



14 February 2022



Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 29 December 2021. You requested the following:

1. *What is the biggest issues that you have identified that people and companies have been found to be done - illegal activities?*
2. *What is the IRD's approach to educate the public on detecting and reporting such things - e.g. Tax Avoidance, Fraud?*
3. *What is IRD doing to try and identify those who are avoiding paying taxes - e.g. IRD reference number supplied to companies that customers and suppliers can confirm that they are operating legally?*
4. *What types of confirmation is there that people who are providing services such as Contractors or Companies that they are paying taxes and such?*

On 18 January 2022, you withdrew question 4 and clarified your request for questions 1 and 2:

1. "Illegal activities" refers solely to tax and social policy fraud, evasion and avoidance. This does not relate to illegal activities addressed by other agencies such as drug dealing or theft.
2. This is specifically around Inland Revenue's approach to members of the public who are doing the right thing, rather than marketing toward people who are being non-compliant.

### **Inland Revenue's 'Right from the Start' approach to tax compliance**

Inland Revenue (IR) has overall responsibility for the administration of New Zealand's tax system. This includes a range of tax revenues for individuals and non-individuals on the concept of voluntary compliance.

IR's approach is to help customers get it 'right from the start', being more proactive and making it simpler and more certain for customers.

IR's recent business transformation programme has seen significant changes to the way information is received and processed. We can now analyse information we receive at scale, allowing IR to make smarter decisions and take a more targeted approach to compliance activities. We can now understand our customers better and the reasons for not getting it right. This allows us to intervene with actions that are tailored and efficient when we see deliberate non-compliance.

## **Question 1**

### ***What are the biggest issues that you have identified that people and companies have been found to be done - illegal activities?***

Most issues arise through error rather than intentional behaviour, where information provided is incomplete or is incorrectly entered into returns and either requires further verification or correction.

There are however some areas where we do observe issues that need a greater level of IR attention or the need for a wider range of interventions and I have summarised several examples of these below.

#### **Return, Refund and Entitlement Integrity**

While most customers who are required to file a return report their affairs accurately, there is a small proportion who do not, and attempt to obtain a refund or other disbursement that they are not eligible to.

Our new technologies enable us to automatically check new and amended returns and verify refunds and claims using a variety of rules and checks in our system. These capabilities allow us to stop assessments and refunds where they do not match other information we hold or there is a high possibility that they are wrong or fraudulent.

These tools also enable us to track and review customers' activities within our systems. This helps us improve our processes and make it easier for customers, and to identify where multiple changes are being made and further investigation may be needed.

Where IR identifies that a return requires further review, we will seek additional information from the customer or from third parties. This may result in a voluntary disclosure or a decision to undertake a more extensive investigation. Where adjustments have been made, the Commissioner is also able to monitor future activity to ensure that these issues and behaviours are not repeated.

In serious cases where customers have intentionally failed to get it right the Commissioner will prosecute where necessary. As a general observation, the Courts view tax crimes seriously and custodial sentences are now commonly being imposed. For further information on recent prosecutions, please visit [https://www.ird.govt.nz/index/media-releases#sort=%40mediaz95xpubdate%20descending&numberOfResults=25&f:@irscor\\_emediacategories=\[From%20the%20Courts](https://www.ird.govt.nz/index/media-releases#sort=%40mediaz95xpubdate%20descending&numberOfResults=25&f:@irscor_emediacategories=[From%20the%20Courts).

#### **Residential Investment Property and Bright-line**

Compliance with the bright-line rules, relating to the sale of residential property, continues to be an important issue. Recent changes to bright-line ownership tests, including the introduction of limitations to interest deductions on residential investment properties, and we are helping customers understand these are areas of focus.

#### **Hidden Economy**

The Hidden Economy poses a constant risk to the integrity of the tax system. The hidden economy encompasses individuals and/or businesses that attempt to operate outside of the tax system and intentionally not report some or all of their income.

IR has maintained an active focus on hidden economy activities. IR has worked closely with a number of sectors to bring about improvements in record keeping, including reporting the use of casual employees, with more specific focus given to the Hospitality, Construction and Agricultural sectors.

## **Use of Tax Alerts**

Periodically, the Commissioner publishes a Compliance Focus document which aims to give transparency to specific risks where the Commissioner has identified concerns and intends to give greater focus.

If the Commissioner has significant concerns about an identified scheme, type of transaction or observed behaviour, she may also publish a formal Tax Alert that sets out her concerns and outlines IR's intended approach to the issue raised.

## **Non-tax related offending**

While your question focused on tax related offences, from time-to-time IR may identify activities by individuals or entities that appear to be in breach of other laws or regulations. While these may fall outside of IR's scope, IR has information sharing agreements in place with many other agencies and is able to refer these to the specific agency including NZ Police where appropriate.

## **Helping people get it right**

IR recognises that tax can be difficult and sometimes people make mistakes, particularly those who are in the early stages of operating a business. IR's Community Compliance teams provide a range of front-line services for customers with an emphasis on areas where we know people are more likely to get it wrong.

IR's website also provides a significant amount of information and is structured in a way that is intended to make it easy for individuals and businesses find the guidance they need in line with our Right from the Start approach.

## **Question 2**

### ***What is the IRD's approach to educate the public on detecting and reporting such things - e.g., Tax Avoidance, Fraud?***

IR regularly monitors customer behaviours to identify common errors and uses this analysis to alert tax agents and other intermediaries to prevent future errors. We also then update information, guides and other materials published on our website.

IR regularly makes use of targeted campaigns, social media communications and advertising to communicate to customers what is expected, to help them to get it right from the start.

## **Anonymous information**

We welcome information from members of the public where they see behaviours that may indicate tax evasion, or attempts to inappropriately access entitlements, refunds or claims. IR's website also provides information about how members of the public can inform us of these.

## **Phishing and refund scams**

IR is also conscious of phishing scams or call contacts offering assistance in claiming tax refunds. Where we identify these, we issue warning to our customers either directly or via our website. We also encourage our customers to report examples of suspicious call contacts and emails to Inland Revenue.

## **Question 3**

### ***What is IRD doing to try and identify those who are avoiding paying taxes?***

## **Data and information sharing**

The use of increased data sharing with other agencies and data collection from third parties is making it easier to detect those who are attempting to evade their tax obligations.

Where we identify those who may not have reported all of their income, our preferred approach is to work with them to ensure they understand and meet their tax obligations in the future. This may be followed by further investigation activity as required.

**Significant Enterprises**

IR maintains close relationships with New Zealand's largest businesses and overseas tax authorities. This enables us to monitor compliance of these businesses, including those that operate internationally.

**Publishing of OIA response**

Finally, please note that Inland Revenue regularly publishes, on its website, responses to requests that may be of interest to the wider public. Your personal details or any information that would identify, you will be removed prior to it being published.

Thank you for your request. I trust that the information provided is of assistance to you.

Yours sincerely



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