54,949,914	57,993,800	57,558,000	57,332,654	61,644,000

¹ Cheque duties were abolished from 1 July 2014.

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF NON-DEPARTMENTAL EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13	2013–14	2013–14 Estimated Actual*	2013–14	2014–15
	Actual \$000	Budget* \$000	Actual* \$000	Actual \$000	Forecast* \$000
Benefits and other unrequited expenses					
Child tax credit	1,711	1,400	1,800	1,835	1,300
Family tax credit	2,017,841	2,026,000	1,976,000	1,965,263	1,934,000
In-work tax credit	544,474	511,000	523,000	533,266	494,000
KiwiSaver: Fee subsidy	(12)	–	–	(11)	–
KiwiSaver: Interest	5,060	8,000	9,000	7,294	13,000
KiwiSaver: Kick-start payment	223,762	165,000	231,000	227,772	171,000
KiwiSaver: Tax credit	494,152	575,000	582,000	569,163	643,000
Minimum family tax credit	12,077	12,000	14,000	14,275	13,000
Paid parental leave payments	165,101	176,000	164,000	164,504	176,000
Parental tax credit	17,109	15,000	17,000	17,640	19,000
Payroll subsidy	2,503	3,000	3,300	3,129	4,000
Research and development tax credit	–	–	–	(3,952)	–
Total benefits and other unrequited expenses	3,483,778	3,492,400	3,521,100	3,500,178	3,468,300
Borrowing expenses					
Adverse event interest	(1)	10	20	12	10
Environmental restoration account interest	1,636	2,000	2,000	1,636	2,000
Income equalisation interest	6,221	8,000	8,000	7,260	7,000
Total borrowing expenses	7,856	10,010	10,020	8,908	9,010
Other expenses					
Bad debt write-offs	924,731	931,000	931,000	930,158	–
Impairment of debt ¹	(36,861)	266,234	266,234	95,257	–
Impairment of debt and debt write-offs ²	–	–	–	–	1,162,098
Impairment of debt relating to child support	282,214	392,000	296,000	254,635	323,000
Impairment of debt relating to student loans	484,000	110,000	(29,566)	12,000	100,000
Initial fair value write-down – student loans	535,630	537,000	644,000	629,539	668,000
Total other expenses	2,189,714	2,236,234	2,107,668	1,921,589	2,253,098
Total expenditure	5,681,348	5,738,644	5,638,788	5,430,675	5,730,408

¹ Impairment of debt relates to general tax, Working for Families Tax Credits and KiwiSaver debt.

² Impairment of debt and debt write-offs is a new appropriation combining both bad debt write-offs and impairment of debt, effective from 1 July 2014.

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF NON-DEPARTMENTAL ASSETS

AS AT 30 JUNE 2014

	Notes	2012–13	2013–14	2013–14	2013–14	2014–15
		Actual \$000	Budget* \$000	Estimated Actual* \$000	Actual \$000	Forecast* \$000
Assets						
Current assets						
Cash and cash equivalents		2,834,321	2,000,000	2,000,000	2,489,327	1,355,000
Receivables	1	7,383,403	6,928,917	7,665,600	7,568,681	7,775,600
Receivables – child support	2	13,720	3,030	13,720	10,899	13,720
Receivables – other		79,022	85,000	123,352	111,065	128,352
Student loans	3	1,020,000	1,079,000	1,158,000	1,193,000	1,219,000
Total current assets		11,330,466	10,095,947	10,960,672	11,372,972	10,491,672
Non-current assets						
Receivables	1	438,400	457,400	438,400	467,400	438,400
Receivables – child support	2	53,325	76,749	62,325	64,506	72,325
Student loans	3	7,268,177	7,909,577	7,593,840	7,522,829	7,804,993
Total non-current assets		7,759,902	8,443,726	8,094,565	8,054,735	8,315,718
Total assets		19,090,368	18,539,673	19,055,237	19,427,707	18,807,390

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF NON-DEPARTMENTAL LIABILITIES

AS AT 30 JUNE 2014

	Notes	2012–13 Actual \$000	2013–14 Budget* \$000	2013–14 Estimated Actual* \$000	2013–14 Actual \$000	2014–15 Forecast* \$000
Liabilities						
Payables and provisions						
Child support		30,096	24,004	30,096	37,359	30,096
Refundables and payables	4	3,514,165	3,933,216	4,166,396	3,630,784	4,404,794
Unclaimed monies	5	12,475	9,828	12,475	13,818	12,475
Total payables and provisions		3,556,736	3,967,048	4,208,967	3,681,961	4,447,365
Reserve schemes						
Reserve schemes	6	288,968	334,175	277,468	245,937	294,968
Total value of the reserve schemes		288,968	334,175	277,468	245,937	294,968
Total liabilities		3,845,704	4,301,223	4,486,435	3,927,898	4,742,333

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF NON-DEPARTMENTAL MOVEMENTS BETWEEN DEPARTMENTS

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13	2013–14	2013–14 Estimated Actual*	2013–14	2014–15
	Actual \$000	Budget* \$000	Actual* \$000	Actual \$000	Forecast* \$000
Opening balance	12,910,876	14,422,492	15,244,664	15,244,664	14,568,802
Net result from operating activities	49,268,566	52,255,156	51,919,212	51,901,979	55,913,592
Asset transfer between departments – Ministry of Social Development – student loans	1,481,330	1,527,792	1,556,097	1,521,537	1,597,153
New Zealand Debt Management Office	(48,416,108)	(53,966,990)	(54,151,171)	(53,168,371)	(58,014,490)
Closing balance	15,244,664	14,238,450	14,568,802	15,499,809	14,065,057

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

SCHEDULE OF NON-DEPARTMENTAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS AT 30 JUNE 2014

	Notes	2012–13 Actual \$000	2013–14 Actual \$000
Quantifiable contingent liabilities			
Legal proceedings and disputes – assessed	7	640,758	535,388
Unclaimed monies	5	100,933	111,804
Total quantifiable contingent liabilities		741,691	647,192
Quantifiable contingent assets			
Disputes – non-assessed	7	169,313	89,798
Total quantifiable contingent assets		169,313	89,798

There were no non-quantifiable contingent liabilities and contingent assets for the year ended 30 June 2014. (2012–13: \$nil)

