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Inland Revenue
Te Tari Taake

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

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ird.govt.nz

OUR MISSION

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

OUR VISION

A **world-class revenue organisation** recognised for service and excellence.

OUR VALUES

Trust and integrity, innovating to make a difference, valuing people, working together.

This is the Annual Report 2021 for Inland Revenue
Ko tēnei te Pūrongo ā-Tau 2021 a Te Tari Taake

Inland Revenue plays a critical role in improving the economic and social wellbeing of New Zealanders

We collect over 80% of the Crown's revenue to help fund government services for the people of New Zealand. We work to make it easier for New Zealanders to receive the support they need.

A strong tax and social policy system underpins New Zealanders' wellbeing—it's supporting the recovery from COVID-19.

WE COLLECT OVER

80%

of the Crown's revenue

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

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

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

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

The contents of our Annual Report
Ngā kōrero o te Pūrongo ā-Tau

A word from the Commissioner
He kupu nā te Kaikōmihana

Inland Revenue's work is important to the economic and social wellbeing of all New Zealanders. It's our responsibility to make sure the Government has an effective revenue system that can fund public services people value like schools and hospitals. So it's essential that we do our work in the best way possible.

Our work is underpinned by three beliefs that customers hold:

> When I pay my tax, I'm doing a good thing (and that's what people like me do).

> When I'm trying to do the right things, Inland Revenue will help me.

> When someone else is trying to do the wrong thing, Inland Revenue will find them.

Five years ago, Inland Revenue started on a transformation journey to become a modern, digital revenue system which could support current and future customers, putting them at the heart of everything we do. We wanted to make tax and payments simple, more certain and easier to get right, and enable our customers to do more for themselves, where and when it suited them.

Our transformation has made significant and positive changes to all aspects of our work—our processes, policy and technology, and how we work with our partners across government, the private sector and internationally—supporting customer beliefs and making a better revenue system for all. We've invested in the skills of our people so that they are ready and able to work in this modern, digital world.

In this Annual Report we share our work over the last 12 months, highlighting what we have achieved for the people of Aotearoa New Zealand. It is a lot.

Our work is motivated by knowing what we do makes a difference in people's lives and 81% of customers find us easy to deal with.

He aha te mea nui o te ao
He tangata, he tangata, he tangata

During the past year, New Zealand has continued to be dominated by the global pandemic and this has had a significant impact on our work. Our new systems meant we could respond quickly to legislative and policy changes, setting up a range of initiatives in a matter of days and weeks, to support the Government's COVID-19 response. This helped many businesses stay afloat at a critical time for them. Moving at this speed was not possible before transformation.

I also want to acknowledge and thank our people, and the partners we work with, who supported our customers through a challenging year.

Through investing in our online services, customers are now able to do more for themselves. We have also streamlined processes, such as for student loan customers and paid parental leave, which means there are fewer things for our customers to do or follow up on. The number of telephone calls we received fell 30% from the previous year, as many of the people who used to call us no longer need to. It's a great example of how automation is freeing up time for people that may have previously been spent interacting with us.

Payday filing allows us to collect accurate information faster and helps people to pay the right amount throughout the year.

We're able to make adjustments to things like Working for Families payments, enabling people to have money when it's needed through the year and not face an end-of-year debt or have to wait for a refund. This is making a positive difference for people whose income fluctuates throughout the year.

Under our old processes, many people who could claim refunds never did, as it was too complex and difficult. Since we introduced automatic individual income tax assessments many more people receive refunds they are owed. Around 90% of the total of $455 million in refunds issued by 30 June 2021 went to customers earning less than $70,000 annually.

Our technology and system changes mean we have better data and information about our customers. We're able to use our new data and analytics capability to better understand behaviours and find more ways to help customers get it right. We're also able to identify new areas of potentially fraudulent activity and then develop the appropriate compliance response.

We have continued to build the capability of our people. Through changes to our operating model, they now have capability-based roles and are encouraged to work in networked ways across Inland Revenue. They are also working more closely with colleagues across Government, creating new and different opportunities. We are committed to building a more inclusive and diverse organisation that better supports our people and reflects the communities we serve. This includes our commitment to Māori–Crown relations, guided by our Māhutonga programme of work.

We have asked a lot of our people this year and they have responded with resilience, flexibility and strength. Together they have successfully met all of the challenges of working in a changing organisation during a global pandemic. I am proud of them all and what they achieve every day for our customers.

The coming 12 months are an exciting time for Inland Revenue. With our last release planned for later in 2021, we will complete all the key elements of our transformation. We have already successfully integrated many of the significant changes from transformation into our business-as-usual processes and will continue to transition the final areas as we wrap up our transformation programme.

We have a huge opportunity ahead to make greater use of our new tools and analytics capabilities, processes and skills to further benefit our customers and the Government.

With more than 100 years of service to Aotearoa New Zealand, Inland Revenue's transformation is built on a strong foundation. We are well placed to continue that service as a world-class revenue organisation all New Zealanders can be proud of.

Naomi Ferguson

Naomi Ferguson

Commissioner of Inland Revenue | Kaikōmihana o Te Tari Taake

Naomi speaking at the Bookkeepers Conference 2021.

Naomi with members of our Tauranga Families Team. Left to right: Kathy Yorke, Brooke Jones, Oliver Twissell, Lauren Spargo, Celine McCarthy, Kiriana McGrady, Kerryann Bouzaid, Steph Evans and Viv Oliver.

He kupu nā te Kaikōmihana
A word from the Commissioner

He mea nui ngā mahi a Te Tari Taake mō te oranga ōhanga, oranga pāpori hoki o ngā tāngata katoa o Aotearoa. Nō mātou te haepapa kia tika ai te pūnaha whiwhinga moni a te Kāwanatanga ki te utu i ngā ratonga tūmatanui e whai hua ana ki te tangata pēnei i ngā kura me ngā hōhipera. Nā reira, he mea matua me tika rawa ā mātou mahi.

Kei te pūtake o ā mātou mahi ko ngā whakapono e toru o ngā kiritaki:

> Ina utu au i aku taake, he pai taku mahi (ina hoki koinā te hiahia o te tangata).

> Ina whai au kia tika te mahi, ka āwhina mai Te Tari Taake i a au.

> Ina hē ana te mahi a tētahi atu, ka rapua ia e Te Tari Taake.

E rima tau ki muri, i tīmata Te Tari Taake i tōna hurihanga nui hei pūnaha whiwhinga moni hou, hangarau hou hoki, e tautoko ana i ngā kiritaki o ēnei rā, ā, haere ake nei hoki hei poutokomanawa mō ā mātou mahi katoa. He hiahia nō mātou kia ngāwari ake te taake me ngā utu taake, kia mārama ake, kia māmā hoki te mahi tika, kia riro hoki mā ngā kiritaki anō rātou e āwhina, hei te wā e pai ai ki a rātou.

He nui ngā painga o tō mātou hurihanga nui ki ā mātou mahi katoa—ā-tukanga, ā-kaupapahere me ngā hangarau, tae noa ki ā mātou mahi tahi ki ngā hoa mahi kāwanatanga, ki te rāngai tūmataiti, ā, ki tāwāhi hoki—hei tautoko i ngā whakapono o ngā kiritaki e pai ake hoki te pūnaha whiwhinga moni mō te katoa. Kua haumi mātou ki ngā pūkenga o ō mātou tāngata kia rite ai rātou mō te mahi ake ki tēnei ao hangarau hou.

Kei tēnei Pūrongo ā-Tau e whakaaturia ana ā mātou māhi mō te tau kua taha ake nei, e tino whakaatu ana hoki i te whai hua mō te noho o te tangata o Aotearoa. He maha hoki ngā hua.

E ākina ana ā mātou mahi i runga i te whakaaro ka pai ake mō ngā tāngata inā hoki tōna 81% o ngā kiritaki e māmā ana te mahi tahi ki a mātou.

He aha te mea nui o te ao
He tangata, he tangata, he tangata

I te tau ka huri ko te mate urutā ā-ao te take nui, ā, he nui ngā pānga mai ki tā mātou mahi. Nā ā mātou pūnaha hou i tere ai tā mātou urupare ki ngā huringa ture me ngā huringa kaupapahere, i tū ai ētahi kaupapa katoa i roto i ngā rā ruarua me ngā wiki ruarua hei tautoko i te urupare mate urutā a te Kāwanatanga. Nā tēnei i āwhina ngā pakihi maha kia mahi tonu i te wā aro haehae mō rātou. Kāore hoki i taea tēnei momo horo i mua i te hurihanga nui.

E mihi ana au ki ō tātou tāngata me ngā hoa mahi katoa, nāna nei mātou i āwhina ki te tautoko i ō mātou kiritaki i tēnei tau uaua.

Nā te whakakaha i ā mātou ratonga ā-ipurangi, he nui ake ngā āheinga o ngā kiritaki ināianei ki te āwhina i a rātou anō. Kua whakatikahia ake hoki ngā tukanga, pēnei i ō ngā kiritaki pūtea taurewa ākonga me ō ngā mātua whiwhi utu ka hiki ana ā rātou mahi mō te tiaki pēpi hou, nā reira he iti ake te mahi hei whakatutuki hei whaiwhai ake hoki mā ō mātou kiritaki. Kua heke iho te rahi o ngā waeatanga mai mā te 30% mai i te tau o mua, i te kore hoki e whai take ināianei o te nuinga ki te waea mai. Hei tauira pai hoki tēnei mō te whakamahi hangarau e wātea ake ai ngā tāngata tērā i torotoro rawa mai ki a mātou i mua.

Nā te tuku utu taake i te rā utu mahi i māmā ake ai tā mātou kohikohi kōrero tōtika, ka āwhina hoki tērā kia tika ai te utu taake a te tangata puta noa i te tau. E āhei ana mātou ki te whakaniko i ngā mea pēnei i te pūtea utu whānau nei, Working for Families, e whai wāhi ai ngā tāngata ki te whiwhi moni i te wā e whai take ana, puta noa i te tau, kia kaua hoki e mate ki te utu nama nui hei te mutunga o te tau, tērā rānei te tatari mō tētahi whakahokinga moni. He whai hua tēnei mō te hunga e rerekē ana te whiwhi pūtea puta noa i te tau.

I raro i ngā tukanga o mua, he maha ngā tāngata i āhei ki te tono whakahokinga moni engari kāore i tutuki nā te matatini me te uaua rawa. Nō te whakatikanga o te whakawhiwhi aromatawai taake takitahi, he nui atu ngā tāngata e whiwhi ana i ngā whakahokinga moni e tika ana. Kei te takiwā o te 90% o te pūtea whakahokinga moni e $455 miriona katoa i tukuna atu i mua i te 30 o Hune 2021 i haere ki ngā kiritaki iti ake ā rātou utu ā-tau i te $70,000 tāra.

Nō ā mātou hurihanga pūnaha, hurihanga hangarau hoki, kua pai ake tō mātou mōhio ki ngā kiritaki. Nā ngā tātaritanga kōrero hou, kua mārama ake mātou ki ngā whanonga kiritaki me ngā ara āwhina kia tika ai tā ngā kiritaki. E āhei ana hoki mātou ki te tohu i ngā putanga hou o te mahi tinihanga ka whakarite ai hoki i te urupare tautuku e tika ana.

Kei te kaha tonu mātou ki te whakapakari i te āheinga o ō mātou tāngata. Nā ngā hurihanga ki tā mātou aro whakahaere, kua whai tūranga ā-pūkenga rātou, ā, e ākina ana rātou kia mahi kōtuitui puta noa i Te Tari Taake. Kua tata ake hoki tā rātou mahi tahi ki ngā hoa, puta noa i te Kāwanatanga, kua puta ake hoki ngā āheinga rerekē hou. Ka ū tonu mātou ki te whakapakari i te matatinitanga o tō mātou rōpū, e pai ake ai te tautoko i ō mātou tāngata me ngā hapori e āwhina ana mātou. Tae atu ki tō mātou ū ki te arawhiti Māori–Karauna, e ārahina nei e tā mātou hōtaka mahi o Māhutonga.

He nui ā mātou tono ki ō mātou tāngata i tēnei tau, ā, ko tā rātou urupare mai he ū, he ngāwari, he kaha anō hoki. Nā te mahi takitini, kua tutuki katoa i a rātou ngā wero o te mahi ki roto i ngā whakahaere hurihuri i te wā o te mate urutā. E whakahīhī ana au i tā rātou whakatutukinga mahi ia rā, ia rā, mō ō mātou kiritaki.

E hīkaka ana Te Tari Taake ki ngā marama 12 e tū mai nei. Hei te whakaputanga whakamutunga ā te mutunga o tēnei tau 2021, kua tutuki katoa ngā mahi matua o tō mātou huringa. Kua uru kē mai hoki te maha o ngā rerekētanga matua o tō mātou hurihanga nui ki roto i ā mātou pūnaha mahi o ia rā, ā, ka whakahuritia mai hoki ngā toenga i a mātou e whakaoti ana i tā mātou hōtaka huringa nui.

Kei mua tonu i a mātou te ara whānui e whakamahi ake ai mātou i ā mātou taonga mahi hou, me ō mātou āheinga tātaritanga hou, me ō mātou pūkenga hou, e whai hua ai ō mātou kiritaki me te Kāwanatanga hoki.

Nā te whai neke atu i te 100 tau hei ratonga mō Aotearoa, e kaha tau ana te pūtake o te huringa nui o Te Tari Taake. Kua rite pai mātou ki te tuku tonu i tēnei ratonga ki ngā taumata o te whakahaere whiwhinga moni ā-ao, e noho whakahīhī ai ngā tāngata katoa o Aotearoa.

Naomi Ferguson

Naomi Ferguson

Kaikōmihana o Te Tari Taake | Commissioner of Inland Revenue

Ko Naomi me ngā mema o tō mātou Kōtuinga Āniwaniwa kei te hui āniwaniwa Cross Agency Rainbow Network (CARN) o te tau 2021. Māui ki matau ko: Carlo Benitez Koppe, Brodie Packer, Naomi, Joshua Schweitzer, Morgan Kelly, Avery Underwood, Stef McKnight, Caitlin Cochrane-Scull.

Ko te huritau 30 o tō mātou ratonga Kaitakawaenga Māori i te Tīhema o te tau 2020. Kei te whakaahua nei o te huritau, māui ki matau, ko: Corey Sinclair, Charles Goldsmith, Kylee Lambert, Aroha Paranihi, Naomi, Rhys Mohi, Dayveen Stephens, Charmaine Ratima, Ian Procter.

We're motivated by the knowledge that what we do is vital for the wellbeing of New Zealanders
Ka kaha mātou nā te mōhio he take nui tā mātou mahi mō te oranga o ngā tāngata o Aotearoa

As at 30 June 2021, automatic individual income tax assessments have refunded

$455m to New Zealanders

Of these refunds

90% went to customers earning $70,000 or less

The new Resurgence Support Payment has paid

$200m

to businesses impacted by COVID-19 alert-level increases in Auckland in February

We let

11,000 Working for Families customers

know they now qualified for the in-work tax credit and started paying them straight away

Paid parental leave

went online, with a

new, simple application process

We prevented

$300m

in incorrect or fraudulent refunds from being paid out

People made

695 voluntary disclosures

about a property tax obligation, worth

$43m

Customers set up approximately

140,000 arrangements

to pay their tax in instalments covering

$3.7b in debt

We assessed

$854m

in tax position differences this year

We've paid out

$1.72b

in Small Business Cashflow Scheme loans to more than

106,000 businesses

Our business transformation won

at the NZCIO awards and 2020 IDC Asia/Pacific Digital Transformation Awards

Legislation changes are making the

child support scheme

simpler and fairer

We were awarded the

Rainbow Tick

for our progress in promoting diversity and inclusiveness

We developed policy and helped pass legislation for the

new top personal income tax rate and property tax changes

We launched a policy for

flexible working arrangements

95% of contributions from KiwiSaver members

were passed to the scheme's providers in two days

We developed a body of research to

inform our services for Māori

and our commitment as a partner in the Māori–Crown relationship

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

IMPACTS

The difference we want to make to help achieve our mission

Customers know what to do

Customers find it easy

Customers do what they need to

We use intelligence and insights to **improve customer outcomes and revenue**

We deliver evidence-based policy that's innovative and responsive to **customer needs**

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

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

KEY RESULTS THIS YEAR

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

89.9%

of tax payments from customers were on time

$93.8b

Tax revenue was up 21% from last year –$93.8b was collected

90%

of customers felt confident they were doing the right thing

Automatic assessments of individual income tax

are helping people pay the right tax throughout the year

OUR MISSION

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

OUR VISION

A **world-class revenue organisation** recognised for service and excellence.

We track our progress towards achieving our mission and vision through our performance measures. You can read how we performed this year from page 63 on.

94.3%
of returns filed by customers were on time

81%
of customers found us easy to deal with

99%
of Working for Families and paid parental leave payments were made on time

Business customers reported a significantly
improved experience dealing with us
– Better for Business survey June 2021

OUTCOMES

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

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

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

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

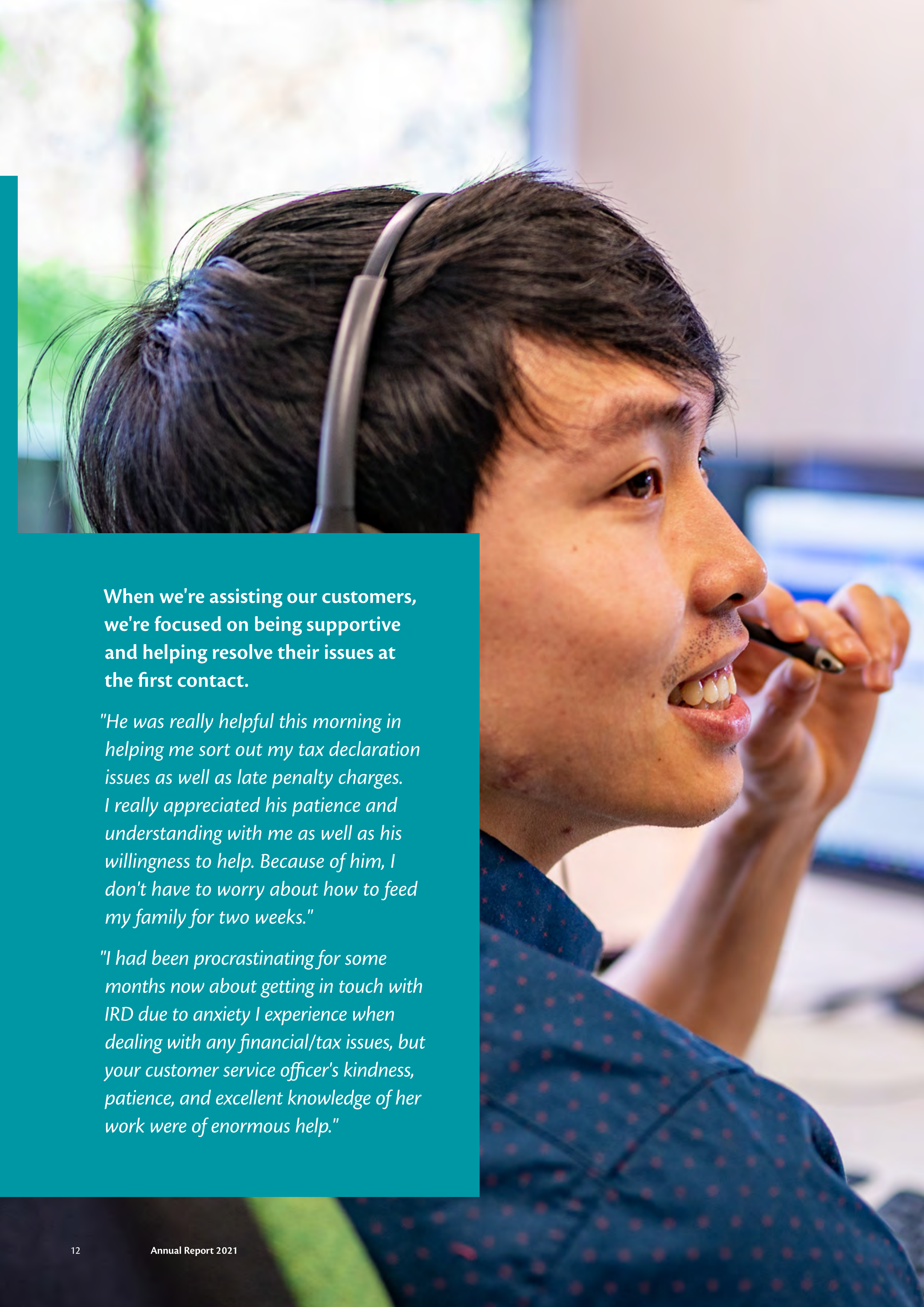
OUR CULTURE

CUSTOMER CENTRIC

INTELLIGENCE LED

AGILE

INCLUSIVE



When we're assisting our customers, we're focused on being supportive and helping resolve their issues at the first contact.

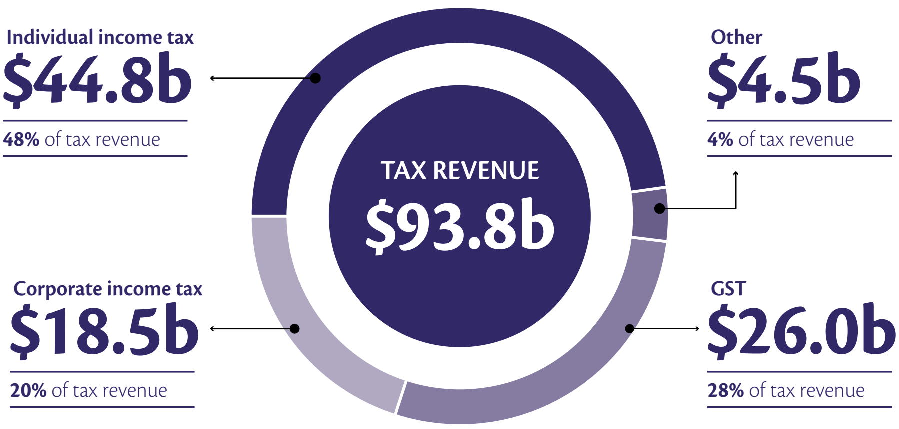
"He was really helpful this morning in helping me sort out my tax declaration issues as well as late penalty charges. I really appreciated his patience and understanding with me as well as his willingness to help. Because of him, I don't have to worry about how to feed my family for two weeks."

"I had been procrastinating for some months now about getting in touch with IRD due to anxiety I experience when dealing with any financial/tax issues, but your customer service officer's kindness, patience, and excellent knowledge of her work were of enormous help."

Our operating context
Tō mātou horopaki whakahaere

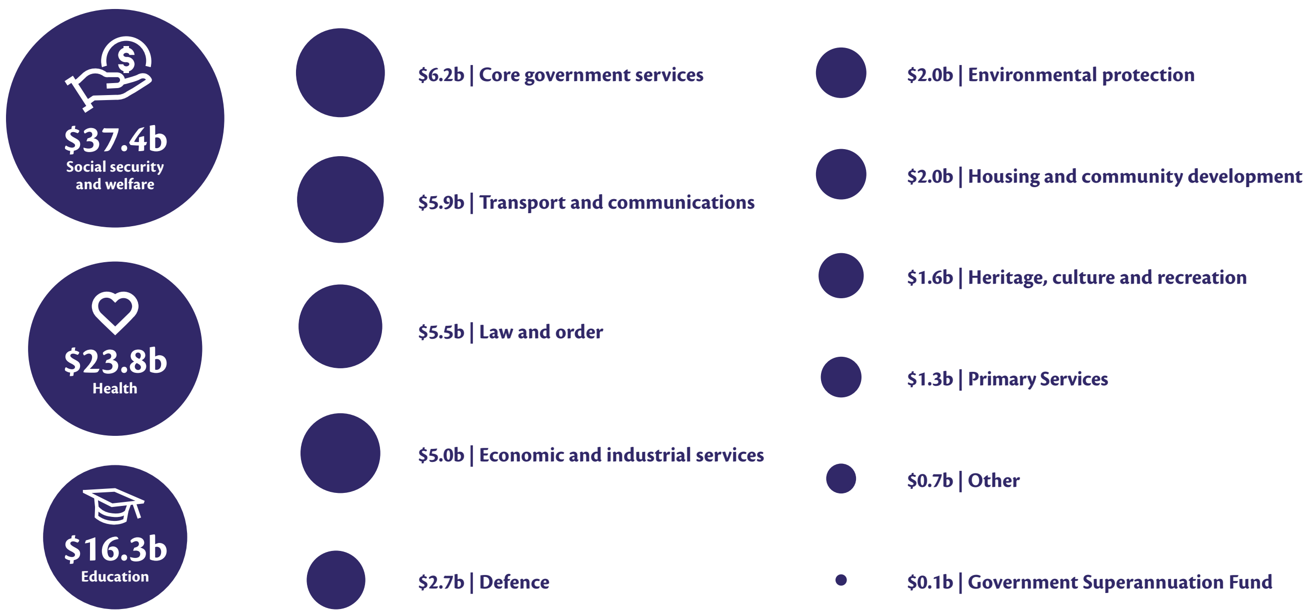
All New Zealanders benefit from tax
Ka whai hua ngā tāngata katoa o Aotearoa i ngā tāke

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



In 2020–21, we collected $94.5 billion of revenue to help fund government programmes. We collected $93.8 billion of tax revenue. Direct or income taxation (for example individuals' income tax or corporate tax) accounts for 68% of tax revenue. GST accounts for 28%. For full details, please refer to pages 150 to 151.

In 2020–21, the Government expected to spend in the following areas:



For full details see: https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2021

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

Our customers can wear many hats and interact with us for a number of reasons. They're individuals, may also be employers or self-employed, students or parents.

We serve companies, not-for-profit organisations, trusts, Māori authorities, tax agents, families and whānau, students, savers and investors. As well as all people earning money in New Zealand, some of our customers live overseas but have obligations here.

In the tax year ended March 2020:*

OUR INDIVIDUAL CUSTOMERS

3.1 million customers received an automatic individual income tax assessment.

EMPLOYERS

Approximately 222,000 employers filed more than 7.4 million employer information returns.

COMPANIES

Over 366,000 company tax returns were filed.

GST FILERS

Approximately 660,000 customers filed more than 3 million goods and services (GST) returns.

In the 2020–21 financial year, we collaborated with our partners to administer:

WORKING FOR FAMILIES TAX CREDITS

With the Ministry of Social Development, we distributed $3 billion in entitlements to support working families.

CHILD SUPPORT

We collected $467 million from more than 156,000 parents who pay child support. We distributed $281 million to carers. The balance is retained by the Government to help offset the costs of benefits paid.

KIWISAVER

We collected contributions and transferred $8 billion to KiwiSaver scheme providers for investment.

As at 30 June 2021, over 3.1 million people were enrolled in KiwiSaver.

STUDENT LOANS

We jointly administer this programme with the Ministries of Education and Social Development (Studylink). We had approximately 680,000 student loan customers and collected $1.5 billion in repayments.

PAID PARENTAL LEAVE

We administer paid parental leave (PPL) for the Ministry of Business, Innovation and Employment.

We made $503 million in payments to approximately 50,000 parents.

** Figures for the tax year ended March 2021 are not available for this publication because customers have until April 2022 to file their 2021 returns.*

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

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

Customer and Compliance Services—Individuals Ratonga Kiritaki me te Tautukunga—Takitahi

Our people in this group make tax compliance simpler by giving advice and support to individuals, families, tax agents and micro-business customers, including not-for-profit organisations. The 'Right from the Start' approach means they assist our customers to get their interactions right, intervene early when they're getting it wrong and take action when people choose not to do the right thing. This helps ensure everyone pays and receives the right entitlements.

Customer and Compliance Services—Business Ratonga Kiritaki me te Tautukunga—Pakihi

This group provides certainty and accuracy around complex and global tax compliance arrangements for small-to-medium-sized enterprises and significant enterprises.

The group connects with a range of business and delivery partners, representative bodies, government and international agencies to deliver joined-up services and reduce costs to customers and government. It also uses a 'Right from the Start' approach, including providing assurance to customers on significant tax issues and large-scale transactions. Like Individuals, the group assists our customers to get their interactions right, intervenes early when they're getting it wrong and takes action when businesses choose not to do the right thing.

This group also provides tax technical and legal support to Inland Revenue.

Information and Intelligence Services Ratonga Pārongo me te Mōhiotanga

Information and Intelligence Services helps Inland Revenue keep the customer at the heart of everything we do. The group uses data insights and intelligence to help understand and influence customer behaviour.

Tax Counsel Office | Te Tari o te Rōia Tāke

The Tax Counsel Office provides technical advice about the interpretation and application of tax law for Inland Revenue and our customers.

Policy and Regulatory Stewardship Kaupapa me te Tiaki Waeture

Policy and Regulatory Stewardship provides policy advice to the Government. This group represents New Zealand overseas on tax policy-related issues and negotiates and maintains New Zealand's network of tax treaties with other countries. It also drafts most tax legislation and supports the passage of proposed changes through Parliament.

Transformation | Huringa

The Transformation group ensures our transformation is implemented successfully. This includes delivery of solutions, services, and benefit enablers, managing costs within the approved funding and meeting committed timeframes.

It manages robust change processes to ensure stakeholders' needs are met and supports stakeholders to adopt new systems and processes.

Enterprise Design and Integrity Hinonga Hoahoa me te Tika

Enterprise Design and Integrity develops our strategic direction and provides advice and guidance to ensure we achieve the outcomes intended. The group helps integrate Inland Revenue's planning, prioritisation, performance reporting and investment management activity.

Enterprise Services | Ratonga Hinonga

Enterprise Services supports our people to operate efficiently, effectively and safely, by providing seamless, integrated, end-to-end services.

We are located throughout New Zealand
Puta noa mātou i Aotearoa

WE HAVE OVER

4,200 PEOPLE

BASED IN

17 TOWNS & CITIES

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

Top row, left to right: Cath Atkins, Mike Cunnington, David Carrigan and Michelle Redington.
Bottom row, left to right: Sharon Thompson, Greg James, Naomi Ferguson, Mary Craig and Gary Baird.

Naomi Ferguson **Commissioner and Chief Executive** **Kaikōmihana o Te Tari Taake**	Naomi has been our Commissioner since July 2012. She has more than 30 years' experience in revenue agency management both in New Zealand and the UK, with Her Majesty's Revenue and Customs. She has also worked for Inland Revenue in Northern Ireland and in the UK banking industry.
Sharon Thompson **Deputy Commissioner, Community and Compliance Services—Individuals** **Kaikōmihana Tuarua, Ratonga Kiritaki me te Tautukunga—Takitahi**	Sharon joined Inland Revenue in July 2017 and brings a depth of experience in leading change, building employee engagement and improving services for customers in the financial services industry.
Cath Atkins **Deputy Commissioner, Community and Compliance Services—Business** **Kaikōmihana Tuarua, Ratonga Kiritaki me te Tautukunga—Pakihi**	Cath has over 25 years of experience in the public sector. Before joining us in 2017, she was Deputy Secretary, Macroeconomics and Growth at the New Zealand Treasury.
Mike Cunnington **Deputy Commissioner, Information and Intelligence Services** **Kaikōmihana Tuarua, Ratonga Pārongo me te Mōhiotanga**	Mike joined Inland Revenue in July 2013 and leads the work on our approach to compliance, customer strategies and our digital, data analytics and marketing capabilities. He's led customer-centric change in a range of organisations and held senior marketing positions in both New Zealand and the UK.
Michelle Redington **Chief Tax Counsel** **Rōia Tāke Matua**	Michelle has been our Chief Tax Counsel since March 2021. She has more than 20 years' professional taxation experience, including a range of senior leadership roles, primarily in the private sector.
David Carrigan **Deputy Commissioner, Policy and Regulatory Stewardship** **Kaikōmihana Tuarua, Kaupapa me te Tiaki Waeture**	David has held a number of tax policy positions at Inland Revenue since joining us in 1996. He's led a number of reforms, most recently the policy work to support our business transformation.
Greg James **Deputy Commissioner, Transformation** **Kaikōmihana Tuarua, Huringa**	Greg joined Inland Revenue in June 2013, bringing a wealth of experience in transformation and change, and having successfully led a number of large-scale programmes.
Mary Craig **Deputy Commissioner, Enterprise Design and Integrity** **Kaikōmihana Tuarua, Hinonga Hoahoa me te Tika**	Mary has had an extensive and varied career with us, which has included leading our cross-organisation programme for organisation design, embedding new ways of working, and leading and governing the transformed Inland Revenue.
Gary Baird **Deputy Commissioner, Enterprise Services** **Kaikōmihana Tuarua, Ratonga Hinonga**	Gary joined Inland Revenue in April 2016, having held executive positions at ANZ and DHL. He's led large and complex technology environments and has significant experience leading teams through transformation and integration projects.

You can read more about the backgrounds of our Executive Leadership Team on our website www.ird.govt.nz under 'About us'.

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

Across all of our work, we regularly assess how our operating environment is evolving to identify existing and emerging trends, risks and opportunities. This allows us to be responsive, ensuring sustainable and successful delivery of our services and the achievement of our mission, vision and outcomes. A number of areas of change have been, and will continue to be, influential in shaping the environment.

The impacts of the global economy on New Zealand from factors such as emerging labour markets, efforts to mitigate climate change and the ongoing effects of COVID-19.

People's expectations of the part they can play in the revenue system, their perceptions of its fairness and what other countries are considering.

Aspects of social change in New Zealand, including demographic shifts, expectations for the Māori–Crown relationship, trust in public institutions and the role of media and social media.

Increasing levels of inequality and what this means for what Inland Revenue does and the outcomes we're expected to achieve.

The impact of technology changes on revenue collection, which is changing how people connect and how businesses and whole sectors operate. Technology is enabling more groups to play a part in the revenue system.

Cybercrime and terrorism will continue to have implications for revenue collection.

We are the principal steward of New Zealand's revenue system
Ko mātou te kaitiaki matua o te pūnaha whiwhinga moni o Aotearoa

We play a crucial role in maintaining and enhancing the integrity of the revenue system by making it clear, consistent and simple. We're accountable to the Minister of Revenue.

We work with many others who help manage and run the revenue system. We also work with others to enhance New Zealanders' wellbeing, and in the digital 'ecosystem' and international tax networks.

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

This includes meeting our obligations under Te Tiriti o Waitangi and delivering on our role as part of the Māori–Crown relationship.

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

> are effective and efficient to deliver on the policy intent

> are operating as intended

> are achieving intended outcomes

> remain fit for purpose.

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

Employers play a huge part—they provide employment income information every pay day.

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

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

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

We exchange financial account information with more than 80 jurisdictions.

We administer a number of social policy programmes, such as student loans and child support obligations, and a number of COVID-19 initiatives.

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

We work closely with a wide range of agencies, particularly the Treasury, Ministry of Social Development and Ministry of Business, Innovation and Employment.

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

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

Inland Revenue's corporate strategy is our long-term approach to creating value and how we will contribute to the economic and social wellbeing of New Zealanders. It provides us with direction and keeps us focused. Its six interconnected strands are described below.

CUSTOMER

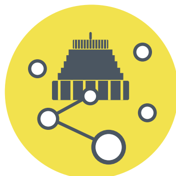
Putting the customer at the centre of everything we do.

DIGITAL

We fully embrace our place in the digitally connected world.

EXTERNAL COLLABORATION

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



POLICY AGILITY

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

INFORMATION AND INTELLIGENCE

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

PEOPLE

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

Our story 2020–21
Ō mātou kōrero 2020–21

The needs and wellbeing of all New Zealanders have been at the heart of what we've done this year.

We supported our customers through the pandemic, and protected the integrity of the tax system by supporting the generally positive attitudes people have about paying tax. This has helped to ensure our country is positioned as well as it can be to deal with the ongoing impacts of COVID-19 and that New Zealanders can prosper.

We use all our tools and capability to ensure people pay and receive the right amounts from the start. Our compliance approach covers everything from policy settings, the design of products and services, advice and education, through to investigations and litigation.

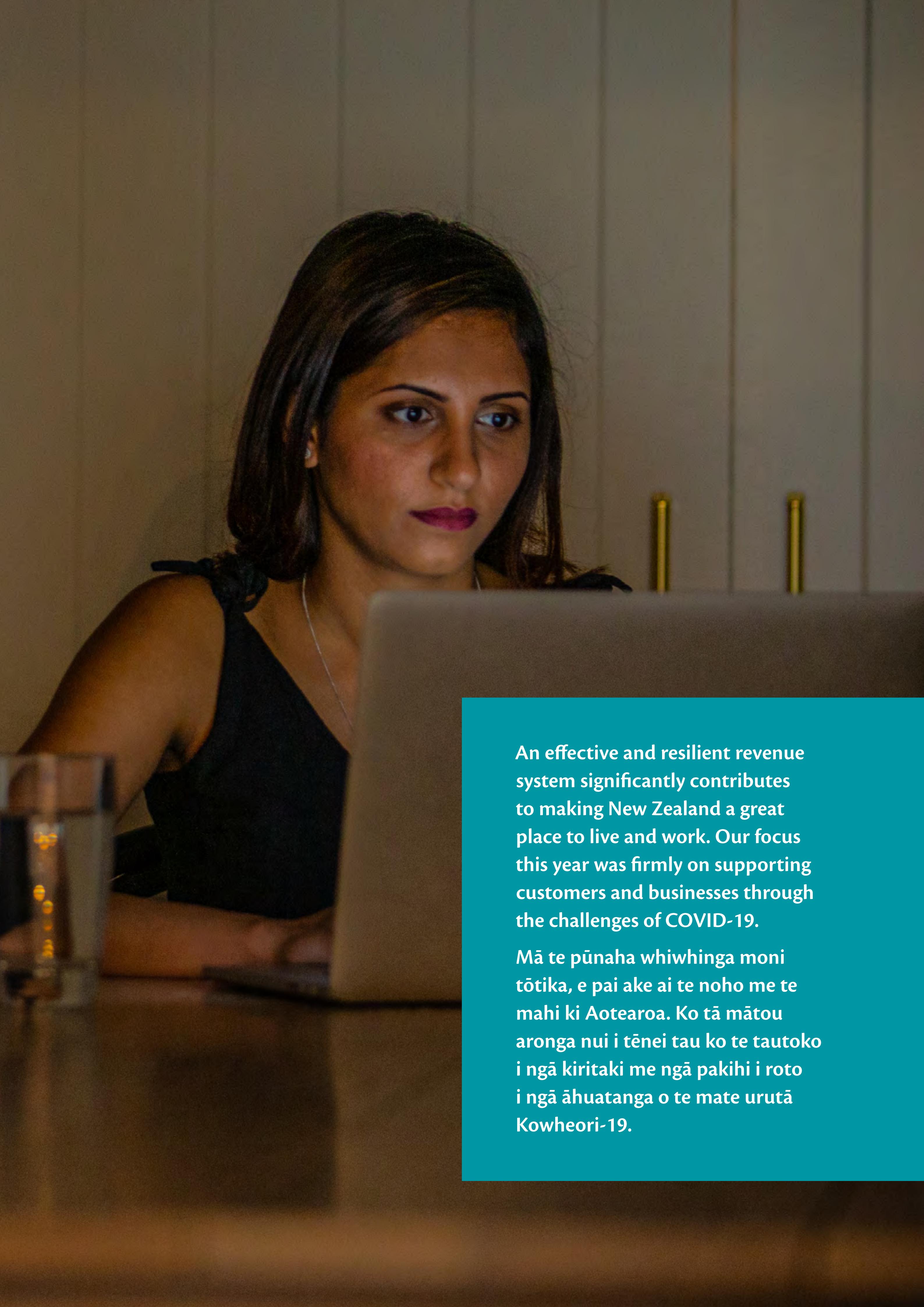
Our transformation is coming to a close—it has enabled us to work differently and more effectively to benefit New Zealanders.

WE WORK TO KEEP ENSURING NEW ZEALANDERS BELIEVE:

WHEN I PAY MY TAX, I'M DOING A GOOD THING (AND THAT'S WHAT PEOPLE LIKE ME DO)

WHEN I'M TRYING TO DO THE RIGHT THINGS, INLAND REVENUE WILL HELP ME

WHEN SOMEONE ELSE IS TRYING TO DO THE WRONG THING, INLAND REVENUE WILL FIND THEM



An effective and resilient revenue system significantly contributes to making New Zealand a great place to live and work. Our focus this year was firmly on supporting customers and businesses through the challenges of COVID-19.