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

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

STATEMENT OF NON-DEPARTMENTAL APPROPRIATIONS

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13	2013–14	2013–14 Revised Budget*	2013–14	2014–15
	Actual \$000	Budget* \$000	Budget* \$000	Actual \$000	Forecast* \$000
Vote: Revenue¹					
Benefits and other unrequited expenses					
Child support payments PLA	227,404	237,000	240,000	241,595	267,000
Child tax credit PLA	1,711	1,400	1,800	1,835	1,300
Family tax credit PLA	2,017,841	2,026,000	1,976,000	1,965,263	1,934,000
In-work tax credit PLA	544,474	511,000	523,000	533,266	494,000
KiwiSaver: Fee subsidy	(12)	–	–	(11)	–
KiwiSaver: Interest	5,060	8,000	10,000	7,294	13,000
KiwiSaver: Kick-start payment	223,762	165,000	241,000	227,772	171,000
KiwiSaver: Tax credit	494,152	575,000	597,000	569,163	643,000
Minimum family tax credit PLA	12,077	12,000	14,000	14,275	13,000
Paid parental leave payments ²	165,101	176,000	101,311	164,504	176,000
Parental tax credit PLA	17,109	15,000	17,000	17,640	19,000
Payroll subsidy PLA	2,503	3,000	3,300	3,129	4,000
Research and development tax credit	–	–	–	(3,952)	–
Total benefits and other unrequited expenses	3,711,182	3,729,400	3,724,411	3,741,773	3,735,300
Borrowing expenses					
Adverse event interest PLA	(1)	10	20	12	10
Environmental restoration account interest PLA	1,636	2,000	2,000	1,636	2,000
Income equalisation interest PLA	6,221	8,000	8,000	7,260	7,000
Total borrowing expenses	7,856	10,010	10,020	8,908	9,010
Other expenses					
Bad debt write-offs	924,731	931,000	956,000	930,158	–
Impairment of debt ³	(36,861)	266,234	341,234	95,257	–
Impairment of debt and debt write-offs ⁴	–	–	–	–	1,162,098
Impairment of debt relating to child support	282,214	392,000	326,000	254,635	323,000
Impairment of debt relating to student loans ⁵	283,000	110,000	145,434	41,000	100,000
Initial fair value write-down - student loans	535,630	537,000	662,824	629,539	668,000
Total other expenses	1,988,714	2,236,234	2,431,492	1,950,589	2,253,098
Total appropriations	5,707,752	5,975,644	6,165,923	5,701,270	5,997,408

¹ PLA refers to appropriations established under a permanent legislative authority.

² Historically Inland Revenue had made paid parental leave payments on the basis they had PLA. During 2013–14 it was identified they did not have PLA. Refer to the *Statement of Non-departmental Unappropriated Expenditure* for further details.

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

⁴ Impairment of debt and debt write-offs is a new appropriation combining both bad debt write-offs and impairment of debt, effective from 1 July 2014.

⁵ Excludes remeasurement of (\$29.0) million (2012–13 \$201.0 million).

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

* The statement of accounting policies provides explanations of these figures which are not subject to audit.

STATEMENT OF NON-DEPARTMENTAL UNAPPROPRIATED EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2014

	Actual	Authority	Expenses in excess of appropriation
	\$000	\$000	\$000
Benefits and other unrequited expenses			
Paid parental leave payments: July – Nov	67,689	–	67,689

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, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

In the 2013–14 financial year:

- there were no instances of expenditure incurred outside of appropriation (2012-13 \$nil).
- there was one instance of expenditure incurred without appropriation (2012-13 \$nil).
- there were no instances of expenditure incurred in excess of appropriation (2012-13 \$3.762 million).

Historically Inland Revenue had made paid parental leave payments on the basis that they had a Permanent Legislative Authority (PLA). Payments under a PLA do not require separate appropriation authority as the payments are authorised, without further appropriation, under an Act of Parliament. During 2013–14 it was identified that these payments had been incorrectly classified as having a PLA. The misclassification of paid parental leave payments was identified early in 2013–14. As a result, the breach is only for part of the year. Validation of the expenditure incurred in 2013–14 will be sought through the Appropriation (2013/14 Financial Review) Bill.

SCHEDULE OF NON-DEPARTMENTAL TRUST MONEY

FOR THE YEAR ENDED 30 JUNE 2014

	2012–13 Actual \$000	2013–14 Contributions \$000	2013–14 Distributions \$000	2013–14 Actual \$000
Child support				
Child support trust account	22,000	235,378	(239,984)	17,394
Reciprocal child support agreement trust account	337	11,802	(11,743)	397
Total child support	22,337	247,180	(251,727)	17,791
KiwiSaver				
KiwiSaver returned transactions trust account	273	–	(229)	44
Total KiwiSaver	273	–	(229)	44
Total trust money	22,610	247,180	(251,956)	17,835

The child support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991. Inland Revenue administers these trust accounts for amounts collected from liable parents and the subsequent child support payments that are paid to the custodial parents.

The KiwiSaver trust account was established in accordance with section 74(4) of the KiwiSaver Act 2006. Inland Revenue administers this account to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, pending the completion of the financial transaction.

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

For a full understanding of the Crown's financial position and the results of its operations, refer to the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014.

STATEMENT OF ACCOUNTING POLICIES

These financial schedules and statements are for the year ended 30 June 2014 and include forecast financial schedules and statements for the year ended 30 June 2015. They have been combined to provide a single view of actual and forecast information.

References to the financial schedules incorporate the financial statements and forecast financial statements, unless otherwise stated.

REPORTING ENTITY

These non-departmental financial schedules present financial information on public funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the *Financial Statements of the Government of New Zealand* for the year ended 30 June 2014. For a full understanding of the Crown's financial position, results of operations, and cash flows for the year, refer to the *Financial Statements of the Government*.

REPORTING PERIOD

The reporting period for these financial schedules is for the year ended 30 June 2014. The forecast financial schedules are for the year ended 30 June 2015.

The financial schedules were authorised for issue by the Chief Executive of Inland Revenue on 29 September 2014.

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 Treasury Instructions. Compliance with NZ GAAP in this instance meant the figures for the year ended 30 June 2014 complied with New Zealand equivalents to International Financial Reporting standards (NZ IFRS), and where appropriate, standards issued by the International Public Sector Accounting Standards Board (IPSAS) as appropriate for public benefit entities and New Zealand equivalents to NZ IAS.

BASIS OF PREPARATION

The non-departmental schedules have been prepared in accordance with the accounting policies of the *Financial Statements of the Government*, Treasury Instructions, and Treasury Circulars.

Measurement and recognition rules applied in the preparation of these schedules and statements are consistent with NZ GAAP as appropriate for public benefit entities.

JUDGEMENTS AND ESTIMATIONS

In preparing these financial schedules, estimates and assumptions have been made concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions to accounting estimates are recognised in the period the estimate is revised in if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Material judgements, estimates and assumptions impact on receivables, child support receivables, student loan debt and refundables and payables. See notes 1, 2, 3 and 4 for more information on these.

ACCOUNTING POLICIES

The following accounting policies, which materially affect the measurement of financial results and financial position, have been applied.

Budget and forecast figures

The Budget figures for 2013–14 are those included in *The Estimates of Appropriation for the year ending 30 June 2014*.