Mā te pūnaha whiwhinga moni tōtika, e pai ake ai te noho me te mahi ki Aotearoa. Ko tā mātou aronga nui i tēnei tau ko te tautoko i ngā kiritaki me ngā pakihi i roto i ngā āhuatanga o te mate urutā Kowheori-19.

We've supported New Zealanders through extraordinary times

As COVID-19 continued to significantly impact the world, we've helped New Zealanders, their families, whānau and businesses survive and stay compliant with their tax obligations.

Working with colleagues from across government, and with advice from stakeholders such as tax agents, we administered a number of initiatives and rapidly developed new services as part of the Government response to COVID-19. Our people were motivated by being able to help New Zealanders and ensure the revenue system remains a strong foundation for delivering Government priorities.

A new support payment helped businesses and their staff through COVID uncertainty

In December 2020, the Government announced a Resurgence Support Payment to help businesses and organisations experiencing a 30% decline in revenue due to an increase in New Zealand's COVID-19 alert levels to level 2 or above. The payment was activated in February and March 2021 for businesses affected by increased alert levels in Auckland. Moving Auckland to alert level 3 was estimated to have kept 250,000 workers at home.

The payment scheme was developed in 45 days. We set up an easy-to-use online process where businesses could apply via their myIR accounts. More than 5,940 businesses applied on 23 February, the first day that the payment was available.

"We did open for takeaway for three days, from Monday to Wednesday, but I had only one customer for three days. That really affected our revenues. We have staff to pay, rent to pay. I'm just trying to do my best to survive."

An Auckland restaurant owner in February 2021

Small-to-medium-sized enterprises have been the main recipients—most businesses in New Zealand employ fewer than 50 people and smaller firms are less resilient to economic shocks than larger ones. Most eligible businesses have had the money in their accounts within three days.

The payment became an important part of the Government's COVID-19 response to help businesses survive, save jobs and prevent a major shock to the economy. It has also supported the underlying public health aims of the alert level increases—stamping out COVID-19 outbreaks by helping communities to self-isolate as appropriate.

You can read about how we implemented the scheme on page 81.

AS AT 30 JUNE 2021

The Resurgence Support Payment

71,200
applications have been approved

$200m
has been paid out

10 March was our busiest day:

We paid out
$42.5m
to approximately
9,000
customers

The payments have helped approximately

60,000
businesses with 5 or fewer FTEs

9,000
businesses with 6 to 20 FTEs

7,500
cafes, restaurants and takeaways

5,900
road transport services

3,700
allied health services such as physios

3,100
personal care services

2,300
cleaning, pest control and gardening services

Businesses received cashflow when it was most needed

Small Business Cashflow Scheme loans have continued to help businesses with expenses such as rent and insurance. Over 106,000 businesses have taken up a loan as at 30 June 2021. Most customers received their loans within two days of approval.

The scheme was extended until December 2023. We also implemented a number of changes that have expanded the number of businesses that are eligible. For instance, new businesses that have been operating for more than six months can now apply.

"Different businesses may need to access the scheme at different times, so it's important it remains as a backstop for them to fall back on if times get hard."

Prime Minister Jacinda Ardern in November 2020

Businesses are now starting to repay their loans. As of 30 June, approximately 13,000 customers have repaid $117 million. Around 5,000 customers have repaid the full loan amount.

On page 36, you can read about the checks we built into our systems to stop ineligible applications for both the Resurgence Support Payment and Small Business Cashflow Scheme loans.

Wage subsidies kept thousands of New Zealanders in their jobs

The Wage Subsidy Scheme administered by the Ministry of Social Development (MSD) has supported employers to retain staff. It's estimated to have indirectly supported about 1.8 million employees[1].

This year, we've kept supporting MSD by verifying applications and providing information to inform its investigations into any errors or potential wrongdoing.

In June 2020, we set up a temporary information portal that let MSD staff access information to verify applications from 35,000 employers. It was a valuable time saver to help get funding to eligible customers quickly, while protecting people's privacy. The portal had appropriate access permissions and provided the minimum data needed for verification.

Our focus now is on following up the tax implications for employers and the self-employed who have taken up this subsidy and other COVID-19 initiatives. IR3 income returns for 2021 now include a field for 'government subsidies' and we designed rules into our systems to ensure customers are correctly reporting Wage Subsidy payments in their returns.

AS AT 30 JUNE 2021

$1.72b
has been loaned

$16k
is the average loan amount

Small Business Cashflow Scheme loans have gone to approximately

19,800
construction businesses

12,100
businesses in professional, scientific and technical services

10,200
accommodation and food businesses

9,700
businesses in retail trade

The loan is $10k per firm plus $1.8k per FTE, to a maximum of $100k with 50 FTEs.

The loan term is five years—no repayments are required in the first two years.

If the loan is repaid in the first two years, no interest is charged.

[1] From the March 2021 report by the Office of the Auditor-General on the Management of the Wage Subsidy Scheme.

In November 2021, Inland Revenue, the Ministry of Social Development, Ministry of Business, Innovation and Employment and the Treasury were joint winners of the Te Tohu mō ngā Hua E Pai Ake Ana—Better Outcomes Award at the Te Kawa Mataaho Public Service Commission Te Hāpai Hāpori Spirit of Service Awards.

Our Commissioner Naomi Ferguson said the award "recognises and celebrates the fantastic work our four agencies did to support more than half a million New Zealand businesses during the COVID-19 lockdown in three cross-agency initiatives—the Wage Subsidy, leave support and Small Business Cashflow (loan) Schemes."

A range of initiatives are releasing cashflow

Aside from the Small Business Cashflow Scheme loans and Resurgence Support Payment, we've implemented a number of other changes to help businesses improve their cashflow and incomes.

AS AT 30 JUNE 2021

$16.4m

in use-of-money interest has been written off for

94,000

customers

Reintroduction of depreciation on commercial buildings from 2020–21 is forecast to provide businesses with

$2b

in 2023–24

5,000

customers have applied for a loss carry back in the 2019 or 2020 tax year

$158.4m

the monetary benefit of loss carry-back

An increase in the threshold for low-value write-offs until March 2021 is forecast to provide businesses with

$596m

over 2023–24

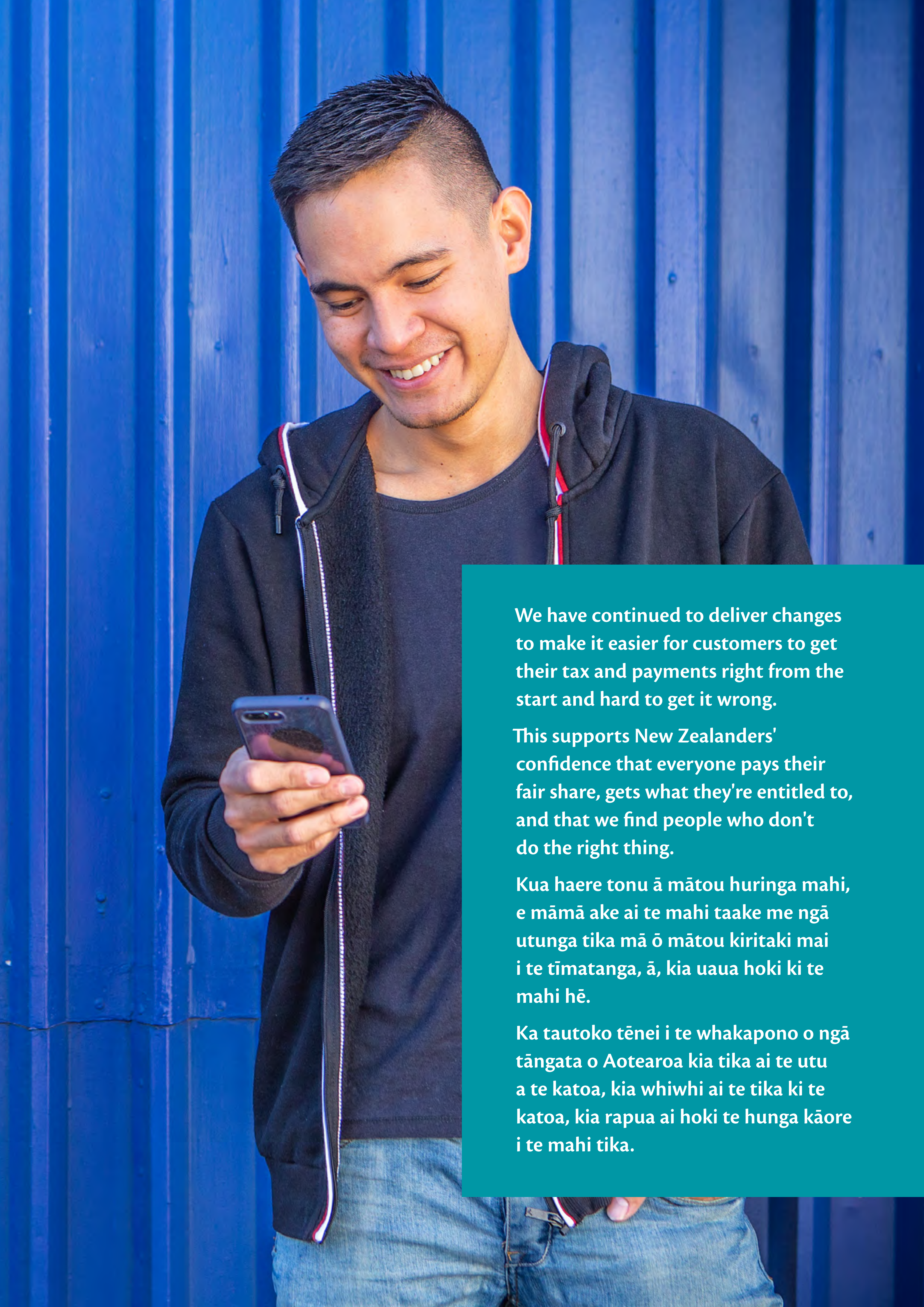
Increasing the provisional tax threshold for the 2021 tax year is estimated to remove

95,000

customers from having to pay instalments throughout the year and provide

$350m

in cashflow benefits



We have continued to deliver changes to make it easier for customers to get their tax and payments right from the start and hard to get it wrong.

This supports New Zealanders' confidence that everyone pays their fair share, gets what they're entitled to, and that we find people who don't do the right thing.

Kua haere tonu ā mātou huringa mahi, e māmā ake ai te mahi taake me ngā utunga tika mā ō mātou kiritaki mai i te tīmatanga, ā, kia uaua hoki ki te mahi hē.

Ka tautoko tēnei i te whakapono o ngā tāngata o Aotearoa kia tika ai te utu a te katoa, kia whiwhi ai te tika ki te katoa, kia rapua ai hoki te hunga kāore i te mahi tika.

Digital services are streamlining our customers' experiences

A digital revenue system means our customers can take care of their tax, and any social policy payments they're entitled to, in a way and at a time that works for them. Millions of straight-forward transactions happen with no intervention from us, providing customers with certainty sooner.

Overall, 81% of our customers found it easy to deal with us this year.

Customers are using our secure service, myIR, where they can do much of what they need to themselves. The number of user sessions has more than tripled over four years. This fast growth is in part due to customers accessing myIR on their mobile phones. It's been a real plus for many customers. For instance, people receiving Working for Families Tax Credits can use myIR to check that their money is on the way, no matter where they are. They don't need to call us to get that peace of mind.

Call demand decreased 30% from last year as digital uptake continued to increase. At times, however, some customers had difficulty getting through to us. This was the case during some busy periods in the year when customers contacted us about their income tax assessments, COVID-19 relief options or the changes we've made to services. Also, calls can take longer because we aim to help customers get to the point where they know what to do next and what to expect, and they don't need to be transferred or call back. We're achieving this for approximately 70% of calls.

While we're making it easy for people to move to our digital channels, we know there will always be customers who need more help. We're developing a strategy for how we support these customers, including working across government.

Improving digital services for businesses

We've been working with software providers to improve our digital services for businesses, tax agents and other intermediaries. Over the past three years, an extensive suite of new services has been launched to enable direct, two-way interactions between external systems and ours.

The services are fast and easy to integrate with, and can handle high volumes of information. We're seeing a big demand for the services from a growing network of software providers and intermediaries as they seek to assist customers in better managing their obligations and entitlements.

We're always focused on further improvements to these services, and businesses are responding. The June 2021 cross-government Better for Business survey reported that businesses' experiences dealing with us has markedly improved this year. Our score for service performance is the highest since this metric began in 2015.

AS AT 30 JUNE 2021

98%
of 12.4 million returns were filed digitally

79%
of the correspondence we received was sent digitally

98%
of individual income tax payments were digital

82%
of donation tax credit claims were digital

81%
of customers found us easy to deal with

We help customers to pay and receive the right amounts through the year

The 2021 tax year was the third time that we've issued automatic individual income tax assessments—to approximately 2.9 million customers as at 30 June. We worked to get the assessments out faster than in previous years to give customers certainty faster—especially families.

Under our old processes, many people who could claim refunds never did. The automatic assessments mean we're working out refunds, and tax to pay, for most individual customers and paying refunds promptly.

90% of the $455 million in refunds and credits issued as at 30 June—$410 million—has gone to customers earning less than $70,000.

As at 30 June 2021, the total amounts of refunds and of tax to pay were less than in 2019–20, which reflects our proactive work throughout the year to ensure customers are paying the right amount of tax. You can read more about this on page 80.

We're focused on further improvements. From 31 March 2021, income from portfolio investment entities—such as KiwiSaver schemes—is included in the end-of-year income tax assessment process. It's automated where possible.

People paying a tax rate on their investment that's too high will have their overpaid amount refunded. Those on a rate that is too low will pay the correct tax rather than their marginal tax rate.

With 2.9 million New Zealanders receiving automatic assessments, we expected some would have concerns and questions. A significant number of people received an extra pay this year, leading to extra tax and causing confusion for some. Consistent with the policy intent, it was written off if the bill was solely due to the extra pay day.

Some of our letters requiring more information from customers also caused confusion, including those to around 1,000 people who receive superannuation and employment income but were on the wrong tax codes. We continue to learn from each year and focus on how to make the next process run as smoothly as possible.

PROVISIONAL RESULTS AS AT 30 JUNE 2021

2.9 million
assessments have been issued

239,000
customers contacted us by phone about their assessments

$455m
has been refunded to 1.29m customers

$353
is the average refund amount

$70m
is the total amount of tax to pay by 169,000 customers

$24m
of tax to pay was written off

Greater certainty for families from week to week

Having certainty from week to week is essential for many customers who receive Working for Families Tax Credits—they may be checking myIR to see when payments are coming so they can get to the supermarket or pay bills.

Inland Revenue uses information from employers to pick up changes in our customers' income—such as pay increases—much sooner. We automatically adjust entitlements in most cases, and get in touch with some people, to prevent either over- or under-payments.

Over-payments can mean customers face a major tax bill at the end of the year, putting low-income families especially under a lot of stress. On the other hand, under-payments can result in a large refund, meaning families may have missed out on that money when it was most needed.

We're using our systems to check that customers are receiving all their entitlements. For example, we identify approximately 50 to 100 customers a week who should be but aren't receiving a credit, and we get in touch. A law change from 1 July 2020 means many families are now eligible for an in-work tax credit because the Government removed a requirement for them to work a minimum number of hours. We texted 11,000 of our customers to let them know they now qualify for the credit and paid it automatically. We also ran a marketing campaign to let families who weren't our customers know about the law change.

Increasingly, families customers interact with us online. They're using myIR to change or update their details and carry out actions related to their entitlements. We're texting customers and using social media to let them know about anything that affects them. It's made the annual rollover of people's entitlements easier. In February 2021, when we assessed the entitlements of over 380,000 customers for 2022, we simply let 92% of them know their entitlements via myIR.

We did face some issues, which we're working to prevent from happening again. For example, entitlements for some customers were estimated incorrectly because they'd had multiple employers and the employer had not provided key information to us. We've been updating customer accounts, encouraging people to do this themselves online and focusing on improvements to our processes.

We've taken paid parental leave online

We process paid parental leave applications and make payments for the Ministry of Business, Innovation and Employment—approximately 700 customers apply every week. The payments provide essential support for parents losing an income when they take leave to care for a new baby or child.

In February 2021, the process to apply for this payment went online. Customers can now apply via their myIR account and some of their details will already be in the online application. Parents can also check on upcoming payments.

Before the changes, parents had to find, print and complete forms, have employers verify income information and then post the applications to us. Now, 90% of applications are processed online, giving customers quick confirmation of what they'll receive and faster payments. This is much less effort for parents and their employers.

A Twitter user's comment in May 2021 illustrates what we've wanted to achieve with the changes:

"I filed paid parental leave forms with IRD yesterday. All approved, with full list of payments and dates, within 24 hours. Including a text prompt to go to portal for detail. That's bloody impressive—yes?"

Paid parental leave
is available for 26 weeks

Parents can check their eligibility through the joint government initiative
SmartStart

$503m
was paid out in 2020–21 to approximately
50,000 parents

Improved KiwiSaver services

KiwiSaver members get better information about their contributions in myIR. This year, they saw 95% of their contributions transferred to scheme providers within two days. Previously it took an average of 20 to 23 working days.

Our new system's analytics are also helping ensure members are getting their correct entitlements. For instance, in the latter half of 2020, we identified over 56,000 instances where KiwiSaver employer deductions or contributions were likely incorrect or short paid, and we contacted customers to have these corrected.

During the changeover of systems in April 2020, some contributions were held back to ensure correct amounts were going through to members' accounts. This saw unacceptable delays in transferring some contributions, affecting 664,000 members. We made an ex gratia payment of $6.6 million in February 2021 to compensate for any missed investment returns. An additional payment of $0.58 million was paid in June 2021 to 83,260 members.

KiwiSaver

contributions are reaching member accounts quickly

$8b

was transferred this year to

3.1 million

KiwiSaver members

We've stayed focused on making it easy for people to get their tax right

Most of the money we collect comes from customers who file and pay on time. Given the uncertainty many New Zealanders faced this year, we expected there could be a decrease in the numbers of people filing returns and paying tax on time. However, we've seen no fall, indicating customers have filed, kept up their tax payments or worked with us to stay on track. This year, 89.9% of payments made by customers were on time.

Beyond helping people, we've worked to maintain New Zealanders' positive attitudes about paying tax so that the country, and the revenue system, is as well positioned as possible to deal with the ongoing impacts of COVID-19.

Preventing issues at the start

The digital revenue system has changed the way we approach compliance. We've moved the focus from the end of the process to the beginning. We help people throughout the year to get their tax and payments right, rather than waiting until they make an error or get into debt.

Our people have continued to take tailored approaches to help different customer groups get their tax sorted at the start. For example, we're contacting all new business customers—making about 450 calls a fortnight—to work through their tax obligations and any issues they may have.

Increasingly, corporates are proactively coming to us to work through issues: we're seen as being more approachable than in the past. More large customers are contacting us early, asking for views on their tax positions through either advance pricing agreements or other rulings.

Taking a tailored, helpful and upfront approach has led to more large businesses entering into advanced pricing agreements with us. The amount of income tax paid annually by groups that have agreements has doubled to just over $1.1 billion for the 2020 year.

Analytics is helping customers understand their bright-line obligations

Inland Revenue has been active in communities, using analytical tools to better understand people's issues, the information they need and how we convey it. A great example is our focus on helping people comply with the bright-line property tax rule.

Each year, up to 9,000 property sales are potentially subject to the bright-line rule. It's a rule that means people may need to pay income tax on any profits from selling a house within 10 years of buying it. They're exempt if selling their main home.

We've engaged with people working in residential construction around cash transactions. Our information to them carried the message that undeclared cash jobs hurt our economy and reminded 'tradies' of their role in helping New Zealand recover from COVID-19.

Our analytics also identified real estate agents claiming high expenses relative to their income, often with a lack of records and non-deductible expenditure being claimed. We've engaged with the real estate industry and provided targeted marketing and education materials to help agents get their expense claims right.

Our new analytical tools combine various datasets, such as tax statement information from Toitū Te Whenua Land Information (LINZ), to look at what's happening in the property market. We match this external data with individual taxpayers in our systems so we know who's sold a property.

Thanks to the data and analysis we undertake, we can identify sellers with a bright-line obligation and take steps to ensure customers are proactively declaring this income in their tax return. We use our new tools and capabilities to ensure every seller knows to get their tax right from the start.

We've gone from providing generic information for the general public, to more personalised, proactive interventions. In November 2020, we contacted around 12,000 customers who had potential bright-line sales, and we also advertised online. This generated 62,000 hits on our website in November alone, and 1,780 downloads of our property sales information form.

Inland Revenue is also analysing the types and scale of transactions across the regions, gaining a full and current picture of the property market that informs how we direct our resources. For example, a trend identified this year was customers selling bare land, but claiming incorrectly that they were exempt from bright-line because they'd intended to build their main home on it. We set up a team to offer the right information to customers on this issue.

Property title information can be complex. Our people used to sift through a lot of data to find potential bright-line instances, often checking back through multiple prior titles records to establish dates of ownership. Now the analytics identify candidates almost instantly—the strike rate for finding those with an obligation has increased significantly. The tools also rank potential candidates using sales value data, prioritising cases where the greatest amount of revenue is at risk.

We send information on bright-line to customers soon after they sell a property and follow up if there's a compliance issue. The time saved is spent helping resolve errors that customers have made, or on other compliance priorities.

Our people now have actionable information at their fingertips and greater confidence that they're contacting customers for a good reason. Reaching out soon after a customer has sold a property also means we need to audit less. A direct signal of this is the increase in customers making voluntary disclosures about a bright-line obligation: 397 were made in 2020–21 compared with 91 in 2019–20.

Most importantly, the way we're managing bright-line is better for our customers. They can understand early on what's involved and prepare financially to meet their tax obligations.

Inland Revenue's Kaitakawaenga Māori service delivers tax advice in a whānau, hapū and iwi-centric way and ensures our Māori customers are considered in all aspects of our work.

Kaitakawaenga means a go-between, mediator or negotiator. They're critical connectors to our Māori customers and essential to developing our delivery approaches with their knowledge around the dynamics of whānau, hapū and iwi, as well as tikanga Māori and te reo Māori.

As well as serving Māori individual and business customers, Kaitakawaenga provide advice to Māori land trusts, marae, kōhanga reo and other not-for-profits. This provides a great support for organisations where people in voluntary positions, such as treasurers, frequently change.

December 2020 marked 30 years for the service, which was created after the launch of the Government policy requiring government departments to recognise their responsibilities to Māori under Te Tiriti o Waitangi.

You can read more about the Kaitakawaenga service on our new website landing page tailored for Māori customers at www.ird.govt.nz.

There's more on Inland Revenue's services and outcomes for Māori on page 48 of this report.

Pictured at the anniversary from left to right: Corey Sinclair, Charles Goldsmith, Kylee Lambert, Aroha Paranihi, Naomi Ferguson, Rhys Mohi, Dayveen Stephens, Charmaine Ratima, and Ian Procter.

Preventing errors and fraud upfront

Our people and systems do much of the upfront work to help customers get it right. We're carrying out exponentially more checks automatically than we could in the past using the old manual processes. Our compliance experts are using analytics tools to look deeper into the economy and identify errors or wrongdoing, and customer groups or sectors in need of assistance.

Security that we designed into the online application processes for the Resurgence Support Payment and Small Business Cashflow Scheme loans illustrate the heavy lifting our systems do. Both initiatives have checks that identify risky applications, without hindering valid ones from being processed quickly.

Using analytical tools has helped us to prevent a lot of errors and fraud. For example, we spotted customers using incorrect NZ Business numbers to apply for the Resurgence Support Payment, applying from overseas or listing deceased people as employees. A team has been reviewing cashflow loan applications where suspected fraud or eligibility risks are identified, and we're evolving other measures quickly as new risks surface. For example, we're matching information on the cashflow loan applications with data on liquidator reports, bankruptcies and other intelligence.

We're always monitoring customer behaviour to identify and address issues early, before they become too onerous for customers to deal with and before patterns of behaviour become too established. For example, we found customers attempting to adjust or repeatedly alter information in their myIR accounts to reduce their tax. We made adjustments to stop this, as well as issuing warnings.

All returns that can generate a refund are checked automatically by rules in our system, as are all amended returns. We've identified approximately 117,000 returns across all tax types that had errors or appeared to be fraudulent. These had an estimated value of $300 million (please note this data is unaudited). We are acting, or will act, on these cases—some through prompts and requests that customers review their position, some through audit investigation, and some through prosecution.

As at 30 June,

8,200

applications for the Resurgence Support Payment were stopped, preventing $18.7m being paid out to ineligible businesses

10,000

applications for a Small Business Cashflow Scheme loan, worth $150m, have been declined since the scheme's launch in May 2020

93% of GST returns are processed straight through, ensuring customers get valid refunds quickly

We stopped

$300m

in refunds this year from returns that were wrong or potentially fraudulent

99% of employment information is filed digitally

Our systems prevent incorrect information being entered

That means greater certainty for employers and less effort needed to fix any filing errors

This year, we prevented over

$5m

in incorrect claims for expenses related to residential rental returns and ring-fencing of losses

We identified donation tax credit claims worth

$16.7m

that were wrong or potentially fraudulent

Of this, claims totalling $2.5m went to our audit teams to investigate

We've helped customers file and pay on time and managed debt proactively

Many individuals, families, whānau and businesses are struggling through the volatility caused by the pandemic. Our people have continued to take an empathetic approach: if people couldn't pay on time we supported them to file their returns and assisted them in making arrangements to pay. We focused in particular on employers because they needed to file to qualify for the Wage Subsidy Scheme.

This year, 94.3% of filed returns were on time, compared to 93.2% last year; and 89.9% of tax payments were made on time, compared to 85.9% in 2019–20. These are strong indicators of people actively trying to comply with their obligations in difficult times.

Tax debt did increase this year. Excluding debt related to child support, student loans and Small Business Cashflow Scheme loans, it rose by 3.2% to $4.4 billion. This was not unexpected given the impacts of COVID-19, although as table 1 (on page 39) notes, there were a range of factors behind the increases in different kinds of tax debt.

Importantly, while the growth in debt has continued, it's been relatively slow compared to the growth in revenue (see figure 1). We collected $93.8 billion in tax revenue, a 21% increase from last year. That debt grew at a smaller rate was in part due to us re-commencing all debt-related activities from December 2020. For example, we worked closely with tax agents, who continued to assist their clients while we focused efforts on customers without an agent. We've also provided personal relationship managers for large organisations to ensure they stayed on track with payments.

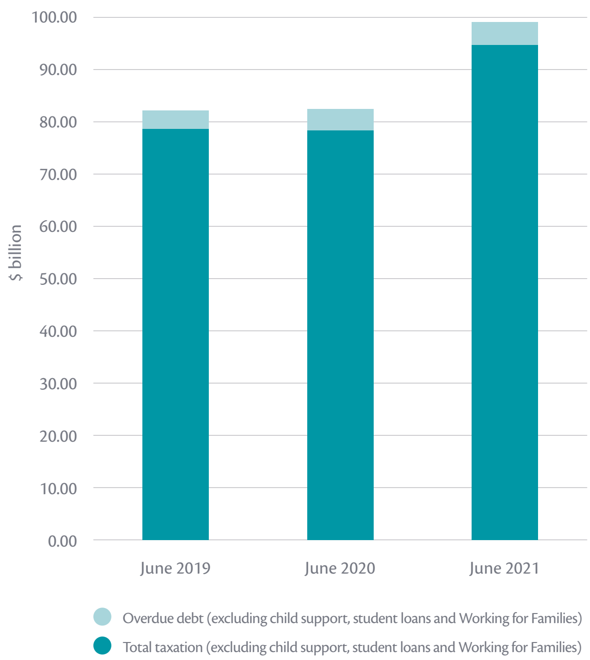
We encouraged customers to enter instalment arrangements to pay their tax debt if they could not pay in full, which they can easily set up in myIR. We know instalments work—41% have stayed on track this year and have paid off $403 million. When we look back to the arrangements set up in 2019–20, 49% have been fully paid off.

Other targeted assistance has also been available, such as writing off child support penalties and identifying child support customers who needed to re-estimate their income throughout the year.

Tax debt gets written off for several reasons, including serious hardship, bankruptcy, liquidation or if the cost of collecting the debt is uneconomical. $812.8 million of debt was written off this year, compared to $411.6 million last year.

For the 2020 tax year, the threshold for write-offs was increased from $50 to $200. Two products made up 59% of the write-off value—GST was 29% ($239.4 million) and individual income tax was 30% ($244.8 million). This included $117.7 million in use-of-money interest and penalties remitted for customers whose ability to pay tax on time was significantly affected by COVID-19 and who had entered into instalment arrangements.

FIGURE 1: RATIO OF OVERDUE TAX DEBT TO REVENUE



ASSISTANCE WE PROVIDED FOR CUSTOMERS THIS YEAR INCLUDED:

Customers entered into

140,000

arrangements to pay a total of

$3.7b

in instalments

57,000

of these arrangements were set up by customers themselves in myIR

We set up

63,600

arrangements for child support customers to pay off their debt in instalments

We suppressed use-for-money interest for

22,300

customers who had entered into instalments arrangements

We remitted

$117.7m

in penalties and interest for customers who were impacted by COVID-19, but still complying with instalment arrangements

Tax agents have worked closely with us to help develop our COVID-19 initiatives and to let their customers know about the range of support available to them.

A November 2020 survey gave positive feedback from tax agents on our response to COVID-19.

Overall, respondents to the survey by Chartered Accountants Australia and New Zealand and Tax Management New Zealand were very satisfied with the way our initiatives were rolled out and supported by our people.

"Remembering what the Government and Inland Revenue were confronted with back in March last year, including having to act fast and not knowing for sure what would work, the survey indicates the Government's business response is as deserving of accolades as its health response."

John Cuthbertson, Chartered Accountants Tax Leader, New Zealand

Focus on tax debt

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

	2017	2018	2019	2020	2021	Change since 2020
Working for Families Tax Credits	193.4	140.1	128.8	167.2	198.5	19%
GST	825.6	814.9	1,180.6	1,550.0	1,523.0	-2%
Income tax	1,556.2	1,651.3	1,609.8	1,742.6	1,585.0	-9%
Employment activities*	–	–	–	741.3	919.6	24%
PAYE and KiwiSaver*	336.2	417.3	517.1	–	–	
Other tax	80.0	79.8	85.0	45.8	157.7	244%
Total debt	**2,991.4**	**3,103.4**	**3,521.3**	**4,246.9**	**4,383.8**	**3.2%**

*The consolidation of employer deductions to an 'employment activities' account changes how we group tax debt. The lines marked with an asterisk are those tax types where we're unable to compare debt with previous years.

The 3.2% increase in debt has been caused by a range of factors:

> As a result of COVID-19, income streams for many businesses immediately stopped, and there was pressure to pay fixed costs (such as rent and net wages to staff) rather than tax. We focused on employers and businesses filing timely and accurate payday information over collecting associated debt. This contributed to a 24% increase in employment activities debt (this is largely made up of PAYE and KiwiSaver debt).

> The increase in employment activities debt was also influenced by large companies that were impacted by COVID-19, and which are now under instalment arrangements.

> The increase in 'Other tax' debt reflects the finalisation of a high-profile audit case.

> Automatic assessments for individual income tax brought more customers with debt into the system, contributing to growth in both income tax and Working for Families Tax Credit debt.

> Our focus on supporting customers as they dealt with the impacts of COVID-19, and got used to our transformation changes, meant we did less proactive follow-up on unfiled returns and outstanding debt. We've now resumed this work.

You can read more about this on page 91.

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

	2017	2018	2019	2020	2021
Total debt value	2.736	2.259	2.208	2.151	1.366
Penalties only	2.119	1.662	1.608	1.553	0.726

As shown in table 2, child support debt decreased by 36% this year, largely due to work we've done to prepare for moving child support services onto new systems later in 2021. We wrote off $998 million, which included writing off penalties to encourage liable parents to re-engage with their obligations.

TABLE 3: STUDENT LOAN NET REPAYMENT BY OVERSEAS-BASED BORROWERS ($ MILLION)

2016–17	2017–18	2018–19	2019–20	2020–21
214.8	221.3	206.3	211.6	199.4

We collected $1.5 billion in student loan repayments this year, up 1.2% from last year. Of the total repayments, $1.07 billion came through PAYE, down 2.3% from last year, and $427 million directly from customers, up 11.1% from last year.

At 30 June 2021, overdue debt was $1.72 billion, an 8.9% increase from 2019–20. This increase was driven by aged debt owed by overseas-based borrowers. This debt which we cannot write off, is difficult for us to collect.

We investigated and enforced when necessary

We fully resumed all our compliance activities in December, while taking into account that not all customers or businesses are going through the same experience.

Our approach is to intervene before customers get it wrong, reducing the need for audits or investigations. Where possible, we've worked with customers to avoid situations where they take an incorrect tax position that means they face a potentially significant tax bill.

However, we have continued to investigate and use enforcement where the risk to the integrity of the revenue system warrants it. Audits remain an essential part of our work and we use our new technology and greater access to third-party data to target the areas of greatest risk.

A key investigation focus area this year was Small Business Cashflow Scheme loans, where we have rigorous procedures in place, beginning with validation checks by our systems and rigorous audits when needed. For example, one case had eight entities associated with it, each receiving loans although none were trading. The loans were recalled and the loan applicant repaid the full amount.

As at 30 June 2021, we have closed 49 audits of loan applications, with 224 audits still open. A dedicated team is also working on recovery of defaulted loans. 1,355 such cases had been opened as at 30 June. 789 customers were in default, with a value of $12.4 million.

It can be a stressful experience for business customers when we undertake an audit. We've improved this by reducing the time we take to complete a pre-audit review and an audit by an average of 14 days.

We've continued to review customers with complex structures or tax interpretation issues. These reviews resulted in tax position differences of $377 million. Whilst legal action is our last resort, when necessary, we prosecute.

We completed 50 prosecutions for tax evasion, knowledge and Crimes Act 1961 offences this year and had 97 prosecution cases before the courts at 30 June 2021.

Notably, two people committing major tax fraud were jailed in May 2021. One person was sentenced to eight years and six months in jail after being found guilty of dishonestly claiming and receiving over $17 million of GST refunds over four years. The other was using horticultural companies to evade tax payments of over $1.7 million between 2007 and 2017. They received a four-year jail sentence.

As well as people committing major tax fraud, we continued to take action on people who are not doing the right thing for Working for Families. In June 2021, a person was sentenced to seven months of home detention after falsely claiming children were in their care and receiving $44,000 in Working for Families payments and over $102,000 in a tax write-off.

These sentences were a direct result of the determination and hard work of our compliance specialists and legal team, and embody our commitment to deal with people who deliberately defraud New Zealand's revenue system.

People made

695

voluntary disclosures related to property this year, worth

$43m

This compares to 180 disclosures made in 2019-20

Customers made voluntary disclosures worth

$37m

where they'd made incorrect GST refund claims

We closed approximately

16,140

audit cases, compared to 16,669 last year and 12,294 in 2018–19

Across all our investigations we identified tax position differences of

$854m

We protect the integrity and fairness of the tax and social policy systems

We look ahead and at trends from overseas, and adapt and improve our approach so that the tax and social policies we're responsible for meet the needs of all. This year we've also continued to develop and implement the Government's policy priorities such as ensuring fairness in the tax system.

Child support is becoming simpler and fairer

We play a major role in supporting the wellbeing of approximately 175,000 New Zealand children through our administration of the child support scheme. This year, changes to legislation have improved the fairness of the scheme and enable us to move our child support services into new systems and processes later in 2021, which you can read about on page 52.

One result of the legislative changes is that we no longer charge incremental penalties and the situations where penalties can be written off have been simplified. The aim is to help prevent customers' debt compounding as it has in the past and improve compliance.

The new top personal income tax rate

A new 39% marginal tax rate came into effect on 1 April 2021. The new rate is one of the ways the Government aims to share the load for rebuilding from COVID-19 and investing in key areas such as education and health.

We helped develop the legislation that enabled the new rate, provided information to customers and engaged with tax intermediaries and other professionals to ensure they have systems in place for the changes.

We're using our analytical tools to track customers who we expect to be paying the top rate through their employer information and investment income returns. We are also monitoring business structure changes through the appearance of new trusts or other entities in our systems, especially when these are linked to de-registered self-employed people.

New property requirements

Changes announced this year to residential property tax included an extension of the bright-line test to 10 years, with the exception of new builds, and no longer allowing property owners to claim interest on loans used for residential properties as an expense against their income from those properties. We worked with the Treasury and Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development to develop a cohesive package of changes for the Government and clear information for New Zealanders wondering what it means for them.

Providing certainty on taxing cryptoassets

The use of digital currencies is challenging tax agencies across the world. As at March 2021, there are an estimated 4,000 cryptoassets in this fast-evolving sector, and around 15% of New Zealanders own some.

We clarified how New Zealand tax applies to cryptocurrencies by developing updated guidance and publishing several rulings that set out the tax implications when cryptoassets are used as remuneration. We're also matching our records with other data and working with other jurisdictions to obtain data on New Zealanders operating on offshore cryptoasset exchanges.

Targeted activities for increasing international tax compliance

Inland Revenue has had a busy year progressing international tax compliance activities, as we outline on page 81.

A key focus area has been monitoring the effectiveness of measures to target base erosion and profit shifting by multi-nationals operating in New Zealand. This concerns tax avoidance strategies that exploit gaps and mismatches in tax rules to minimise tax. Our monitoring has focused on 248 organisations, selected on the basis of their high risk to our tax base. We have observed a significant curtailing of aggressive tax planning, including a major reduction in the levels of non-resident associated party debt.

For example, we monitored 37 multinationals with high debt levels and found their non-resident associated party debt fell by $377 million in the 2019 tax year, following a similar decline in 2018.

International review of New Zealand's regime for anti-money laundering and countering financing of terrorism

Money laundering enables and incentivises offending that affects our communities. In New Zealand, drug offending (particularly the methamphetamine market) is enabled by criminals being able to launder money, which in turn impacts on our health, justice and welfare systems.

The Financial Action Task Force (FATF) reviewed New Zealand's anti-money laundering and countering financing of terrorism (AML/CFT) regime this year. It found New Zealand has an effective system, with room to improve in some technical areas such as laws on beneficial ownership of companies and trusts.

Other countries, international organisations, and the international financial system pay attention to whether a country is considered effective at combating money laundering and terrorism financing. Not being so can affect free trade agreements and create negative effects in the international financial system, such as increased interest rates.

Inland Revenue plays a significant role here through investigations and prosecutions of tax evasion, international exchanges of information, maintenance of the register of foreign trusts and information sharing with other New Zealand law enforcement agencies.

The FATF's review of New Zealand is available at www.fatf-gafi.org.

Pictured above is John Nash, Manager of International Revenue Strategy, our lead on Financial Action Task Force matters.

In January 2021, John was appointed as a co-chair of an Organisation for Economic Co-operation and Development working party. He's leading international efforts to improve tax transparency and reduce cross-border tax evasion and avoidance.

Our new tools, processes and capabilities are enabling us to work differently and more effectively. This helps us to be more customer-centric and improve the way we operate to benefit New Zealanders.

Nā ā mātou taonga mahi hou, ngā tukanga me ngā pūkenga, i āhei ai tā mātou mahi rerekē, whai hua ake ai hoki. Mā tēnei ka nui ake te aro ki ngā kiritaki, ka pai ake hoki ā mātou whakahaere hei huanga mō ngā tāngata o Aotearoa.

We're working differently

Over the past few years, we have changed pretty much everything we do to deliver better experiences for New Zealanders. Through transformation, we've invested in our people and systems, simplified things for customers, delivered a better customer experience and implemented new ways of working.

A modern, digital revenue system is in place

The digital revenue system we set out to deliver at the start of transformation is now largely in place. Our multi-year programme is on track to be completed on budget and on time—by 30 June 2022. This year saw us complete all the changes to policy and legislation that frame and support the modernisation of the revenue system.

Our systems are more resilient—they handle 50% to 60% more transactions than previously, with peak loads up to 200% higher. For example, at the end of June each year, KiwiSaver providers apply for the government contribution on behalf of their members. In the first five days of July 2021, we processed the bulk of these claims—more than 2.6 million worth $904 million in total—and we've been able to pay out claims the next business day.

We're seeing a range of efficiencies from our new systems and more automated processes. For example, the cost of processing employment information and income and GST returns has fallen significantly. It cost $1.86 this year, compared to $2.78 in 2019–20.

Overall, we're doing more with less. Our total spend excluding transformation this year was $50 million less than 2016–17.

The final customer-facing changes are being implemented in two releases during 2021:

> Paid parental leave, unclaimed money, duties (including casino, lottery and totalisator duty, and the problem gambling levy) and New Zealand foreign trusts went live on new systems and processes in February 2021. These products are running smoothly with few issues encountered following go-live.

> Child support services are scheduled to change over to our new systems and processes later in 2021. We're also upgrading the online services that all customers use, notably myIR.

We continued to decommission more than 400 heritage systems. You can read more about our technology management on page 104.

The Office of the Auditor-General reviewed our benefits management in July 2020, and found we are "...well positioned to realise the benefits of the Business Transformation programme. However, there are a significant amount of financial benefits to achieve between now and 2023/24, when its monitoring of the programme's benefits is due to finish." You can read the report at www.oag.govt.nz.

FIGURE 2: OUR STAGED RELEASE OF CHANGES TO SERVICES

FEBRUARY 2017
- GST

APRIL 2018
- Withholding taxes
- Fringe benefit tax
- Payroll subsidy
- Gaming machine duty
- Payday filing (voluntary)

APRIL 2019
- Income tax
- Working for Families
- Payday filing (mandatory)

APRIL 2020
- KiwiSaver
- Student loans
- PAYE (back-end-processing)

FEBRUARY 2021
- Paid parental leave
- Unclaimed money
- Duties and reserve scheme
- New Zealand foreign trusts

LATER IN 2021
- Child support

Changing to be fit for the future

To deliver the best services for our customers, Inland Revenue has continued to invest in our people. We have been building their knowledge and capability in areas such as policy agility, tax technical expertise and digital skills. Transferable skills and behaviours are equally important as we manage rapid changes in customer demand, technology and the future of work.

Most of our people have now moved into capability-based roles. They have learned to use new tools and embraced the opportunities provided through changes in how we work, such as working in multi-disciplinary teams across Inland Revenue.

We've become a smaller and more efficient organisation, with 27% fewer FTEs than in 2016. This has meant continuing to manage reductions in numbers while maximising opportunities for people and achieving the right capability for the future. We know that change can affect engagement. We continue to listen to our people through our learning and development approach, wellbeing surveys and other feedback loops, to enable a positive experience for them.

This year, we've continued to make organisational design changes to support what Inland Revenue has become—a largely digital organisation focused on delivering services. We created two new business groups in corporate and enabling areas:

> Enterprise Design and Integrity helps our Commissioner and Executive Leadership Team to lead and govern Inland Revenue efficiently and effectively.

> Enterprise Services provides seamless, end-to-end back-office services for human resources, finance, technology, facilities and commercial services.

While anticipating there would be periods of higher staff turnover through our organisational changes, we experienced a similar rate this year—10.4% compared to 10.5% total turnover in 2019–20. Turnover of people in tax technical roles was lower, at 3.1%.

We continue to work closely with our unions through change. The New Zealand Public Service Association (PSA), Taxpro and the National Union of Public Employees (NUPE) represent 82% of our people who are permanent or on fixed-term agreements. We're committed to working with the unions across a wide range of themes, and engaging at the right time, so they're in a position to understand and influence decisions where appropriate, and work through any issues that arise.

You can read more about our organisational capability, including how we govern ourselves, our learning and development approach and workforce profile, on page 55.

In November 2020, Inland Revenue won the Business Transformation through Digital and IT Award at the NZ CIO Awards in Auckland.

The judges paid tribute to a seamless integration of all our tax and most social policy products—a world first for a revenue organisation.

Patrick O'Doherty, Enterprise Architecture and Design Lead, and Richard Owen, Customer Segment Leader, accepted the award (pictured). Patrick acknowledged, "At its peak we had over 900 people on the programme so it has been a mammoth effort by the whole organisation."

The NZ CIO award followed global recognition in October at the 2020 IDC Asia/ Pacific Digital Transformation Awards, where we won the Information Visionary category after being benchmarked against other organisations in the region.

Our Commissioner Naomi Ferguson said, "Everyone in Inland Revenue has played a huge part in our transformation. It gives us the confidence to continue our focus on improving services for all customers and to challenge ourselves to keep innovating. It also shows that an all-of-government approach can work, an investment made once can really improve outcomes for all New Zealanders."

The wellbeing and experience of our people at work is critical to our success

Wellbeing came into even sharper focus with the emergence of COVID-19, at a time when Inland Revenue is going through extensive change. This year, we've continued to look after our people and promote a diverse and inclusive workplace through a range of initiatives.

New Zealand is becoming increasingly diverse, so to be truly customer-centric, we need a diverse and inclusive workforce that reflects the communities we serve. We're implementing a comprehensive Diversity and Inclusion Strategy aligned with the Public Service Act 2020 and guidance from Te Kawa Mataaho (Public Service Commission) and Papa Pounamu expectations.

The strategy includes addressing the fact that women and people of some ethnicities are under-represented in higher-paying roles at Inland Revenue, and have higher representation in lower-paying ones.

Becoming a flexible workplace is one of the key things we can do to help remove some of the barriers to career movement. In March, we launched a policy that provides a clear and consistent approach to informal and formal flexible working arrangements, aligned with guidance from Te Kawa Mataaho. While we're primarily an office-based organisation, our technology provides the infrastructure for many of us to be able to work from anywhere.

In April 2021, we received the Rainbow Tick, an independent award for the mahi we have done to make Inland Revenue a safe and welcoming workplace for rainbow community members. The Rainbow Tick shows we have the right attitude and are on the right track, which is what we're committed to across *all* our diversity and inclusion practices. Most importantly, we have thriving employee-led networks making this happen.

You can read more about our diversity and inclusion initiatives, and commitment to reducing the gender pay gap and imbalance of ethnic representation at Inland Revenue, on pages 101 to 102.

48%

of senior management roles are held by women

More than

50%

of applicants for all roles here are women

The gender pay gap is

18.3%

This is down from 20.6% in 2016

80%

of our people told us in a March 2021 survey they felt mostly or really included in their day-to-day experience at work

This is a significant increase since 2017 when we surveyed our people about inclusiveness

79%

of our people are working from home some of the time under our flexible working arrangements

Our people have built thriving diversity networks where people can come together because they share (for example) a culture, gender, ethnicity, sexuality or disability. The networks provide general and professional support for their members and are driving awareness programmes to help create a more inclusive culture. Inland Revenue benefits from their insights that help to shape our policies, processes and research.

Pictured above are: Alisa Belford - Tagata Pasifika Network, Trina Martin - Māori Network, Shristi Singh - Multicultural Network, Minal Khushal - Diversability Network, Katie Thomas - Women's Network, Stefanie McKnight - He Toa Takatini Rainbow Network and Marina Dzepina - Domain Principal Organisational Development.

Weaving te Tiriti and te ao Māori into everything we do

Inland Revenue is committed to meeting our Tiriti o Waitangi obligations as a government agency and partner in the Māori–Crown relationship. The approach we're taking is called Māhutonga, a programme that weaves te Tiriti o Waitangi and te ao Māori principles, concepts and practices into everything we do.

A core component is cultural capability. We have started to build Te Arapiki, which is a stair-cased learning approach that aligns to the expectations set out for all public servants by Te Arawhiti—the Office for Māori Crown relations. Te Arapiki will help us deliver on our aspirations for the development of our Māori cultural capabilities.

In addition, Te Mata o Te Arero (our te reo Māori language plan) seeks to actively support the revitalisation of te reo Māori and the use of it in our workplace. This plan underpins our contribution to Maihi Karauna, the Crown's Māori Language Strategy.

Māhutonga includes Mauri Ora Te Whānau, a statement of our intent to improve whānau wellbeing through taking a whānau-centred approach to our work with Māori customers.

Underpinning both Mauri Ora Te Whānau and Māhutonga is a new body of research we delivered this year, our Māori customer landscape. It represents the views of whānau, hapū and iwi. By exploring the wider context of the Māori world view and perspectives, we can better understand what's important to our customers. The appropriate application of this understanding helps us to think differently about how we empower Māori customers in a mana-enhancing, mauri-inducing and whānau-focused way, so that they are achieving their aspirations.

The landscape is already helping to bring the perspectives of whānau, hapū and iwi into our work. Alongside Mauri Ora Te Whānau, it has helped shape the communications about this year's individual income tax automatic assessments, and is informing our policy engagement and procurement strategy. The landscape has also been the basis for joint training for Inland Revenue and Ministry of Social Development people who are involved in a pilot to improve the experience of families and whānau customers who have debt with both agencies.

Shannon Davis (far left) and Paula Mato (second from right) carried out the Māori customer landscape research, working with the wider Inland Revenue whānau and externally with whānau, hapū and iwi. Shannon says, "We used kaupapa Māori concepts in our research to ensure we looked after the people interviewed (manaakitanga) and met with them face-to-face (kanohi-ki-te-kanohi). We also recognised we needed to make sure people felt culturally safe and were able to make their contributions in their own ways."

In February 2021, the Commissioner recognised their mahi with an award for providing Inland Revenue with an important body of knowledge. Shannon and Paula are pictured with Tania Faulkner and Moana Roderick. They're in our Māori Research and Evaluation Team, which is part of Inland Revenue's Customer Insights and Evaluation group.

Offering agile, collaborative workplaces and driving for better social and environmental outcomes

Inland Revenue is developing a workplace strategy as part of continuing to transform how we work. Whilst we remain a largely office-based organisation, working flexibly has been part of our ways of working for some time. The COVID-19 lockdown period proved we could work effectively from home using our workplace technology. Building on this foundation, we're taking opportunities to redesign Inland Revenue's workplaces and the way we work in them. Our aim is a modern, agile, appealing and collaborative environment. Through a more integrated workplace—of people, place and technology—we can better support our people to operate efficiently, effectively and safely, regardless of location.

The strategy will support our flexible work practices and future property fit-outs. As we've become a smaller organisation through transformation, we're needing less office space. This year, we have continued to consolidate and reduce our property footprint, including exiting sites in Tāmaki Makarau Auckland, Te Whanganui-a-Tara Wellington and Ōtautahi Christchurch.

Our approach encompasses working with our office relocation provider to donate or recycle furniture. For instance, surplus desks from Tāmaki Makarau Auckland joined a shipload this year going to Tonga for use by schools and churches on a number of Pacific islands.

Progressing Government priorities for environmental and social outcomes

The Government established the Carbon Neutral Government Programme in November 2020 to combat climate change and to achieve carbon neutrality by 2025. In line with this, we're establishing a work programme to drive all our environmental sustainability work.

We're developing a plan to reduce our carbon emissions and setting reduction targets. Already, we have reduced our fleet size and introduced 28 electric vehicles—we continue to identify other ways to optimise the fleet. We're also assessing energy efficiencies for 10 of our office buildings, where we occupy over 2,000m^2. Low-carbon materials will be used in any construction work in our buildings.

In addition, Government Procurement Rules now require agencies to consider and incorporate broader outcomes when buying goods and services. We've recently refreshed Inland Revenue's strategy for social procurement to incorporate new requirements around supplier diversity and quality employment outcomes.

Read about our other all-of-government collaborations on page 72 and property and environmental performance on page 103.

Energy use was

24% lower

this year than in 2019–20

Energy emissions were

25% lower

Printer use was

27% less

than the year before

Costs were

down 31%

Air travel was

77% lower

(7.8 million fewer kms in travel)

Related CO_2 emissions

fell by 80%

CO_2 emissions from our vehicle fleet dropped by

63.5%

We travelled

830,000

fewer kms

Inland Revenue received $1.015 million from the State Sector decarbonisation capital fund to transition to electric vehicles (EVs). This March, we bought 28 new EVs to use across five sites. A third of our fleet is now electric and we're aiming to fully transition to EVs or hybrids in 2022–23.

Pictured from left are Andrew Czar, Team Lead Workplace Services North, and Kevin Meadows, Domain Lead Workplace Services, in one of the new EVs in Manukau.

This year, security was upgraded in our Takapuna and Manukau front-of-house facilities to enhance customer interactions and the safety of our people.

The re-opening of our Takapuna front of house was formalised through a blessing by Kaumatua Hēmi Pirihi who reawakened our taonga, Te Rangikaketū, in a ceremony known as a whakaoho taonga.

Pictured from left to right are Glenda Feely, Kaumatua Hēmi Pirihi, Robert Grewar, Nimma Lal, Anouschka Adolph, Fiona Auld, Sherree Perfect, Alia Auld and Troy Manalo.

The year ahead
Ko te tau e tū mai nei

Our people have worked incredibly hard over the last few years and we'll continue to challenge ourselves to make it as easy as possible for customers to meet their obligations and receive the payments that they are entitled to.

As we move close to completing our transformation, we still have much to do in the year ahead to bring this multi-year change programme to a close and embed new systems, tools and capabilities.

Delivering to our mission—collecting and distributing money

Our core purpose is to collect and distribute money, and we're proud to have worked throughout the year to provide New Zealand with a world-class revenue system that makes tax and payments simple and certain, easy to get right and hard to get wrong. It's what we're all here to do.

We'll stay focused on helping customers get it right. In this COVID-19 era, this includes intervening early with people who have defaulted on instalment arrangements and helping businesses remain solvent so they can continue trading.

Supporting New Zealand's recovery from COVID-19

Inland Revenue will continue to support any new Government initiatives to aid recovery from COVID-19 and remind people about the existing schemes and other relief options.

The Resurgence Support Payment is ready to activate at any time. In fact, it did re-open for businesses impacted by Wellington's alert-level shift in June 2021 and in August 2021 for the nation-wide alert level 4 lockdown.

Completing transformation and leveraging our capabilities

All the transformation changes that affect customers are planned to be completed in 2021, including improvements to child support services and an upgrade to the online services that all customers use, notably myIR.

The child support improvements will ensure customers have better visibility of their obligations and payments in myIR and be able to do more themselves, such as advising us if their circumstances change. A game changer is that we're streamlining processes to help ensure carers who receive the payments get them as quickly as possible after the due date. We'll be able to better help newly liable parents, particularly those who may have trouble at times meeting their payments. There will be compulsory employer deductions for parents new to paying child support.

We'll complete final changes in 2022 such as decommissioning all heritage systems to ensure a simple and stable technology environment is in place. We'll continue to transfer the knowledge from the transformation programme team to our people and the teams who will be responsible for the new systems and processes.

We'll complete the implementation of the intelligence-led programme of work, which includes the new analytical and knowledge management tools—we're only just starting to see the value we can drive from our information assets and capabilities.

At the core of our transformation is being able to meet customers' needs, safeguard the integrity of the revenue system and deliver what we need to. We're making changes to our Customer and Compliance Services business groups to ensure they're the right size and right shape for the future.

Growing our skills and maturing as a diverse, inclusive organisation

Hundreds of people from across Inland Revenue have helped deliver our transformation. Through it, they've gained skills, knowledge and experience that will help us succeed into the future. We'll keep providing opportunities for our people to grow in their roles and expand their skills to help build a stronger New Zealand Public Service.

We remain committed to embedding our Diversity and Inclusion Strategy, creating an inclusive organisation that reflects all of New Zealand's diverse communities and is better able to meet the needs of the customers we serve every day.

Delivering the Government's policy priorities

In July 2021, the Government updated its tax policy work programme. The work programme will focus on areas such as housing affordability, a tax system that reduces income inequality, a sustainable economy and the environment, ensuring international tax settings remain robust for an increasingly digital economy, and social policy.

Budget 2021 provided $5 million for a policy research project on the effective tax rate paid on income by high-wealth individuals. Our aim is to get high-quality evidence for policy advice in relation to the progressivity of the tax system and potential improvements.

You can read more about the tax policy work programme in our *Statement of Intent 2021–25*, available on our website at www.ird.govt.nz.

Partner in the Māori–Crown relationship

Inland Revenue is working to meet our Tiriti o Waitangi commitments as a government agency and partner in the Crown–Māori relationship. Under our Māhutonga approach, our Executive Leadership Team is developing training to help lift their Māori cultural capability. Later in 2021–22, we aim to roll out the Te Arapiki training programme—increasing our people's capability in te reo Māori and tikanga Māori.

We will release Mauri Ora Te Whānau, which focuses on taking a whānau-centred approach to our work with Māori customers. Its priorities include growing our understanding of, and empathy for, the Māori world view and fostering active partnerships with whānau, hapū and iwi. We will be progressing delivery of whānau-focused services and including the voice of our Māori customers at all levels of Inland Revenue.

A Tax and Social Policy Māori Advisory Panel is being established as a pilot, with the aim of ensuring Inland Revenue's policy advice is informed by a range of Māori perspectives.

Collaborating to improve services for New Zealanders

In line with the aim of the Public Service Act 2020 for a public service that wraps services around New Zealanders' needs, we'll respond to new opportunities to both lead and support our colleagues across government.

For example, in April 2021 we began a pilot in Ōtautahi Christchurch to improve the experience of families who have child support debt with us and a debt with the Ministry of Social Development (MSD). We're also piloting the provision of on-site support for MSD customers at its offices in Te Moana a Toi the Bay of Plenty.

Customer Service Officer Terence Yan received Te Tohu Amorangi a Te Kawa Mataaho | The Public Service Commissioner's Commendation for Frontline Excellence in November 2020.

Terence exemplifies our dedication to helping customers get it right from the start by giving great advice and support.

One customer commented, “Terence was patient in explaining the jargon and took me through myIR online to ensure that I had all the tools required to correctly file my income tax return etc. Explaining the process to me in a way that I could understand made a huge difference. I now know how to go about using myIR and can do so confidently.“

Our organisational capability
Tō mātou āheinga whakahaere

Inland Revenue has an inclusive workforce that focuses on developing diversity, looking after our people's wellbeing and managing ourselves to keep delivering excellent services for customers.

We have specific indicators in place to monitor how we're supporting wellbeing, addressing the gender pay gap and imbalance of ethnic representation. You can read about these on pages 100 to 102.

Twelve essential capabilities to deliver excellent services

Twelve key people capabilities represent the mix of skills, experience, knowledge and attitudes that we need to better serve our customers. Technical skills and knowledge are critical to delivering our services. Rapid changes in customer demand, technology and the future of work mean transferable skills and behaviours are equally important.

Our capability-based approach is integrated into role design, recruitment, development, and talent management. This year saw a majority of our people move into capability-based roles as a result of changes in our corporate and enabling services groups.

Capability uplift at Inland Revenue is underpinned by Whanake, which is our performance approach, and means 'learn and grow'. It's centred around regular coaching conversations between our people and their leaders. This recognises and values the unique capabilities and diverse perspectives that everyone brings to their roles. Our people have tailored development plans combining a mix of formal training, learning on the job and social learning.

We've continued to build people's capabilities by broadening their skills and knowledge in teams that work flexibly on priorities, and by empowering front-line staff to make decisions. For example, we upskilled 146 people this year to work across child support and Working for Families activities to help improve the experience of our customers.

FIGURE 3: INLAND REVENUE'S TWELVE PEOPLE CAPABILITIES

The Skills Pledge

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

This year, we spent $4.9 million on business-as-usual upskilling. We spent $1.5 million on upskilling through our transformation programme, noting the majority of training related to business transformation was completed in previous years. This covers all costs relating to upskilling, including procurement and administrative costs and our people's time.

Diversity and inclusion

Inland Revenue values diversity of thought, beliefs, background and capabilities because it reflects the diverse communities that we serve. Understanding how our customers see the world, and the life events they're experiencing, helps us to put them at the centre of our service design and delivery.

Inclusion is one of our culture anchors, to drive behaviours and decisions that value diverse perspectives and backgrounds.

We're implementing a Diversity and Inclusion Strategy that is designed to:

> break down barriers to inclusion, and celebrate, retain, develop and attract a truly diverse workforce that's representative of the communities we serve

> actively demonstrate our commitment to an inclusive culture through our leadership and holding ourselves accountable for progress

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

The Strategy includes work to understand and address gender and ethnicity pay gaps. At Inland Revenue, these gaps originated from a significant under-representation of women and different ethnic groups in management and higher-paying roles, and a higher representation in lower-paying roles.

You can read more detail about how we're working to address these gaps on pages 101 and 102.

Alignment with our Māhutonga approach

Our Diversity and Inclusion Strategy complements Māhutonga, Inland Revenue's strategic approach to meeting our Tiriti o Waitangi obligations. Through our Māhutonga work, we're helping our executive leaders build their cultural capability in line with Whāinga Amorangi (a Te Arawhiti capability framework) guidance.

The Diversity and Inclusion Strategy and Māhutonga work are mutually reinforcing—by promoting inclusion and better outcomes across all aspects of diversity, we also enable better outcomes for Māori.

What we're achieving

Over the past few years Inland Revenue has made significant progress on a number of fronts:

> We're meeting our target for gender balance in leadership roles. We've achieved a big shift for senior management roles: 48% are held by women, compared to 22% in June 2016.

> There has also been a large increase in the percentage of women applying for leadership roles at all levels across Inland Revenue.

> We can see a clear shift in feelings of inclusion reported by our people. 80% of our people responded to a survey in 2021 that they felt mostly or really included in their day-to-day experience here. This is a significant increase from 2017 when we surveyed our people about inclusiveness.

Progress under the five Papa Pounamu focus areas

The Commissioner of Inland Revenue, Naomi Ferguson, is Functional Co-Lead for Diversity and Inclusion in the Public Service. She co-leads Papa Pounamu, a steering group of 12 public sector chief executives driving a programme of diversity and inclusion across the Public Service. Over the last year, we have progressed work under five areas designated as priorities by Papa Pounamu:

1. Cultural competence

MĀORI CROWN RELATIONS—BUILDING CULTURAL COMPETENCE

Inland Revenue's approach to building capability to be a better Treaty partner is through Māhutonga. A key element of the approach is a strong focus on capability uplift, aligned to the capability framework devised by Te Arawhiti.

We have provided learning programmes to support Māori cultural competence (te reo Māori, tikanga Māori and Te Tiriti o Waitangi) for some time. We're in the early stages of developing a capability-focused training programme for our people, Te Arapiki, that will help deliver te reo Māori training appropriate for our various roles. This focus is supported through our Whāinga Amorangi plan for 2021–22.

A key driver for Te Arapiki is Te Mata o Te Arero (our te reo Māori language plan). This plan seeks to actively support the revitalisation of te reo Māori and the use of it in our workplace. The plan underpins our contribution to Maihi Karauna, the Crown's Māori Language Strategy.

We will contribute to the Government's goals and aspirations for te reo Māori through the following:

> Te reo and tikanga Māori is valued by our people and has equal status as English here.

> Our te reo capability development is aligned with the Maihi Karauna Strategy and Te Arawhiti te reo Māori capability expectations.

> Te reo Māori is supporting our Māhutonga strategic approach to integrate Te Tiriti o Waitangi and Māori worldviews into Inland Revenue.

> We have the te reo Māori capability to support delivering services to Māori.

CROSS-CULTURAL COMPETENCY

In May 2021, we piloted and launched Mana Āki. This programme was developed by the Ministry of Business, Innovation and Employment. It supports learners to reflect on the ways we think about and interact with people from different cultures, either with each other, or with our customers.

2. Addressing bias

More than 3,100 of our people, including all people leaders, have completed online training to build awareness and mitigate unconscious bias. This refers to assumptions in favour of, or against, a thing, person or group in comparison to another that can influence our interactions and decisions.

Inland Revenue recognises that unconscious bias can impact us all, and the importance of our people understanding it, recognising it and knowing how to address it. This awareness supports leaders to make decisions that help us continue to build a diverse and inclusive workplace. Unconscious bias training is now a mandatory part of induction for new starters here.

3. Leadership

Inclusive leaders are critical to making our people feel like they can bring their whole selves to work. We're supporting leaders to be inclusive through a combination of actions and learning.

We embrace inclusion through our day-to-day work, for example through flexible working, supporting employee-led networks, and proactively understanding and acting on the experience of our people.

In addition to our work on unconscious bias and cultural competence, wellbeing and resilience has been a particular area of focus. Over the last year, all our people leaders completed mental health awareness training, applying that learning by reflecting with their teams on how to build an inclusive team culture.

Inland Revenue's leader forums have focused on their roles, our future, vision and values, resilience, mental health and wellbeing. These are all central to our strategy of ensuring leaders can support their people from all walks of life to deliver their best work.

4. Employee-led networks

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

Inland Revenue has a long history of people-led networks. In 2019, we re-established our diversity and inclusion employee-led networks and have been providing more centralised support to them.

While our people can create a network themselves, there are six that form part of our Diversity and Inclusion Strategy. They're supported by having an executive sponsor, coaching, time allocated to and dedicated funding for their involvement, and by taking part in cross-agency networks.

Our networks promote and support the goals and needs of the people they represent—they're often a voice for our people and customers.

Our people have set up diversity and inclusion networks

Māori Network

Tagata Pasifika Network

He Toa Takatini Rainbow Network

Women's Network

Diversability Network

Multicultural Network

5. Building relationships

Building a diverse range of purposeful relationships that are positive and inclusive is a priority for us. These relationships encourage diverse perspectives, value different worldviews, avoid assumptions and help to mitigate bias.

We do this in several ways:

> Our Whanake learning and development approach supports the one-to-one relationship between people leaders and their people.

> The unconscious bias training completed by our leaders helps to foster positive relationships.

> Our employee-led networks provide a sense of community for people and support positive peer relationships. The networks are also increasingly involved in supporting work with customers. For example, our Tagata Pasifika Network has been proactive in improving the awareness and understanding of donation tax credits across the Pasifika community.

Flexible working

Working flexibly has been part of how we work for some time, although we remain a largely office-based organisation. We launched a new flexible working policy this year after engaging closely with our people, unions and senior leaders.

The policy is supported by guidelines for formal and informal flexible working arrangements and for specific practices such as working from home.

We also developed a range of tools to help people make informed decisions about arrangements that will work for them, their teams and Inland Revenue as a whole. Currently, 79% of our people are working from home in some recurring way. Of these, 97% (3,233 people) have informal arrangements.

The overall approach is in line with Flexible-Work-By-Default Guidance from Te Kawa Mataaho (Public Service Commission).

We promote diversity and inclusion in the Public Service

We're committed to a number of other public sector diversity and inclusion initiatives, including:

> the All-of-Government Accessibility Charter

> the lead toolkit for employing and retaining disabled people within the State Sector

> the He Taurangi Panel Pledge for balanced representation on panels at conferences

> publishing our Gender Pay Gap Action Plan and reporting on progress against it. The Plan is published at www.ird.govt.nz in our 'About us' section, and you can read more about our progress in addressing the gender pay gap and ethnic representation on pages 101 and 102.

We have also:

> continued to take part in the TupuToa Internship Programme, which is growing the future generation of Māori and Pasifika leaders by creating pathways for students into careers in corporate and professional sectors

> reviewed our people processes and experience to identify and address bias

> increased our digital accessibility awareness and capability.

Inland Revenue has gained Rainbow Tick accreditation, which provides independent recognition of our commitment to being an inclusive and supportive workplace.

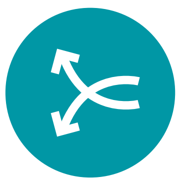
FIGURE 4: INLAND REVENUE'S CULTURE ANCHORS

Customer-centric

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

Intelligence-led

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



Agile

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

Inclusive

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

Our workforce profile

Since 2016, we have been operating under workforce principles that helped us drive to become a smaller, more efficient organisation. We've continued to manage significant reductions in staff numbers while maximising opportunities for people and achieving the right capability for the future.

While anticipating there would be periods of higher turnover through our changes, we experienced a similar rate this year, 10.4% compared to 10.5% total turnover for 2019–20.

As with previous years, turnover for people in tax technical roles continued to be even lower, due to the specialised nature of these roles. It was 3.1% this year. As at 30 June 2021, Inland Revenue had approximately 825 tax technical staff, representing around 19.6% of our workforce.

TABLE 4: OUR WORKFORCE PROFILE

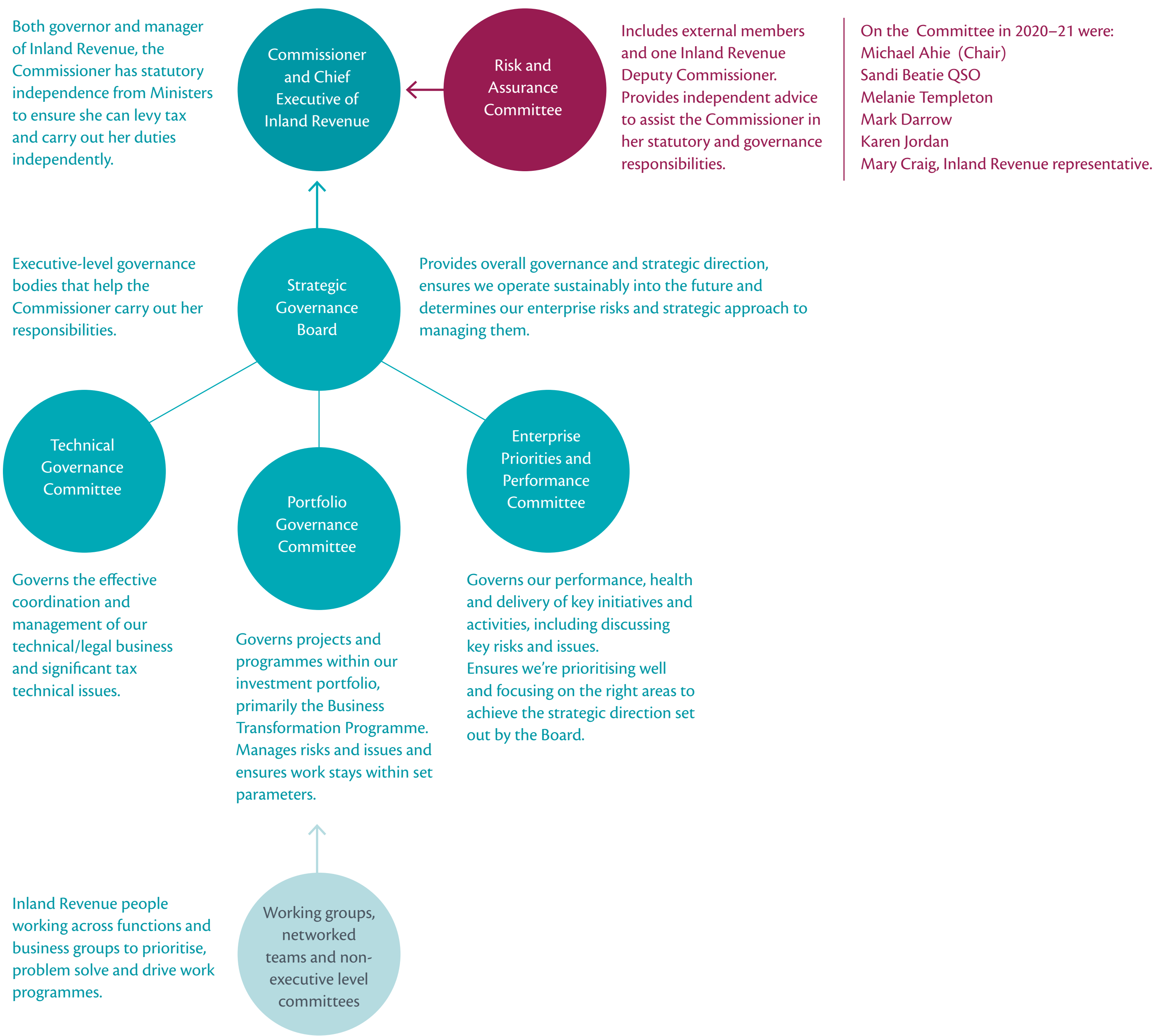
Measure	2017	2018	2019	2020	2021
Headcount	5,519	5,250	5,009	4,831	**4,210**
Full-time equivalent	5,401	5,134	4,888	4,724	**4,106**
Average age	44.0	43.7	44.6	44.9	**46.3**
Full time	91%	91%	90%	90%	**90%**
Part time	9%	9%	10%	10%	**10%**
Permanent	95%	89%	87%	84%	**94%**
Fixed term	5%	11%	13%	16%	**6%**
Female staff overall	64%	64%	65%	65%	**65%**
Female all people leaders	57%	58%	61%	59%	**56%**
Female managers	50%	47%	50%	49%	**48%**
Male staff overall	36%	36%	35%	35%	**35%**
Male all people leaders	43%	42%	39%	41%	**44%**
Male managers	50%	53%	50%	51%	**52%**
New hires	400	604	425	540	**97**
Exits	670	938	693	763	**700**
Unplanned turnover	10.7%	12.1%	9.1%	8.1%	**8.2%**
Total turnover (annual)	11.1%	15.4%	9.6%	10.5%	**10.4%**
Average length of service (years)	12.8	13.6	14.5	15.4	**15.5**

Evolving our governance so it stays fit for purpose

We have continued to evolve our governance structure to ensure it stays fit for purpose and that any risks to our business are managed. Our governance bodies lead and guide us. They set our strategic direction and oversee our progress. Members have clearly defined roles and responsibilities to ensure separation of governance and management accountabilities.

In addition, a Risk and Assurance Committee provides independent advice to the Commissioner on our risk management and system of internal controls. The members are experts with a mixture of skills in assurance, financial management, risk management and organisational change.

FIGURE 5: OUR GOVERNANCE AND ACCOUNTABILITY STRUCTURE IN 2020–21



Managing the key risks to the revenue system

Inland Revenue takes a holistic and integrated view of all our risk and assurance-related activities. Our executive-led governance board oversees risk management, and other governance bodies monitor specific areas of risk and performance.

We have an Enterprise Risk Management Framework based on international standards for identifying and managing risks.

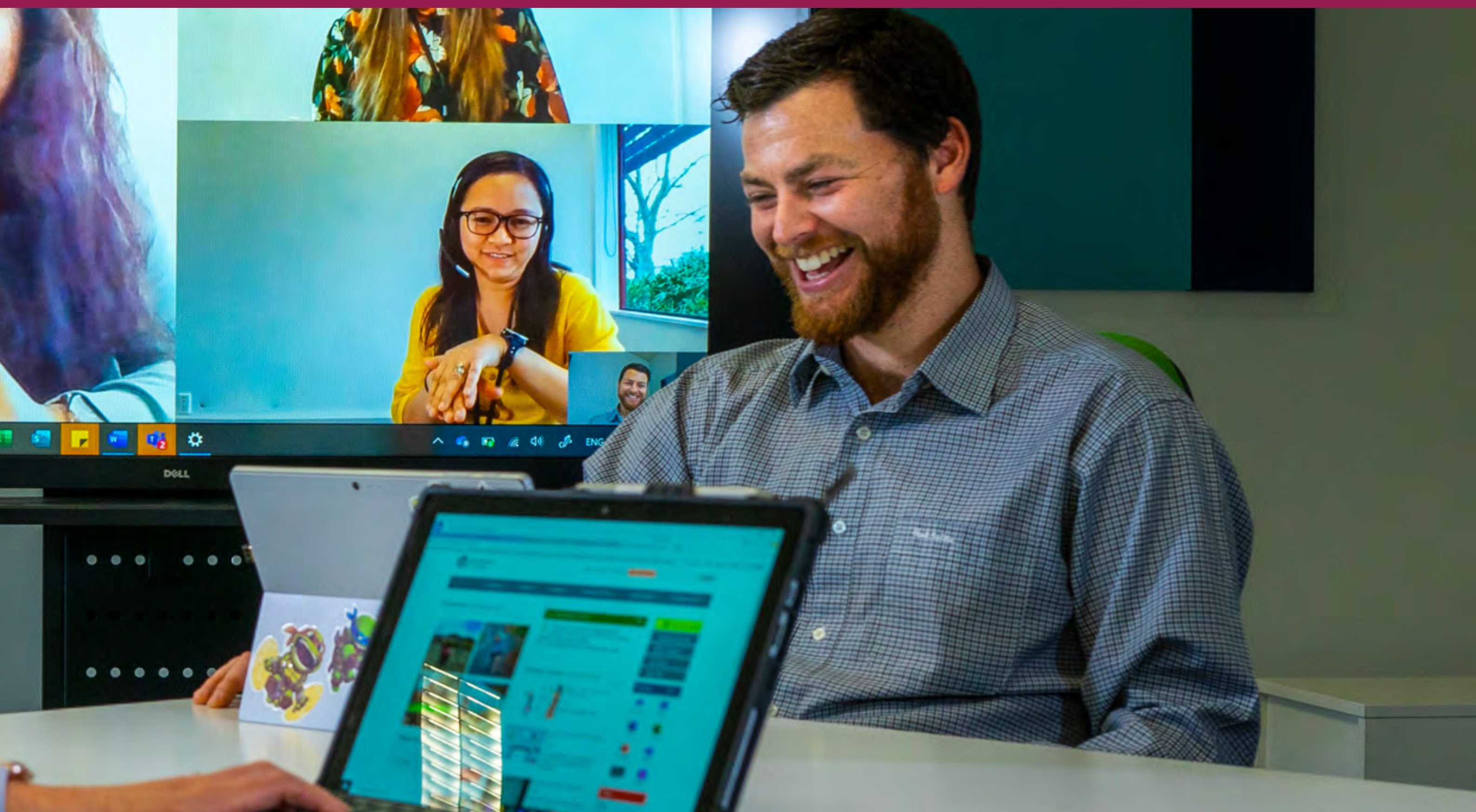
We regularly discuss and update these risks, alongside the triggers that could cause each risk to eventuate, the consequences that could result, and the controls in place to reduce the likelihood of the risk occurring and the consequences if it did.

TABLE 5: OUR CURRENT ENTERPRISE RISKS

	Enterprise risk	Some of our controls
Risk 1	Failure to meet expectations of Government, delivering: core business, Government priorities, business transformation.	> Our transformation-specific governance. > Developing a tax policy through the generic tax policy process. > Regular meetings with Ministers.
Risk 2	The levels of voluntary compliance are reduced to the point of having a material impact on revenue collection for the Crown.	> Developing tax policy through the generic tax policy process. > Education and marketing campaigns to help customers understand and meet their obligations. > Putting customers at the centre of everything we do.
Risk 3	Unable to ensure continuity of business services.	> Our cyber security and monitoring processes. > Our incident management process. > Our business continuity plans.
Risk 4	Insufficient people capability and capacity to deliver outcomes.	> Our human resources policies and processes, including our capability-based learning and development approach. > Our business planning processes. > Our executive governance framework.
Risk 5	Inland Revenue's approach to data and information governance is sub-optimal.	> Our information classification and handling policy and processes. > Our system access controls. > Our process for developing information-sharing proposals.
Risk 6	Unexpected negative customer reaction to the transformation changes.	> Regular engagement with customers and other stakeholders, including giving them information about and help with adopting changes.
Risk 7	Failure to provide appropriate stewardship of the tax and social policy system.	> Engagement with external tax industry stakeholders and customers. > Regular interactions with other tax jurisdictions about emerging trends in the wider taxation environment.

Our performance
Ko tā mātou mahi

We track our progress towards achieving our mission and vision though the measures and indicators in our Performance Measurement Framework (PMF). The PMF diagram on page 65 shows the connection between the long-term results we want to achieve, the difference we want to make, the services we deliver, and how we use our resources to deliver for our customers.



Statement of responsibility

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

- the preparation of the department's financial statements, and statements of expenses and capital expenditure, and for the judgements expressed in them;
- having in place a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting;
- ensuring that end-of-year performance information on each appropriation administered by the department is provided in accordance with sections 19A to 19C of the Public Finance Act 1989, whether or not that information is included in this annual report; and
- the accuracy of any end-of-year performance information prepared by the department, whether or not that information is included in this annual report.

In my opinion:

- the financial statements fairly reflect the financial position of the department as at 30 June 2021 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of the department as at 30 June 2022 and its operations for the year ending on that date.

Naomi Ferguson
Chief Executive and Commissioner of Inland Revenue
29 September 2021

Countersigned by:

Nick Bradley
Chief Financial Officer
29 September 2021

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

We use our Performance Measurement Framework to monitor progress towards our intended outcomes, by delivering services to New Zealanders.

We use performance information across all layers of our framework to tell our performance story. We track the performance of our outcomes and impacts by monitoring results and trends over time or through the use of case studies. We include commentary where appropriate to help explain our results. We track our performance in delivering our services through our output measures and their targets. Our organisational health indicators use a combination of quantitative and qualitative information to show how effectively and efficiently we managed our resources.