The Revised Budget figures for 2013–14 are those included in *The Supplementary Estimates of Appropriations and Supporting Information for the year ending 30 June 2014*.

The Estimated Actual figures for 2013–14 and the Forecast figures for 2014–15 are those included in *The Estimates of Appropriations for the year ending 30 June 2015*. The Estimated Actual figures represent forecasts submitted to Treasury based on all Government decisions and assumptions as at 29 April 2014.

No material changes were made to the 2014–15 forecast figures in the *Pre-election Economic and Fiscal Update (PREFU) 2014*.

The Budget, Revised Budget, Estimated Actual 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 forecast financial schedules and statements for the 2014–15 year have been prepared in accordance with public sector PBE Accounting Standards (PBE IPSAS). This is a change from actual and budget figures as at 30 June 2014 which was prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities.

(NZ IFRS (PBE)). At this stage we have not identified any material changes between these standards that will impact the forecast financial schedules and statements. A detailed assessment will be performed shortly for PBE IPSAS.

Revenue

Operating revenue

The payment of tax in itself, does not entitle a taxpayer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and transfers, that is, tax revenue is a non-exchange transaction.

Tax revenue is recognised when a taxable event has occurred and the tax revenue can be reliably measured. The taxable event is defined as follows:

Tax type	Taxable activity
Income tax	The earning of assessable income during the taxation period by the taxpayer.
Goods and services tax	The purchase or sale of taxable goods and services during the taxation period.

The New Zealand tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. Inland Revenue has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by Inland Revenue. 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 estimate the amount of unreported tax.

Initial fair value write-down – student loans

When new borrowings are made to students, they are written down immediately to the fair value. The initial write-down ratio is used to determine this write-down, which is an expense.

Interest unwind – student loans

Interest unwind on student loans is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Effective interest rates are assigned to new lending each year on a 'year of lending' basis.

Expenses

General

Expenses are recognised in the period to which they relate.

Benefits and other unrequited expenses

Expense type	Definition
Child tax credit	Extra assistance for low to middle income families who do not depend on the state for financial support (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Family tax credit	Family support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
In-work tax credit	Extra assistance for low to middle income families where the person works a minimum of 20 hours per week and does not have a partner, or a person and their partner work a minimum of 30 hours per week (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
KiwiSaver: Fee subsidy	Fee subsidy to KiwiSaver members in respect of their scheme provider fees as set out in the KiwiSaver Act 2006. This ceased on 31 March 2009.
KiwiSaver: Interest	Interest on KiwiSaver contributions as set out in the KiwiSaver Act 2006.
KiwiSaver: Kick-start payment	One-off payment made on opening a KiwiSaver account for members who meet the required eligibility criteria as set out in the KiwiSaver Act 2006.
KiwiSaver: Tax credit	Tax credit to KiwiSaver members and the payment of residual tax credits to employers as set out in the Income Tax Act 2007.
Minimum family tax credit	Extra payment made to families where at least one parent is working for salary or wages (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Paid parental leave payments	Paid parental leave payments made to parents eligible under the Parental Leave and Employment Protection Act 1987.
Parental tax credit	Additional financial support made to working families for the eight-week period following the birth of a child (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Payroll subsidy	Subsidy to a payroll agent undertaking employers' payroll-related tax compliance activities on their behalf (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Research and development tax credit	Tax credits for expenditure on research and development where the required eligibility criteria is met as set out in the Income Tax Act 2007. Expenditure incurred up until 31 March 2009 may be eligible for credits, where claims have been filed by 31 March 2012.

Borrowing expenses

Expense type	Definition
Adverse event interest	Interest on adverse event income equalisation reserve accounts held by taxpayers in the farming and agriculture business (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Environmental restoration account interest	Interest on environmental restoration accounts (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Income equalisation interest	Interest on income equalisation reserve scheme accounts held by taxpayers in the farming, fishing or forestry industries (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

Other expenses

Expense type	Definition
Bad debt write-offs	Bad debt write-offs for Crown debt administered by Inland Revenue. These write-offs relate to general tax, KiwiSaver and Working for Families Tax Credits debt.
Impairment of debt	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the Crown debt book. This impairment relates to general tax, KiwiSaver and Working for Families Tax Credits debt.
Impairment of debt and debt write-offs	Bad debt write-offs for Crown debt and impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the Crown debt book. These bad debt write-offs and impairment relate to general tax, KiwiSaver and Working for Families Tax Credits debt.
Impairment of debt relating to child support	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of child support debt.
Impairment of debt relating to student loans	Impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the loan, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loan debt.
Initial fair value write-down – student loans	The initial fair value write-down is the amount by which a student loan is discounted at the time the loan is made. The discounting reflects the expected cash flows over the life of the loan.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in bank accounts administered by Inland Revenue.

Receivables

Receivables include taxes, levies and fines (and any penalties and interest associated with these activities) as well as social benefit receivables.

Receivables are initially assessed at nominal value, that is, the receivable reflects the amount of tax owed, levy, fine charged, or social benefit debt payable. These receivables are subsequently adjusted for penalties and interest as they are charged, and tested for impairment annually. Interest and penalties charged on receivables are presented as revenue in the *Schedule of Non-departmental Revenue*.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Impairment movements are recognised in the *Schedule of Non-departmental Expenditure*. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

Financial models have been constructed for Inland Revenue to calculate the impairment of Crown debt. These models apply a

number of assumptions on future repayment behaviour as well as economic assumptions such as the discount rate and inflation.

Financial instruments

Financial assets

Student loans

Student loans are designated as loans and receivables under NZ IAS 39. Student loans are recognised initially at fair value, plus transaction costs, and subsequently measured at amortised cost using the effective interest rate method, and adjusted for impairment movements. Fair value on initial recognition of student loans is determined by projecting forward expected repayments and discounting them back at an appropriate discount rate. The difference between the amount lent and the fair value on initial recognition is expensed on initial recognition. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's carrying value at each reporting date.

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more

events that occurred after the initial recognition of the loan and a loss event has an impact on the estimated future cash flows of the loan that can be reliably measured. The amount of the provision is the difference between the asset's carrying amount and estimated impaired value. The impairment losses are recognised in the *Schedule of Non-departmental Expenditure*.

Impairment losses can be reversed where there is evidence that the impaired value of the financial asset has increased.

Actuarial models have been constructed by a third party to calculate the impairment of student loan debt. Refer to Note 3 for more information on this model.

Financial liabilities

Financial liabilities are recognised initially at fair value, less transaction costs. Financial liabilities entered into with a duration of less than 12 months are recognised at their nominal value, unless the effect of discounting is material.