Performance Measurement Framework

Our outcomes—what we want to achieve

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

Our impacts—the difference we want to make

Our customers know what to do	Our customers find it easy	Our customers do what they need to
We use intelligence and insights to improve customer outcomes and revenue	We deliver evidence-based policy that is innovative and responsive to customer needs	We work with others to create better results for customers and government

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

Services for Customers	Policy Advice	Services to Other Agencies	Transformation

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

Our people	Our assets	Our finances

Integrity—protecting the integrity of the tax and social policy system

How we performed
Ko ā mātou whakatutukinga

Throughout the year, we continued to ensure customers received their social policy entitlements and tax refunds on time and supported customers to meet their tax obligations. We also issued automatic individual income tax assessments, implemented Stage 4 Release 1 of our transformation programme and actively contributed towards COVID-19 initiatives.

Our outcome performance has been strong in a year of significant events and challenges. We continued to provide customers with timely refunds and social policy payments and achieved all timeliness targets. Assessed tax revenue of $93.8 billion was 21% higher than in 2019–20. Business customers reported a significantly improved experience when dealing with us, with an eight-point increase in our score under the Ministry of Business, Innovation and Employment Better for Business Customer Experience Index from that in December 2019.

This was our third year of running automatic income tax assessments for individuals. We continue to look for ways to make tax simpler for New Zealanders by better using the data we hold. With more detailed and timely reporting of employment and investment income information, accuracy will continue to improve, and we should see the value of end-of-year income tax refunds and tax to pay reduce over time. The average refund from these assessments has reduced each year, decreasing from $430 in 2019 to $394 in 2020. Provisional results for 2021 show a further $41 reduction from 2020 to $353.

Results from our impact indicators show that customers are increasingly using our online services, with an increase in the number of returns being filed digitally, and donation receipts and correspondence being sent digitally. We saw increases in on-time payment and return filing by customers. On-time payments increased by four percentage points to 89.9%, and on-time filing increased by over one percentage point to 94.3%. We also have a number of case studies that demonstrate that we're realising the benefits of our transformation through how we are using our new START core system and analytical tools and capabilities.

We achieved 37 out of 44 or 84% of our output performance measures this year, a significant improvement on 2019–20 when we achieved 30 out of 45 or 67%. Half of our output measures show improved performance in 2020–21, demonstrating our focus on delivering quality services to customers.

We deferred some debt activities where customers needed a different kind of support from us due to the economic impact of COVID-19. This change of focus impacted on our performance measures around the management of unfiled returns and debt.

We're progressing our environmental sustainability strategy to deliver on the 2025 carbon neutral target set by Government. We have reduced our fleet and purchased 28 electric vehicles to replace petrol-based vehicles, meaning a third of our fleet is now electric. Our levels of CO_2 emissions and printer use dropped significantly this year, as we worked more flexibly, enabled by our technology. Our facilities asset performance results have been affected by COVID-19 as we have been unable to complete some of the required checks on buildings and vehicles.

Our outcomes—what we want to achieve

Our outcomes are the long-term results we want to achieve to make sure we contribute to the economic and social wellbeing of New Zealand by collecting and distributing money. These indicators help track our performance in delivering our outcomes, which allows us to achieve our mission.

Key to our outcome and impact indicators

on track | change is 0.5% or less | change is greater than 0.5%

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

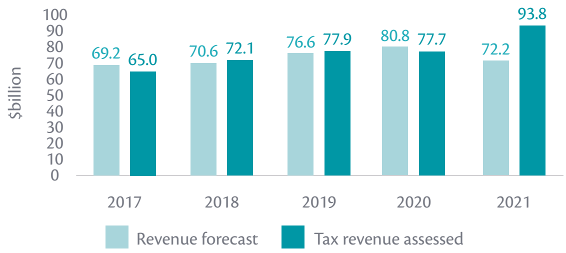
The tax revenue we collect is used by the Government to benefit all New Zealanders. It helps pay for public services, like education, roads and healthcare.

Total revenue assessed and forecast

This indicator looks at the amount of revenue assessed compared with the total revenue the Government expected to receive.

$93.8b

revenue was assessed compared to $72.2b forecast



Tax revenue was $21.6 billion higher than forecast. Tax revenue and tax receipts for 2020–21 are significantly higher than forecasts due to the New Zealand economy being stronger than initially predicted. The forecasts were done in May 2021, shortly after the outbreak and spread of COVID-19. Employment growth, wage growth, business profits, taxable incomes, provisional tax estimates, consumption and residential investment have all been significantly higher than forecast. Refer to page 150 in our financial schedules for a breakdown of total revenue.

Total cash forecast and received

This indicator looks at the total tax receipts the Government received for tax returns filed (current year and prior years), provisional tax payments and deposits into tax pooling.

Crown cash received to 30 June 2021 for tax payments was $90.4 billion, which is $21.7 billion over forecast and $14.1 billion higher than last year.

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

We are responsible for making sure people receive their payments in a timely manner, so they can participate in society.

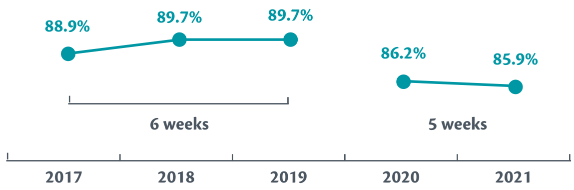
Tax refunds paid to customers on time

Income tax refunds issued

This indicator looks at the time taken to issue income tax refunds to customers once a return is received, ensuring that they receive the payments they're entitled to.

85.9%

of income tax disbursements were issued within five weeks



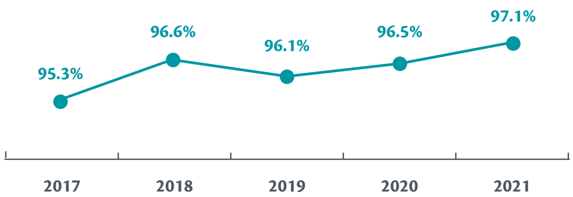
Results have remained steady over the last five years. This is also an output measure in the *Our services* section on page 89. We exceeded the output target of 85%.

GST refunds issued

This indicator looks at the time taken to issue GST refunds to customers, ensuring that people receive the payments they're entitled to.

97.1%

of GST disbursements were issued within four weeks



Results have been steadily improving over the last five years. This is also an output measure in the *Our services* section on page 89. We exceeded the output target of 95%.

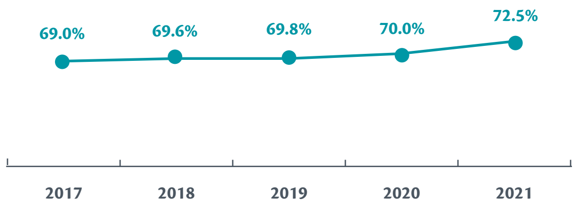
Percentage of social policy payments made to customers on time

The following three indicators look at the timeliness of social policy payments. Results across all three indicators have remained steady over the last five years.

Child support assessments

72.5%

of child support assessments were paid on time

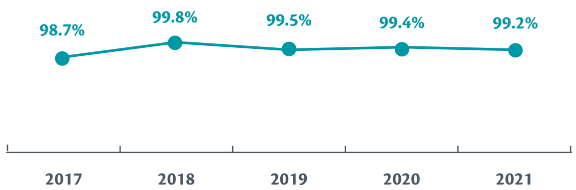


This indicator is also an output measure in the *Our services* section on page 91. We exceeded the output target of 70%.

Paid parental leave payments

99.2%

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

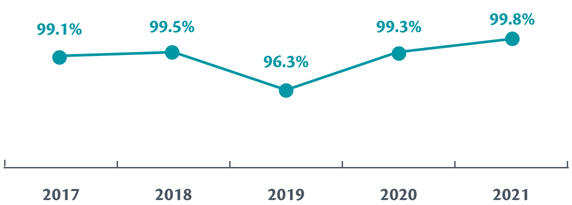


This indicator is also an output measure in the *Our services* section on page 89. We exceeded the output target of 97%.

Working for Families Tax Credit payments

99.8%

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



This indicator is also an output measure in the *Our services* section on page 89. We exceeded the output target of 95%.

Percentage of tax refunds which are accurate

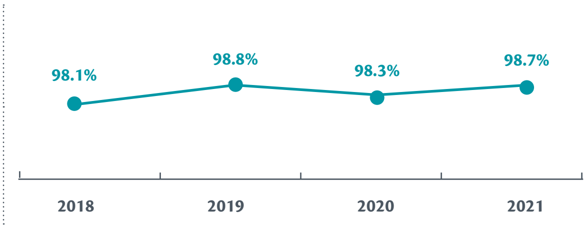
Income tax refund accuracy

The case study on page 80 looks at how automatic income tax assessments for individuals are making tax simpler for New Zealanders, by optimising the use of data that we hold. With more detailed and timely reporting of employment and investment income, we expect to see the value of end-of-year income tax refunds reduce over time.

GST refund accuracy

98.7%

of GST refunds had no amendment after the initial refund

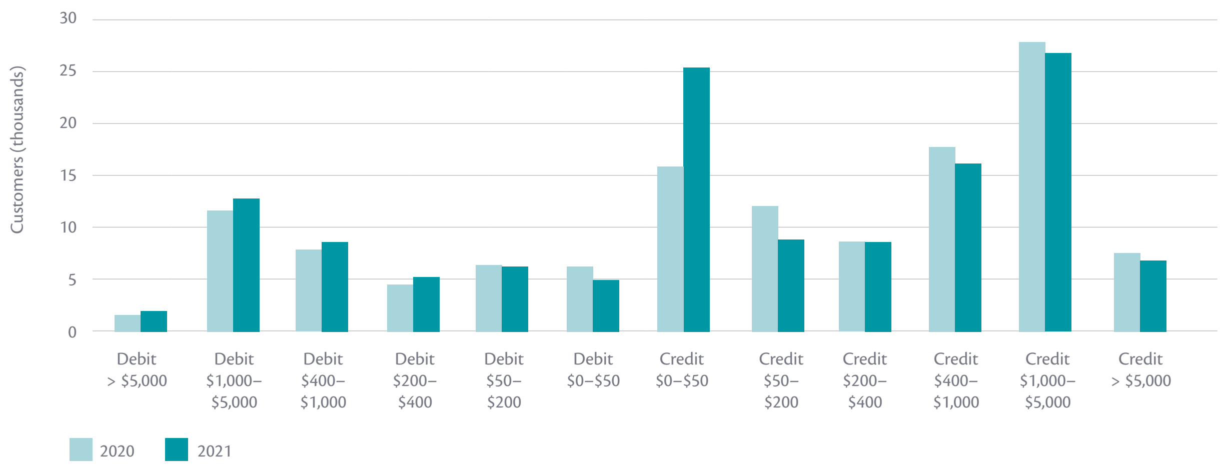


The accuracy of GST refunds increased marginally in 2021 and has remained at a high level over the last four years.

Percentage of social policy payments which are accurate

Working for Families payment accuracy

This indicator looks at whether Working for Families Tax Credit (WfFTC) customers received the amounts they're entitled to, to support their families. Our aim is to improve the accuracy of WfFTC payments over time, using information from employers to pick up changes in customers' income and make timely adjustments. The accuracy of payments also relies on customers providing timely updates on any changes to their circumstances.



Results for the 2021 tax year are mixed. On a positive note, 60% more WfFTC customers had a nil or small credit assessment compared to 2020, indicating that more customers are getting close to their entitlement during the year. The high number of customers with larger credit assessments reflects customers who have opted to receive their entitlement as a lump sum.

There was a small (4.3%) increase in the number of customers who had a debit assessment in 2021. Several factors contributed to this result, such as the impact of COVID-19 on employment and income stability for some customers and changes in family circumstances. Also, a number of entitlements were estimated incorrectly for some customers with multiple employers, and where the employer had not provided key information to us. We're working to prevent this situation from happening again.

Note, results are as at 30 June 2021 and include customers who received an end-of-year square-up for their Working for Families entitlement through the automatic assessment process. Results do not include square-up results for customers who are required to file an IR3 return.

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

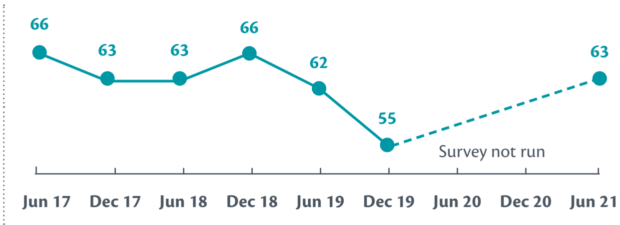
We work with other agencies and external partners, including sharing information with them when appropriate, to deliver better services and outcomes for New Zealanders.

Business customers gain value from easy and seamless dealings with Government

The Ministry of Business, Innovation and Employment's Better for Business programme runs ongoing research for 10 agencies, including Inland Revenue, providing insights into how we can improve the experience businesses have when they deal with us. The programme's Customer Experience Index (CXI) measures how businesses rate their experience of dealing with government services.

63

Our CXI score



Our business customers reported a significantly improved experience when dealing with us. Our CXI score increased eight points from 55 in December 2019 to 63 in June 2021. The overall score for the public sector also increased in June 2021, driven predominately by our eight-point increase. Results improved for both businesses that employ staff and those that don't.

Satisfaction and service performance (the percentage of matters resolved within two contacts) showed a significant lift, with the latter metric's result the best seen since measurement began in 2015.

The time taken to deal with us in a recent dealing reduced significantly in the June 2021 period, from 112 minutes in December 2019 to 67 minutes in June 2021. This is the lowest since this measurement began in 2016.

Note, the survey was put on hold in 2020 due to the impacts of COVID-19 on businesses.

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

The Digital Government Leadership Group supports digital uptake for common public services, with a target that 80% of transactions will be completed digitally by 2021. We report on two transactions in the top 20 services: paying individual income tax and claiming donation tax credits.

98.3%

of individual income tax payments were digital

June 2020: 94.8%

82.1%

of donation tax credit claims were digital

June 2020: 71.9%

Our results are above the target of 80% and have increased from last year, demonstrating the continued increase in customers using digital channels to interact with us.

Results from working with others to deliver services for New Zealanders

The case study on page 79 looks at how we set up an information portal with the Ministry of Social Development (MSD) to help administer the Wage Subsidy and the COVID-19 Income Relief Payment. The portal has allowed MSD staff to access information to verify employer applications. It helped get funding to eligible customers quickly, while protecting people's privacy with appropriate access permissions and provision of the minimum data needed for verification.

Over the past few years, we have also been implementing a set of tools that will make it easier for us to do our day-to-day administrative work. Ātea is a modern, cloud-based platform for performing enterprise support services. It is built on a common process model (CPM) that we have made available for other government agencies to use. The CPM covers business processes for human resources, procurement, finance and asset management.

This year, we delivered the final parts of the Ātea programme and continued to support the use of the CPM across the public sector. At the end of June, we helped transition the CPM to a new Common Process Model Unit within the Department of Internal Affairs.

Our impacts—the difference we want to make

Our impacts describe the difference we want to make to help achieve our mission. We aim to support our customers, so they know what to do, find it easy and do what they need to.

Customers know what to do

Results show ratings of four or more out of seven from our Customer Experience Survey, where seven is 'strongly agree'.

86% 2020–21
84% 2019–20

of customers agreed they knew what they needed to do next

90% 2020–21
90% 2019–20

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

Customers find it easy

Results show ratings of four or more out of seven from our Customer Experience Survey, where seven is 'strongly agree'.

81% 2020–21
77% 2019–20

of customers found it easy to deal with Inland Revenue

82% 2020–21
78% 2019–20

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

79% 2020–21
77% 2019–20

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

82% 2020–21
77% 2019–20

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

76% 2020–21
73% 2019–20

of customers agreed they felt no stress or frustration

85% 2020–21
84% 2019–20

of customers agreed they felt reassured they got it right

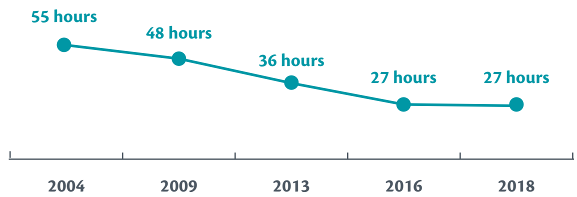
Customer perceptions around knowing what to do and finding it easy have mostly increased in 2020–21, indicating that we're supporting customers to get it right from the start, and they're becoming familiar with how to use our services to do what they need to.

Customer time spent on tax compliance

Reducing compliance costs is one of the benefits of transformation we're committed to delivering. We survey small-to-medium-sized businesses (SMEs) to estimate the time and cost of complying with tax requirements.

27 hours

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



We conduct our tax compliance survey regularly. However, to reduce the burden on businesses, as they were managing the impact of COVID-19, we delayed our 2020 survey until 2021. The results of the 2021 survey are yet to be finalised and will be included in the 2022 Annual Report.

The median time SMEs spend on compliance has reduced significantly since 2004. With the changes introduced by transformation, by 2023–24 we expect SMEs will spend 18 hours less on compliance than they did in 2013.

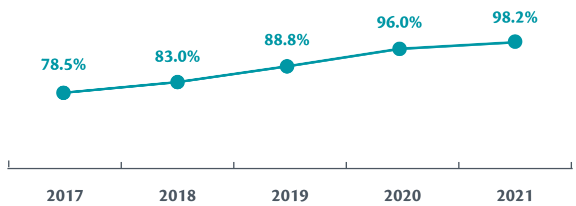
Customers successfully using digital channels to undertake activities

A digital revenue system means our customers can take care of their tax and any social policy in a way and at a time, that works for them. Millions of straight-forward transactions happen with no intervention from us, providing customers with certainty sooner. Digital services better meet the expectations of our customers to connect more easily and share information quickly.

Returns filed digitally

98.2%

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

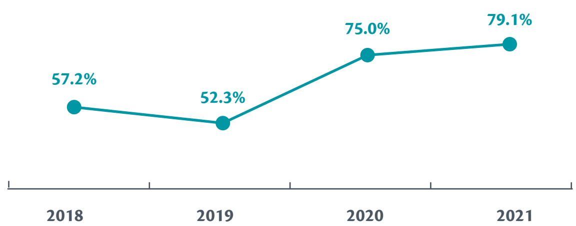


Customers continue to shift to using digital channels to do what they need to, with paper filing now the exception. Around 99% of employment information is filed digitally—upfront checks help ensure correct information is entered into our system. This is providing employers with greater certainty and reduces effort for them.

Correspondence sent digitally

79.1%

of correspondence sent by customers was sent digitally



We encourage customers to use our digital channels. Customers are increasingly using our secure service, myIR, to do much of what they need to do themselves.

Businesses using accounting or payroll software

As at 30 June 2021, 181,357 small-to-medium-sized enterprises and tax agents used business accounting or payroll software to manage their GST obligations. This compares with 136,936 for the previous year.

Customers setting up their own instalment arrangements

Customers can set up instalment arrangements themselves online. This year, 40.6% of instalment arrangements were set up automatically through myIR, compared to 37.5% last year.

Customers who had their income tax assessments and entitlements issued automatically

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

2.9 million

individual income tax customers had their 2021 income tax assessment issued automatically

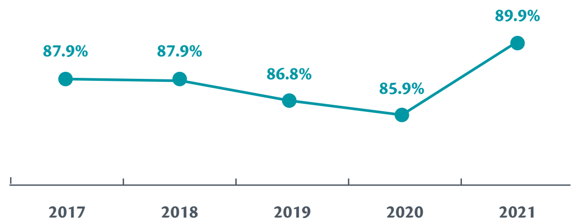
Customers do what they need to

Percentage of tax payments made by customers on time

This indicator relates to customers paying their tax obligations for income tax, employment activities and GST in full and on time.*

89.9%

of tax payments were made by customers on time



Results increased by four percentage point this year to 89.9%. This was driven by increases in payment timeliness across all three products: 5.1 percentage points for employment activities, 4.3 percentage points for income tax and 2.7 percentage points for GST. Since the introduction of mandatory payday filing, we have seen an increase in employment activity payments made on time.

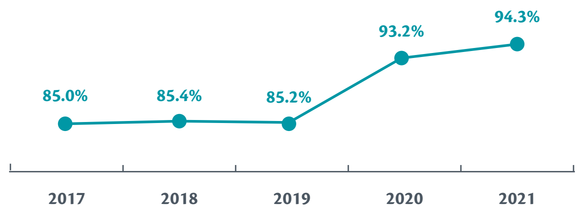
This indicator is also an output measure in the *Our services* section on page 91. We exceeded the output target of 85%.

Percentage of returns filed by customers on time

This indicator relates to customers filing their tax obligations for income tax, employment activities and GST on time.*

94.3%

of returns were filed by customers on time



Results increased by 1.1 percentage points, driven by a 1.8 percentage point increase in the timeliness of income tax returns and a 1.5 percentage point increase in the timeliness of employment activity returns. The increase in employer filing timeliness is due in part to the requirements to qualify for the Wage Subsidy.

This indicator is also an output measure in the *Our services* section on page 91. We exceeded the output target of 85%.

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

A case study on page 80 looks at how automatic income tax assessments for individuals are making tax simpler for New Zealanders. With more detailed and timely reporting of employment and investment income, we expect average refund and tax-to-pay amounts to reduce over time.

Customer sentiment—tax morale

Research in New Zealand and internationally has identified that attitudes towards tax and trust as are important factors in tax compliance. Tax morale results from our Customer Experience and Perceptions Survey show ratings of four or more out of seven, where seven is 'strongly agree'.

81% 2020–21 | **84%** 2019–20

of customers agreed they feel good about paying their tax

83% 2020–21 | **86%** 2019–20

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

88% 2020–21 | **93%** 2019–20

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

* On time means a payment is received or a return is filed within seven days of the due date.

We use intelligence and insights to improve customer outcomes and revenue

Using customer insights helps us continually improve our activities, maintain the integrity of the revenue system by better targeting our interventions, and design and deliver the right customer experiences.

Improved compliance and customer outcomes

The case study on page 80 looks at how we used our intelligence and insights to make improvements to 2021 automatic individual income tax assessments. We focused on increasing the accuracy of data and reducing errors or confusion to improve the experience and outcomes for customers.

Another case study on page 81 looks at a range of targeted activities that use intelligence and insights to facilitate international tax compliance.

Customer maturity score

We did not undertake a customer maturity assessment in 2020–21 as we focused on other priorities such as supporting customers through the challenges of COVID-19. In 2018, we completed an internal assessment of how customer-centric we are, using the Forrester maturity framework. We scored 3 out of a possible 5.

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

We need policy agility, so that we can maintain a world-class revenue system in an increasingly complex and changing world. Improving our policy agility helps us meet our regulatory stewardship responsibilities, ensuring we're taking a proactive, collaborative approach to the monitoring and care of legislation we administer.

Increased policy capability

We use the Policy Maturity Matrix, developed by the Department of the Prime Minister and Cabinet, to assess our policy capability. Based on our recent self-assessment, our capability level is 2.76 out of 4.0, up from 2.5 in 2019–20. We will focus on improving:

- People capability—by clarifying career and progression pathways for our people while also managing succession and retention risks in the current environment
- Policy quality systems—by continuing to enhance our research and analysis function, improve information knowledge management, and embed evaluation and learning into our processes so that our advice is evidence-based and outcomes-focused
- Engagement—by continuing to refine relationships with stakeholders and our customer-facing people
- Stewardship—by continuing to invest in our future capability and demonstrating clear leadership and direction.

Reduction in time and costs to implement policy

The case study on page 81 looks at the rapid development of an online, easy-to-use application and payment scheme for Resurgence Support Payments. This demonstrates the value of our policy agility and the Government's investment in transformation—technology is no longer a constraint on our being able to make changes quickly and cost-effectively.

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

New Zealanders will benefit socially and economically through Inland Revenue working collaboratively and being part of the broader Public Service. We share our information and expertise to benefit government and society.

Results achieved through information sharing

The case study on page 79 looks at how we set up an information portal with the Ministry of Social Development (MSD) to help administer the Wage Subsidy and the COVID-19 Income Relief Payment. The portal allows us to share information with MSD staff to verify employer applications. It helped get funding to eligible customers quickly, while protecting people's privacy with appropriate access permissions and provision of minimum data needed for verification.

Other key information-sharing initiatives

As part of the Government's response to COVID-19, it passed legislation that allows us to share information with other government agencies to respond to the pandemic. This provision is targeted, time limited and only used when existing legislative provisions are not adequate to share information. We shared with:

- Ministry of Social Development—For the Wage Subsidy, Small Business Cashflow (loan) Scheme, COVID-19 Income Relief Payment and the Apprenticeship Boost Income Scheme
- Ministry of Health—Contact information for a contact of a positive COVID-19 case when they could not be located
- Ministry for Primary Industries (MPI)—Information to assist with MPI's support for businesses affected by COVID-19.

You can read more about our information-sharing agreements and summaries of agreements with other government agencies at: https://www.ird.govt.nz/about-us/information-sharing

Results of international collaboration

The case study on page 81 looks at the range of targeted activities that have been used to address international tax compliance. The aim of our international tax work is to collect 'the right amount of tax at the right time through the right channels'. We do this by providing an environment that supports New Zealand businesses operating globally and assists multi-national enterprises operating here. Collaboration is key—we work with other tax authorities and key business interests to foster certainty about tax and facilitate trade and investment.

Case studies

The following four case studies demonstrate our progress towards achieving our objectives.

New ways of sharing information with other agencies

A portal was set up with the Ministry of Social Development (MSD) to support the administration of the Wage Subsidy and the COVID-19 Income Relief Payment. While the Wage Subsidy is administered by MSD, MSD relies on data held by Inland Revenue to verify applications.

The portal benefited customers as their applications could be processed more quickly. It benefits MSD through an improved ability to administer the subsidy, and benefits Inland Revenue as we're receiving far fewer calls from MSD to validate information.

Initially, supporting Wage Subsidy applications was labour-intensive when applications needed further clarification. An 0800 number was established for MSD staff to connect directly with Inland Revenue. The level of verification needed was extraordinarily high, with 250 of our people on the phones on the busiest days. This meant diverting people from other work related to collecting of revenue and distributing of payments.

To support the extension of the Wage Subsidy, we developed a portal to allow MSD to self-service some queries. The portal opened on 11 June 2020, and allows approved MSD people to access the information they need directly. This has reduced the number of calls and the manual work and ensured efficient processing of applications.

To protect individuals' privacy, MSD users had read-only access to the minimum data necessary to verify whether Wage Subsidy applications should be approved.

We already have extensive information-sharing arrangements in place with MSD through an Approved Information-Sharing Agreement (AISA). A memorandum of understanding was established to ensure that both MSD and Inland Revenue were clear about what data would be shared, and for what purpose, and that we had the legal authority to share the information with MSD. Both MSD and Inland Revenue are very conscious of keeping customer information safe.

This is an example of Inland Revenue making the information we hold available to another agency to enable that agency to do its work and serve the public efficiently and effectively.

IN 2020–21:

We hold information-sharing arrangements with more than

17

agencies

The Wage Subsidy portal we set up enabled MSD staff to verify applications from

35,000

employers

You can read about the

results

from our approved information-sharing agreements on pages 193 to 199.

Year three of automatically issued income tax assessments

The process of automatically calculating individuals' income tax assessments is designed to make tax simpler for New Zealanders.

We're using the data we get throughout the year to help ensure people are paying and receiving the right amounts. Having up-to-date data means that any errors or changes in circumstances are identified and addressed during the year—for example, ensuring customers are on the right tax code.

If deductions are accurate throughout the year, customers should have smaller refunds or bills to pay (if any) at the end of the tax year.

Issuing income tax assessments automatically is still a relatively new process. As changes to employment and investment income reporting were introduced progressively, the year ending 31 March 2021 was the first full year we received more details, more often, about recipients of investment income.

Building on our experience to improve in 2021

Planning for the 2021 automatic assessment season continued to build on lessons learnt from 2020 and 2019. We worked to get the assessments out faster than in previous years to give customers certainty faster—especially families.

To help ensure assessments were as accurate as possible, we contacted 450,000 customers and employers during the year to let them know that they were on unsuitable tax codes and needed to update their details.

We took steps to enhance the customer experience by improving the accuracy of data to reduce the possibility of errors or confusion. We used focused marketing campaigns to encourage customers to update their details, such as bank accounts. Insights generated from our analytical tools enabled us to tailor interventions to identify and address specific issues that customers were struggling with.

We're focused on further improvements. From 31 March 2021, income from portfolio investment entities—such as KiwiSaver schemes—is included in the end-of-year income tax assessment process and automated where possible. We continue to learn from each year and focus on how to make the next annual assessment run as smoothly as possible.

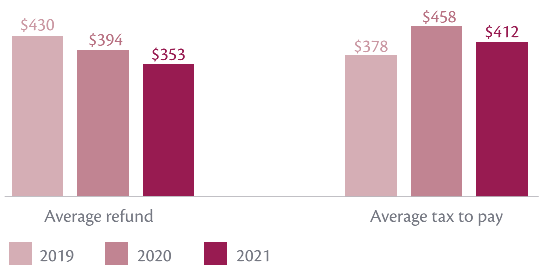
Trends in accuracy of assessments

As at 30 June 2021, 2.9 million assessments had been issued to customers through the 2021 automatic income tax assessment process.

We have seen a year-on-year improvement in the accuracy of income tax assessments resulting in refunds.

The average tax to pay decreased from $458 in 2020 to $412 in 2021, although this is still provisional. An increase from 2019 to 2020 was, in part, due to a large number of people being on a higher or lower prescribed investor rate than they should have been.

FIGURE 6: AVERAGE REFUNDS AND TAX TO PAY FROM AUTOMATIC INDIVIDUAL INCOME TAX ASSESSMENTS



Following changes to legislation, from 1 April 2020, we have provided portfolio investment entities with correct rates for people on an incorrect rate. From the year ending 31 March 2021, portfolio investment entity income is included in the end-of-year income tax assessment process and automated where possible.

It's important to note that the 2021 tax-to-pay results will be inflated by a significant number of customers who received an extra pay, leading to extra tax—this happens once every 11 years or so. This extra tax gets written off for many customers.

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

Rapid delivery of the Resurgence Support Payment scheme

On 23 February 2021, the Resurgence Support Payment (RSP) opened to eligible businesses and organisations impacted by the COVID-19 resurgence in Auckland in mid-February 2021.

Our experience implementing earlier components of the Government's COVID-19 response, such as Small Business Cashflow Scheme loans, provided a good basis for how we developed the RSP. We aimed for an online, easy-to-use application and payment scheme.

Right at the beginning, we established a team of policy, legal and technical specialists to design, implement and support the RSP. The deadlines involved meant that the RSP's design and the underpinning policy had to happen in parallel. The team worked together closely to ensure our advice to the Government was based on what was practically achievable in the timeframe.

Normally, draft legislation can be changed along the way to reflect any alterations to the detailed design and implementation of an initiative such as this. However, the legislation enabling the RSP was passed rapidly after Cabinet approved it. Driven by the urgent need to get support to businesses, we had a very limited opportunity to make changes. A key feature of the legislation is that it does not try to anticipate every possible scenario or customer situation.

When it came to developing the online process for applying for the payment, we leveraged START, our new core system. Although the RSP is a different product, it shares a common design with another COVID-19 initiative, the Small Business Cashflow (loan) Scheme. The re-use of existing designs, and the fact that START is a commercial off-the-shelf system, means the RSP can evolve to meet any future needs of Government and customers.

The rapid development of the RSP demonstrates the value of the investment made in transformation. Technology is no longer a constraint on our ability to make changes quickly and cost-effectively. The RSP was in place in 45 days. Using our old systems and processes, it's likely that delivering the RSP would have taken around three to four times longer.

You can read more about the support this payment has provided to businesses on page 26.

Facilitating international tax compliance through a range of targeted activities

The aim of our international tax work is to collect 'the right amount of tax at the right time through the right channels'. We do this by a providing an environment that supports New Zealand businesses operating globally and assists multi-national enterprises (MNEs) operating here.

Our role includes heading off potential non-compliance before it occurs. We closely monitor MNEs, enter into advance pricing agreements with them and provide practical guidance for self-managing their tax. We also nurture relationships with these customers and their advisors, welcoming free and frank dialogue.

This case study outlines some of the features of our international compliance approach:

- Collaboration is key—we work with other tax authorities and key business interests to foster certainty about tax and facilitate trade and investment.
- We're also using the data and analytical capabilities that transformation has brought us to help target trends and emerging issues and customers in need of assistance.

Gathering intelligence

We've actively monitored all foreign-owned corporates with an annual turnover of over $30 million for several years. Seven hundred MNEs complete an annual international questionnaire to inform our approach to risk management for their tax compliance.

We also receive other key sources of information, such as country-by-country reports and summaries of tax rulings from our exchange partners from around the globe.

In more recent years, we have gained additional intelligence from the regular exchange of reports on financial account information with other countries. These are in relation to New Zealand tax residents with financial accounts in other jurisdictions.

Inland Revenue gained a new source of intelligence in March 2021 when we signed a memorandum of understanding with Toitū Te Whenua Land Information New Zealand. We now contribute to integrity tests of overseas investors by confirming if they have outstanding taxes and any past penalties for avoidance or evasion. We receive early intelligence on major new foreign investments, enabling us to track their tax compliance right from the start.

Tailored compliance campaigns

Based on analysis of the financial account information we receive on New Zealand tax residents, we deliver tailored campaigns to customers to create greater awareness and facilitate compliance.

In 2020, we contacted almost 2,000 customers. The campaigns bring these individuals and their tax obligations into our tax system. We received more than 350 voluntary disclosures, amounting to a total tax shortfall of $6.2 million. We also expect to collect an additional $2 million annually from these customers without any further intervention.

Even better, a number of New Zealanders heard about our campaigns third hand and have also made voluntary disclosures.

We've also reviewed 24 New Zealand financial institutions to assess their systems for collecting and reporting this financial account information. In general, we found a high level of compliance and are working with the institutions whose systems were identified as needing to improve.

Based on our intelligence on MNEs, we deliver a range of campaigns to this customer group. The campaigns aim at specific issues or risks arising in particular sectors. In 2020, we focused on distributors, customers with repeat losses, intellectual property and financing. We contacted 331 customers to ask them to clarify their taxes or supply more information. These 331 customers account for more than one-third of the overall MNE customer base.

These deeper dives are an efficient and effective way to monitor and ensure compliance. We can confidently assure a large portion of New Zealand's corporate tax base without needing to default to audits, which are expensive for us and customers. For instance, only 10% of the MNEs contacted this year needed a more in-depth follow-up review.

Promoting advance pricing agreements

Inland Revenue operates a programme of advance pricing agreements. These provide customers with certainty on tax for specific transfer pricing arrangements for an agreed period. In return, New Zealand gets a level of certainty that these businesses are paying the right tax over a period of time and over potential future revenue benefits. There's less need also for audits.

Forty-six percent of the customers that have an agreement have been in this programme for more than 10 years, and 22% for more than 15 years. As at 30 June 2021, 76 customers had active agreements with us, representing tax assured of approximately $290 million a year.

Assisting other countries to build their capability

Inland Revenue plays an active role on the global stage, assisting other countries' tax organisations to build their capabilities. Working with international partners, we've been supporting the implementation of international tax standards by Pacific Island nations.

We also work closely with OECD Global Relations to provide tax technical assistance. This year, we provided tax experts for virtual training events for a large number of developing countries.

IN 2020–21:

81

countries exchanged

1.1m

financial account information reports with us

We actively monitored

700

multi-nationals

Annually, they contribute approximately

$4.7b

in tax

People we contacted as a result of analysing financial account reports from other countries made voluntary disclosures on a tax shortfall totalling

$6.2m

The total tax assured under advance pricing agreements with multi-nationals increased from $200m in 2019–20 to

$290m

this year

Our integrity—protecting the integrity of the tax and social policy system

We are the principal steward of New Zealand's revenue system. We have a crucial role to play in maintaining and enhancing the integrity of the tax and social policy system.

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

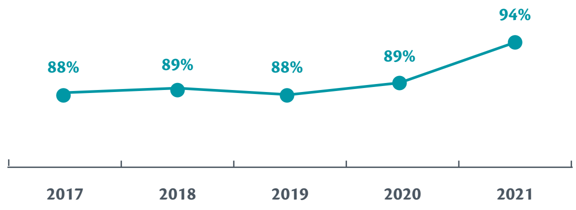
Our integrity indicators show how we're protecting the integrity of the tax and social policy system.

Percentage of customers who have trust in us

Results show ratings of three or more out of five from our Customer Satisfaction and Perceptions Survey, where five is 'strongly agree'.

94%

of customers have trust and confidence in us

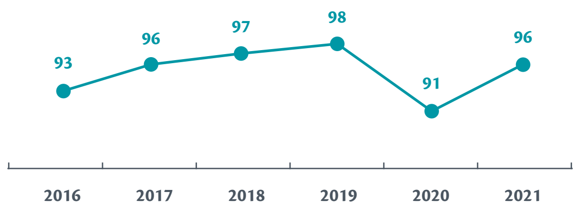


Comparative results and benchmarking—Public Sector Reputation Index (RepZ) score

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

Our RepZ score is

96



Our latest score increased five points, from 91 to 96, compared with the previous year. We were in the top five for most improved reputation for 2021. We had increases in each of the four pillars: fairness increased by six points, leadership by six points, trust by four points and social responsibility by four points.

Note, reputation scores are relative to other public sector agencies included in the index. A score of 105 or higher is strong, scores between 95 and 104 are average, and a score of less than 95 is considered weak.

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

This section reports on our performance against our output measures and targets, which are included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*. Full details can be found on the Treasury's website:

https://www.treasury.govt.nz/publications/estimates/vote-revenue-finance-and-government-administration-sector-estimates-2020-21

We have four appropriations for the services we provide to the Government and the public:

1. Services for Customers—a multi-category appropriation that covers four categories:
    - Services to Ministers and to inform the public about entitlements and meeting obligations
    - Services to Process Obligations and Entitlements
    - Management of Debt and Unfiled Returns
    - Investigations
2. Policy Advice
3. Services to Other Agencies
4. Transformation—a multi-year appropriation to cover the design and implementation of a modern system for tax revenue and social policy.

We compared our performance information against the output measures and results for 2019–20. Our output targets for 2021–22 are included to provide context to the 2020–21 results. We explain measures when we have not met the target or have exceeded a target by more than 15%.

Some output measures are calculated using a sample of the customer population. We have marked these measures with a hash (#).

All target and forecast figures on pages 85 to 99 are not subject to audit.

Review of 2020–21 output performance measures and targets

We have two categories of output measures: primary and supporting. The primary measures have greater focus on what we're intending to achieve and show progress towards achieving our outcomes. Supporting measures are more operational in nature, providing additional information.

We review our output measures and targets each year to ensure that they reflect the range of services we provide and our operating environment, and support the achievement of our outcomes.

Throughout our transformation, we've been evolving our output measures to ensure they're fit for purpose to assess our service delivery. The changes to our measures for 2020–21 build on those made in previous years. Since 2018–19, we've made 22 adjustments to measures to reflect improved efficiencies and the value derived from our transformed services, and to ensure customer service levels are maintained.

Key for our 2020–21 output measure results

Met the target

Did not meet the target

01. Services for Customers

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

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

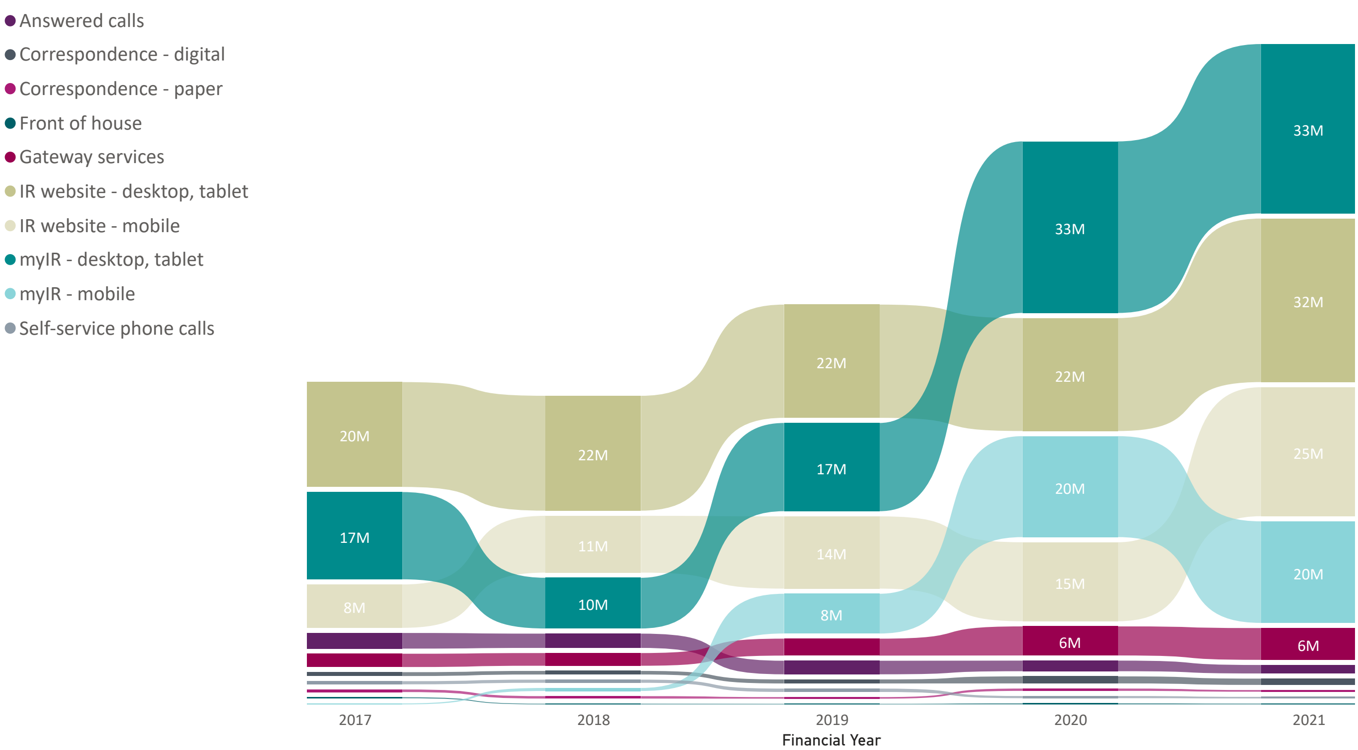
- Services to Ministers and to inform the public about entitlements and meeting obligations
- Services to Process Obligations and Entitlements
- Management of Debt and Unfiled Returns
- Investigations.

What we intend to achieve

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

Figure 7 shows how results of our focus on encouraging customers to interact with us digitally. More and more customers are using self-service channels, such as myIR, to do what they need to. Businesses are increasingly using gateway services to interact directly with our systems; these interactions increased from 2.6 million in 2017 to 6.2 million in 2021.

FIGURE 7: THE SHIFT TO OUR DIGITAL SERVICE CHANNELS BETWEEN 2017 AND 2021



How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
87%	Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue#	90%	✓ 91%	90%
80%	Percentage of customers who feel Inland Revenue makes it easy for people to get it right#	80%	✓ 81%	80%

Actual performance measured using a sample of the customer population

All targets are unaudited

What it cost

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
634,967	Revenue from the Crown	569,309	569,309	541,112	553,085
19,949	Other revenue	15,703	17,066	17,665	16,700
654,916	**Total revenue**	**585,012**	**586,375**	**558,777**	**569,785**
640,765	**Total expenses**	**581,175**	**586,375**	**558,777**	**569,785**
14,151	**Net surplus/(deficit)**	**3,837**	**–**	**–**	**–**

We came within budget for the *Services for Customers* multi-category appropriation. There are four categories within the appropriation and the individual results are shown on pages 87 to 94.

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

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

How we performed

2019–20 Actual		2020–21 Target		2020–21 Actual	2021–22 Target
	Primary measures				
84%	Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations#	85%	✓	85%	85%
77%	Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort#	80%	—	79%	80%
	Not achieved—The percentage of customers who perceive that resolving issues requires low effort increased slightly from last year. Our customers are continuing to familiarise themselves with new systems and processes while also dealing with the impacts of COVID-19.				
	Supporting measures				
$44.76	Average cost of a customer-initiated contact	$35.00 or less	—	$43.32	Measure retired
	Not achieved—The cost of a customer-initiated contact has decreased from last year. Customer-initiated contacts include all inbound calls, paper and digital correspondence, and visits to the front of house of our offices. Self-help customer contacts are not included. *The result is driven by decreases across all types of customer-initiated contacts included in the measure. The result also reflects higher costs, from using more of our people to support customers during periods of high demand. We continue to simplify services and automate more online processes, making it easier for customers to interact with us digitally. This measure does not include digital self-help activity.* *We're retiring this measure for 2021–22 and developing an alternative that provides a full view of how we support customers across all channels for 2022–23. For 2021–22, we're including a measure of digital uptake to reflect our focus on shifting most customer interactions online. The measure is 'percentage of returns filed digitally', and our target is 97%.*				
4 minutes 58 seconds	Average speed to answer telephone calls	4 minutes 30 seconds or less	✓	3 minutes 46 seconds	4 minutes 30 seconds or less
	The average speed to answer telephones has decreased from last year from 4 minutes and 58 seconds to 3 minutes and 46 seconds. *Call demand decreased 30% from last year as digital uptake continued to increase. We supported customers during COVID-19, prioritising services for those that needed to contact us while temporarily reducing our focus on compliance activities. However, some customers had difficulty getting through to us at times. This was the case during some busy periods in the year when customers contacted us about their income tax assessments, COVID-19 relief options or the changes we've made to services. Also, calls can take longer to complete because we aim to help customers get to the point where they know what to do next, what to expect, don't need to be transferred and don't need to call back. We're achieving this for approximately 70% of calls.*				
100%	Percentage of all rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards	100%	✓	100%	100%
26	Number of published or finalised public items that give the Commissioner's interpretation of the law	25	✓	27	25
100%	Percentage of public items (including relevant public consultation) completed within 18 months of allocation	85%	✓	100%	85%

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
81.4%	Percentage of adjudication cases completed within ten weeks of receipt	90%	✓ 97.4%	90%
96.9%	Percentage of taxpayer ruling applications that have a draft ruling completed within ten weeks of receipt	90%	✓ 96.8%	90%
92.6%	Percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt	90%	✓ 100%	90%
97.0%	Percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	✓ 96.3%	90%
New measure	Percentage of short-process rulings that have a draft ruling completed within six weeks of receipt	90%	✓ 95.4%	90%

Actual performance measured using a sample of the customer population

All targets are unaudited

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
276,639	Revenue from the Crown	241,023	241,023	223,224	232,374
1,271	Other revenue	911	1,186	1,186	1,045
277,910	**Total revenue**	**241,934**	**242,209**	**224,410**	**233,419**
288,987	**Total expenses**	**240,565**	**242,209**	**224,410**	**233,419**
(11,077)	**Net surplus/(deficit)**	**1,369**	**–**	**–**	**–**

Services to Process Obligations and Entitlements

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

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
90.2%	Percentage of social policy and tax registrations processed within five working days	85%	✓ 85.5%	85%
86.2%	Percentage of income tax disbursements resulting from a return issued within five weeks	85%	✓ 85.9%	85%
96.5%	Percentage of GST disbursements issued within four weeks*	95%	✓ 97.1%	95%
	Supporting measures			
97.8%	Percentage of income tax returns finalised within three weeks	95%	✓ 98.5%	95%
99.9%	Percentage of GST returns finalised within three weeks	98%	✓ 99.9%	98%
$2.78	Average cost of processing income tax returns, GST returns and employment information	$3.50 or less	✓ $1.86	$3.50 or less
	This measure demonstrates the cost-effectiveness of our processing activities. We continue to see more returns being filed digitally; the percentage increased from 96.0% in June 2020 to 98.2% in June 2021. These returns are more efficient to process, as most are processed straight through, with no intervention needed.			
New measure	Percentage of donation tax credit claims processed within three weeks	70%	✓ 74.6%	70%
99.3%	Percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	✓ 99.8%	95%
99.4%	Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	✓ 99.2%	97%
83.4%	Percentage of child support administrative review decisions issued within seven weeks	90%	✓ 93.0%	90%
81.4%	Percentage of child support assessments issued within two weeks	80%	✓ 81.5%	80%

Actual performance measured using a sample of the customer population

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

All targets are unaudited

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
144,468	Revenue from the Crown	114,628	114,628	125,261	124,260
16,412	Other revenue	14,182	14,285	14,285	14,234
160,880	**Total revenue**	**128,810**	**128,913**	**139,546**	**138,494**
154,327	**Total expenses**	**126,192**	**128,913**	**139,546**	**138,494**
6,553	**Net surplus/(deficit)**	**2,618**	**–**	**–**	**–**

Management of Debt and Unfiled Returns

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

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
93.2%	Percentage of returns filed by customers on time	85%	✓ 94.3%	85%
$40.22	Value of assessed revenue for every unfiled return dollar spent	$40.00	✓ $53.75	$45.00

This measure demonstrates the cost-effectiveness of our work to recover assessed revenue from returns not filed by the due date. We use our advanced analytical tools to identify unfiled returns that are likely to be of a higher value, and we're finalising more high-value returns through our Budget 2018 initiatives work.

We are increasing the target for this measure from $40 to $45 for 2021–22.

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
85.9%	Percentage of tax payments made by customers on time	85%	✓ 89.9%	85%
$64.54	Cash collected for every debt dollar spent	$40.00	✓ $40.03	$40.00
70.0%	Percentage of child support assessments paid on time	70%	✓ 72.5%	70%
	Supporting measures			
$50.83	Average cost of finalising an unfiled return	$30.00 or less	— $44.71	Measure retired

Not achieved—The average cost of finalising an unfiled return decreased from last year. This measure demonstrates the cost-effectiveness of our work finalising returns not filed by the due date.

We focus on finalising unfiled returns with value attached, rather than those which are less economical to pursue. Through our advanced analytics, we can now identify those unfiled returns that are likely to be of a higher value. As we leverage information collected by our systems to determine customer obligations and entitlements, the volume of unfiled returns decreases.

This measure relates to the volume of filed returns rather than value and is no longer fit for purpose. We're retiring this measure for 2021–22. Our 'value of assessed revenue for every unfiled return dollar spent' measure is more appropriate.

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
45.1%	Percentage of unfiled returns that are finalised within six months	60%	— 49.2%	60%

Not achieved—The percentage of unfiled returns finalised within six months increased from last year. This measure demonstrates the effectiveness of our activities to help customers with unfiled returns.

To support customers through COVID-19, Release 4 of our transformation programme and automatic income tax assessments, we reduced our focus on compliance activities. We've now resumed compliance activities and are revising our strategy for managing payments and assessments.

Transformation has allowed us to automatically determine more customer obligations and entitlements using information we already have. Because of this, we're moving away from requiring all customers to file returns. Consequently, the volume of unfiled and late-filed returns is decreasing: 566,922 returns were late in 2019–20, compared to 547,071 in 2020–21.

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
51.6%	Percentage of collectable debt value over two years old	50% or less	51.7%	40% or less
	Not achieved—The percentage of collectable debt value over two years old increased slightly from last year. This measure looks at how much of our collectable debt is aging and, therefore, becoming harder to collect. *With the introduction of automatic income tax assessments in 2019, we have more customers receiving an annual tax assessment and, as a result, an increasing number of customers with debt.* *Collectable debt includes student loan debt, which contributes to a high proportion of debt over two years old. Most is owed by overseas-based borrowers and is harder to collect. Student loans cannot be written off as bad debt (with limited exceptions such as for death or bankruptcy).* *We're removing student loan and Small Business Cashflow (loan) Scheme debt from the measure for 2021–22 and, therefore, tightening the target to 40% or less. To maintain visibility of student loan performance, for 2021–22 we're introducing a new measure: 'percentage of student loan customers that meet their obligations'.*			
70.8%	Percentage of new customer debt resolved within six months	80%	49.7%	50%
	Not achieved—The percentage of new customer debt resolved within six months decreased from last year. This measure focuses on customers who have recently gone into debt and the debt being cleared in a timely manner. *To support customers through COVID-19, Release 4 and automatic assessments, we reduced our focus on compliance activities, helped customers set up instalment arrangements and provided other relief options. We did not run our usual 7 February and 7 April payment reminders and paused automatic deduction notice processes. Automatic assessments for individual income tax brought more customers with debt into the system.* *In 2021–22, we're decreasing our target to 50% and removing student loans and Small Business Cashflow (loan) Scheme loans from the measure. Removing these products from the measure will provide better visibility of tax debt categories that we can influence directly.* *To maintain visibility of student loan performance, for 2021–22 we're introducing the measure: 'percentage of student loan customers who meet their obligations'.*			
80.1%	Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	79.8%	75%

All targets are unaudited

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
91,106	Revenue from the Crown	89,804	89,804	80,662	82,362
1,934	Other revenue	349	1,359	1,958	1,272
93,040	**Total revenue**	**90,153**	**91,163**	**82,620**	**83,634**
87,731	**Total expenses**	**90,093**	**91,163**	**82,620**	**83,634**
5,309	**Net surplus/(deficit)**	**60**	**–**	**–**	**–**

Investigations

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

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
74.2%	Percentage of customers whose compliance behaviour improves after receiving an audit intervention#	85%	78.8%	85%
	Not achieved—The percentage of customers whose compliance behaviour improved after receiving an audit intervention increased from last year. We monitor a sample of audited customers' compliance behaviour during the year. This year, at the time we reviewed our customers' compliance behaviour, a number of them had unfiled returns or overdue debt.			
$8.75	Discrepancy identified for every output dollar spent	$7.00	$7.17	$7.00
89.5%	Percentage of litigation judgments found in favour of the Commissioner	75%	83.3%	75%
	Supporting measures			
69%	Percentage of audited customers who are satisfied with their experience#	75%	75%	75%

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

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
122,754	Revenue from the Crown	123,854	123,854	111,965	114,089
332	Other revenue	261	236	236	149
123,086	**Total revenue**	**124,115**	**124,090**	**112,201**	**114,238**
109,720	**Total expenses**	**124,325**	**124,090**	**112,201**	**114,238**
13,366	**Net surplus/(deficit)**	**(210)**	**–**	**–**	**–**

02. Policy Advice

2/2
ACHIEVED

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

More information on our policy work is available on pages 77 and 81.

What we intend to achieve

This appropriation is intended to provide policy advice to support decision making by Ministers on tax and social policy matters, to protect and maintain the integrity of the tax system while ensuring that our tax system is as simple as possible and internationally competitive.

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
96%	Percentage of sampled reports that meet quality standards	80%	✓ 90%	Average score 3.5 or more out of 5
	The policy advice we provide is critical to ensuring that our tax and social policy systems operate as intended. *Our average score for papers assessed was 3.5 out of 5*. For the papers assessed (52 papers across 11 themes), 90% received a score of 3 or higher and 65% received a score of 3.5 or higher.* ** Scale used for scoring:* *1–Unacceptable: Does not meet the relevant quality standards in fundamental ways.* *2–Poor: Does not meet the relevant quality standards in material ways.* *3–Acceptable: Meets the relevant quality standards overall, but with some shortfalls.* *4–Good: Meets all the relevant quality standards.* *5–Outstanding: Meets all the relevant quality standards and adds something extra.*			
99%	Percentage of ministerial satisfaction for policy advice	90%	✓ 95%	Average score 4 or more out of 5
	For the 2021–22 year, we're changing our target to align with the policy quality framework developed by the Department of the Prime Minister and Cabinet. The guidelines assess the average score for questions out of 5.			

All targets are unaudited

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
11,182	Revenue from the Crown	11,498	11,498	10,298	11,499
16	Other revenue	–	8	8	1
11,198	**Total revenue**	**11,498**	**11,506**	**10,306**	**11,500**
10,300	**Total expenses**	**11,173**	**11,506**	**10,306**	**11,500**
898	**Net surplus/(deficit)**	**325**	**–**	**–**	**–**

03. Services to Other Agencies

2/2
ACHIEVED

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

What we intend to achieve

This appropriation is intended to provide support services to other government agencies, such as the provision of a hosted financial management information system and shared financial transactional services.

How we performed

2019–20 Actual		2020–21 Target	2020–21 Actual	2021–22 Target
	Primary measures			
85%	Percentage of satisfaction of the Department of Internal Affairs for services provided	75%	✓ 82%	Measure retired
	Measure retiring—We will be retiring this measure as our shared finance system and transactional accounting services provided to the Department of Internal Affairs ceased on 1 July 2021.			
100%	Percentage of satisfaction of the New Zealand Productivity Commission for services provided	90%	✓ 100%	90%

All targets are unaudited

What it cost

Output statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
5,506	Other revenue	4,816	5,341	3,942	1,174
5,506	**Total revenue**	**4,816**	**5,341**	**3,942**	**1,174**
5,506	**Total expenses**	**4,816**	**5,341**	**3,942**	**1,174**
–	**Net surplus/(deficit)**	–	–	–	–

Inland Revenue
Te Tari Taake

04. Transformation

1/1
ACHIEVED

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

More information is also available on our website at:
https://www.ird.govt.nz/about-us/business-transformation

What we intend to achieve

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

How we performed

	2020–21 Milestone	2020–21 Actual
Paid parental leave is administered in START	30/06/2021	Achieved

All targets are unaudited

What it cost

Other expenses statement

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
205,893	Revenue from the Crown	130,000	130,000	326,464	316,752
2,208	Other revenue	165	–	–	–
208,101	**Total revenue**	**130,165**	**130,000**	**326,464**	**316,752**
166,764	**Total expenses**	**128,630**	**130,000**	**326,464**	**316,752**
41,337	**Net surplus/(deficit)**	**1,535**	**–**	**–**	**–**

Additional funding received from the Government for initiatives

Through Budget 2018, we received additional funding from the Government to increase our activity targeting assessed revenue for unfiled company returns and associated returns.

We completed the second year of this initiative, which continues through to June 2022. We assessed $122.8 million in returns against the target of $174 million for June 2021.

Our decision to defer our campaign work, and reprioritise compliance activities to best support customers during COVID-19, has influenced our results.

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

2019–20 Unaudited ROI Actual		2020–21 Unaudited ROI Actual
$5.81	Unfiled company returns—Budget 2018	$4.63

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

Our organisational health indicators let us know how our people are doing—as how well as our systems, assets and finances are doing—to ensure our performance is sustainable.

Our people

Staff engagement and wellbeing

Inland Revenue's success depends on our people and we promote safe work practices and encourage wellbeing. We integrate health and safety into all of our activities and encourage everyone to show manaakitanga (care and respect) and kaitiakitanga (guardianship).

From April 2020, we have run regular wellbeing surveys to see how our people are feeling and provide the support they need. Some results from our June 2021 survey are:

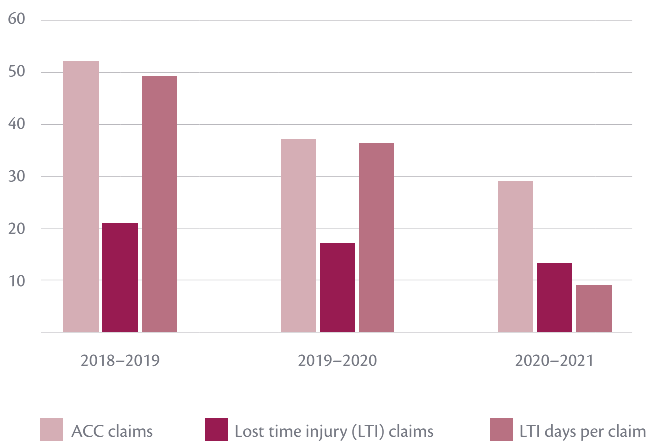
- 60% of people felt either very good or good about their recent work experience
- 29% of people were strong advocates for recommending Inland Revenue as a place to work
- 57% of people thought Inland Revenue delivers very well or well on what they value most from an employer.

Other wellbeing-focused initiatives include our people completing an online mental wellbeing course as part of their induction. Our people leaders also complete complementary training about creating great working environments and how to support team members experiencing a difficult time. A key feature of both programmes is the Māori model of wellbeing: Te Whare Tapa Whā.

Our health and safety reporting suggests we're becoming more successful in creating a positive safety culture, keeping people safe, improving rehabilitation outcomes and supporting people to return to work. Figure 8 below below shows that the number of work-related Accident Compensation Corporation (ACC) claims is trending down from 52 accepted claims in 2018–19 to 29 in 2020–21.

The average number of days lost for work-related injuries has also considerably decreased, from 49 days per injury in 2018–19 to 9 days per injury this year.

FIGURE 8: WORK-RELATED ACC CLAIMS AND AVERAGE TIME (DAYS) LOST



Diversity and inclusion

As shown in our capability profile on page 57, we're implementing a comprehensive Diversity and Inclusion Strategy. We track our progress by monitoring indicators around pay equity, representation and feelings of inclusivity.

Pay equity

We address gender and ethnic representation by design, rather than expecting it to happen by default. Our Gender Pay Gap Action Plan is published on our website, www.ird.govt.nz, under 'annual and corporate publications'. It describes our current pay gaps, the drivers behind them and the actions we're taking to close them. These actions include flexible working, looking at how we attract, develop and retain talent and reducing the impact of bias.

Our new flexible-working policy is outlined on page 59. Training we rolled out to all our people to address unconscious bias is summarised on page 58.

The Action Plan has five key areas:

1. People analytics and insights: Regularly measuring and publishing progress on the gender and ethnic pay gap, representation and pay progression to drive visibility, understanding and accountability.
2. Attraction: Attracting a diverse pool of applicants to improve representation of groups at all levels and in all areas.
3. Selection: Ensuring our candidate-selection processes are free from bias.
4. Career and pay: Creating an environment where everyone can maximise their potential and develop their careers, regardless of background.
5. Whānau friendly: Being a whānau-friendly employer and flexible by default, where flexible options are equally available to men and women and do not undermine career development or pay.

The gender pay gap

Between 30 June 2016 and 30 June 2021, the average gender pay gap at Inland Revenue decreased from 20.6% to 18.3%. The gender pay gap for the wider Public Service was 9.6% in June 2020.

The gap at Inland Revenue is primarily driven by a higher concentration of women in lower-paying roles, and a lower proportion of women in senior and higher-paying roles in the organisation, rather than their being paid less for the same work.

On average, there is no difference in average pay between men and women doing the same or similar jobs, or different jobs of similar complexity, that cannot be explained by indicators of experience such as age or length of service.

As at 30 June 2021, the average gender pay gap for starting salaries was 14.9%. In keeping with the overall gender pay gap, this is driven by proportions of women and men in higher-paying and lower-paying roles.

We follow guidance from Te Kawa Mataaho (Public Service Commission) in calculating the gender pay gap.

Women in leadership roles

The proportion of women in senior management has increased significantly in recent years: from 22% in June 2016 to 48% in June 2021. We're achieving our goal of women holding a minimum of 40% of senior management roles.

TABLE 6: WOMEN IN LEADERSHIP ROLES AT INLAND REVENUE

Financial year	Team leader	Management	Senior management
2020–21	63%	47%	48%
2019–20	66%	50%	45%
2018–19	68%	52%	38%
2017–18	66%	51%	31%
2016–17	60%	53%	30%

Ethnicities at Inland Revenue

We're committed to improving ethnic representation at Inland Revenue. Across the public sector, Māori, Pacific and Asian women experience bigger pay gaps than European women.

As at 30 June 2021, our people represented 125 different ethnicities, broadly in line with the ethnic make-up of New Zealand. However, our diversity decreases as role specialisation increases. Our Gender Pay Gap Action Plan includes an aim to reduce ethnic pay gaps and includes strategies to attract, develop and retain people and create a more flexible and whānau-friendly workplace.

We continue to analyse gender and ethnic pay gaps and work with our people and unions to understand the barriers to career movement and how we can address them. Table 7 below summarises the ethnicity of Inland Revenue's people. Because our people can identify with multiple ethnicities, figures may add up to over 100%.

Over time, we expect to see ethnic representation in leadership roles increase, in both people and technical leadership. In 2021, we're doing detailed analysis to understand where, and how quickly, we can achieve these increases. This includes looking at how Inland Revenue can better use the diversity of people we already have here, and opportunities to support career progression for people from under-represented ethnic groups.

TABLE 7: ETHNICITIES AT INLAND REVENUE

Ethnicity	New Zealand (2018 Census)	Inland Revenue (as at 30 June 2021)	Public Sector (Human Resource Capability Report 2019)
European	70%	68%	67%
Māori	17%	12%	16%
Asian	15%	16%	11%
Pacific Peoples	8%	8%	9%

TABLE 8: THE PROPORTION OF LEADERSHIP ROLES AT INLAND REVENUE HELD BY PEOPLE WITH DIFFERENT ETHNICITIES

Ethnicity	Team leader	Management	Senior management
European	76%	86%	96%
Māori	12%	9%	7%
Asian	8%	5%	0%
Pacific Peoples	8%	3%	4%

The data includes fixed-term and permanent employees.

Our assets

Our assets are grouped into two portfolios:

- Facilities
- Information, communications and technology.

The following measures apply to both owned and leased assets. Our asset performance measures are unaudited.

Our facilities

Facilities asset performance measures tell us how our property portfolio and facilities are performing against organisational goals and Government guidelines. We want to ensure we're consistently achieving:

- building environments which are compliant with the Health and Safety at Work Act 2015 and the Building Act 2004
- Government property expectations and initiatives
- a cost-effective and safe vehicle fleet.

Unaudited 2019–20 Actual	Performance measure	How we measure it	Unaudited 2020–21 Target	Unaudited 2020–21 Actual
96%	Our building environment is healthy, safe and secure for our people—legislative checks	Percentage of premises which are compliant with legislative requirements by their due date	100%	89%
	Not achieved—Trial fire evacuations are one of these checks. As a result of COVID-19, building owners were not required to undertake these evacuations. In the last half of the year, we've worked proactively with landlords to complete the evacuations and are now up to date. All other checks have been completed except for those at Māwhera Greymouth, due to our office there remaining closed pending seismic strengthening work, and one overdue building warrant of fitness. We engage with landlords to encourage on-time compliance.			
94%	Our building environment is healthy, safe and secure for our people—non-legislative checks	Percentage of premises which are compliant with non-legislative compliance requirements by their due date	100%	98%
	Not achieved—The majority of checks were completed by their due dates, except some at Māwhera Greymouth due to our office there remaining closed pending seismic strengthening work.			
69%	Our buildings are managed in a cost-effective manner	Percentage of metro buildings where the square-metre utilisation is no more than NZ Government Property Group guidelines	100%	80%
	Not achieved—We measure the square metres per person based on the total leased space across our metro sites divided by the head count. The utilisation of our two Te Whanganui-a-Tara Wellington region sites (Asteron Centre and Whakatiki Upper Hutt) is over the guideline range. We're planning property changes that will show results in 2022–23.			
26%	Our fleet is operated in a cost-effective manner	Percentage utilisation of bookable vehicles	45%	16%
	Not achieved—The COVID-19 lockdowns, particularly in Tāmaki Makaurau Auckland where we operate just over a third of our fleet vehicles, has impacted usage. We're continuing to gauge future demand and review the size of the fleet. We removed 28 vehicles from our fleet in 2020–21. We're also replacing our petrol-based vehicles with electric vehicles, in support of the Government's target of carbon neutrality by 2025. A third of our fleet is now electric.			
94%	Our vehicles are safe to drive—warrant of fitness and Inland Revenue safety checks	Percentage of bookable vehicles that have a warrant of fitness and have had safety checks completed every two months	100%	100%

Information, communications and technology

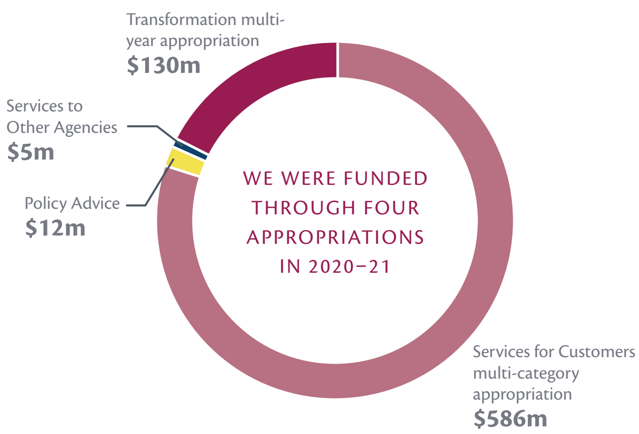
Our information, communications and technology (ICT) performance measures are important, as they reflect how our internal and customer-facing operational systems are performing.

Unaudited 2019–20 Actual	Performance measure	How we measure it	Unaudited 2020–21 Target		Unaudited 2020–21 Actual
99.7%	Availability of systems	Percentage of serviceable hours that systems are available to users	99.5%	✓	99.9%
2.1	Functionality (outages for systems)	Average number of priority 1 outage incidents per month	less than 2.0	✓	1.8
New measure	Functionality (fit for purpose)	Case study to demonstrate Inland Revenue's ability to implement system changes in a more agile way	N/A	✓	Achieved
	The case study on page 81 looks at the rapid development of an online, easy-to-use application and payment scheme for Resurgence Support Payments. This demonstrates the value of our agility and investment in transformation—technology is no longer a constraint on our being able to make changes quickly and cost-effectively.				
4.72	Supplier performance	Average monthly score for supplier reporting based on available data points	4.00	✓	4.75
96.9%	Condition of systems	Average of various asset condition indicators for components of the applications services and ICT infrastructure	95%	✓	96.7%
N/A	Utilisation of infrastructure—myIR (eServices)	Percentage of time eServices log-in and eServices transactions meet target response times of less than five seconds	95%	✓	98.3%
N/A	Utilisation of infrastructure—Telecommunications	All-of-government service of telecommunications infrastructure (mobile, contact centre, connectivity) provided to Inland Revenue's requirements	less than 80%	✓	66.0%
N/A	Utilisation of infrastructure—Workplace (Office 365)	Percentage of Inland Revenue's utilisation of devices (mobile phones/ laptops/tablets) compared to the number of devices available	80%	✓	80.7%
N/A	Utilisation of infrastructure—START (as-a-service compute)	All-of-government service of infrastructure provided to Inland Revenue's requirements	95%	✓	100%
N/A	Utilisation of infrastructure— Ātea	Percentage of unique Ātea log-ins compared to the minimum licence number capacity	95%	✓	100%

Our finances

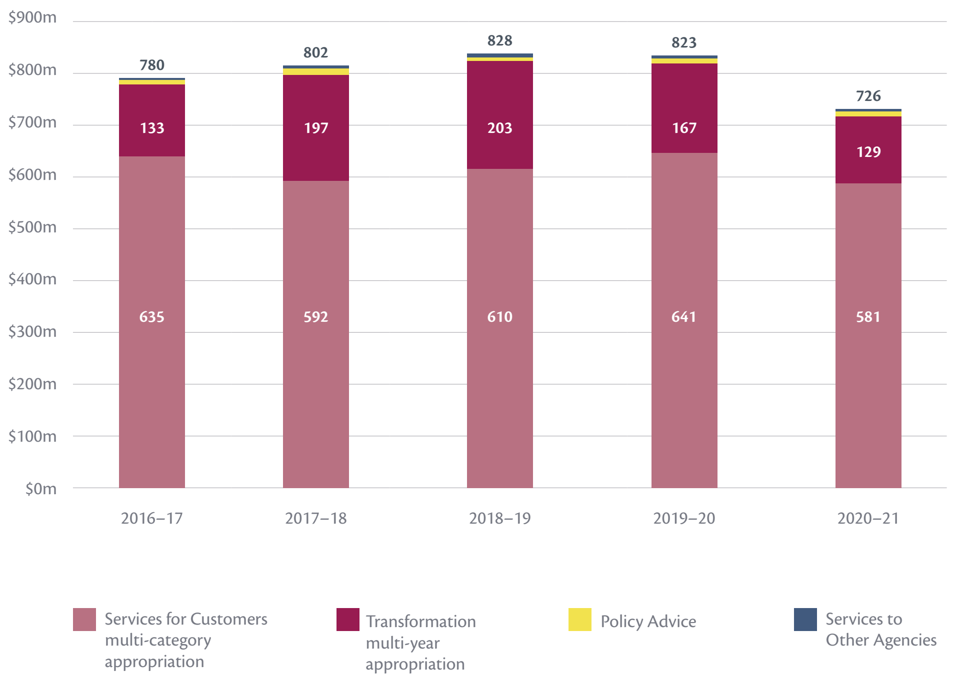
Each year we receive funding from the Government to deliver specific services. This funding is called an appropriation. An appropriation is a parliamentary authorisation for the Government or an Office of Parliament to incur expenses or capital expenditure. Expenditure can only be incurred under an appropriation or other statutory authority.

FIGURE 9: INLAND REVENUE'S FUNDING THROUGH APPROPRIATIONS



Over the past five years, our total spend has decreased by $54 million as we transform our organisation. Our total spend excluding the *Transformation* appropriation has decreased by $50 million over the same period.

FIGURE 10: OPERATING EXPENDITURE FROM 2016–17 TO 2020–21



Expenditure incurred against departmental appropriations

We finished the 2020–21 year within all departmental appropriations. In 2020–21, our total spend was $726 million. This was $7 million lower than our operating appropriations. This will form part of our in-principle expense transfers from 2020–21 to 2021–22. The lower spend is mainly due to the timing of delivering COVID-19 related initiatives and the Research and Development Tax Incentive scheme.

Our operating expenditure

Our operating expenditure against appropriations excluding remeasurements (expenditure that does not require an appropriation) was $725.8 million.

Operating funding of $1.4 million in our *Transformation* multi-year appropriation will be transferred to 2021–22.

Operating expenditure by cost categories

Our expenditure includes personnel, operating, depreciation and amortisation, and capital charge. Our total personnel costs for 2020–21 were $418.7 million. These costs were directly related to our employees' remuneration, severance costs associated with transformation, employee entitlements and training and development costs. Operating costs for the year were $227.7 million. Approximately 91% of these operating costs relate to contractors, information technology and telecommunications, rental (accommodation leases), consultants and office expenses.

FIGURE 11: 2020–21 EXPENDITURE AGAINST OPERATING APPROPRIATIONS

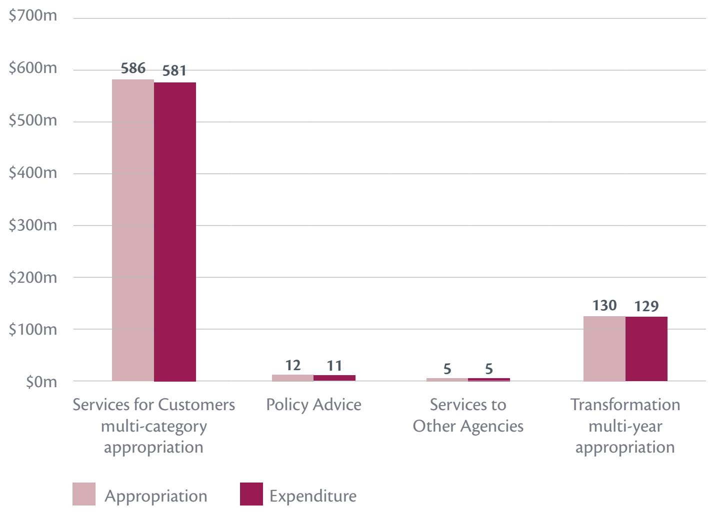
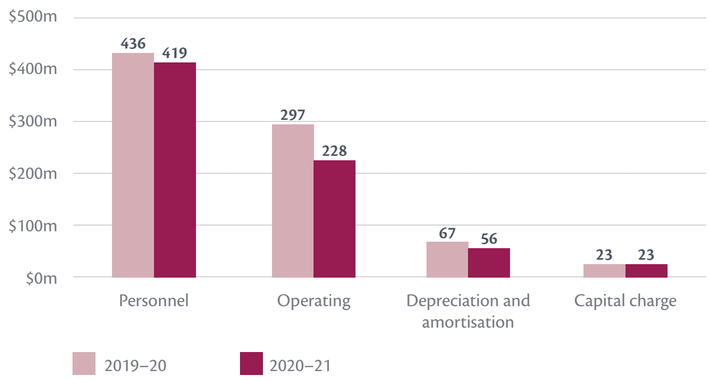


FIGURE 12: BREAKDOWN OF EXPENDITURE BY COST CATEGORY



Our capital expenditure

Capital expenditure is the purchase or development of assets by, and for the use of, Inland Revenue, as authorised by section 24(1) of the Public Finance Act 1989.

We spent $65 million on capital investment in 2020–21. This was lower than our revised capital budget of $89.3 million, mainly due to re-phasing the capital plan for the transformation programme and moving transformation contingency to the final year of the programme.

Our capital asset management priorities for 2020–21 were:

- **Maintain and improve business infrastructure (target: 10% of total capital expenditure; actual: 10%)**
  Our investment profile for maintaining and improving business infrastructure includes technology replacements and accommodation fit-outs.
- **Implement business transformation (target: 90% of total capital expenditure; actual: 90%)**
  Our investment profile for transformation includes implementing core and supporting capabilities, including technology, for a modern, digital revenue system for New Zealand. We spent 90% of our capital expenditure on transformation.

For details of departmental capital injections, refer to page 109.

For details of departmental capital expenditure incurred against appropriations, refer to the *Statement of departmental budgeted and actual expenses and capital expenditure incurred against appropriations*, on page 108.

Overall Investor Confidence Rating

The 2019 Investor Confidence Rating for Inland Revenue is **A**

The Investor Confidence Rating is a three-yearly assessment of the performance of investment-intensive agencies that manage investments and assets that are critical to the delivery of government services.

Our transformation expenditure

Our expenditure to date on transformation is under budget. We spent $1,308.9 million (excluding depreciation and capital charge) on transformation between 1 July 2014 and 30 June 2021. This includes $875.6 million in operating expenditure and $433.3 million in capital expenditure. We're delivering transformation within the approved funding and have already returned efficiencies of approximately $129 million to the Crown. Further efficiencies will be delivered in line with the transformation business case.

Our future outlook

Operating expenditure for 2021–22 is forecast to be $899.2 million, an increase of $173.2 million from 2020–21. Capital expenditure for 2021–22 is forecast to be $162.6 million, an increase of $97.6 million from 2020–21. Our capital investment in 2020–21 was $65 million, contributing to the growth of our net assets. This is mostly driven by investing in more intangible assets as we further transform our organisation.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by Inland Revenue for the year ended 30 June 2021.

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

For the year ended 30 June 2021

Actual 2020 $000		Actual[1] 2021 $000	Unaudited Revised Budget 2021[5] $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Vote: Revenue				
	Output expenses				
10,300	Policy Advice	11,173	11,506	10,306	11,500
	Services for Customers—MCA				
288,987	Services to Ministers and to inform the public about entitlements and meeting obligations	240,565	242,209	224,410	233,419
154,327	Services to Process Obligations and Entitlements	126,192	128,913	139,546	138,494
87,731	Management of Debt and Unfiled Returns	90,093	91,163	82,620	83,634
109,720	Investigations	124,325	124,090	112,201	114,238
651,065	**Total departmental output expenses**	**592,348**	**597,881**	**569,083**	**581,285**
5,506	Services to Other Agencies RDA[2]	4,816	5,341	3,942	1,174
656,571	**Total output expenses**	**597,164**	**603,222**	**573,025**	**582,459**
	Other expenses				
166,764	Transformation[3]	128,630	130,000	326,464	316,752
166,764	**Total other expenses**	**128,630**	**130,000**	**326,464**	**316,752**
823,335	**Total expenses**	**725,794**	**733,222**	**899,489**	**899,211**
	Capital expenditure PLA[4]				
6,257	Property, plant and equipment	3,439	6,659	9,000	13,000
97,556	Intangible assets	61,534	82,595	204,112	149,560
103,813	**Total capital expenditure PLA**	**64,973**	**89,254**	**213,112**	**162,560**

[1] Excludes remeasurement of $213,000 (2019–20: $1,440,000). The remeasurement consists of macroeconomic changes in the actuarial valuations of retiring and long-service leave and foreign exchange losses, mainly on forward foreign exchange contracts.

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

[3] Part of the 2020–21 *Transformation* depreciation and capital charge funding has been moved to the *Services for Customers* multi-category appropriation to reflect assets delivered between 1 July 2019 and 30 June 2021. Also, a portion of transformation funding has been re-phased into 2021–22 to better align with the updated transformation work plan and move contingency funding into the final year of the transformation programme.

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

[5] The revised budget figures for 2020–21 are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021* published 20 May 2021.

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

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

The 2020–21 performance information for each appropriation administered by Inland Revenue has been reported in the *Our performance* section.

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

For the year ended 30 June 2021

In the 2020–21 financial year, there were no departmental instances of:

- expenses and capital expenditure incurred in excess of appropriation (2019–20: $nil).
- expenses and capital expenditure incurred without appropriation, or other authority, or outside the scope or period of appropriation (2019–20: $nil).

Statement of departmental capital injections

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget 2021 $000	Unaudited Forecast 2022 $000
	Vote: Revenue			
68,373[1]	Capital injections	32,623	32,623	122,560

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

Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2019–20: $nil).