Contingent liabilities and assets

Contingent liabilities and assets are recorded in the *Schedule of Non-departmental Contingent Liabilities and Contingent Assets* at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Changes in accounting policies

There have been no changes in accounting policies applicable to the preparation of non-departmental financial schedules. All policies have been applied on a basis consistent with the previous year.

The forecasts for the 2014–15 year have been prepared in accordance with Public sector PBE Accounting Standards (PBE IPSAS). This is a change from actual and budget figures as at 30 June 2014 which was prepared in accordance with NZ equivalents to International Financial Reporting Standards as appropriate for public benefit entities (NZ IFRS (PBE)). At this stage we have not identified any material changes between these standards that will impact the forecast financial schedules.

Comparatives

When presentation or classification of items in the financial schedules is amended or accounting policies are changed, comparative figures have been restated to ensure consistency with the current period, unless it is impracticable to do so.

FORECAST FINANCIAL SCHEDULES

The forecast financial schedules have been prepared in accordance with the Public Finance Act 1989.

The purpose of the forecast financial schedules is to facilitate Parliament's consideration of appropriations for, and planned performance of, the department. These forecast financial statements may not be appropriate for other purposes.

The forecast financial schedules have been prepared in accordance with the accounting policies detailed above. Additional accounting policies relating to the forecasts are set out below.

The forecast financial schedules comply with NZ GAAP and have been prepared in accordance with 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 and circumstances as at 29 April 2014.

The key assumptions in the preparation of the forecasts include:

- Tax revenue: Tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between Inland Revenue and the Treasury.
- Student loans: The carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers. Any change in these assumptions would affect the present fiscal forecast.

For other key fiscal forecasts assumptions, refer to the *Budget Economic and Fiscal Update 2014*.

These assumptions are adopted as at 29 April 2014.

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Statements and the actual reported results include:

- Changes to the budget through initiatives or legislation approved by Cabinet.
- Macroeconomics impacting revenue, expenditure and debt levels.
- The timing of taxpayer's filing and payment of returns.
- The timing of taxpayer refund and credit claims.
- Outcomes of the disputes process including litigation.

Any changes to budgets during 2014-15 will be incorporated into *The Supplementary Estimates of Appropriations for the year ending 30 June 2015*.

NOTES TO THE FINANCIAL SCHEDULES

NOTE 1: RECEIVABLES

Receivables include tax, Working for Families Tax Credits and KiwiSaver debt, and excludes student loans and child support debt.

The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of service costs and then discounting using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

Tax pooling funds held in Crown bank accounts have been netted off against receivables. These funds have been deposited by a commercial intermediary and allow taxpayers to pool tax payments to reduce their use-of-money-interest exposure. Underpayments and overpayments are offset within the same pool. We estimate that the majority of pooling funds relate to income accruals already included in not yet due receivables.

	2012–13 \$000	2013–14 \$000
Receivables		
Gross receivables	12,191,649	12,501,184
Impairment receivables	(4,369,846)	(4,465,103)
Carrying value receivables	7,821,803	8,036,081
Current and non-current apportionment		
Receivables – current	7,383,403	7,568,681
Receivables – non-current	438,400	467,400
Carrying value receivables	7,821,803	8,036,081
Ageing profile of receivables – gross		
Not due	6,849,356	7,030,478
Past due ¹		
Less than 6 months	903,865	930,766
6–12 months	362,726	389,436
1–2 years	788,041	719,193
Greater than 2 years	3,287,661	3,431,311
Total past due	5,342,293	5,470,706
Total receivables – gross	12,191,649	12,501,184
% Past due	44%	44%
Receivables – impairment		
Opening balance	4,406,707	4,369,846
Impairment losses recognised	887,870	1,025,415
Amounts written off as uncollectable	(924,731)	(930,158)
Closing balance	4,369,846	4,465,103

¹ Figures are based on debt elements. They are not comparable with the figures in Additional information section, which are based on debt cases and also include overdue student loan debt.

Receivables are classified as past due when any outstanding revenue is not paid by the taxpayer's due date. Due dates will vary, depending on the type of revenue outstanding (eg, income tax, GST, KiwiSaver) and the taxpayer's balance date. Past due debt includes debt collected under instalment, debt under dispute, default assessments and debts of taxpayers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio and significant assumptions underpinning the valuation are:

	2012–13	2013–14
Recoverable amount of receivables not due (\$000)	6,823,227	6,988,813
Recoverable amount of receivables past due (\$000)	998,576	1,047,268
Use-of-money interest rate	8.40%	8.40%
Discount rate	5.10%	6.00%
Impact on the recoverable amount of a 2% increase in discount rate (\$000)	(20,000)	(21,000)
Impact on the recoverable amount of a 2% decrease in discount rate (\$000)	21,000	22,000

The fair value of receivables is not materially different from the carrying value.

Credit risk

In determining the recoverability of receivables Inland Revenue uses information about the extent to which the taxpayer is contesting the assessment and experience of the outcomes of such disputes, from lateness of payment and other information obtained from credit collection actions taken.

Under the Tax Administration Act 1994 Inland Revenue has broad powers to ensure that people meet their obligations. Part 10 of the Act sets out the powers of the Commissioner to recover unpaid tax.

The Crown does not hold any collateral or any other credit enhancements over receivables which are past due.

Receivables are widely dispersed over a number of taxpayers and as a result the Crown does not have any material individual concentrations of credit risk.

NOTE 2: RECEIVABLES – CHILD SUPPORT

The Crown collects monies from liable parents and remits this to custodial parents. The child support receivable represents penalties which have been incurred as a result of the under-payment of the debt, and in the main, relates to penalties imposed on liable parents who default on their payments.

Child support penalties grow exponentially due to their compounding nature. The recovery of debt is challenging and 97% of child support debt is impaired as we do not expect to collect it. There are limited provisions under child support legislation to remit penalties. The non-recoverability of penalties has been allowed for in the impairment figure. Impairment is calculated by forecasting the expected repayments of this penalty debt based on analysis of historical debt data, deducting an estimate of service costs and then discounted.

The concentration of credit risk is limited and this is not a risk that is actively managed. The Crown does not hold any collateral or other credit enhancements over these receivables.

	2012–13 \$000	2013–14 \$000
Receivables – child support		
Gross receivables	2,109,031	2,372,026
Impairment receivables	(2,041,986)	(2,296,621)
Total receivables – child support	67,045	75,405
Current and non-current apportionment		
Receivables – current	13,720	10,899
Receivables – non-current	53,325	64,506
Carrying value receivables	67,045	75,405
Ageing profile of receivables – gross		
Not due	–	–
Past due		
Less than 12 months	296,558	267,192
1–2 years	81,501	296,558
Greater than 2 years	1,730,972	1,808,276
Total past due	2,109,031	2,372,026
Total receivables – gross	2,109,031	2,372,026
% Past due	100%	100%
Impairment of receivables – child support		
Opening balance	1,759,772	2,041,986
Impairment losses recognised	282,214	254,635
Closing balance	2,041,986	2,296,621

NOTE 3: STUDENT LOANS

Student loans are initially issued by StudyLink (Ministry of Social Development). The loans and any associated transactions are transferred to Inland Revenue on a daily basis. Inland Revenue holds the total nominal debt and carrying value of the scheme. The initial capital lending of student loans is administrated under Vote Social Development. The initial fair value write-down expense on new capital lending, and any subsequent impairment, is administrated under Vote Revenue.