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

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Revised Budget[1] 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
184,059	Best Start tax credit PLA	271,100	276,000	336,000	405,000
296,622	Child support payments PLA	281,234	284,000	272,000	286,000
558	Child tax credit PLA	–	–	100	–
2,188,954	Family tax credit PLA	2,102,743	2,130,000	2,139,000	2,064,000
620,964	In-work tax credit PLA	571,734	602,000	631,000	620,000
6,624	KiwiSaver: Interest	391	1,000	5,000	1,000
859,123	KiwiSaver: Tax credit	915,571	938,000	930,000	973,000
18,426	Minimum family tax credit PLA	13,220	21,000	22,000	27,000
422,146	Paid parental leave payments	503,310	528,000	455,000	540,000
2,460	Parental tax credit PLA	–	–	–	–
6,761	Payroll subsidy PLA	–	–	–	–
213,000	Research and development tax incentive[2]	250,000	250,000	281,000	–
4,819,697	**Total benefits and other unrequited expenses**	**4,909,303**	**5,030,000**	**5,071,100**	**4,916,000**
	Borrowing expenses				
1,438	Environmental restoration account interest PLA	1,418	1,400	1,500	1,400
6,453	Income equalisation interest PLA	6,476	7,000	10,000	10,000
7,891	**Total borrowing expenses**	**7,894**	**8,400**	**11,500**	**11,400**
	Other expenses				
–	COVID-19 Resurgence Support Payment[3]	199,983	400,000	–	–
1,356,750	Impairment of debt and debt write-offs[4]	881,659	1,241,000	880,000	841,000
–	Impairment of debt relating to child support	–	20,000	–	–
–	Impairment of debt relating to student loans	–	86,000	–	–
685,453	Initial fair value write-down relating to Small Business Cashflow Scheme COVID-19[5]	142,920	180,000	–	84,000
506,118	Initial fair value write-down relating to student loans	468,594	496,000	558,000	515,000
2,148,158	KiwiSaver: Employee and Employer Contributions PLA	7,042,195	6,950,000	6,967,000	7,540,000
–	KiwiSaver ex gratia payments[6]	7,235	10,000	–	–
–	Research and development tax incentive[2]	63,000	63,000	–	453,500
4,696,479	**Total other expenses**	**8,805,586**	**9,446,000**	**8,405,000**	**9,433,500**
	Capital Expenditure				
1,428,026	Small Business Cashflow Scheme[5]	297,749	374,000	–	175,000
1,428,026	**Total capital expenditure**	**297,749**	**374,000**	**–**	**175,000**
10,952,093	**Total appropriations**	**14,020,532**	**14,858,400**	**13,487,600**	**14,535,900**

[1] The revised budget figures for 2020–21 are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*, including updates made for late-breaking Government decisions, particularly in relation to COVID-19 pandemic relief measures.

[2] The Research and Development Tax Incentive has been reclassified from Benefits and other requited expenses to Other expenses from May 2021.

[3] The COVID-19 Resurgence Support Payment is a new appropriation commencing 22 February 2021.

[4] Impairment of debt and debt write-offs relates to general tax, Working for Families Tax Credits and KiwiSaver debt.

[5] The Small Business Cashflow (loan) Scheme commenced on 12 May 2020. Expenditure in 2019–20 is for a partial year.

[6] The KiwiSaver ex gratia payments is a new appropriation established on 26 January 2021.

PLA refers to appropriations established under a permanent legislative authority.

All of the non-departmental appropriations administered by the department are exempt from the requirements to report end-of-year performance information, under section 1D of the Public Finance Act 1989.

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP, using the same accounting policies as those adopted to prepare the non-departmental financial schedules.

For a full understanding of the Crown's financial position, and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Statement of non-departmental unappropriated expenditure

For the year ended 30 June 2021

In the 2020–21 financial year there:

- were no instances of expenses incurred with Cabinet authority to use imprest supply but without appropriation prior to the end of the financial year (2019–20: $15.118 million).
- were no instances of expenses incurred in excess of appropriation and without prior Cabinet authority to use imprest supply (2019–20: $681.896 million).
- was one instance of expenditure incurred outside of appropriation in relation to Paid parental leave payments (2019–20: $nil).

We have identified a breach in the scope of the non-departmental Paid parental leave payments (PPL) appropriation from 1 March 2016, when amendments to the Parental Leave and Employment Protection Act 2016 became effective, to 1 March 2021.

Expenses type and appropriation name	Amount without or exceeding appropriation $000
Vote Revenue	
Benefits or related expenses	
Paid parental leave payments	
2020–21	1,450
2019–20	1,800
2018–19	1,600
2017–18	1,250
2016–17	1,200
2015–16	250

This is a scope breach, and there have been no subsequent breaches for this appropriation since 1 March 2021.

The scope breach was approved by the Minister of Revenue, but it was identified too late for inclusion in the Appropriation (2020/21 Supplementary Estimates) Bill. Therefore, it is unappropriated and requires validation.

This scope breach is now included in the *Report on Unappropriated Expenses and Capital Expenditure* tabled in the House of Representatives:

> In 2016, amendments were made to the Parental Leave and Employment Protection Act. The amendments included changes to the entitlement and income calculations for parental leave payments for recipients who had multiple employments. In the period 1 April 2016 to 28 February 2021, some payments made by Inland Revenue to a small group of recipients with multiple employers were incorrectly calculated. These recipients potentially either did not qualify as they had not ceased all employment or did not include income from all employers when working out their average weekly income during their eligibility period. The legislative requirements are for all employment to be ceased and for income from all employments to be included to determine entitlement. These payments were not within the parameters of the legislation and therefore were not in the scope of the appropriation. System and process changes have been implemented, with effect from 1 March 2021, to mitigate the risk of future breaches in the scope of this appropriation.

Financial Statements Departmental
Pūrongo pūtea Ā-Tari

Contents

Statement of comprehensive revenue and expense

For the year ended 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Revenue				
852,042	Revenue from the Crown	2	710,807	877,874	881,336
27,679	Other revenue	2	20,685	21,615	17,875
879,721	**Total revenue**		**731,492**	**899,489**	**899,211**
	Expenses				
436,347	Personnel	3	418,734	482,557	411,604
298,076	Operating	4	227,685	323,020	401,851
66,989	Amortisation, depreciation and impairment		56,478	66,945	60,515
23,363	Capital charge	6	23,110	26,967	25,241
824,775	**Total expenses**		**726,007**	**899,489**	**899,211**
54,946	**Net surplus and total comprehensive revenue and expense**		**5,485**	**–**	**–**

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

Explanations of major variances against budget are detailed in the relevant notes.

Statement of financial position

As at 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Current assets				
62,962	Cash and cash equivalents		70,891	42,240	40,687
220,107	Debtor Crown	11	181,207	174,403	193,024
16,973	Debtors and prepayments	11	16,667	9,122	10,630
11	Derivative financial instruments	17	–	–	–
300,053	**Total current assets**		**268,765**	**225,765**	**244,341**
	Non-current assets				
563	Prepayments	11	317	2,000	550
30,014	Property, plant and equipment	9	23,104	31,129	32,126
322,282	Intangible assets	10	337,374	478,164	456,067
352,859	**Total non-current assets**		**360,795**	**511,293**	**488,743**
652,912	**Total assets**		**629,560**	**737,058**	**733,084**
	Current liabilities				
48,261	Creditors and other payables	12	29,805	39,711	38,111
53,444	Surplus payable to the Crown	8	5,583	–	–
66,307	Employee entitlements	13	83,462	61,660	55,570
1,645	Provision for other liabilities	14	229	–	–
–	Derivative financial instruments	17	87	–	–
169,657	**Total current liabilities**		**119,166**	**101,371**	**93,681**
	Non-current liabilities				
344	Creditors and other payables	12	233	344	344
29,880	Employee entitlements	13	25,370	30,387	31,580
835	Provision for other liabilities	14	70	94	100
31,059	**Total non-current liabilities**		**25,673**	**30,825**	**32,024**
200,716	**Total liabilities**		**144,839**	**132,196**	**125,705**
452,196	**Net assets**		**484,721**	**604,862**	**607,379**
452,196	Taxpayers' funds		484,721	604,862	607,379
452,196	**Total taxpayers' funds**	7	**484,721**	**604,862**	**607,379**

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

Explanations of major variances against budget are detailed in the relevant notes.

Statement of changes in taxpayers' funds

For the year ended 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
382,321	Opening balance at 1 July		452,196	450,694	484,819
54,946	Total comprehensive revenue and expense		5,485	–	–
(53,444)	Repayment of surplus to the Crown	8	(5,583)	–	–
103,000	Capital injections		32,623	154,168	122,560
(34,627)	Capital withdrawal		–	–	–
452,196	**Closing balance at 30 June**		**484,721**	**604,862**	**607,379**

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

Statement of cash flows

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Cash flows from operating activities			
768,411	Receipts from the Crown	749,707	869,553	874,519
22,079	Receipts from other revenue	21,837	21,337	17,613
(419,553)	Payments to employees	(406,089)	(486,799)	(415,541)
(292,997)	Payments to suppliers	(242,029)	(321,371)	(406,500)
(23,363)	Payments for capital charge	(23,110)	(26,967)	(25,241)
5,499	Goods and services tax (net)	(5,766)	(720)	2
60,076	**Net cash flow from operating activities**	**94,550**	**55,033**	**44,852**
	Cash flows from investing activities			
177	Receipts from sale of property, plant and equipment	433	–	–
(7,411)	Purchases of property, plant and equipment	(3,252)	(9,000)	(13,000)
(111,631)	Purchases of intangible assets	(62,981)	(204,112)	(149,560)
(118,865)	**Net cash flow from investing activities**	**(65,800)**	**(213,112)**	**(162,560)**
	Cash flows from financing activities			
103,000	Capital injections	32,623	154,168	122,560
(13,606)	Repayment of surplus to the Crown	(53,444)	(10,861)	(5,000)
(34,627)	Capital withdrawals	–	–	–
54,767	**Net cash flow from financing activities**	**(20,821)**	**143,307**	**117,560**
(4,022)	Net increase/(decrease) in cash and cash equivalents	7,929	(14,772)	(148)
66,984	Cash and cash equivalents at the beginning of the year	62,962	57,012	40,835
62,962	**Cash and cash equivalents at the end of the year**	**70,891**	**42,240**	**40,687**

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

Statement of cash flows (continued)

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
54,946	Net surplus	5,485	–	–
	Add/(less) non-cash items			
66,989	Amortisation, depreciation and impairment	56,478	66,945	60,515
(1,502)	Movement in fair value of derivative financial instruments	98	–	–
65,487	**Total non-cash items**	**56,576**	**66,945**	**60,515**
	Add items classified as investing or financing activities			
651	Net loss/(gain) on disposal of property, plant and equipment and intangible assets	(120)	–	–
651	**Total items classified as investing or financing activities**	**(120)**	–	–
	Add/(less) working capital movements			
(83,631)	(Increase)/decrease in debtor Crown	38,900	(8,321)	(6,817)
1,386	(Increase)/decrease in debtors and prepayments	552	(2,587)	(614)
2,683	Increase/(decrease) in creditors and other payables	(17,307)	3,419	(3,554)
16,794	Increase/(decrease) in employee entitlements	12,645	(4,242)	(3,937)
1,760	Increase/(decrease) in provision for other liabilities	(2,181)	(181)	(741)
(61,008)	**Net movements in working capital items**	**32,609**	**(11,912)**	**(15,663)**
60,076	**Net cash flow from operating activities**	**94,550**	**55,033**	**44,852**

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

Statement of commitments

As at 30 June 2021

Actual 2020 $000		Actual 2021 $000
	Capital commitments	
2,998	Intangible assets	4,258
2,998	**Total capital commitments**	**4,258**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
31,172	Not later than one year	29,300
52,400	Later than one year and not later than five years	39,221
8,109	Later than five years	4,527
91,681	**Total non-cancellable operating commitments**	**73,048**
94,679	**Total commitments**	**77,306**

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

Capital commitments

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

Cancellable capital commitments that have early exit or penalty costs explicit in the agreement are reported at the lower of the remaining contractual commitment and the value of those penalty or exit costs (i.e. the minimum future payments).

Non-cancellable operating lease commitments

Inland Revenue leases property, plant and equipment in the normal course of business. The majority of these commitments are long-term non-cancellable accommodation leases for Inland Revenue's premises at locations throughout New Zealand. The annual lease payments are reviewed regularly, and the amounts disclosed as future commitments are based on current rental rates.

Inland Revenue sub-leases some of its premises. The total minimum future sub-lease payments expected to be received under non-cancellable sub-leases at balance date is $2.396 million (2020: $2.318 million).

Inland Revenue's non-cancellable operating leases have varying terms, escalation clauses and renewal rights. There are no restrictions placed on Inland Revenue by any of its leasing arrangements.

Statement of contingent liabilities and contingent assets

As at 30 June 2021

Actual 2020 $000		Actual 2021 $000
	Contingent liabilities	
5	Employee grievances	15
356	Legal proceedings and disputes—taxpayer	303
–	Other	19
361	**Total contingent liabilities**	**337**
	Contingent assets	
1,433	Legal proceedings and disputes—taxpayer	1,321
1,433	**Total contingent assets**	**1,321**

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

Contingent liabilities

Employee grievances

These contingent liabilities represent amounts that may be claimed by employees as a result of alleged grievances against Inland Revenue.

Legal proceedings and disputes—taxpayer

These contingent liabilities relate to potential claims against Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. They only relate to court costs. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the *Schedule of non-departmental contingent liabilities and contingent assets* on page 157). The expected value of the contingent liabilities is calculated using an outcome probability model that considers both the total potential liability and the probability of that outcome.

Other

Inland Revenue was successful in defending a claim in the Employment Court where the plaintiffs were seeking a declaration from the Court that they were employees of Inland Revenue, despite being employed by another employer at the material time. The plaintiffs have sought leave to appeal the Employment Court decision to the Court of Appeal. If leave is granted, the matter will be heard in the Court of Appeal and the sum of $0.019 million is an estimate of the costs if the appellants are successful in their appeal. The extent of Inland Revenue's financial liability for damages for arrears of wages is unquantified at this stage.

Contingent assets

Legal proceedings and disputes—taxpayer

These contingent assets relate to potential amounts recoverable by Inland Revenue for court costs associated with tax disputes and other legal proceedings being taken through the courts against taxpayers. They only relate to court costs. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the *Schedule of non-departmental contingent liabilities and contingent assets* on page 157). The expected value of the contingent assets is calculated using an outcome probability model that considers both the total potential court costs recoverable and the probability of that outcome.

Notes to the financial statements

For the year ended 30 June 2021

These financial statements are for the year ended 30 June 2021 and include forecast financial statements for the year ending 30 June 2022.

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Who we are

Note 1. Basis of preparation

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand.

The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989.

Inland Revenue is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

Reporting period

The reporting period for these financial statements is for the year ended 30 June 2021. The forecast financial statements are for the year ending 30 June 2022.

The Chief Executive and Commissioner of Inland Revenue authorised these financial statements on 29 September 2021.

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP), and the Treasury instructions.

Inland Revenue has applied the Tier 1 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) in preparing the 30 June 2021 financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis, and the accounting policies set out below and in the notes to the financial statements have been applied consistently to all periods presented in these financial statements.

These financial statements have been prepared on a historical cost basis, unless otherwise stated. The accrual basis of accounting has been used.

Functional and presentation currency

These financial statements are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000). The functional currency of Inland Revenue is New Zealand dollars.

Accounting standards issued and not yet effective

Standards and amendments, issued but not yet effective, that have not been adopted early are:

PBE IPSAS 2 Statement of Cash Flows

The amendments to PBE IPSAS 2 require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods ending on or after 30 June 2022, with early application permitted. Inland Revenue does not intend to adopt the amendments early.

PBE IPSAS 41 Financial Instruments

The External Reporting Board issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods ending on or before 30 June 2023. Inland Revenue does not intend to adopt PBE IPSAS 41 early. When this standard is adopted, Inland Revenue does not expect any significant changes as the requirements are similar to PBE IFRS 9.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for reporting periods ending on or after 30 June 2023. Inland Revenue has not yet determined how the application of PBE FRS 48 will affect its statement of performance and does not intend to adopt PBE FRS 48 early.

Estimations and judgements

In preparing these financial statements, judgements, estimates and assumptions have been made concerning the future.

These judgements, estimates, and their associated assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience, including expectations of future events that are believed to be reasonable under the circumstances, and other factors. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

The main estimations and judgements that are relevant to Inland Revenue's financial statements are disclosed in note 9 (Property, plant and equipment), note 10 (Intangible assets), note 11 (Debtors and prepayments), note 13 (Employee entitlements) and note 14 (Other liabilities). These notes include disclosures relating to the impacts of COVID-19 in Inland Revenue's financial statements.

Accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note, and which materially affect the measurement of financial results, the financial position and output statements within the *Our performance* section, are outlined below.

Goods and services tax

All amounts in the financial statements and appropriation and output statements are exclusive of goods and services tax (GST), except for debtor Crown, net debtors and accounts payable, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax, it is recognised as part of the related asset or expense.

The net amount of GST owing or due at balance date, being the difference between output GST and input GST, is included in creditors and other payables in the *Statement of financial position*.

The net GST paid or received, including the GST relating to investing and financing activities, is classified as an operating cash flow in the *Statement of cash flows*.

Commitments and contingencies are disclosed exclusive of GST.

Income tax

Government departments are exempt from income tax as public authorities. No charge for income tax has been provided for.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in the bank accounts. All cash held in bank accounts is held in on-demand accounts and no interest is payable to Inland Revenue.

Inland Revenue is only permitted to spend its cash and cash equivalents within the scope and limits of its appropriations.

Foreign currency transactions

Inland Revenue's activities expose it to the risks of changes in foreign exchange rates. Foreign currency transactions (including those for which forward exchange contracts are held) are translated into New Zealand dollars using the spot exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the financial results.

Cost allocations

Inland Revenue allocates costs directly to an output where a line of sight exists between an appropriation and business services or projects. Inland Revenue utilises indirect allocation where business services cannot be attributed directly to an output. Indirect allocation rates are apportioned to outputs based on weighting of relevant direct drivers the business services support.

Comparatives

When the presentation or classification of items in the financial statements are amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impractical to do so.

The presentation of some information has changed from the previous period, with prior period balances re-classified to be comparable with current year figures.

Changes in accounting policies

There have been no changes in accounting policies since 30 June 2020.

Budget and forecast figures

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

The budget and forecast figures are not subject to audit.

The budget figures for 2020–21 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

The revised budget figures for 2020–21 (refer to the *Statement of budgeted and actual expenses and capital expenditure incurred against appropriations* on page 108) are those included in *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

The forecast figures for 2021–22 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2022*.

The forecast financial statements have been prepared in accordance with the requirements of the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. They are compliant with PBE Financial Reporting Standard 42 Prospective Financial Statements.

Forecast policies

The forecasts have been compiled on the basis of existing government policies and ministerial expectations at the time the statements were finalised and reflect all government decisions up to 12 April 2021. While Inland Revenue regularly updates its forecasts, updated forecast financial statements for the year ending 30 June 2022 will not be published.

The main assumptions are as follows:

- Inland Revenue's main activities will remain substantially the same as for the previous year.
- Inland Revenue's transformation programme will end in 2021–22.
- Operating costs are based on historical information and Inland Revenue's best estimates of future costs to be incurred for the delivery of its services and the transformation programme.
- Estimated year-end information for 2020–21 is used as the opening position for the 2021–22 forecasts.

Any changes to budgets during 2021–22 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2022.*

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these forecast financial statements and the actual reported results include:

- changes due to initiatives approved by Cabinet
- technical adjustments to the budget, including transfers between financial years
- the timing of expenditure relating to significant programmes and projects.

Where our income came from

Note 2. Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue is recognised as follows:

Revenue from the Crown

Revenue from the Crown transactions are considered to be non-exchange transactions.

Revenue from the Crown is measured based on Inland Revenue's funding entitlement for the reporting period. The funding entitlement is established by Parliament when it passes the Appropriation Acts for the financial year. The amount of revenue recognised takes into account any amendments to appropriations approved in the Appropriation (Supplementary Estimates) Act for the year and certain other unconditional funding adjustments formally approved prior to balance date.

Inland Revenue can incur expenses only within the scope and limits of its appropriations.

The fair value of revenue from the Crown is considered equivalent to the funding entitlement.

Explanation of major variance from budget

Revenue from the Crown was lower than budget by $167.067 million. The variance is primarily due to funding that was transferred from 2020–21 to 2021–22 to reflect the timing of the last transformation programme release later in 2021 and the wrap up of the programme by 30 June 2022.

Other revenue

Other revenue transactions as outlined below are considered to be exchange transactions.

Revenue from recoveries

Revenue from recoveries is recognised as revenue when earned.

Sale of services

The sale of services is recognised in the accounting period in which the services are provided.

Rental revenue from sub-leases

Rental revenue from sub-leased property is recognised as revenue on a straight-line basis over the term of the lease.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
17,250	Accident Compensation Corporation—agency fees	14,000	14,000
2,294	Recovery of secondees salaries	1,794	–
2,474	Services and information provided to other agencies	1,519	3,073
1,438	Rental revenue from sub-leases	1,304	1,255
373	Revenue from rulings	731	1,088
1,051	Court costs recovered	427	2,199
229	Foreign trust administration fees	256	–
2,158	Unrealised foreign exchange gain	–	–
412	Other	654	–
27,679	**Total other revenue**	**20,685**	**21,615**

Costs incurred in achieving our goals

Note 3. Personnel

Salaries and wages

Personnel costs are recognised as an expense in the period to which they relate.

Superannuation schemes

Obligations for contributions to the Inland Revenue Superannuation Scheme, State Sector Retirement Savings Scheme, KiwiSaver and the Government Superannuation Fund are accounted for as defined contribution schemes. These obligations are expensed.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
384,922	Salaries and wages	373,048	442,311
19,333	Termination benefits	29,347	15,925
12,473	Employer contributions to defined contribution scheme	11,966	13,810
3,470	Training and development	1,960	3,580
548	ACC levies	750	780
7,984	Retiring, long-service, annual and sick leave	(1,269)	3,031
7,617	Other	2,932	3,120
436,347	**Total personnel**	**418,734**	**482,557**

Explanation of major variances against budget

Personnel costs were $63.823 million lower than budget. The variance is due to the timing of the last phase of the transformation programme release that will now occur later in 2021, more cost-effective training and development activities delivered in-house and online, the reversal of retiring leave for employees who have left Inland Revenue, offset by an increase in termination benefits due to the timing of transformation organisation design decisions.

Note 4. Operating

Operating expenses are recognised as an expense in the period to which they relate.

Operating leases

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to the ownership of an asset. Accommodation lease rentals payable under operating leases are recognised as an expense on a straight-line basis over the term of the relevant lease. Lease incentives received as an incentive to enter into an operating lease are also recognised evenly over the term of the lease as a reduction in the rental expense.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
115,851	Contractors and consultants	72,004	106,316
104,231	Information technology and telecommunications	88,902	89,184
35,676	Rental	35,277	35,058
12,379	Office expenses	10,616	12,751
5,612	Outsourced contracts	5,093	5,931
6,929	Communications and publicity	3,765	6,540
3,206	Legal expenses	3,109	3,671
2,638	Bank fees	2,271	2,547
7,397	Travel and transport	1,802	3,875
–	Net realised and unrealised foreign exchange losses	1,784	–
1,166	Audit fees for audit of the financial statements	1,341	1,209
101	Disbursements for audit of the financial statements	54	154
701	Net loss on disposal of assets	45	–
483	Debt expected credit losses and write-off	13	–
1,706	Other operating expenses	1,609	55,784
298,076	**Total operating**	**227,685**	**323,020**

Explanation of major variances against budget

Operating expenses were $95.335 million lower than budget due to the timing of transformation programme expenditure on consultants and contractors, a reduction in travel costs due to new technology solutions that enable us to meet and work together virtually and COVID-19 related travel restrictions, and transformation operating contingency funding that has been transferred to 2021–22.

Note 5. Contractors and consultants

Inland Revenue uses contractors and consultants to provide backfill for vacant positions or cover short-term demand, where specialist skills or independent external advice are needed (such as specialist skills needed for our transformation programme), and in periods of peak demand.

A contractor is a person who is not considered an employee, providing backfill or extra capacity in a role that exists within Inland Revenue, or acts as an additional resource for a time-limited piece of work.

A consultant is a person or firm who is not considered a contractor or employee, engaged to perform a piece of work with a clearly defined scope and provide expertise, in a particular field, not readily available from within Inland Revenue.

Inland Revenue has elected to disclose contractors and consultants information separately in accordance with Te Kawa Mataaho (Public Service Commission) guidance:

Actual 2020 $000		Actual 2021 $000
105,865	Contractors	62,666
5,603	Consultants	4,418
111,468	**Total contractors and consultants—operating**	**67,084**
72,343	Contractors and consultants—capital	44,245
183,811	**Total contractors and consultants**	**111,329**

The difference between the amounts in the table above, and the contractors and consultants expense in note 4, is because the financial statement definitions vary slightly to the Te Kawa Mataaho definitions. For example, fees paid to other government agencies are excluded for Te Kawa Mataaho purposes.

Note 6. Capital charge

Inland Revenue pays a capital charge to the Crown on taxpayers' funds as at 30 June and 31 December each year. This is recognised as an expense in the period to which the charge relates.

The capital charge rate for the year ended 30 June 2021 was 5.0% (2020: 6.0%).

Actual 2020 $000		Actual 2021 $000
23,363	Capital charge	23,110

Return to New Zealand taxpayers

Note 7. Taxpayers' funds

Taxpayers' funds are the Crown's net investment in Inland Revenue.

Taxpayers' funds are divided and categorised into a number of components:

- total comprehensive revenue and expense
- repayment of surplus to the Crown
- capital injections
- capital withdrawals.

Capital management

Inland Revenue's capital is its taxpayers' funds and is represented by net assets.

Inland Revenue manages its revenue, expenses, assets, liabilities and general financial dealings prudently. Inland Revenue's taxpayers' funds are largely managed as a by-product of managing revenue, expenses, assets, liabilities, and compliance with the Government Budget processes, the Treasury instructions and the Public Finance Act 1989.

The objective of managing Inland Revenue's taxpayers' funds is to ensure that Inland Revenue effectively achieves its agreed outcomes, and remains a going concern.

Note 8. Surplus payable to the Crown

The surplus is required to be paid to the Crown by 31 October of each year.

Actual 2020 $000		Actual 2021 $000
54,946	Net surplus/(deficit)	5,485
(1,502)	Plus unrealised (gain)/loss in forward foreign exchange contracts	98
53,444	**Total surplus payable to the Crown**	**5,583**

The net surplus includes an underspend of $1.370 million for transformation which will be transferred to 2021–22 as part of Inland Revenue's multi-year appropriation.

Assets used to deliver our services

Note 9. Property, plant and equipment

Inland Revenue has operational assets that include IT equipment, furniture and office equipment, motor/electric vehicles and leasehold improvements.

The capitalisation thresholds are:

- IT equipment — Over $2,000
- Furniture — Over $2,000
- Office equipment — Over $2,000
- Motor/electric vehicles — No threshold
- Leasehold improvements — No threshold

Certain items of IT equipment, furniture and office equipment, which are low value and high quantity, such as chairs and IT monitors, are pooled together. All pooled assets are capitalised.

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset and includes any directly attributable costs of bringing the asset to working condition for its intended use.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue beyond one year, and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue beyond one year, and the cost of the item can be measured reliably.

All repairs and maintenance are expensed.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than assets under construction. The rate of depreciation will reduce the value of the asset to the estimated residual value over the useful life of the asset.

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

- IT equipment — 3 to 5 years
- Furniture — 3 to 10 years
- Office equipment — 5 to 10 years
- Motor/electric vehicles — 3 to 5 years
- Leasehold improvements — 3 to 10 years

All property, plant and equipment other than motor/electric vehicles are assumed to have no residual value. Motor/electric vehicles are assumed to have a 20% to 40% residual value.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised on a net basis in the surplus or deficit.

2021	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction $000	Total tangible assets $000
Cost						
Opening balance as at 1 July 2020	31,898	24,769	2,681	63,159	892	123,399
Additions/capitalisation	895	184	1,472	1,437	(548)	3,440
Transfers between category	439	(470)	–	31	–	–
Disposals	(4,097)	(1,147)	(1,340)	(792)	(20)	(7,396)
Closing balance as at 30 June 2021	**29,135**	**23,336**	**2,813**	**63,835**	**324**	**119,443**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2020	25,098	20,077	2,111	46,079	20	93,385
Depreciation and impairment	3,933	1,111	101	4,925	–	10,070
Transfers between category	439	(470)	–	31	–	–
Disposals	(4,096)	(1,147)	(1,073)	(780)	(20)	(7,116)
Closing balance as at 30 June 2021	**25,374**	**19,571**	**1,139**	**50,255**	**–**	**96,339**
Carrying amount as at 30 June 2021	**3,761**	**3,765**	**1,674**	**13,580**	**324**	**23,104**

2020	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction $000	Total tangible assets $000
Cost						
Opening balance as at 1 July 2019	32,909	24,933	3,315	63,317	2,798	127,272
Additions/capitalisation	2,966	1,106	–	1,422	762	6,256
Transfers between category	137	(102)	–	2,712	(2,668)	79
Disposals	(4,114)	(1,168)	(634)	(4,292)	–	(10,208)
Closing balance as at 30 June 2020	**31,898**	**24,769**	**2,681**	**63,159**	**892**	**123,399**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2019	23,297	19,715	2,526	42,813	20	88,371
Depreciation and impairment	5,928	1,523	92	7,161	–	14,704
Transfers between category	(63)	(102)	–	44	–	(121)
Disposals	(4,064)	(1,059)	(507)	(3,939)	–	(9,569)
Closing balance as at 30 June 2020	**25,098**	**20,077**	**2,111**	**46,079**	**20**	**93,385**
Carrying amount as at 30 June 2020	**6,800**	**4,692**	**570**	**17,080**	**872**	**30,014**

Impairment

Property, plant and equipment that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Property, plant and equipment are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less costs to sell, and value in use.

Value in use is the present value of the asset's remaining service potential. Value in use is determined based on either the depreciated replacement cost or the restoration cost, depending on the nature of the impairment and the availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is considered to be impaired and is written down to the recoverable service amount. The impairment loss and any reversal of impairment loss are recognised in the surplus or deficit.

10. Intangible assets

Inland Revenue has intangible assets in the form of internally generated software and business process design assets and software licences. All intangible assets have finite useful lives.

Internally generated intangible assets

There are two types of internally generated intangible assets: computer software and processes.

The cost of internally developed computer software and processes comprises direct labour, materials purchased and an appropriate portion of relevant overheads. These costs are associated with the development of identifiable and unique software controlled by Inland Revenue, which will generate future economic benefits beyond one year.

Expenditure on development activities where research findings are applied to a plan or design for new or substantially improved processes, is capitalised if the processes are technically and commercially feasible. Any other development costs are expensed.

Costs incurred on research of an internally generated intangible asset are expensed. Where the research phase cannot be distinguished from the development phase, the total cost is expensed.

Costs associated with maintaining internally generated computer software are expensed. Costs of configuring and customising commercial off-the-shelf software are capitalised.

Website development costs are recognised as an intangible asset if it can be demonstrated that the website will generate probable future economic benefits. Subsequent costs associated with the development and maintenance of Inland Revenue's existing websites are expensed unless they meet the capitalisation requirement of PBE IPSAS 31 Intangible Assets.

Staff training costs are expensed.

Software licences

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and be able to use the specific software. Costs associated with supporting and maintaining computer software licences are expensed. The capitalisation thresholds for intangible assets are:

- Internally generated intangible assets Over $20,000
- Software licences Over $20,000

Additions

Intangible assets are initially recorded at cost and subsequently recorded at historical cost less amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases when the asset no longer has a recognisable value. The amortisation charge is expensed. The useful lives of major classes of intangible assets have been estimated as:

- Internally generated intangible assets 3 to 15 years
- Software licences 3 to 15 years

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

The assets' useful lives are reviewed and adjusted if appropriate at each balance date.

The gain or loss arising from the disposal of an intangible asset forms part of the surplus or deficit.

Impairment

Intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

For further details, refer to the policy for impairment of property, plant and equipment in note 9. The same approach applies to the impairment of intangible assets.

Estimating the useful lives of intangible assets

The useful lives of intangible assets are based on:

- management's view of the expected period over which Inland Revenue will receive benefits
- historical experience with similar assets
- anticipation of future events, which may impact their useful lives, such as changes in technology.

2021	Internally generated intangible assets $000	Software licences $000	Assets under construction $000	Total intangible assets $000
Cost				
Opening balance as at 1 July 2020	371,712	262,930	20,078	654,720
Additions by purchase, software customisation and other development	39,585	3,104	18,845	61,534
Transfers between category	481	(481)	–	–
Disposals	(4,636)	(4,716)	–	(9,352)
Closing balance as at 30 June 2021	**407,142**	**260,837**	**38,923**	**706,902**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2020	103,827	228,611	–	332,438
Amortisation and impairment	38,048	8,360	–	46,408
Disposals	(4,636)	(4,682)	–	(9,318)
Closing balance as at 30 June 2021	**137,239**	**232,289**	**–**	**369,528**
Carrying amount as at 30 June 2021	**269,903**	**28,548**	**38,923**	**337,374**
2020				
Cost				
Opening balance as at 1 July 2019	702,848	101,477	33,361	837,686
Additions by purchase, software customisation and other development	78,343	525	10,780	89,648
Additions internally developed	7,909	–	–	7,909
Transfers between category	(396,684)	420,549	(24,063)	(198)
Disposals	(20,704)	(259,621)	–	(280,325)
Closing balance as at 30 June 2020	**371,712**	**262,930**	**20,078**	**654,720**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2019	476,055	80,641	3,617	560,313
Amortisation and impairment	32,126	20,159	–	52,285
Transfers between category	(383,714)	387,331	(3,617)	–
Disposals	(20,640)	(259,520)	–	(280,160)
Closing balance as at 30 June 2020	**103,827**	**228,611**	**–**	**332,438**
Carrying amount as at 30 June 2020	**267,885**	**34,319**	**20,078**	**322,282**

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

Inland Revenue's intangible assets are mainly related to the START core revenue system and supporting infrastructure. Of the $337.374 million carrying value for intangibles, $322.419 million relates to the development of the START tax and social policy management system and supporting infrastructure assets. The estimated remaining life of the START assets is 10 years.

Explanation of major variances against budget

Intangible assets are $140.790 million lower than budget due to the timing of the capital spend profile for the last release of the transformation programme, to occur later in 2021, and capital contingency funding that has been transferred to 2021–22.

Note 11. Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions. Debtor Crown transactions are considered to be non-exchange transactions.

Allowance for credit losses

Debtors and receivables are recorded at their face value, less an allowance for credit losses. Inland Revenue applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring credit losses, receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
	Current assets—exchange transactions		
	Debtors		
7,708	Accounts receivable	6,419	4,622
(593)	Less allowance for credit losses	(488)	(500)
536	Other debtors	390	–
7,651	Net debtors	6,321	4,122
9,322	Prepayments	10,346	5,000
16,973	**Total current assets—exchange transactions**	**16,667**	**9,122**
	Non-current assets—exchange transactions		
563	Prepayments	317	2,000
563	**Total non-current assets—exchange transactions**	**317**	**2,000**
17,536	**Total debtors and prepayments—exchange transactions**	**16,984**	**11,122**

Explanation of major variances against budget

Debtors and prepayments were $5.862 million higher than budget due to the timing of collection on an inter-government agency receivable and the additional prepayment of some maintenance contracts in the transformation programme.

The expected credit loss rates for accounts receivable are based on the payment profile of receivables over the previous periods and the corresponding historical credit losses experienced for that period. The historical loss rates are adjusted for current and forward-looking economic factors, including COVID-19, that might affect the recoverability of receivables.

There have been no changes during the reporting period in the estimation techniques or significant assumptions used in measuring the expected credit loss allowance.

The allowance for credit losses at 30 June 2021 and 30 June 2020 was determined as follows:

2021	Expected credit loss rate	Gross carrying amount $000	Lifetime expected credit loss $000
Not past due	–	1,904	–
Past due 1 to 30 days	0.65%	1,501	10
Past due 31 to 60 days	0.35%	1,490	5
Past due 61 to 90 days	35.04%	8	3
Past due > 90 days	31.04%	1,516	470
Total	**7.61%**	**6,419**	**488**
2020			
Not past due	–	2,507	–
Past due 1 to 30 days	0.06%	1,553	1
Past due 31 to 60 days	0.12%	1,620	2
Past due 61 to 90 days	2.04%	98	2
Past due > 90 days	30.50%	1,930	588
Total	**7.69%**	**7,708**	**593**

Movements in the allowance for credit losses are as follows:

Actual 2020 $000		Actual 2021 $000
125	Opening balance as at 1 July	593
480	Additional provisions made during the year	13
(12)	Receivables written off during the year	(118)
593	**Closing balance as at 30 June**	**488**

Sensitivity analysis

The following table shows the effect of changes in the lifetime expected credit loss assumption.

2020 $000		2021 $000
(154)	Impact of a 2% increase on the lifetime expected credit loss assumption	(128)
154	Impact of a 2% decrease on the lifetime expected credit loss assumption	128

Liabilities incurred by Inland Revenue

Note 12. Creditors and other payables

Creditors and other payables due within 12 months are recognised at their nominal value, unless the effect of discounting is material. Creditors and other payables due beyond 12 months are subsequently measured at amortised cost using the effective interest rate method, where applicable.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
	Creditors and other payables—exchange transactions		
64	Accounts payable	49	1,000
34,520	Accrued expenses—other	21,881	29,600
491	Lease incentive	344	455
35,075	**Total creditors and other payables—exchange transactions**	**22,274**	**31,055**
	Creditors and other payables—non-exchange transactions		
13,530	GST payable	7,764	9,000
13,530	**Total creditors and other payables—non-exchange transactions**	**7,764**	**9,000**
48,605	**Total creditors and other payables**	**30,038**	**40,055**

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

Explanation of major variances against budget

Creditors and other payables were $10.017 million below budget due to early settlement of payables as an outcome of the Government's request to pay 95% of domestic suppliers within 10 business days, and invoices received and processed on time resulting in less accruals at the end of the year.

Note 13. Employee entitlements

Current entitlements

Employee entitlements that Inland Revenue expects to be settled within 12 months of balance date are measured at nominal value based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned up to but not yet taken at balance date, and retiring and long-service leave entitlements expected to be settled within 12 months.

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

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them or where a past practice has created a constructive obligation and a reliable estimate of the obligation can be made.

Non-current entitlements

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

Other provisions include an allowance to meet requirements of the Holidays Act 2003 and other operational employee matters.

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000
	Current liabilities—exchange transactions		
31,620	Annual leave	31,145	31,157
11,069	Accrued salaries and wages	13,861	12,000
12,070	Termination benefits	26,443	7,000
4,510	Retiring leave	3,560	4,500
4,292	Other provision	5,378	4,300
1,440	Long-service leave	1,770	1,500
1,300	Sick leave	1,299	1,200
6	Time off in lieu	6	3
66,307	**Total current liabilities—exchange transactions**	**83,462**	**61,660**
	Non-current liabilities—exchange transactions		
–	Termination benefits	720	–
23,380	Retiring leave	18,840	23,000
6,500	Long-service leave	5,810	7,387
29,880	**Total non-current liabilities—exchange transactions**	**25,370**	**30,387**
96,187	**Total employee entitlements**	**108,832**	**92,047**

Explanation of major variances against budget

Provisions for employee entitlements were $16.785 million higher than budget mainly due to the timing of planned transformation restructuring costs (termination benefits), less leave taken by staff during the COVID-19 lockdown period in 2019–20 which has rolled into 2020–21, an additional provision for Holidays Act remediation, offset by the reversal of retiring leave for employees who have left Inland Revenue and macroeconomic changes to valuation assumptions for retiring leave.

Termination benefits

Termination benefits are payable when an employee's employment contract is terminated before their normal retirement or when an employee accepts voluntary redundancy in exchange for these benefits. Inland Revenue recognises the expense when it is demonstrably committed to either terminate the employment of current employees, according to a detailed formal plan without the possibility of withdrawal, or as a result of an offer for voluntary redundancy.

Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Otherwise they are reported as the present value of the estimated future cash outflows, where applicable.