	2012–13 \$000	2013–14 \$000
Nominal value student loans	13,562,221	14,235,007
Adjustment to nominal value	(5,274,044)	(5,519,178)
Carrying value student loans	8,288,177	8,715,829
Current and non-current apportionment		
Student loans – current	1,020,000	1,193,000
Student loans – non-current	7,268,177	7,522,829
Carrying value student loans	8,288,177	8,715,829
Movement during the year		
Opening balance	8,290,882	8,288,177
Impairment	(484,000)	(12,000)
Loans transferred from Ministry of Social Development	1,481,333	1,521,537
Initial fair value write-down – student loans	(535,630)	(629,539)
Repayments	(1,053,908)	(1,031,664)
Interest unwind	589,500	579,318
Carrying value student loans	8,288,177	8,715,829
Fair value student loans		
Opening balance	8,527,000	8,298,000
Loans transferred from Ministry of Social Development	1,481,333	1,521,537
Initial fair value write-down – student loans	(535,630)	(629,539)
Repayments	(1,053,908)	(1,031,664)
Interest unwind	524,205	527,666
Administration costs	35,000	31,000
Change in expense assumption	27,000	37,000
Change in fair value discount rate	(201,000)	176,000
Impairment	(506,000)	(6,000)
Fair value student loans	8,298,000	8,924,000

Student loan valuation model

The student loan valuation model reflects current student loan policy and macro-economic assumptions. As such, the book value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macro-economic factors such as inflation and the discount rates used to determine the effective interest rate on new borrowers.

Three data changes have been introduced for the 2014 student loan valuation model – the integrated data infrastructure (IDI), live data transfers and the unit record monthly data (URMD).

Statistics New Zealand compiles the IDI from data provided by Inland Revenue (IR), Ministry of Social Development (MSD) and Ministry of Education. The IDI replaces the integrated dataset used in the past. The IDI is current up to 31 March 2013. It contains information on borrowings, repayments, income, educational factors and socio-economic factors amongst others which had been used in the valuation model.

This is the first year that the live transfer data has been used for the valuation. The live transfer of lending data between MSD and IR began on 1 April 2012, previously lending data was transferred annually.

Due to a 15 month data lag in the IDI and because the financial information is based on tax years, URMD is used to fill in this lag as much as possible to determine the balances for each tranche of capital lending by calendar year. The URMD extract contains monthly loan transactions, loan balances at select months, start and end dates for when participants are classified as overseas-based and customs data listing entry and exit dates for all New Zealand taxpayers. The financial impact on the valuation of adopting the URMD this year is not material.

As per last year, the valuation model also utilises Employer Monthly Schedule (EMS) information which summarises income from salaries and wages i.e. more recent data to value student loans at balance date.

The significant assumptions behind the carrying value and fair value are:

	2012–13	2013–14
Carrying value		
Carrying value (\$000)	8,288,177	8,715,829
Effective interest rate	7.08%	7.06%
Interest rate applied to loans for overseas borrowers	5.1%–6.2%	5.1%–6.2%
Consumer Price Index	1.4%–2.5%	1.8%–2.5%
Future salary inflation	2.2%–3.5%	2.8%–3.5%
	2012–13	2013–14
Fair value		
Fair value (\$000)	8,298,000	8,924,000
Discount rate	6.45%	6.62%
Impact on fair value of a 1% increase in discount rate (\$000)	(423,000)	(448,000)
Impact on fair value of a 1% decrease in discount rate (\$000)	471,000	501,000

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm's-length transaction as at 30 June 2014. It is determined by discounting the future cash flows at an appropriate discount rate.

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes whereas the fair value was calculated on a discount rate that was current at 30 June 2014. At that date, the fair value was calculated on a discount rate of 6.08% which excludes expenses whereas a weighted average discount rate of 7.06% including expenses was used for the carrying value. For reference, the representative discount rate for fair value including an allowance for expenses is 6.62%. The difference between fair value and carrying value does not represent an impairment of the asset.

The *Student Loan Scheme Annual Report* contains more information on the student loan scheme.

Impairment of student loans in 2013–14 totalled \$12 million. This impairment is mainly due to higher average loan balances, partially offset by updated income CART sub-models and a policy change. Average loan balances have been adjusted upwards this year as the adjustment made in the 2013 valuation to account for lending up until 31 March 2012 did not sufficiently capture additional lending made by existing borrowers but held by StudyLink. The policy change was an extension of the freezing of the repayment threshold for two more years to 31 March 2017.

In 2012–13 the impairment of student loans totalled \$484.0 million. This was driven by lower than expected incomes and repayments as well as changes to macroeconomic assumptions for income recovery and earnings inflation.

The valuation data is still very sensitive to changes in certain areas as can be seen from the sources of impairment set out below:

	2012–13 \$000	2013–14 \$000
Sources of impairment		
Policy and legislative changes	(27,000)	53,000
Revision of predictive sub-models	64,000	–
Experience variance	(303,000)	(2,000)
Change in demographic profile of participants	(29,000)	–
Macroeconomic changes ¹	(201,000)	29,000
Remaining model and data changes	12,000	(92,000)
Total sources of impairment	(484,000)	(12,000)

¹ Macroeconomic changes are classified as a remeasurement, as defined in the Public Finance Act 1989. The *Schedule of Non-departmental Expenditure* and the note above includes remeasurement adjustments in the impairment figure. However, the *Statement of Non-departmental Appropriations* excludes remeasurement adjustments. The remeasurement relates to changes in the macroeconomic assumptions used for the valuation of the receivable.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The student loan scheme does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the student loan scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by collection of compulsory repayments through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the Government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the Government.

NOTE 4: REFUNDABLES AND PAYABLES

Refundables and payables are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to taxpayers as a result of assessments being filed. Refunds are issued to taxpayers once account and refund reviews are complete.

	2012–13 \$000	2013–14 \$000
KiwiSaver payable	801,097	943,133
Paid parental leave payable	5,791	6,659
Research and development tax credits payable	3,952	–
Taxes refundable	2,703,325	2,680,992
Total refundables and payables	3,514,165	3,630,784

NOTE 5: UNCLAIMED MONIES

Under the Unclaimed Money Act 1971, entities (eg, financial institutions, insurance companies) hand over money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identification.