Movements in the provisions for termination benefits and other provision are as follows:

	Termination benefits $000	Other provisions $000	Total $000
Opening balance as at 1 July 2020	12,070	4,292	16,362
Additional provisions made	18,103	1,366	19,469
Amounts used	(3,010)	(280)	(3,290)
Closing balance as at 30 June 2021	**27,163**	**5,378**	**32,541**
Opening balance as at 1 July 2019	2,487	4,155	6,642
Additional provisions made	12,974	137	13,111
Amounts used	(3,212)	–	(3,212)
Unused amounts reversed	(179)	–	(179)
Closing balance as at 30 June 2020	**12,070**	**4,292**	**16,362**

Measuring retiring and long-service leave liabilities

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

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

Sick leave, annual leave and vested long-service leave are classified as a current liability. Non-vested long-service leave and retiring leave liabilities expected to be settled within 12 months of balance date are also classified as a current liability. All other long-service leave and retiring leave is classified as a non-current liability.

The present value of retiring and long-service leave obligations depend on a number of factors that are determined on an actuarial basis by an independent actuary. Key assumptions used in calculating liabilities are the discount rate and salary inflation. Any changes in these assumptions will impact the carrying amount of the liabilities.

The discount rates used by the independent actuary for the retiring and long-service leave valuations are based on the Treasury published forward rates at 30 June 2021. The forward rates are derived from New Zealand government bonds. The long-term salary inflation assumption is based on the Treasury published rates at 30 June 2021 and after obtaining advice from the independent actuary. The long-term salary inflation assumption used was 2.46% (2020: 2.19%).

COVID-19 impacts are reflected in the assumptions for discount rates and salary inflation. The net effect of these assumptions has resulted in an increase to the liability. The following section provides a sensitivity analysis of these assumptions.

Sensitivity analysis

The following table shows the effect of changes in forecast discount, salary inflation and withdrawal rates on liabilities for long-service and retiring leave. Each factor is considered separately as if all other factors remained constant.

	Actual	Discount rate change		Salary inflation change		Withdrawal rate change	
	$000	$000	$000	$000	$000	$000	$000
		-1.0%	+1.0%	-1.0%	+1.0%	-1.0%	+1.0%
2021							
Long-service leave	5,810	365	(327)	(143)	367	1,490	(1,150)
Retiring leave	18,840	1,350	(1,210)	(21)	1,360	6,150	(4,200)

	Actual	Discount rate change		Salary inflation change		Withdrawal rate change	
	$000	$000	$000	$000	$000	$000	$000
		-1.0%	+1.0%	-1.0%	+1.0%	-1.0%	+1.0%
2020							
Long-service leave	6,500	409	(364)	(153)	406	1,670	(1,290)
Retiring leave	23,380	1,780	(1,590)	(38)	1,780	7,290	(4,990)

Note 14. Other liabilities

Provision for other liabilities

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

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value and are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash flows, where applicable. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance expense.

Actual 2020 $000		Actual 2021 $000
	Current liabilities	
1,645	Onerous contracts	229
1,645	**Total current liabilities**	**229**
	Non-current liabilities	
61	Lease make-good	67
774	Onerous contracts	3
835	**Total non-current liabilities**	**70**
2,480	**Total provision for other liabilities**	**299**

Other disclosures

Note 15. Related party transactions and key management personnel

Inland Revenue is a wholly owned entity of the Crown. The government significantly influences the role of Inland Revenue, as well as being its major source of revenue.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those where it is reasonable to expect that Inland Revenue would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions. Inland Revenue has no related party transactions that are required to be disclosed in 2021 (2020: nil).

Remuneration of key management personnel

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

2020	Leadership team, including the Commissioner (Chief Executive)	2021
5,155	Remuneration ($000)	4,132
11.8	Full-time equivalent staff	9.99

The key management personnel remuneration disclosure includes the Chief Executive (Commissioner), seven Deputy Commissioners, Chief Tax Counsel, and those formally acting in those positions during the financial year. The Commissioner's remuneration is determined and paid by Te Kawa Mataaho (Public Service Commission).

The remuneration disclosure excludes the Minister of Revenue. The Minister's remuneration and other benefits are set out by the Remuneration Authority, are not received only for their role as a member of key management personnel of Inland Revenue and are not paid by Inland Revenue.

Note 16. Financial instruments—categories of financial instruments

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

Actual 2020 $000		Actual 2021 $000
	Financial assets measured at amortised cost	
62,962	Cash and cash equivalents	70,891
220,107	Debtor Crown	181,207
7,651	Net debtors	6,321
290,720	**Total financial assets measured at amortised cost**	**258,419**
	Financial assets measured at fair value through surplus or deficit	
11	Derivative financial instrument assets	–
11	**Total financial assets measured at fair value through surplus or deficit**	**–**
	Financial liabilities measured at amortised cost	
34,584	Creditors and other payables	21,930
34,584	**Total financial liabilities measured at amortised cost**	**21,930**
	Financial liabilities measured at fair value through surplus or deficit	
–	Derivative financial instrument liabilities	87
–	**Total financial liabilities measured at fair value through surplus or deficit**	**87**

Note 17. Derivative financial instruments

For certain foreign currency transactions, Inland Revenue uses derivative financial instruments (foreign currency forward exchange contracts) to mitigate risks associated with foreign currency fluctuations. The foreign currency forward exchange contracts are entered into with Treasury Capital Markets.

The use of foreign currency forward exchange contracts is governed by Inland Revenue's foreign exchange policy, which provides principles on the use of financial derivatives consistent with Inland Revenue's risk management strategy.

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

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently restated at fair value at each balance date. They are reported as either assets or liabilities, depending on whether the derivative is in a net gain or net loss position, respectively. Movements in the fair value of derivative financial instruments are recognised in the financial result.

Derivative financial instruments are classified as current if the contract is due for settlement within 12 months of balance date. Otherwise the full fair value is classified as non-current. The net fair value of derivative financial instruments is a liability of $0.087 million as at 30 June 2021 (2020: asset of $0.011 million).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2021 was NZ $9.272 million (2020: NZ $2.048 million). The contracts consisted of the purchase of US $5.832 million and AU $0.785 million (2020: US $0.961 million and AU $0.526 million). The unrealised loss on the forward exchange contract derivatives was NZ $0.098 million at 30 June 2021 (2020: unrealised gain of $1.502 million). The majority of the forward exchange contracts relate to future expenditure requirements for the transformation programme.

Note 18. Financial instruments—fair value hierarchy disclosures

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

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

Inland Revenue's departmental financial assets and liabilities as at 30 June 2021 and 2020 were valued at fair value using observable inputs (level 2). There are no quoted market prices (level 1) for these instruments.

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value.

Actual 2020 $000	Valuation technique Level 2—observable inputs	Actual 2021 $000
	Financial assets/(liabilities)	
11	Forward foreign exchange contracts (net)	(87)

The fair value of derivative financial instruments has been determined using discounted cash flows based on quoted market prices (level 2).

Note 19. Financial instruments—financial instrument risks

Inland Revenue's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. Inland Revenue has policies to manage the risks associated with financial instruments and seeks to minimise exposure from financial instruments. These policies do not allow Inland Revenue to enter into any transactions that are speculative in nature.

Market risk

Currency risk

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

Inland Revenue purchases fixed assets and services from overseas suppliers and it is therefore exposed to currency risk arising from various currency exposures, primarily for United States and Australian dollars.

Under its foreign exchange policy, Inland Revenue enters into foreign currency forward exchange contracts to manage foreign exchange exposures when single foreign exchange transactions exceed NZ $100,000 or the transaction exposure for an individual currency exceeds NZ $100,000. This policy has been approved by the Treasury and is in line with the requirements of the Treasury's *Guidelines for the Management of Crown and Departmental Foreign-Exchange Exposure*.

Sensitivity analysis

Assuming that all other variables remained constant, the impact on the surplus of a 5% increase/decrease in the New Zealand dollar against various other currencies held by Inland Revenue in its foreign currency account at 30 June 2021 would be a $0.212 million decrease and a $0.234 million increase respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate, due to changes in market interest rates.

Inland Revenue has no interest-bearing financial instruments, so it has no exposure to interest rate risk.

Credit risk

The risk that a third party will default on its obligations to Inland Revenue, causing a loss to be incurred, is called credit risk. In the normal course of its business, credit risk from receivables is concentrated with the Crown and other government agencies but not with any individual agencies.

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

Inland Revenue does not require any collateral, security or other credit enhancements to support financial instruments with financial institutions that it deals with, because these entities have high credit ratings. Westpac is Inland Revenue's main bank and has a Standard and Poor's credit rating of AA–. Inland Revenue enters into foreign currency transactions with Treasury Capital Markets (Standard and Poor's credit rating of AA+). For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

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

Liquidity risk

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

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

Contractual maturity analysis of financial liabilities, excluding forward foreign exchange contracts

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

	Carrying amount $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2021					
Creditors and other payables	21,930	21,930	21,930	–	–
Total	**21,930**	**21,930**	**21,930**	**–**	**–**
2020					
Creditors and other payables	34,584	34,584	34,584	–	–
Total	**34,584**	**34,584**	**34,584**	**–**	**–**

Contractual maturity analysis of forward foreign exchange contracts

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

	Derivative financial instruments net carrying amount $000	Total contractual cash flows $000	Up to 1 year $000	1 to 5 years $000	Over 5 years $000
2021					
Gross settled forward foreign exchange contracts (net liability)	87	–	–	–	–
Outflow	–	9,271	8,844	427	–
Total	**87**	**9,271**	**8,844**	**427**	**–**
2020					
Gross settled forward foreign exchange contracts (net asset)	11	–	–	–	–
Outflow	–	2,048	2,048	–	–
Total	**11**	**2,048**	**2,048**	**–**	**–**

Note 20. Events after balance date

In July 2021, Inland Revenue vacated its leased accommodation in the Wellington Asteron Centre to enable remediation works to be undertaken by the landlord to increase the seismic rating of the building. There are no financial impacts for the financial year ending 30 June 2021. Additional costs will be incurred in subsequent years for temporary accommodation and associated costs for technology, security and equipment in these premises.

There have been no other significant events after balance date.

Financial Schedules Non-departmental Hōtaka pūtea Wāhi kē

Why we include the non-departmental schedules

Inland Revenue collects and distributes money on behalf of the Crown and the following non-departmental schedules provide information on the financial extent of these activities. The Commissioner is accountable for the financial management of these activities.

In 2020–21, we collected $94.5 billion of revenue on behalf of New Zealand to fund government programmes. We paid $6.1 billion in non-departmental expenses, including Working for Families Tax Credits, KiwiSaver member tax credits, interest, the COVID-19 Resurgence Support Payment and other expenses.

What non-departmental schedules are and are not

The non-departmental schedules are prepared in accordance with relevant accounting policies and the Treasury instructions to disclose non-departmental activities.

The non-departmental schedules do not, and are not intended to, constitute a set of financial statements and, therefore, do not include elements that would normally be expected to be found in financial statements, such as details of a surplus or deficit or *Statement of financial position*.

For a full understanding of the Crown's financial position and the results of its operation and cash flows, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021*.

Contents

Schedule of non-departmental revenue

For the year ended 30 June 2021

Actual 2020 $000		Notes 2, 3	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Direct taxation				
	Income tax				
	Individuals				
34,073,382	Source deductions (PAYE)		37,121,636	33,977,000	38,466,000
7,190,664	Other persons		8,773,497	6,694,000	7,076,000
(1,887,138)	Refunds		(1,716,220)	(1,859,000)	(2,015,000)
593,333	Fringe benefit tax		607,943	555,000	648,000
39,970,241	**Total individuals**		**44,786,856**	**39,367,000**	**44,175,000**
	Corporate tax				
12,767,295	Gross companies tax		18,374,762	10,974,000	14,398,000
(424,365)	Refunds		(343,723)	(283,000)	(389,000)
570,325	Non-resident withholding tax		472,192	431,000	472,000
12,913,255	**Total corporate tax**		**18,503,231**	**11,122,000**	**14,481,000**
	Other direct income tax				
1,528,844	Resident withholding tax on interest income		1,000,451	1,016,000	1,016,000
827,581	Resident withholding tax on dividend income		1,519,475	596,000	713,000
1,406,459	Employer superannuation contribution tax		1,554,424	1,363,000	1,476,000
3,762,884	**Total other direct income tax**		**4,074,350**	**2,975,000**	**3,205,000**
56,646,380	**Total direct taxation**		**67,364,437**	**53,464,000**	**61,861,000**

Schedule of non-departmental revenue (continued)

For the year ended 30 June 2021

Actual 2020 $000		Notes 2, 3	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Indirect taxation				
	Goods and services tax				
34,742,580	Gross goods and services tax		40,268,344	31,241,000	39,743,000
(14,111,693)	Refunds		(14,252,179)		(15,070,000)
20,630,887	**Total goods and services tax**		**26,016,165**	**18,316,000**	**24,673,000**
	Other indirect taxation				
100,923	Approved issuer levy		87,810	108,000	114,000
276,214	Gaming duties		321,929	296,000	318,000
2,080	Other indirect taxation		1,430	2,000	2,000
379,217	**Total other indirect taxation**		**411,169**	**406,000**	**434,000**
21,010,104	**Total indirect taxation**		**26,427,334**	**18,722,000**	**25,107,000**
77,656,484	**Total taxation**		**93,791,771**	**72,186,000**	**86,968,000**
	Other revenue				
196,567	Child support		335,013	199,000	164,000
–	Interest unwind—Small Business Cashflow Scheme		119,369	–	149,000
330,993	Interest unwind—student loans		234,551	353,000	194,000
56,971	Other revenue		47,658	49,800	39,300
584,531	**Total other revenue**		**736,591**	**601,800**	**546,300**
78,241,015	**Total revenue excluding gains**		**94,528,362**	**72,787,800**	**87,514,300**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental expenditure

For the year ended 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Benefits and other unrequited expenses				
184,059	Best Start tax credit		271,100	336,000	405,000
558	Child tax credit		–	100	–
2,188,954	Family tax credit		2,102,743	2,139,000	2,064,000
620,964	In-work tax credit		571,734	631,000	620,000
6,624	KiwiSaver: Interest		391	5,000	1,000
859,123	KiwiSaver: Tax credit		915,571	930,000	973,000
18,426	Minimum family tax credit		13,220	22,000	27,000
422,146	Paid parental leave payments		503,310	455,000	540,000
2,460	Parental tax credit		–	–	–
6,761	Payroll subsidy		–	–	–
4,310,075	**Total benefits and other unrequited expenses**		**4,378,069**	**4,518,100**	**4,630,000**
	Borrowing expenses				
(15)	Adverse event interest		–	–	–
1,438	Environmental restoration account interest		1,418	1,500	1,400
6,453	Income equalisation interest		6,476	10,000	10,000
7,876	**Total borrowing expenses**		**7,894**	**11,500**	**11,400**
	Other expenses				
–	COVID-19 Resurgence Support Payment		199,983	–	–
1,356,750	Impairment of debt and debt write-offs	2, 4	881,659	880,000	841,000
685,453	Initial fair value write-down relating to Small Business Cashflow Scheme COVID-19	2, 6	142,920	–	84,000
506,118	Initial fair value write-down student loans	7	468,594	558,000	515,000
–	Impairment of debt relating to child support	5	(20,690)	–	–
–	KiwiSaver ex gratia payments		7,235	–	–
2,548,321	**Total other expenses**		**1,679,701**	**1,438,000**	**1,440,000**
6,866,272	**Total expenditure excluding losses**		**6,065,664**	**5,967,600**	**6,081,400**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental gains and losses

As at 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
–	Net gains on Small Business Cashflow Scheme—fair value remeasurement	3, 6	21,000	–	–
(97,000)	Net gains/(losses) on student loans—fair value remeasurement	3, 7	745,000	34,000	35,000
(97,000)	**Total net gains/(losses)**		**766,000**	**34,000**	**35,000**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental assets

As at 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Current assets				
1,790,421	Cash and cash equivalents		1,310,146	1,500,000	1,600,000
13,273,939	Receivables	4	16,393,310	15,519,127	12,799,743
8,320	Receivables—child support	5	71,000	8,820	8,320
–	Receivables—other		–	161,265	–
356,000	Small Business Cashflow Scheme	6	253,000	–	330,000
1,256,000	Student loans	7	1,355,000	1,371,000	1,540,000
16,684,680	**Total current assets**		**19,382,456**	**18,560,212**	**16,278,063**
	Non-current assets				
368,000	Receivables	4	326,000	544,931	368,000
71,238	Receivables—child support	5	157,050	55,174	73,237
381,988	Small Business Cashflow Scheme	6	667,826	–	610,988
9,138,584	Student loans	7	9,486,485	9,434,696	9,074,584
9,959,810	**Total non-current assets**		**10,637,361**	**10,034,801**	**10,126,809**
26,644,490	**Total assets**		**30,019,817**	**28,595,013**	**26,404,872**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental liabilities

As at 30 June 2021

Actual 2020 $000		Notes	Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
	Current liabilities				
27,817	Child support		13,763	25,798	27,817
5,018,876	Refundables and payables	8	5,384,129	6,354,527	5,138,726
22,870	Unclaimed monies	9	23,321	21,509	22,673
5,069,563	**Total current liabilities**		**5,421,213**	**6,401,834**	**5,189,216**
	Non-current liabilities				
273,312	Reserve schemes	10	321,505	250,881	280,112
273,312	**Total non-current liabilities**		**321,505**	**250,881**	**280,112**
5,342,875	**Total liabilities**		**5,742,718**	**6,652,715**	**5,469,328**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of movements between other government departments

For the year ended 30 June 2021

Actual 2020 $000		Actual 2021 $000	Unaudited Budget 2021 $000	Unaudited Forecast 2022 $000
22,178,777	Opening balance	21,301,615	19,278,898	23,926,944
71,277,743	Net result from operating activities	89,228,698	66,854,200	81,467,900
	Asset transfer between departments			
1,412,774	Ministry of Social Development—student loans	1,430,689	1,556,000	1,576,000
(73,567,679)	New Zealand Debt Management Office	(87,683,903)	(65,746,800)	(86,035,300)
21,301,615	**Closing balance**	**24,277,099**	**21,942,298**	**20,935,544**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental commitments

As at 30 June 2021

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2020: $nil).

Schedule of non-departmental contingent liabilities and contingent assets

As at 30 June 2021

Actual 2020 $000		Note 11	Actual 2021 $000
	Quantifiable contingent liabilities		
189,192	Legal proceedings and disputes—assessed		160,344
183,447	Unclaimed monies		186,127
372,639	**Total quantifiable contingent liabilities**		**346,471**
	Quantifiable contingent assets		
9,238	Disputes—non-assessed		26,749
9,238	**Total quantifiable contingent assets**		**26,749**

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Schedule of non-departmental trust money

For the year ended 30 June 2021

Actual 2020 $000		Contributions 2021 $000	Distributions 2021 $000	Total 2021 $000
	Child support			
17,503	Child support trust account	266,579	(276,168)	7,914
414	Reciprocal child support agreement trust account	13,978	(13,986)	406
17,917	**Total child support**	**280,557**	**(290,154)**	**8,320**
	KiwiSaver			
254	KiwiSaver returned transactions trust account	67,022	(67,022)	254
60	KiwiSaver voluntary contribution trust account	237	–	297
314	**Total KiwiSaver**	**67,259**	**(67,022)**	**551**
18,231	**Total trust money**	**347,816**	**(357,176)**	**8,871**

The child support trust accounts were established in accordance with sections 139 and 140 of the Child Support Act 1991. Inland Revenue administers these trust accounts for amounts collected from parents who pay child support and the subsequent child support payments that are paid to the custodial persons.

The KiwiSaver trust accounts were established in accordance with section 74 of the KiwiSaver Act 2006. Inland Revenue administers these accounts to hold money deposited with the Crown from KiwiSaver scheme providers, primarily for refunds and payments made in error, pending the completion of the financial transaction, as well as voluntary contributions yet to be passed to KiwiSaver scheme providers.

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021.*

Notes to the financial schedules

For the year ended 30 June 2021

Index

How we have prepared these schedules

Note 1. Basis of preparation

Reporting entity

Inland Revenue is a government department as defined by section 2 of the Public Finance Act 1989 and is domiciled and operates in New Zealand.

The relevant legislation governing Inland Revenue's operations is the Public Finance Act 1989.

Inland Revenue is a wholly owned entity of the Crown whose primary objective is to provide services to the public rather than to make a financial return. Accordingly, Inland Revenue has designated itself as a Public Benefit Entity (PBE) for financial reporting purposes.

These non-departmental financial schedules present financial information on funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the *Financial Statements of the Government of New Zealand for the year ended 30 June 2021*. For a full understanding of the Crown's financial position and the results of its operations and cash flows for the year, refer to the consolidated *Financial Statements of the Government of New Zealand for the year ended 30 June 2021*.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2021. The forecast financial schedules are for the year ending 30 June 2022.

The Chief Executive and Commissioner of Inland Revenue authorised these financial schedules on 29 September 2021.

Statement of compliance

The financial schedules have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) and the Treasury instructions.

Inland Revenue has applied the Tier 1 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) in preparing the 30 June 2021 financial schedules.

Basis of preparation

The financial schedules have been prepared on a going concern basis, and the accounting policies set out below and in the notes to the financial schedules, have been applied consistently to all periods presented in these financial schedules.

These financial schedules have been prepared on a historical cost basis, unless otherwise stated. The accrual basis of accounting has been used.

Functional and presentation currency

These financial schedules are presented in New Zealand dollars, and all values are rounded to the nearest thousand dollars ($000). The functional currency of Inland Revenue is New Zealand dollars.

Accounting standard issued and not yet effective

The standard issued but not yet effective, that has not been adopted early is:

PBE IPSAS 41 Financial Instruments

The External Reporting Board issued PBE IPSAS 41 Financial Instruments in March 2019. This standard supersedes PBE IFRS 9 Financial Instruments, which was issued as an interim standard. It is effective for reporting periods beginning on or after 1 January 2022. Inland Revenue does not intend to adopt PBE IPSAS 41 early. When this standard is adopted, Inland Revenue does not expect any significant changes as the requirements are similar to PBE IFRS 9.

Estimations and judgements

In preparing these financial schedules, judgements, estimates and assumptions have been made concerning the future.

These judgements, estimates and their associated assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience, including expectations of future events that are believed to be reasonable under the circumstances, and other factors. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to revenue, and the carrying amounts of receivables and payables within the next financial year, are referred to in the notes. The impact of COVID-19 on estimates and assumptions is also discussed in these notes.

Accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note, and which materially affect the measurement of financial results and the financial position, are outlined below.

Expenses

Expenses are recognised in the period to which they relate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit and funds held in bank accounts administered by Inland Revenue. All cash held in bank accounts is held in on demand accounts and no interest is payable to Inland Revenue.

Comparatives

When the presentation or classification of items in the financial schedules are amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period, unless it is impractical to do so.

Change in accounting policies

There has been one change in accounting policy since the date of the last audited financial schedules.

From this year, unpaid child support assessments related to the Crown entitlements are recognised on the *Schedule of non-departmental assets* at fair value in accordance with PBE IPSAS 23 Revenue from Non-Exchange Transactions. Previously these were not recognised. This change has resulted in an increase in child support receivables of $155 million. Refer to note 5 for more information.

Other than this change, the accounting policies have been applied consistently throughout the year.

Budget and forecast figures

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

The budget and forecast financial schedules are not subject to audit.

The budget figures for 2020–21 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*. After the Estimates went to print, the tax forecasts were updated to take account of late-breaking Government decisions, particularly in relation to COVID-19 pandemic relief measures.

The revised budget figures for 2020–21 (refer to the *Statement of non-departmental budgeted and actual expenditure incurred against appropriations* on page 110) are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*.

The forecast figures for 2021–22 are those included in *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2022*.

The forecast financial schedules have been prepared in accordance with the requirements of the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. They are compliant with PBE Financial Reporting Standard 42 Prospective Financial Statements.

Forecast policies

The forecasts have been compiled on the basis of existing government policies and ministerial expectations at the time the schedules were finalised and reflect all Government decisions up to 12 April 2021.

While Inland Revenue regularly updates forecasts, updated forecast schedules for the year ending 30 June 2022 will not be published.

The main assumptions are:

- Estimates for COVID-19 economic impacts and the Government's COVID-19 economic response packages, including:
  - the reinstatement of a 2% diminishing value depreciation rate for commercial and industrial buildings.
  - increasing the low-value asset write-off threshold to $5,000 for the 2021 income tax year.
- Tax revenue: tax policy changes enacted and announced by the Government will take place as planned and will affect tax revenue and receipts as calculated and agreed between Inland Revenue and the Treasury.
- Student loans: the fair value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the fair value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as wages inflation and discount rates. Any change in these assumptions would affect the present fiscal forecast.
- Estimated year-end information for 2020–21 is used as the opening position for the 2021–22 forecasts.

For other key fiscal forecast assumptions, refer to the *Budget Economic and Fiscal Update 2021* (https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2021-html)[1] .

Any changes to budgets during 2021–22 will be incorporated into *The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2022.*

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these forecast financial schedules and the actual reported results include:

- changes due to initiatives or legislation approved by Cabinet
- macroeconomic changes, including the expected impacts of COVID-19, impacting revenue, expenditure and debt levels
- the timing of customers' filing of returns and related payments
- the timing of customer refund and credit claims
- the outcome of disputes, including litigations.

[1] This link leads to information not covered by the audit opinion on page 188.

How we have considered the impacts of COVID-19

Note 2. Considerations and adjustments for the impacts of COVID-19

On 11 March 2020, the World Health Organisation declared a global pandemic, as a result of the outbreak and spread of COVID-19, which has impacted the global economy and created uncertainty in global markets and valuations.

In response to the impact of COVID-19, the New Zealand Government has taken a number of actions to support the wellbeing of New Zealanders and the New Zealand economy, including the introduction of a Small Business Cashflow (loan) Scheme and the COVID-19 Resurgence Support Payment scheme administered by Inland Revenue.

More than a year has passed since March 2020 and the New Zealand economy is stronger than initially predicted. However, COVID-19 still presents some uncertainty and challenges for New Zealand as a whole. A summary of the key impacts on the non-departmental financial schedules is set out below.

Tax revenue

Tax revenue for the 2020–21 financial year is based on the revenue recognition methodology disclosed in note 3. While most revenue is recognised in cash in the same financial year, these financial schedules include tax estimates and assessments that are not due to be paid until after 30 June 2021. The amount owing is reported in receivables (refer note 4).

Estimation of tax revenue affects mainly income tax for companies and other persons. Accruing income tax revenue requires a significant degree of estimation compared to other tax revenue such as GST and source deductions (e.g. PAYE). While most taxpayers pay annual income tax in instalments using the provisional tax regime, final income tax owed, or tax refunds due, for a year is only known with reasonable certainty when the taxpayer files a terminal tax assessment for that period. For GST and source deductions, estimations are relatively certain because taxpayer filing dates are so regular and frequent.

Most tax is paid on a payday or monthly basis. Therefore, the impacts of COVID-19 are recognised at the time of filing, with no need to change our revenue recognition policies. The exception is income tax for companies and other persons, where tax returns are filed in the future.

The impact of COVID-19 on economic activity—through alert levels, border restrictions and lockdowns—has continued to have flow-on impacts to tax revenue in 2020–21, compared to a level of economic downturn that was expected when *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*[1] were prepared.

Taxation revenue was $93.792 billion in 2020–21, an increase of $16.135 billion (20.78%) compared to 2019–20, and $21.606 billion higher than *The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2021*. The New Zealand economy has performed stronger than initially predicted. As a result, the rates of employment growth, wage growth, business profits, taxable incomes, provisional tax estimates, consumption and residential investment have all been significantly higher than forecast.

Tax revenue—income tax for companies and other persons

In 2019–20, we updated our tax estimation methodology to reflect the estimated impact on tax revenue. This was required because income tax is an annual tax and the impact of COVID-19 will not be known until taxpayers file their annual terminal tax assessments in the future. COVID-19 is expected to continue to have an impact on taxable income earned by companies and other persons.

Where taxpayers subject to the provisional tax regime have not yet filed a terminal tax assessment for the period, provisional tax assessments are recognised based on the provisional tax method adopted by the taxpayers. These provisional tax assessments are based on 105% of the prior year terminal tax. This method suits a large number of taxpayers who generally expect to make more or roughly the same amount of profit in a coming tax year.

After the global pandemic was announced, the 105% assumption was not considered appropriate for the estimation of income tax revenue for the financial year ended 30 June 2020. As a result, we estimated income tax revenue based on the Treasury's most recent macroeconomic forecasts, using the percentage movement in forecasts of firms' net operating surplus[2]. The firms' net operating surplus is a component of Income GDP and is designed to measure net profits of businesses. This measure is approximately equal to accounting profit before taxes, dividends and interest, but after depreciation. It was the most appropriate assumption to determine taxable income.

In preparation for the 2020–21 year, we have sought to test the appropriateness of this measure. Our analysis shows that this firms' net operating surplus measure is a more appropriate methodology to estimate income tax revenue than the 105% assumption, and hence we will continue to use this methodology going forward. However, we have also identified that we may need to adjust it for any material impacts that are not included in the most recent Treasury forecasts.

[1] Including updates made for late-breaking Government decisions, particularly in relation to COVID-19 pandemic relief measures.

[2] The Treasury is no longer routinely publishing operating surplus forecasts, but will release operating surplus forecasts on request.

As a result, for 2020–21 and onwards, the revenue estimation process will be based on a rebuttable presumption that the forecast of firms' net operating surplus, from the most recent Treasury forecast, is used as the uplift assumption, unless rebutted for material impacts.

Applying the Treasury and Stats NZ firms' net operating surplus forecasts, (rather than the previous uplift of 105%), has resulted in a downward adjustment of $346 million to tax revenue. This is made up of $219 million gross companies tax revenue and $127 million other persons revenue.

The updated revenue recognition methodology for income tax is disclosed in note 3.

Tax receivables—past due

Past due debt has increased in 2020–21 by $136 million (3.2%) to $4.384 billion. This growth is smaller than in 2019–20, when the past due debt increased by $726 million (21%).

During 2019–20, Inland Revenue made prioritisation decisions to redeploy staff from debt collection to other functions to manage the large and complex requirements of delivering Release 4 of our transformation programme, and to support our customers as they continue to familiarise themselves with our new systems and processes.

This prioritisation and the impacts of COVID-19 on our customers resulted in an increase in the debt levels and a reduction in debt repayments.

However, in the 2020–21 year, there has been a strong continued focus on supporting our customers through COVID-19, including working with those in debt to set up instalment arrangements and applying new legislative powers to remit penalties and interest where possible.

Despite an increase in past due debt, we have seen a stronger collectability of debt this year. This has resulted in a reduction in the average impairment of tax debt.

Note 4 provides more information on the gross value and fair value of tax receivables, and the significant assumptions and sensitivities behind the fair value.

Small Business Cashflow (loan) Scheme

In response to COVID-19, the Government has made Small Business Cashflow Scheme loans available to eligible small-to-medium-sized businesses. During the 2020–21 year, this scheme was extended from 31 December 2020 to 31 December 2023 and the loans are interest-free if paid back within two years (previously it was within one year).

In the 2020–21 financial year, a further $298 million (2020: $1,428 million) has been disbursed and a further $112 million (2020: $5 million) has been repaid. The fair value of the loans as at 30 June 2021 is $921 million.

The most critical assumption for determining the fair value is the default rate of the loans, which informs the initial fair value write-down of the loans. The initial fair value write-down on total loans of $828 million is due to these unsecured loans being made available to businesses severely impacted by COVID-19 at below market rates and with other favourable terms.

Note 6 provides more information on the scheme, the valuation model and the significant assumptions and sensitivities behind the fair value.

Student loans

The fair value of the Student Loan Scheme at 30 June 2021 is $10.841 billion, a net increase of $447 million (4.3%). The most notable change this year is the $745 million fair value remeasurement gain (2020: $97 million loss).

The fair value remeasurement gain is largely due to changes in discount rates, risk premiums and macroeconomic forecasts since the *Budget Economic and Fiscal Update 2020*, as well as positive increases because the initial valuation data indicates that COVID-19 is having less negative impact than initially modelled.

The discount rates have increased the value of the scheme by $221 million (2020: $343 million). This is largely due to changes in risk free and risk premium rates. The market spreads have been gradually reducing back to pre-COVID-19 levels. Adjustments for the impact of COVID-19 increase the fair value by $230 million (2020: $507 million decrease), of which $103 million is due to updating modelling assumptions for employment and $106 million relates to updated assumptions for salaries.

Since the June 2020 valuation, more data on overseas repayments has been available to assist with reviewing the COVID-19 allowances. In summary, the New Zealand economy has shown remarkable resilience to date.

In terms of unemployment, there are specific regions and industries that have suffered more than others. On aggregate, the previously assumed spike in unemployment has not materialised to date and the Treasury does not expect this spike to happen in the latest forecasts.

The Treasury's expectations around when border restrictions will ease, and for when net migration will return to pre-COVID-19 levels (migration is assumed to return to its normal patterns from 1 April 2022), remain unchanged.

Finally, for overseas repayments, the latest experience is also positive in that we have not seen a decline or any evidence of deterioration in overseas compliance so far.

Note 7 provides more information on the Student Loan Scheme, the valuation model and the significant assumptions and sensitivities behind the fair value.

How we have recognised revenue

Note 3. Revenue

Tax revenue is a non-exchange transaction.

This means the payment of tax in itself does not entitle a customer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving the Crown services and benefits.

Tax revenue is recognised when a taxable event has occurred, the tax revenue can be reliably measured and it is probable that economic benefits will flow to the Crown.

Tax is recognised at face value as the fair value is not materially different from the face value.

The New Zealand tax system is based on self-assessment where customers are expected to understand the tax laws and comply with them. Inland Revenue helps customers comply and addresses non-compliant activities. Most people pay their fair share of tax. For the minority who do not, Inland Revenue intervenes and encourages them to do the right thing. However, such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. Inland Revenue is unable to reliably estimate the amount of unreported tax.

Income tax

Income tax is recognised on an accrual basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.

Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on current provisional assessments or prior year provisional or terminal assessments. Tax revenue is recognised proportionally based on the balance date of the taxpayer. The amount of income tax receivable or refundable is not known with certainty until income tax returns for the period have been filed. The filing of terminal tax returns can happen more than a year after the tax year. For example, 2021 income tax returns may not be filed until March 2022 (or after) and 2022 income tax returns may not be filed until March 2023 (or after).

The income tax revenue estimation process is based on a rebuttable presumption that the forecast of firms' net operating surplus, from the most recent Treasury forecast, is used as the uplift assumption, unless rebutted for material impacts. Refer to note 2 for more information.

The following uplift assumptions have been used in these financial statements:

- An annual average growth in firms' net operating surplus for the tax year to 31 March 2021 of 2.68%.

  This assumption is derived from Statistics New Zealand's (Stats NZ) new quarterly data series released on 22 July 2021. This series was developed for institutional sector accounts, balance sheets, and the nominal income measure of quarterly gross domestic product (GDP), to provide more timely data on New Zealand's economy. Details of the quarterly release can be found here: www.stats.govt.nz/experimental/national-accounts-income-saving-assets-and-liabilities-march-2021-quarter

  This differs from the Treasury's most recent forecast of net operating surplus, which was 0.40% for the tax year to 31 March 2021. This was included in the Treasury's economic forecast as part of Budget 2021 in May. The higher growth rate in Stats NZ's updated data release is consistent with other economic data releases since the Treasury forecast of net operating surplus were finalised on 1 April 2021.
- An annual average growth in the Treasury's forecast of net operating surplus for the tax year to 31 March 2022 of 1.24%.

As a result, the factor applied to prior year's terminal tax is 102.68% for the 2021 income tax year, which ended on 31 March 2021, and 101.24% for the 2022 income tax year, which ends on 31 March 2022, with the period from 1 April 2021 to 30 June 2022 included in these financial schedules, rather than the previous standard factor of 105%. The non-March balance dates use a pro-rata of these rates.

The measurement of income tax accruals requires significant estimates, judgements and assumptions and has a number of uncertainties. These include the following:

- Where taxpayers have chosen to estimate their provisional tax, income tax revenue is recognised based on the most recent estimate provided to Inland Revenue.
- Where customers subject to the provisional tax regime have not yet filed a terminal tax assessment:
  - for October to March balance dates for the 2022 income tax year, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted for the annual average growth in the Treasury's most recent forecast of firms' net operating surplus for that year as at 1 April 2021.

    - for April to September balance dates for the 2022 income tax year, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted on a pro-rata basis for the Stats NZ annual average growth in net operating surplus for that year as at 22 July 2021 and the Treasury's firms' net operating surplus for that year as at 1 April 2021.
    - for October to March balance dates for the 2021 income tax year, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted for the Stats NZ annual average growth of net operating surplus for that year as at 22 July 2021.
    - for April to September balance dates for the 2021 income tax year, provisional tax assessments are recognised as revenue based on the prior year terminal tax adjusted on a pro-rata basis for the Stats NZ annual average growth in net operating surplus for that year as at 22 July 2021 and the Treasury's firms' net operating surplus for that year as at 1 April 2021.
    - for all other income tax years, provisional tax assessments are recognised as revenue based on the provisional tax method adopted by the taxpayer. Provisional assessments are based on 105% of the prior year terminal tax.
- Where the taxpayers have made payments for more than the provisional tax assessment submitted, their credit balance is also accrued as revenue.
- Where taxpayers have made payments to Inland Revenue but have not submitted a provisional tax assessment for the period, an estimate is made based on the payments.
- For taxpayers not subject to provisional tax, an estimate is made of the tax revenues receivable and refundable at year end based on prior year terminal assessments.
- For taxpayers subject to provisional tax who have not filed their tax return for the previous period, an estimate is made of the tax revenues receivable and refundable at year end based on prior year provisional tax assessments.

The significant assumptions and sensitivities behind the estimation of income tax revenue for companies and other persons are:

2020		2021
	Assumptions	
2.79%	Treasury's forecast firms' net operating surplus—2020 income tax year	N/A
(2.74%)	Treasury's forecast firms' net operating surplus—2021 income tax year	N/A
N/A	Treasury's forecast firms' net operating surplus—2022 income tax year	1.24%
N/A	Stats NZ average annual growth in net operating surplus—2021 income tax year	2.68%
	Sensitivities	
185,000	Impact on revenue of a 1% increase in firms' net operating surplus ($000)	196,000
924,000	Impact on revenue of a 5% increase in firms' net operating surplus ($000)	981,000
1,848,000	Impact on revenue of a 10% increase in firms' net operating surplus ($000)	1,963,000
(185,000)	Impact on revenue of a 1% decrease in firms' net operating surplus ($000)	(196,000)
(924,000)	Impact on revenue of a 5% decrease in firms' net operating surplus ($000)	(981,000)
(1,848,000)	Impact on revenue of a 10% decrease in firms' net operating surplus ($000)	(1,963,000)

The net operating surplus figure is based on the relevant methodology adopted for the financial year.

Income tax revenue has a high degree of estimation and is therefore uncertain. Application of key assumptions used in estimating income tax revenue may not necessarily reflect actual tax returns when they are filed. Estimating income tax revenue is challenging because estimation is required so far ahead of the point when a taxpayer is required to file relevant income tax returns. In addition, forecasts of firms' net operating surplus are inherently uncertain and volatile, particularly with the ongoing impact of the COVID-19 pandemic on the economy. While we have confidence in the reliability of Stats NZ's quality assurance processes in releasing the new quarterly data series, Stats NZ revises previously published data when more information comes to light.

Goods and services tax (GST)

GST returns are assessed on a one, two, three or six-monthly basis and are due the month after the end of the period. At year end, Inland Revenue estimates the amount of GST outstanding as follows:

- for customers who file a return of GST for the June period, the actual amounts filed are used.
- for customers who have not filed a return, the estimate is based on the most recently assessed GST return.

Source deductions (PAYE)

Employers are required to file an employment information form for each payday. Revenue is assessed based on these forms. June employment information forms filed by employers in July are accrued at year end.

Child support

Child support revenue is the penalties levied on child support debts owed to both custodial persons and the Crown by parents who pay child support, as well as child support due to the Crown. This revenue is recognised initially at fair value and subsequently tested for impairment at year end.

Interest unwind—Small Business Cashflow (loan) Scheme

Small Business Cashflow Scheme loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind.

The interest unwind has been calculated using a discount rate appropriate for low-rated commercial and unsecured retail lending.

Interest unwind—student loans

Student loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, student loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind.