NOTE 6: RESERVE SCHEMES

	2012–13 \$000	2013–14 \$000
Adverse event income equalisation	176	2
Environmental restoration	54,927	54,927
Income equalisation	233,865	191,008
Total reserve schemes	288,968	245,937

The adverse event income equalisation scheme operates in addition to the income equalisation scheme. Deposits earn interest at a rate of 6.5% per annum from the date of receipt until the deposit is refunded. Deposits can be withdrawn immediately, but are transferred to the main income equalisation account if not withdrawn within 12 months of the deposit.

The environmental restoration account allows businesses to set aside money to cover restoration costs for monitoring, avoiding, remedying or mitigating the detrimental environmental effects which may occur in later years. Interest is calculated at a rate of 3% per annum and is payable from the day after the deposit is made until the day before a refund is made. Refunds will be made when the environmental restoration costs are incurred.

The income equalisation scheme allows taxpayers in the farming, fishing and forestry industries to make payments during the year by way of income equalisation deposits. Interest paid at a rate of 3% per annum will apply where a deposit is left in the scheme for a period of 12 months or more.

NOTE 7: CONTINGENCIES

Contingent liabilities

Legal proceedings and disputes – assessed

Contingent liabilities arise if a legal case is still not resolved at the end of the disputes process, Inland Revenue will issue an amended assessment to the taxpayer and recognise revenue. The taxpayer is then able to file proceedings with the Taxation Review Authority or the High Court disputing the assessment. These are recorded in the *Schedule of Non-departmental Contingent Liabilities and Contingent Assets* as legal proceedings and disputes – assessed. The contingent liability is the maximum liability Inland Revenue has in respect of these cases.

Unclaimed monies

Unclaimed monies are repaid to the entitled owner on proof of identification. Based on trends from prior years, the estimated likely amount of unclaimed monies that will be paid out is recorded as a liability in the *Schedule of Non-departmental Liabilities* and the remainder is recorded as a contingent liability in the *Schedule of Non-departmental Contingent Liabilities and Contingent Assets*.

Contingent assets

Disputes – non-assessed

Contingent assets arise as part of the tax dispute process, for example, when Inland Revenue has advised a taxpayer of a proposed adjustment to their tax assessment through a notice of proposed adjustment (NOPA). At this point there has been no amended assessment issued and no revenue has been recognised so these adjustments are recorded in the *Schedule of Non-departmental Contingent Liabilities and Contingent Assets* as disputes – non-assessed. The taxpayer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue quantifies a contingent asset based on the likely cash collectable for the disputes process based on experience and similar prior cases, net of losses carried forward.

Contingent assets can also arise where the taxpayer has not filed an assessment but Inland Revenue believes they are liable for tax. In this situation Inland Revenue will issue an assessment. Where the taxpayer chooses to dispute the Inland Revenue initiated assessment, the assessment is not recognised as revenue and a contingent asset is recorded in the *Schedule of Non-departmental Contingent Liabilities and Contingent Assets*. The value of the asset is based on the likely collectable portion of the default assessment, net of losses carried forward.

NOTE 8: COLLECTION OF EARNER LEVY

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation and passes the monies directly to them. The levies do not appear on the non-departmental schedules.

	2012–13 \$000	2013–14 \$000
Earners levy	1,529,912	1,546,101
Total collection of earners levy	1,529,912	1,546,101

NOTE 9: EVENTS AFTER BALANCE DATE

No events have occurred between the balance date and date of signing these financial schedules that materially affect the actual results within these financial schedules.

Audit report

Independent Auditor's Report

To the readers of Inland Revenue's financial statements, non-financial performance information and schedules of non-departmental activities for the year ended 30 June 2014

The Auditor-General is the auditor of Inland Revenue (the Department). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements, the non-financial performance information and the schedules of non-departmental activities of the Department on her behalf.

We have audited:

- The financial statements of the Department on pages 66 to 97, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2014, the statement of comprehensive income, statement of changes in taxpayer funds, statement of departmental expenses and capital expenditure against appropriations, statement of unappropriated expenses and capital expenditure 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 non-financial performance information of the Department that comprises the statement of service performance on pages 47 to 64 and the report about impact indicators on pages 43 and 44.
- The schedules of non-departmental activities of the Department on pages 100 to 122 that comprise the schedule of assets, schedule of liabilities, schedule of contingent liabilities and contingent assets as at 30 June 2014, the schedule of expenditure, statement of appropriations, schedule of unappropriated expenditure, schedule of revenue, schedule of trust money and the schedule of movements between departments, for the year ended on that date and the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department on pages 66 to 97:
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect the Department's:
 - financial position as at 30 June 2014;
 - financial performance and cash flows for the year ended on that date;
 - expenses and capital expenditure incurred against each appropriation administered by the Department and each class of outputs included in each output expense appropriation for the year ended 30 June 2014; and
 - unappropriated expenses and capital expenditure for the year ended 30 June 2014.
- the non-financial performance information of the Department on pages 43 and 44 and 47 to 64:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects the Department's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with the forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.
- the schedules of non-departmental activities of the Department on pages 100 to 122 fairly reflect, in accordance with the Treasury Instructions:
 - the assets, liabilities, contingencies, commitments and trust monies as at 30 June 2014 managed by the Department on behalf of the Crown; and
 - the revenues, expenses, expenditure and capital expenditure against appropriations and unappropriated expenditure and capital expenditure for the year ended on that date managed by the Department on behalf of the Crown.

Our audit was completed on 29 September 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Chief Executive and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements, the non-financial performance information and the schedules of non-departmental activities are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements, the non-financial performance information and the schedules of non-departmental activities. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, the non-financial performance information and the schedules of non-departmental activities, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Department's preparation of the financial statements, the non-financial performance information and the schedules of non-departmental activities that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Chief Executive;
- the appropriateness of the reported non-financial performance information within the Department's framework for reporting performance;
- the adequacy of all disclosures in the financial statements, the non-financial performance information and the schedules of non-departmental activities; and
- the overall presentation of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements, the non-financial performance information and the schedules of non-departmental activities. Also we did not evaluate the security and controls over the electronic publication of the financial statements, the non-financial performance information and the schedules of non-departmental activities.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Chief Executive

The Chief Executive is responsible for preparing:

- financial statements and non-financial performance information that:
 - comply with generally accepted accounting practice in New Zealand;
 - fairly reflect the Department's financial position, financial performance, cash flows, expenses and capital expenditure incurred against each appropriation and its unappropriated expenses and capital expenditure; and
 - fairly reflect its service performance and outcomes; and
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that fairly reflect those activities managed by the Department on behalf of the Crown.

The Chief Executive is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements, non-financial performance information and schedules of non-departmental activities that are free from material misstatement, whether due to fraud or error. The Chief Executive is also responsible for the publication of the financial statements, non-financial performance information and schedules of non-departmental activities, whether in printed or electronic form.

The Chief Executive's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements, the non-financial performance information and the schedules of non-departmental activities and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have provided assurance services over the Expression of Interest process for the Department's Business Transformation Programme, which is compatible with the independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the Department.



Ajay Sharma

Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Additional Information

Customer satisfaction

FIGURE 7 – CUSTOMER SATISFACTION WITH OUR VOICE AND CORRESPONDENCE CHANNELS[#]

Overall satisfaction Customer group	2012–13		2013–14	
	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	82%*	64%*	85%*	68%*
Individuals (overall)	79%*	62%*	81%	64%
Working for Families Tax Credits	90%	69%	87%	72%
Child support	74%	52%	74%	54%
KiwiSaver (employees)	83%*	75%	88%	76%
Student loan	71%*	58%	79%	57%
Business (overall)	85%	66%*	88%*	71%*
Small and medium enterprises	84%	67%	90%*	73%*
Large enterprises	85%	68%*	86%	70%
Tax agents	87%	68%	89%	69%
Not for profits	82%	60%	84%	70%*
General public				
Contacted Inland Revenue in the last three months	86%	71%	87%	65%
Not contacted Inland Revenue in the last three months	76%	36%	76%	35%

[#] Phone service surveyed for the full 12 months, and correspondence for the last quarter only.

* Statistically significant difference at the 95% confidence level between 2012–13 and 2013–14. In the 2013 Annual Report we reported statistically significant difference at the 95% confidence level between 2011–12 and 2012–13.

FIGURE 8 – CUSTOMER SATISFACTION WITH OUR ONLINE SERVICES

Overall satisfaction Customer group	2012–13		2013–14	
	Satisfied	Very satisfied	Satisfied	Very satisfied
National results	94%	78%	95%	77%
Individuals (overall)	93%	75%	94%	75%
Working for Families Tax Credits	94%	76%	93%	75%
Child support	96%	78%	93%	72%
KiwiSaver (employees)	90%	76%	95%	79%
Student loan	91%	72%	93%	71%
No social policy	94%	75%	94%	78%
Business (overall)	96%*	81%*	96%	79%
Small and medium enterprises	95%	81%	95%	78%
Large enterprises	99%	83%	98%	84%
Tax agents	97%	82%	97%	77%
Not for profits	93%*	77%*	95%	78%

* In the 2013 Annual Report we reported statistically significant difference at the 95% confidence level between 2011–12 and 2012–13. No statistically significant difference at the 95% confidence level between 2012–13 and 2013–14.

FIGURE 9 – CUSTOMER PERCEPTIONS OF THE TAX SYSTEM

	2012–13		2013–14	
	Agree	Strongly agree	Agree	Strongly agree
Overall fairness	83%	54%	82%	53%
Overall operational effectiveness	83%	56%	82%	55%
Makes it easy to get it right	78%	46%	79%	45%
Appropriate action against non-compliance	80%	54%	79%	54%
Paying tax contributes to New Zealand	96%	86%	96%	86%

Debt tables

FIGURE 10 – COMPOSITION OF OUR DEBT PORTFOLIO AT 30 JUNE (\$ MILLIONS)

Debt type	2011	2012	2013	2014	One-year change	One-year change (%)
Debt under instalments	\$1,146.6	\$1,176.3	\$1,230.2	\$1,228.2	–\$2.0	–0.2%
Other collectable debt	\$2,663.5	\$2,582.7	\$2,561.5	\$2,621.6	\$60.1	2.3%
Tax collectable debt*	\$3,810.2	\$3,759.0	\$3,791.7	\$3,849.8	\$58.0	1.5%
Tax non-collectable debt**	\$1,711.9	\$2,157.4	\$2,186.4	\$2,390.3	\$203.9	9.3%
Total debt	\$5,522.1	\$5,916.4	\$5,978.2	\$6,240.1	\$262.0	4.4%
Working for Families Tax Credit	\$275.1	\$320.8	\$371.8	\$406.6	\$34.8	9.4%
GST	\$1,908.5	\$1,947.2	\$1,873.9	\$1,775.5	–\$98.4	–5.3%
Income	\$2,207.8	\$2,372.4	\$2,365.7	\$2,519.6	\$153.9	6.5%
KiwiSaver	\$19.8	\$21.5	\$22.5	\$33.3	\$10.8	48.2%
Other tax	\$76.6	\$100.1	\$121.6	\$121.8	\$0.2	0.2%
PAYE	\$622.6	\$642.1	\$586.8	\$613.9	\$27.1	4.6%
Student loan	\$411.7	\$512.3	\$635.9	\$769.4	\$133.5	21.0%
Total debt	\$5,522.1	\$5,916.4	\$5,978.2	\$6,240.1	\$262.0	4.4%
Tax penalties and interest	\$2,359.0	\$2,711.3	\$2,862.6	\$2,998.5	\$135.9	4.7%
Penalties and interest (%)	42.7%	45.8%	47.9%	48.1%		
Customers in debt (total cases)	389,947	408,606	436,299	435,360	–938.0	–0.2%
Annual debt change (%)	7.2%	7.1%	1.0%	4.4%		

Notes

*Collectable debt:

Debt cases where the assessment value is overdue and collections activity is in progress. This activity includes instalment arrangements, deduction notices, cases linked to legal actions and other manual or automatic actions.

**Non-collectable debt:

Debt cases where the assessed value is pending or in dispute and we are unable to proceed with collection activity at present. This includes cases:

- linked to investigations
- linked to objections
- pending write-off action
- with limited or no collection activity due to insolvency.

FIGURE 11 – AGE OF DEBT AT 30 JUNE (\$ MILLIONS)

Tax debt by age (\$ millions)	2011	2012	2013	2014	One-year change	One-year change (%)
< 1 year	\$1,377.7	\$1,254.7	\$1,245.6	\$1,298.9	\$53.4	4.3%
1–2 years	\$1,387.7	\$1,079.1	\$901.9	\$936.7	\$34.8	3.9%
2–5 years	\$1,787.7	\$2,310.9	\$2,304.8	\$2,204.6	–\$100.2	–4.3%
5–10 years	\$653.9	\$903.0	\$993.3	\$1,126.5	\$133.2	13.4%
> 10 years	\$315.1	\$368.6	\$532.7	\$673.4	\$140.7	26.4%
Total	\$5,522.1	\$5,916.4	\$5,978.2	\$6,240.1	\$262.0	4.4%

Core services costs

We track the cost of providing our core services, such as answering telephone queries and processing tax returns. Figure 12 compares those costs with targets and the previous year's results. We are encouraging people and businesses to do as much as they can online to lower the number of phone calls and items of correspondence we receive.

FIGURE 12 – COST INDICATORS

Indicator	2012–13 Actual	2013–14 Target*	2013–14 Actual
Cost per telephone contact	\$29.02	\$31.00	\$29.88
Cost per correspondence contact	\$38.31	\$41.00	\$37.80
Cost per counter contact	\$61.44	\$45.00	\$64.89
Average cost per customer initiated contact	\$32.92	\$34.00	\$33.00
Cost per income tax return processed	\$5.14	\$5.20	\$4.92
Cost per GST return processed	\$1.27	\$1.60	\$1.34
Cost per employer monthly schedule processed	\$4.67	\$6.20	\$5.14
Average cost per return processed	\$3.78	\$4.00	\$3.95
Cost of collecting an overdue return	\$9.13	\$15.00	\$5.60

* These figures are not subject to audit.

Information sharing with the Department of Internal Affairs

Under information-sharing regulations, Inland Revenue must report annually, for this approved information-sharing agreement, on actions taken during each financial year.

FIGURE 13 – INFORMATION SHARING WITH THE DEPARTMENT OF INTERNAL AFFAIRS (DIA)

Financial year ending 30 June 2014	
Contact records received from DIA	380,539
Contact records not matched to a corresponding Inland Revenue record for:	372,567
• overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up to date contact information • overseas-based student loan defaulters.	
Contact records matched to corresponding Inland Revenue records for:	7,874
• overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up to date contact information • overseas-based student loan defaulters.	
Ongoing programme operating costs	\$1,700 ³³
Individuals successfully contacted ³⁴ using contact records matched to:	
• overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up to date contact information • overseas-based student loan defaulters.	937 73 2,310
Payments received from individuals as a result of successful contact with:	
• overseas-based child support debtors (201 payments) • overseas-based student loan defaulters (1501 payments).	\$357,181 \$6.7 million
Percentage of individuals who have addressed ³⁵ their debt as a result of being successfully contacted by Inland Revenue:	
• overseas-based child support debtors • overseas-based student loan defaulters.	23% 43%

³³ Approximate annual incidental administrative charge.

³⁴ We have made attempts to contact all 7,874 matched individuals, 3,320 have passed our three point identity verification process.

³⁵ Individual no longer has payments that are overdue.

In July 2014, the operation of this information sharing agreement was independently reviewed. The review has identified a number of improvement opportunities and we are currently taking the necessary steps to improve our processes.

A copy of the approved information sharing agreement is available to view on our website, www.ird.govt.nz

Privacy breaches

Our customers have concerns that when we share their information it may be disclosed inappropriately. We take privacy very seriously and we regularly review our systems and processes to prevent privacy breaches.

Following a potential privacy breach, Inland Revenue takes immediate steps to contain or limit it. This includes designating an appropriate individual to lead the initial investigation and determine who needs to be notified.

An appropriate evaluation takes place to determine what personal information was involved, the cause and extent of the breach, who was affected by the breach and whether those affected might be harmed.

When considering harm to individuals, Inland Revenue adheres to Part 8 section 66 of the Privacy Act 1993 (the Act), which sets out the strict circumstances under which interference and harm to individuals should be taken into account. In any case where there may be doubt, the Privacy Officer will discuss the case with the Office of the Privacy Commissioner.

We identified 287 instances (152 in the same period in 2012–13) where people's privacy may have been breached. Follow-up investigations established that in fact 241 (118 in the same period in 2012–13) had occurred.

These affected the privacy of 2,143 people. No interference or harm to any individual (with reference to section 66 of the Act) occurred as a result of these breaches. Five instances accounted for 86% of affected people. These are outlined in the table below.

FIGURE 14 – INSTANCES OF PRIVACY BREACHES

Detail	Number of affected people
One instance where Inland Revenue staff information was released to the PSA	1,616
Customer email addresses were visible in an external email sent (rather than being blind carbon copied)	140
Account statements were sent to the wrong tax agent	47
Customer details were sent to the wrong tax agent	25
Customer details for daily counter appointments were given to a single customer	16

The main cause of breaches is through staff manually handling correspondence (223 instances). We are taking measures to avoid these errors by reviewing handling processes, educating staff and regular performance reporting.

Capability and EEO

FIGURE 15 – EEO STATISTICS

	2011–12	2012–13	2013–14
Percentage of female staff	64%	64%	64%
Percentage of female team leaders	62%	63%	60%
Percentage of female managers	43%	45%	46%

FIGURE 16 – STAFF TURNOVER AND FTES

	2011–12	2012–13	2013–14
Staff turnover	11.8%	10.6% ³⁶	9.6%
Staff FTEs	5,301	5,475	5,641

³⁶ Figure recalculated for greater precision.

FIGURE 17 – PROPERTY INFORMATION (AT 30 JUNE)³⁷

	2012	2013	2014
Accommodation area (m ²)	100,736	101,678	93,439
Other area (m ²)	927	927	1,113
Total area leases (m ²)	101,663	102,605	94,552
Vacant accommodation (m ²)	5,571	1,003	0
Vacant m ² as a % of total m ²	5.5%	1%	0%
Average space per person (m ²)	17.4	17.9	15.5
Annual rental per person	\$5,760	\$5,727	\$5,410
Utility costs per person	\$823	\$799	\$773
Total occupancy cost per person	\$6,583	\$6,526	\$6,184

FIGURE 18 – EXPENDITURE ON CONSULTANTS AND CONTRACTORS

	2011–12	2012–13	2013–14
Total expenditure on consultants and contractors (\$000)	\$47,305	\$52,907	\$59,191
% of total operating expenditure	7.0%	8.1%	8.5%
% of total capital and operating expenditure	6.5%	7.5%	7.9%

FIGURE 19 – BREAKDOWN OF EXPENDITURE ON CONSULTANTS AND CONTRACTORS

	2011–12 Actual \$000	2012–13 Actual \$000	2013–14 Actual \$000
Information technology	14,023	17,882	20,481
Specialist advice and project management	26,552	29,151	31,436
HR and change management services	938	778	2,225
Tax issues	1,473	669	1,179
Property	1,964	2,074	2,023
Research	1,448	1,113	1,325
Communications	156	343	123
Other	751	897	399
Total	47,305	52,907	59,191

³⁷ Data in the table is calculated using staff headcount.

Evaluating our work programmes

We measure our effectiveness through evaluating our work programmes. The findings help us understand the factors that contribute to their success or why they are not working as intended. This year, we evaluated the effect of KiwiSaver on savings and remuneration, and considered this in relation to government costs. We published an evaluation report on the seven years' evaluation of KiwiSaver.

We evaluated how the new ways of repaying student loan obligations improved student loan repayment and debt levels.

We are evaluating Better Public Services Result 10 initiatives.

Our evaluation reports are available at:
www.ird.govt.nz/aboutir/reports/research/