The interest unwind has been calculated using the official cash rate plus a risk premium calculated by the consulting actuaries.

Fair value remeasurement— Small Business Cashflow (loan) Scheme

Fair value remeasurement is the change in the value in the loan portfolio over the year. Small Business Cashflow Scheme loans are initially measured at fair value. The changes to fair value between periods are recognised as a gain or loss in the net surplus or deficit. More information is provided in note 6.

Fair value remeasurement—student loans

Fair value remeasurement is the change in the value in the student loan portfolio over the year. Student loans are initially measured at fair value. The changes to fair value between periods are recognised as a gain or loss in the net surplus or deficit. More information is provided in note 7.

Crown assets we are managing

Note 4. Receivables

Receivables include general taxes, Working for Families Tax Credits, KiwiSaver and any penalties and interest associated with these activities. These are non-contractual sovereign receivables. The interest and penalties charged on receivables are presented as revenue in the *Schedule of non-departmental revenue*. Receivables for child support, the Small Business Cashflow (loan) Scheme and student loans are reported separately in notes 5, 6 and 7 respectively.

Receivables are initially recognised at face value as the fair value is not materially different from the face value and are subsequently tested for impairment at year end.

Allowances for amounts that Inland Revenue does not expect to recover are recognised when there is objective evidence that the asset is impaired. Impairments are included in the *Schedule of non-departmental expenditure*. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

At the end of the year, receivables are valued by an independent external valuer using predictive models. Inland Revenue provides data to the valuer on receivable balances and repayments. The data is up to 30 June 2021.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors such as discount rates. Key assumptions are explained below:

- The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of collection costs and then discounting using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.
- Tax pooling funds held in the Crown bank accounts have been netted off against receivables. These funds have been deposited by commercial intermediaries and allow customers to pool tax payments to reduce their exposure to use-of-money interest. Under-payments and over-payments are offset within the same pool.

The gross value of tax receivables at 30 June 2021 is $20.043 billion, an increase of $3.146 billion (18.62%). The main driver of the increase is a $3.009 billion (23.79%) increase in not yet due receivables reflecting stronger recent revenue streams.

Inland Revenue's approach is to prevent customers getting into debt and having penalties and interest added to what they owe. In response to COVID-19, we have increased our support to ensure customers know what help and options are available to them. We have also deferred debt activities where that would be the best outcome for the customer.

During 2019–20, Inland Revenue made prioritisation decisions to redeploy staff from debt collection to other functions, to manage the large and complex requirements involved in successfully delivering Release 4 of our transformation and support our customers as they continued to familiarise themselves with our new systems and processes. This prioritisation and the impacts of COVID-19 on our customers resulted in increased levels of debt and reduced levels of debt repayments up to 30 June 2020. This resulted in an increase in debt impairment, reflecting decreased expected recoverability.

In 2020–21, Inland Revenue has continued to focus on supporting customers through COVID-19, including working with those in debt to set up instalment arrangements and applying new legislative powers to remit penalties and interest where possible. Despite an increase in past due debt, we have seen stronger collectability of debt this year, which has resulted in a reduction in the average impairment of tax debt.

As noted by the independent external valuer, it is not possible to assess with any certainty the implications of COVID-19 on the value of tax receivables or the economy as a whole, in terms of length or the degree of impact. The uncertain and volatile nature of future debt repayments means that there may be significant uncertainty in the estimated value of these receivables. The valuation reflects the increased levels of debt observed in the data up to 30 June 2021. Future repayments of debt will be dependent on the economic impacts of COVID-19 on our customers and on the effectiveness of our compliance activities and relief mechanisms, such as instalment arrangements.

PAST DUE DEBT

$million	June 2020	June 2021	Change %
Working for Families Tax Credits	167.2	198.5	19%
GST	1,550.0	1,523.0	(2%)
Income tax	1,742.6	1,585.0	(9%)
Employment activities	741.3	919.6	24%
Other tax	45.8	157.7	244%
Total debt	**4,246.9**	**4,383.8**	**3%**

The fair value of tax receivables at 30 June 2021 is $16.719 billion, an increase of $3.077 billion (22.6%).

Actual 2020 $000		Actual 2021 $000
	Receivables	
16,897,048	Gross receivables	20,043,302
(3,255,109)	Impairment	(3,323,992)
13,641,939	**Carrying value receivables**	**16,719,310**
	Current and non-current apportionment	
13,273,939	Receivables—current	16,393,310
368,000	Receivables—non-current	326,000
13,641,939	**Carrying value receivables**	**16,719,310**
	Ageing profile of gross receivables	
12,650,126	Not due[1]	15,659,517
	Past due[2]	
1,217,073	Less than 6 months	1,004,639
381,458	6–12 months	432,057
747,808	1–2 years	903,243
1,900,583	Greater than 2 years	2,043,846
4,246,922	**Total past due**	**4,383,785**
	Total gross receivables	**20,043,302**
25%	% Past due	22%
	Receivables—impairment	
2,310,000	Opening balance	3,255,109
1,356,750	Impairment losses recognised	881,659
(411,641)	Amounts written off as uncollectable	(812,776)
3,255,109	**Closing balance**	**3,323,992**

[1]Not due receivables comprise estimations or assessments for tax where the tax has been earned, but is not yet due to be paid, and returns that have been filed before due date.

[2]Receivables are classified as past due when they are not received from customers by their due date. Due dates will vary, depending on the type of revenue owing (for example, income tax, GST, KiwiSaver) and the customer's balance date. Past due debt includes debts collected under instalment, debts under dispute, default assessments and debts of customers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio and the significant assumptions underpinning the valuation of carrying value receivables are shown below:

Actual 2020		Actual 2021
12,590,190	Recoverable amount of receivables not due ($000)	15,602,854
1,051,749	Recoverable amount of receivables past due ($000)	1,116,456
13,641,939	**Total carrying value ($000)**	**16,719,310**
7.00%	Use-of-money-interest rate	7.00%
5.00%	Discount rate	5.00%
(20,200)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(17,700)
18,800	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	19,000

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 disputes and past experience of the outcomes of such disputes, together with trends of payment timeliness and other information obtained from credit collection.

Under the Tax Administration Act 1994, Inland Revenue has broad powers to ensure that people meet their obligations. Part 10 of the Act sets out the powers of the Commissioner to recover unpaid tax.

The Crown does not hold any collateral or any other credit enhancements over receivables which are past due.

Receivables are widely dispersed over a number of customers and as a result the Crown does not have any material individual concentrations of credit risk.

Note 5. Receivables—child support

Child support is money paid by parents who do not live with their children, or who share care with someone else. The money is to help with the cost of raising a child.

Liable parents can manage their child support payments through Inland Revenue by using a formula assessment or voluntary agreement, or they can be arranged through a private agreement with the other parent or non-parent carer.

For child support managed by Inland Revenue, liable parent payments are passed to receiving carers to the extent that the receiving carer has not received a benefit from Ministry of Social Development. The withheld amount is the Crown entitlement and this is legally enforceable. Receiving carer entitlements are not recognised as revenue and any funds yet to be passed to the receiving carers are recorded in the Child Support trust account as presented in the *Schedule of non-departmental trust money*.

Penalties are imposed when there are defaults on their child support payments.

Child support receivables include the Crown entitlement and penalties. The Crown entitlement and penalties are presented as revenue in the *Schedule of non-departmental revenue*. Receivables are initially recognised at fair value and are subsequently tested for impairment at year end.

Allowances for amounts that Inland Revenue does not expect to recover are recognised when there is objective evidence that the asset is impaired. Impairments are included in the *Schedule of non-departmental expenditure*. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

Child support valuation model, significant assumptions and uncertainties

At the end of the year, receivables are valued by an independent external valuer using predictive models. Inland Revenue provided data to the valuer on receivable balances and repayments. The data was up to 31 March 2021. The 30 June 2021 fair valuation is rolled forward from the 31 March 2021 results.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors such as discount rates. Key assumptions are explained below:

- The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data and then discounting it using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.
- From October 2021, child support services will transition into the START system. This system will automatically set up instalment arrangements for any customers who are employed and have child support debt. This will result in a significant increase in customers with automatic deductions. This change is expected to increase repayments.
- Recent legislative changes to the Child Support Act 1991 include that liable parents who are employees must have their child support deducted from their salary and wages. This is effective from 1 October 2021. This change is expected to increase repayments.

As noted by the valuer, it is not possible to assess with any certainty the implications of COVID-19 on the value of child support receivables. There will be an impact on parents and it will affect their ability to repay child support. Repayment assumptions used for the valuation reflect a three-year average period prior to the pandemic. As economic conditions progress to a post-pandemic normal in the coming years, there is additional uncertainty in our projections of fair value as past experience may not be exactly indicative of the future in a post-pandemic economic environment.

Changes this year

There have been a number of changes for child support this year:

- Unpaid Crown entitlement has been recognised on the *Schedule of non-departmental* assets at fair value in accordance with PBE IPSAS 23 Revenue from Non-Exchange Transactions. Previously this was not recognised. This change has increased the carrying value of child support receivables by $155 million (nominal value: $257 million). For the 2019–20 comparative, this is estimated to be $141 million (nominal value: $234 million). The comparatives have not been restated.
- An independent external valuer was engaged to value the receivable as at 30 June 2021. In previous years, the valuation was conducted by Inland Revenue.
- A significant number of child support penalties have been written off this year.
- Incremental penalties will no longer be charged following recent legislative changes to the Child Support Act 1991, effective 1 April 2021.

The fair value of child support receivables at 30 June 2021 is $228.050 million, an increase of $148.492 million from last year. This increase is largely due to the recognition of past due Crown entitlement.

Actual 2020 $000		Actual 2021 $000
	Receivables—child support	
1,553,491	Gross receivables	982,540
(1,473,933)	Impairment	(754,490)
79,558	**Carrying value receivables**	**228,050**
	Current and non-current apportionment	
8,320	Receivables—current	71,000
71,238	Receivables—non-current	157,050
79,558	**Carrying value receivables**	**228,050**
	Ageing profile of gross receivables[1]	
23,485	Not due	15,212
	Past due	
3,804	Less than 12 months	11,150
8,308	1–2 years	19,189
1,517,894	Greater than 2 years	936,989
1,530,006	**Total past due**	**967,328**
1,553,491	**Total gross receivables**	**982,540**
98%	% Past due	98%
	Receivables—impairment	
1,525,335	Opening balance	1,473,933
189,978	Impairment losses recognised	290,739
(241,380)	Amounts written off as uncollectable	(1,010,182)
1,473,933	**Closing balance**	**754,490**

[1]Balances as at 30 June 2020 have not been restated in line with the 2021 methodology.

The estimated recoverable amount of this portfolio and the significant assumptions underpinning the valuation of the carrying value receivables are shown below:

Actual 2020		Actual 2021
15,391	Recoverable amount of receivables not due—Crown entitlement ($000)	13,553
–	Recoverable amount of receivables past due—Crown entitlement ($000)	155,345
64,167	Recoverable amount of receivables past due—penalties ($000)	59,152
79,558	**Total carrying value**	**228,050**
N/A	Discount rate	4.00%
N/A	Impact on the recoverable amount of a 1% increase in discount rate ($000)	(13,800)
N/A	Impact on the recoverable amount of a 1% decrease in discount rate ($000)	14,700

Credit risk

The Crown does not hold any collateral or any other credit enhancements over receivables for child support which are past due.

Receivables for child support are widely dispersed over a number of customers and as a result the Crown does not have any material individual concentrations of credit risk.

Note 6. Small Business Cashflow (loan) Scheme

(References to surplus and deficit in this note refer to the surplus and deficit of the *Financial Statements of the Government of New Zealand*).

On 12 May 2020, the Government opened the Small Business Cashflow (loan) Scheme to assist small-to-medium-sized businesses impacted by COVID-19. The scheme is administered by Inland Revenue and provides loans of up to $100,000 to businesses employing 50 or fewer full-time equivalent employees for a maximum loan term of five years. Eligible businesses can borrow $10,000 plus an additional $1,800 per equivalent full-time employee. To be eligible for the loans, borrowers need to declare that they are a viable business, and that they will use the money for core business operating costs.

On 9 November 2020, the scheme was extended to 31 December 2023 and the interest-free conditions were extended from one year to two years, including pre-existing loans.

Loans are interest-free if they are paid back within two years. Otherwise, the interest rate will be 3% per annum for a maximum term of five years. Repayments are not required for the first two years, but voluntary payments can still be made over this period. During months 25 to 60, regular principal and interest payments are required to be paid on outstanding balances.

Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent fair value adjustments, and is responsible for collecting the loan.

Small Business Cashflow Scheme loans are designated at fair value through surplus or deficit under PBE IFRS 9 Financial Instruments.

The difference between the amount of the loan and the fair value on initial recognition is recognised as an expense.

The initial fair value is lower than the amount of the initial loan for a number of reasons, including that:

- repayments are not required for the first two years
- the time value of money will erode the value of future repayments, because there is no interest charged in the first two years
- the interest rate of 3% charged is lower than the market interest rates for loans to small-to-medium-sized businesses
- borrowers may default on their obligations.

At the end of the year, actuarial and predictive models are used to compare the carrying value to the fair value of the loan portfolio and the difference will be recognised in the surplus and deficit of the *Financial Statements of the Government of New Zealand.*

We use the following key terms to help us define loan values:

Fair value	The market value of loans if they could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Nominal value	The total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties.

The nominal and fair values of loans are shown below.

Actual 2020 $000		Actual 2021 $000
–	**Opening fair value**	737,988
1,428,026	Lending	297,749
(685,453)	Fair value write-down on lending	(142,920)
(4,585)	Repayments	(112,360)
–	Interest unwind	119,369
–	Fair value remeasurement	21,000
737,988	**Closing fair value**	**920,826**
	Current and non-current apportionment	
356,000	Small Business Cashflow Scheme loans—current	253,000
381,988	Small Business Cashflow Scheme loans—non-current	667,826
737,988	**Fair value Small Business Cashflow Scheme loans**	**920,826**
	Opening nominal value	1,423,441
1,428,026	Lending	297,749
(4,585)	Repayments	(112,360)
1,423,441	**Closing nominal value**	**1,608,830**

A breakdown of the fair value remeasurement—Small Business Cashflow Scheme loans reported in the *Schedule of non-departmental gains and losses* is set out below:

Actual 2020 $000		Actual 2021 $000
–	Discount rate adjustment	13,000
–	Expected repayment adjustment	8,000
–	**Total fair value remeasurement—Small Business Cashflow Scheme loans**	**21,000**

Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the *Schedule of non-departmental* assets, fair values are determined according to the following hierarchy:

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

Inland Revenue's financial assets as at 30 June 2021 were valued using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and observable inputs (level 2).

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Schedule of non-departmental assets*.

Actual 2020 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2021 $000
	Financial assets	
737,988	Small Business Cashflow Scheme	920,826

The next section provides details on the model, and the table below outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Small Business Cashflow (loan) Scheme valuation model, significant assumptions and uncertainties

At the end of the year, the Small Business Cashflow (loan) Scheme is valued by an independent external valuer using actuarial and predictive models. Inland Revenue provides data to the valuer on borrowing and repayments, and data on borrowers such as industry and region. The data is up to 30 June 2021.

The key assumptions in determining the $921 million fair value of Small Business Cashflow Scheme loans as at 30 June 2021 are the timing of principal and interest repayments and the default rate. The most critical assumption is the default rate of 29.4% which has been explicitly modelled for each industry sector and cross-checked by modelling using market discount rates. An additional cross-check was provided by applying banking capital requirements and a risk-weighted assets assumption to estimate the regulatory capital required for a bank owning these loans. This has enabled a calculation of the hypothetical fair value of the loans to a New Zealand bank.

As noted by the valuer, there are significant uncertainties in estimating the fair value of the scheme. The key uncertainties include:

- the scheme is new and there is limited data to determine the likely repayment default experience
- there are limited reference points to determine discount rates for discounting the cashflows
- there are uncertainties from the impact of COVID-19 on the wider economy or on the specifics of the businesses receiving loans from the scheme
- the uncertain and volatile nature of the future debt repayments.

The modelling and sensitivity analysis undertaken by the valuer notes a wide range of possible fair values, estimated to be +/- 20% of the fair value. This can be expressed as a fair value between $600 million and $1.200 billion.

The significant assumptions and sensitivities behind the fair value are:

2020		2021
	Assumptions	
3.00%	Loan interest rate	3.00%
29.70%	Default rate	29.40%
15.00%	Discount rate	13.00%
	Sensitivities	
(285,000)	Impact on fair value of a 20% increase in the initial fair value write-down ($000)	(60,000)
285,000	Impact on fair value of a 20% decrease in the initial fair value write-down ($000)	60,000
(143,000)	Impact on fair value of a 10% increase in the initial fair value write-down ($000)	(30,000)
143,000	Impact on fair value of a 10% decrease in the initial fair value write-down ($000)	30,000

The loan portfolio is exposed to a variety of financial instrument risks, including credit risk and interest rate risk.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans, causing the scheme to incur a loss. The risk of default has been assumed to be equivalent to a C-grade investment.

The scheme does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the scheme does not have any material individual concentrations of credit risk.

Inland Revenue will use a variety of activities that inform and assist customers to repay their loans and enforce compliance to reduce the risk of non-payment of obligations.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates.

Changes in interest rates impact discount rates. The risk is that if interest rates rise, the value of the scheme will significantly decrease as the discount rates applied to the expected future repayments will be higher, decreasing their value.

Changes in interest rates could also impact on the Government's return on loans advanced. The interest rate attached to the loans is set by the Government.

Note 7. Student loans

(References to surplus and deficit in this note refer to the surplus and deficit of the *Financial Statements of the Government of New Zealand*).

StudyLink (Ministry of Social Development) administers the initial capital lending and issues student loans, which are then transferred to Inland Revenue. Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent fair value adjustments, and is also responsible for the collection of debt.

Student loans are designated at fair value through surplus or deficit under PBE IFRS 9 Financial Instruments.

The difference between the amount of the student loan and the fair value on initial recognition is recognised as an expense. The initial fair value is lower than the amount of the initial student loan for a number of reasons, including that:

- some borrowers will never earn enough to repay their loans
- some overseas-based borrowers will default on their payment obligations
- because there is no interest charged on New Zealand-based borrowers' balances, the time value of money will erode the value of future repayments.

At the end of the year, actuarial models are used to compare the carrying value to the fair value of the student loan portfolio and the difference is recognised in the surplus and deficit of the *Financial Statements of the Government of New Zealand*. Details of the models are provided later in this note.

We use the following key terms to help us define student loan values:

Fair value	The market value of student loans if they could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Nominal value	The total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties.

The nominal and fair values of student loans are shown below.

Actual 2020 $000		Actual 2021 $000
10,730,696	**Opening fair value**	10,394,584
(1,477,268)	Repayments	(1,494,745)
1,412,774	Borrowings transferred from Ministry of Social Development	1,430,689
(506,118)	Fair value write-down on new borrowings	(468,594)
(97,000)	Fair value remeasurements	745,000
330,993	Interest unwind	234,551
507	Other	–
10,394,584	**Closing fair value**	**10,841,485**
	Current and non-current apportionment	
1,256,000	Student loans—current	1,355,000
9,138,584	Student loans—non-current	9,486,485
10,394,584	**Fair value student loans**	**10,841,485**
16,033,775	**Opening nominal value**	16,134,561
1,412,774	Borrowings transferred from Ministry of Social Development	1,430,689
(1,477,268)	Repayments	(1,494,745)
86,795	Interest on overseas-based borrowers	92,836
24,192	Administration and establishment fees	21,996
98,294	Penalties	116,368
(44,394)	Death and bankruptcies	(41,222)
(114)	Voluntary repayment bonus	–
507	Other	–
16,134,561	**Closing nominal value**	**16,260,483**

Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the *Schedule of non-departmental assets*, fair values are determined according to the following hierarchy:

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

Inland Revenue's financial assets as at 30 June 2021 were valued using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and observable inputs (level 2).

The following table analyses the basis of the valuation of classes of financial instruments measured at fair value in the *Schedule of non-departmental assets.*

Actual 2020 $000	Valuation technique Level 3—significant non-observable inputs	Actual 2021 $000
	Financial assets	
10,394,584	Student loans	10,841,485

The next section provides details on the model, and the table on page 183 outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Student loan valuation model

At the end of the year, the student loan portfolio is revalued to fair value by an independent external valuer using actuarial models. Stats NZ collates most of the data for the actuarial valuation model from Inland Revenue, the Ministry of Education and the Ministry of Social Development. The data is made up of borrowings, repayments, income, educational factors and socio-economic factors. It is current up to 31 March 2020. In addition, supplementary data from Inland Revenue and the New Zealand Customs Service, about loan transactions and borrowers' cross-border movements for the period up to 31 March 2021, is also included.

The fair value movement, recognised in the surplus and deficit, relates to changes in discount rate and a reassessment of the expected repayments of loans.

The fair value movement at 30 June 2021 is an increase of $745 million. This increase incorporates the following changes to the fair value:

- The discount rate adjustments have increased the value of the scheme by $221 million (2020: $343 million). This is largely due to risk free rate and risk premium changes. The discount rates used for determining the fair value are equal to the Treasury's prescribed risk-free rates for accounting valuations plus a risk premium. Since 30 June 2020, risk free rates have increased, which has decreased the fair value of the student loan portfolio by $448 million. The risk premium decreased from 2.66% to 1.65%, which is in line with market data, increasing the fair value by $612 million. The market spreads have been gradually reducing back to pre-COVID-19 levels.
- Adjustments for the impact of COVID-19 increase the fair value by $230 million (2020: $507 million decrease). It is now expected that fewer borrowers will be adversely impacted by COVID-19. Since the 2020 June valuation, more data on overseas repayments has been available to assist with reviewing the COVID-19 allowances. In summary, the New Zealand economy has shown remarkable resilience to date. In terms of unemployment, there are specific regions and industries that have suffered more than others. On aggregate, the previously assumed spike in unemployment has not materialised to date and the Treasury does not expect this spike to happen in the latest forecasts. The Treasury's expectations around when border restrictions will ease, and when net migration will return to pre-COVID-19 levels, remain unchanged (migration is assumed to return to its normal patterns from 1 April 2022). Finally, for overseas repayments, there is no indication of a decline or any evidence of deterioration in overseas compliance so far. The adjustment includes:
  - Updated modelling assumptions for employment have increased the value by $102 million. The actual experience for the first year of our COVID-19 allowance, which is the period 1 April 2020 to 31 March 2021, has been positive, indicating little impact from COVID-19 to date on student loan repayments. The consequence is that fewer borrowers are predicted to be unemployed or underemployed as at 31 March 2021 than originally expected. This in isolation has increased the fair value by $48 million. The explicit allowances in the models have been reduced for a shock to future employment outcomes by 33%, which increased the fair value by $54 million. This impact relates to 1 April 2021 and onwards. The migration allowance and the provision for a potential deterioration in overseas compliance in unchanged.
  - Updated macroeconomic assumptions have increased the fair value by $128 million (2020: $131 million decrease), of which $106 million relates to updated salary assumptions. Salary inflation assumptions have mostly increased this year, resulting in higher projected domestic incomes, domestic borrower obligations and repayments.
- Other expected repayment adjustments have increased the value of the student loan portfolio by $80 million (2020: $27 million increase).
- Other modelling changes, including the roll forward of data, increased the impaired value by $173 million (2020: $16 million).

A breakdown of the fair value remeasurement—student loans reported in the *Schedule of non-departmental gains and losses* is set out below.

Actual 2020 $000		Actual 2021 $000
36,000	Repayment collection allowance	37,000
548,000	Risk free rates	(391,000)
(205,000)	Risk premium	612,000
343,000	Discount rate adjustment	221,000
(276,000)	COVID-19 impacts—model changes	54,000
–	Experience variance	48,000
(131,000)	Macroeconomic effects	128,000
(100,000)	COVID-19 impacts—provision	–
(507,000)	*Expected repayment adjustment—impacts of COVID-19*	230,000
(10,000)	Expense assumption	4,000
25,000	Experience variance	80,000
16,000	Data and modelling changes	173,000
31,000	*Expected repayment adjustment*	257,000
(97,000)	**Total fair value remeasurement—student loans**	**745,000**

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. The fair value is sensitive to changes in a number of underlying assumptions and judgements, including future income levels, repayment behaviour and macroeconomic factors, such as inflation and discount rates. As noted by the valuer, it is not possible to assess with any certainty the implications of COVID-19 on the fair value of the scheme or the economy as a whole, in terms of the length or degree of impact. There is a small amount of data available to determine the impact of COVID-19 and the modelling adjustments made involve significant judgement and were based on input from the Treasury and other experts. For these reasons, the valuation has a high degree of inherent uncertainty and there is a significant risk of material adjustment to the fair value in future accounting periods. The key risks are as follows:

- Before COVID-19, there were improvements in overseas compliance. We expect that overseas compliance will deteriorate as a result of COVID-19, but there has been no evidence of deterioration so far. There is a risk that the deterioration is underestimated in the valuation.
- The model assumes that low-earner borrowers will remain low earners for the same duration in the future as they do currently. There is a risk that this group will increase due to COVID-19 and rising unemployment. If the length of time that borrowers remain low earners increases, a decrease in fair value may result.
- The proportion of borrowers becoming low earners (that is, earning below $29,600 per annum) continues to be above 50% for those studying lower-level certificates. If this trend continues, long-term earners not in substantive employment will increase and a decrease in fair value may result.
- The modelling for migration is based on a four-year average of cyclical migration trends rather than current peaks and troughs in migration. This year, explicit modelling has been done for COVID-19. There is a risk that migration trends may be different to what has been modelled and, therefore, impact on the fair value.
- There have been substantial changes in key data sources used for the valuation model as a result of the implementation of the new START system delivered by Inland Revenue's transformation programme. A number of data issues were identified and fixed during the valuation process, but there is a risk that additional errors may be identified in the future.
- The risk premium methodology will be reviewed in 2021–22 (delayed from 2020–21). A change in methodology is a possibility and may have a significant impact on the fair value.

The significant assumptions and sensitivities behind the fair value are:

2020		2021
	Assumptions	
10,394,584	Fair value ($000)	10,841,485
4.03%	Discount rate	3.95%
1.9%–5.0%	Interest rate applied to loans for overseas-based borrowers	2.4%–5.0%
0.53%–2.0%	Consumer Price Index	1.16%–2.38%
0.03%–3.52%	Future salary inflation	2.43%–4.49%
	Sensitivities	
109,000	Impact on fair value of a 1% increase in average wage earnings inflation over five years ($000)	109,000
(114,000)	Impact on fair value of a 1% decrease in average wage earnings inflation over five years ($000)	(113,000)
121,000	Impact on fair value of a 2.5% increase in overseas-based borrowers making repayments ($000)	153,000
(128,000)	Impact on fair value of a 2.5% decrease in overseas-based borrowers making repayments ($000)	(160,000)
(602,000)	Impact on fair value of a 1% increase in discount rate ($000)	(598,000)
674,000	Impact on fair value of a 1% decrease in discount rate ($000)	668,000
65,000	Impact on fair value of 1% increase in borrowers going overseas ($000)	67,000
(23,000)	Impact on fair value of 1% decrease in borrowers going overseas ($000)	(38,000)
47,000	Impact on fair value of 1% increase in borrowers returning to New Zealand ($000)	46,000
(52,000)	Impact on fair value of 1% decrease in borrowers returning to New Zealand ($000)	(53,000)
70,000	Impact on fair value of 1% increase in borrowers moving from low earner to high earner ($000)	71,000
(65,000)	Impact on fair value of 1% decrease in borrowers moving from low earner to high earner ($000)	(65,000)

The student loan portfolio is exposed to a variety of financial instrument risks, including credit risk and interest rate risk.

Credit risk

Credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss. The risk of death or default cannot be quantified.

The Student Loan Scheme does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the Student Loan Scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by the collection of compulsory repayments through the tax system. This is less effective with overseas-based borrowers. Many New Zealand-based borrowers earning over the income threshold have compulsory deductions from salary and wages to repay their loans. Overseas-based borrowers are required to make repayments twice a year based on their loan balance. Inland Revenue uses a variety of communications and campaigns to reduce the risk of non-payment of obligations.

Loans are written off on death, for hardship, bankruptcies and in other special circumstances.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates.

Changes in interest rates impact discount rates. The risk is that if interest rates rise, the value of the scheme will significantly decrease as the discount rates applied to the expected future repayments will be higher, decreasing their value.

Changes in interest rates could also impact on the Government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the Government.

Performance of the scheme

A detailed explanation and insight into the performance of the scheme is available in the Student Loan Scheme Annual Report at:

https://www.educationcounts.govt.nz

Crown liabilities we are managing

Note 8. Refundables and payables

Refundables and payables are financial liabilities and are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to customers.

KiwiSaver payable represents contributions to be forwarded to scheme providers at balance date.

Actual 2020 $000		Actual 2021 $000
4,074,176	Taxes refundable	4,432,472
934,792	KiwiSaver payable	938,487
9,908	Paid parental leave payable	13,170
5,018,876	**Total refundables and payables**	**5,384,129**

Note 9. Unclaimed monies

Under the Unclaimed Money Act 1971, entities (for example, financial institutions and insurance companies) transfer money not claimed after six years to Inland Revenue. The funds are repaid to the entitled owner on proof of identity.

Note 10. Reserve schemes

Actual 2020 $000		Actual 2021 $000
226,041	Income equalisation	272,812
47,271	Environmental restoration	48,693
273,312	**Total reserve schemes**	**321,505**

The income equalisation scheme allows customers in the farming, fishing and forestry industries to make payments during the year by way of income equalisation deposits. Interest is paid at a rate of 3% per annum if a deposit is left in the scheme for a period of more than 12 months.

The environmental restoration account allows businesses to set aside money to cover costs for monitoring, avoiding, remedying or mitigating any detrimental environmental effects which may occur in later years. Interest is calculated at a rate of 3% per annum and is payable from the day after the deposit is made until the day before a refund is made. Refunds will be made when the environmental restoration costs are incurred.

Crown contingencies we are managing

Note 11. Contingencies

Contingent liabilities and assets are recorded in the *Schedule of non-departmental contingent liabilities and contingent assets* at the point at which the contingency is probable and can be reasonably estimated. Contingent liabilities are disclosed if it is probable that they will occur. Contingent assets are disclosed if it is probable that the benefits will be realised.

Contingent liabilities

Legal proceedings and disputes—assessed

If a legal case is still not resolved at the end of the disputes process, Inland Revenue will issue an amended assessment to the customer and recognise revenue and a contingent liability. The customer is then able to file proceedings with the Taxation Review Authority or the High Court disputing the assessment.

Unclaimed monies

Unclaimed monies are repaid to the entitled owner on proof of identity. Based on trends from prior years, the estimated likely amount of unclaimed monies that will be paid is recorded as a liability in the *Schedule of non-departmental liabilities* and the remainder is recorded as a contingent liability in the *Schedule of non-departmental contingent liabilities and contingent assets*.

Contingent assets

Disputes—non-assessed

Contingent assets arise as part of the tax dispute process, for example when Inland Revenue has advised a customer of a proposed adjustment to their tax assessment through a notice of proposed adjustment (NOPA). At this point, Inland Revenue has not issued an amended assessment and no revenue has been recognised so these adjustments are recorded in the *Schedule of non-departmental contingent liabilities and contingent assets* as disputes—non-assessed. The customer has the right to dispute this adjustment and a disputes resolution process is entered into. Inland Revenue records a contingent asset based on the cash likely to be received from the disputes process, based on experience and similar prior cases, net of losses carried forward.

Contingent assets can also arise where the customer has not filed an assessment, but Inland Revenue believes they are liable for tax. In this situation, Inland Revenue will issue an assessment. Where the customer chooses to dispute the Inland Revenue-initiated assessment, the assessment is not recognised as revenue and a contingent asset is recorded in the *Schedule of non-departmental contingent liabilities and contingent assets*. The value of the asset is based on the likely collectable portion of the default assessment, net of losses carried forward.

Other disclosures

Note 12. Collection of earner levy

Inland Revenue collects these levies on behalf of the Accident Compensation Corporation (ACC) and passes the monies directly to them. The levies are not recognised as revenue or expenditure in the non-departmental schedules. In 2020–21, ACC paid Inland Revenue $14 million for these services.

Actual 2020 $000		Actual 2021 $000
1,859,335	Earner levy	1,880,112
1,859,335	**Total collection of earner levy**	**1,880,112**

Note 13. Events after balance date

There have been ongoing impacts of COVID-19 on economic activity—through alert levels, border restrictions and lockdowns—since balance date. These impacts create uncertainties on the assumptions used for estimations and asset valuations. Please refer to the note disclosures for details of the assumptions, uncertainties, and associated sensitivities.

There have been no other significant events after balance date.

Independent Auditor's Report
Pūrongo Kaitātari Pūtea Tōkeke

Independent Auditor's Report

To the readers of Inland Revenue Department's annual report for the year ended 30 June 2021

The Auditor-General is the auditor of Inland Revenue Department (Inland Revenue). The Auditor-General has appointed me, Kelly Rushton, using the staff and resources of Audit New Zealand, to carry out, on his behalf, the audit of:

- the financial statements of Inland Revenue on pages 115 to 146, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2021, the statement of comprehensive revenue and expense, statement of changes in taxpayers' funds, and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information;
- the performance information prepared by Inland Revenue for the year ended 30 June 2021 on pages 65 to 99;
- the statements of expenses and capital expenditure of Inland Revenue for the year ended 30 June 2021 on pages 108 to 112; and
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 150 to 186 that comprise:
    - the schedules of assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2021;
    - the schedules of expenses; and revenue for the year ended 30 June 2021;
    - the statement of trust monies for the year ended 30 June 2021; and
    - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of Inland Revenue on pages 115 to 146:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2021; and
        - its financial performance and cash flows for the year ended on that date; and
    - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards.
- the performance information of Inland Revenue on pages 65 to 99:
    - presents fairly, in all material respects, for the year ended 30 June 2021:
        - what has been achieved with the appropriation; and
        - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
    - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of Inland Revenue on pages 108 to 112 are presented fairly, in all material respects, in accordance with the requirements of section 45A of the Public Finance Act 1989.
- the schedules of non-departmental activities which are managed by Inland Revenue on behalf of the Crown on pages 150 to 186 present fairly, in all material respects, in accordance with the Treasury Instructions:
    - the assets; liabilities; commitments; and contingent liabilities and assets as at 30 June 2021; and
    - expenses; and revenue for the year ended 30 June 2021; and
    - the statement of trust monies for the year ended 30 June 2021.

Our audit was completed on 29 September 2021. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the significant uncertainties with some transactions and balances that are included in the schedules of non-departmental activities. In addition, we outline the responsibilities of the Commissioner and our responsibilities relating to the information to be audited, we comment on other information, and we explain our independence.

Emphasis of matter – Significant uncertainties

Without modifying our opinion, we draw attention to the following matters in the non-departmental statements and schedules.

- **Estimation of income tax revenue for companies and other persons**
  Note 2 on page 163 and note 3 on page 166 outline the significant uncertainties, assumptions, and sensitivities in estimating income tax

revenue for companies and other persons for the year ended 30 June 2021. The methodology used to estimate income tax revenue for companies and other persons is based on uncertain macroeconomic forecasts about how the economy will perform in the future, the impact of Covid-19 on the economy, and how those forecasts relate to income tax revenue for companies and other persons.

- **Tax receivables**
  Note 2 on page 163 and note 4 on page 169 outline the significant uncertainties, assumptions, and sensitivies in estimating the value of tax receivables and associated impairment as at 30 June 2021. The impairment of tax receivables is calculated based on expected future repayments, which is uncertain and volatile due to economic factors. As noted by Inland Revenue's external valuer, it is not possible to assess with any certainty the implications of Covid-19 on the value of tax receivables or the economy as a whole.
- **Small Business Cashflow (loan) Scheme**
  Note 2 on page 163 and note 6 on page 176 outline the significant uncertainties, assumptions and sensitivities in estimating the fair value of the Small Business Cashflow (loan) Scheme (the Scheme) loan portfolio as at 30 June 2021. As noted by Inland Revenue's external valuer, there are significant uncertainties in estimating the fair value of the Scheme because there is limited data to determine likely repayment default experience, and how Covid-19 will impact the businesses receiving loans.
- **Student loans**
  Note 2 on page 163 and note 7 on page 179 outline the significant uncertainties, assumptions, and sensitivities in estimating the fair value of the student loan portfolio as at 30 June 2021. The fair value is based on expected future income levels and debt repayments, which is uncertain due to macroeconomic factors. As noted by Inland Revenue's external valuer, it is not possible to assess with any certainty the implications of Covid-19 on the fair value of the student loan portfolio or the economy as a whole.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Commissioner for the information to be audited

The Commissioner is responsible on behalf of Inland Revenue for preparing:

- financial statements that present fairly Inland Revenue's financial position, financial performance, and its cash flows, and that comply with generally accepted accounting practice in New Zealand.
- performance information that presents fairly what has been achieved with each appropriation, the expenditure incurred as compared with expenditure expected to be incurred, and that complies with generally accepted accounting practice in New Zealand.
- statements of expenses and capital expenditure of Inland Revenue, that are presented fairly, in accordance with the requirements of the Public Finance Act 1989.
- schedules of non-departmental activities, in accordance with the Treasury Instructions, that present fairly those activities managed by Inland Revenue on behalf of the Crown.

The Commissioner is responsible for such internal control as is determined is necessary to enable the preparation of the information to be audited that is free from material misstatement, whether due to fraud or error.

In preparing the information to be audited, the Commissioner is responsible on behalf of Inland Revenue for assessing the Department's ability to continue as a going concern. The Commissioner is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to merge or to terminate the activities of Inland Revenue, or there is no realistic alternative but to do so.

The Commissioner's responsibilities arise from the Public Finance Act 1989.

Responsibilities of the auditor for the information to be audited

Our objectives are to obtain reasonable assurance about whether the information we audited, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of the information we audited.

For the budget information reported in the information we audited, our procedures were limited to checking that the information agreed to Inland Revenue's Statement of Intent 2018-2022, the relevant Estimates and Supplementary Estimates of Appropriations 2020/21, and the 2020/21 forecast financial figures included in Inland Revenue's 2019/20 Annual Report.

We did not evaluate the security and controls over the electronic publication of the information we audited.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the information we audited, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Inland Revenue's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commissioner.
- We evaluate the appropriateness of the reported performance information within Inland Revenue's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Commissioner and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Inland Revenue's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the information we audited or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Inland Revenue to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the information we audited, including the disclosures, and whether the information we audited represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Commissioner regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Commissioner is responsible for the other information. The other information comprises the information included on pages 1 to 64, 100 to 107, 114, 148, 149, 191 to 204 but does not include the information we audited, and our auditor's report thereon.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of Inland Revenue in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than in our capacity as auditor, we have no relationship with, or interests, in Inland Revenue.

Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Additional information
Taipitopito anō

Delegations outside the Public Service

In accordance with Schedule 6 of the Public Service Act 2020, we are required to report on situations where the Commissioner has delegated any of her powers outside the Public Service.

Westpac

The Commissioner has delegated powers under the Treasury Delegations to Westpac's Corporate and Institutional Banking Unit to enable it to effectively manage the movement of payments received in Inland Revenue's Australian WBC Account (Payments) to Inland Revenue's Westpac New Zealand Account. This delegation allows Westpac to transfer the Payments out of Inland Revenue's WBC Australia Account to Inland Revenue's Westpac New Zealand AUD Account, apply the foreign exchange rate to the AUD amount and then transfer the NZD amount to Inland Revenue's Westpac New Zealand Account. This delegation has been operating as intended in line with the contractual arrangements with Westpac.

Callaghan Innovation

Callaghan Innovation and Inland Revenue act in partnership to determine entitlement to the Research and Development Tax Incentive (RDTI). To fully enable discussions with customers, agents and experts in relation to applications for the RDTI, the Commissioner has delegated powers to share information under section 18 of the Tax Administration Act 1994 to staff in Callaghan Innovation who consider RDTI applications. This delegation is limited to information that relates to RDTI applications and has been working as intended.

Information sharing with the Department of Internal Affairs (DIA)

Under information-sharing regulations, Inland Revenue must report annually, for this approved information-sharing agreement, on actions taken during the financial year.

In July 2021, the operation of this approved information-sharing agreement was reviewed. It assessed the adequacy of controls in place to ensure compliance with section 11 of the most current Approved Information-Sharing Agreement (AISA). The review confirmed that we are operating in accordance with the terms and conditions of the current AISA and the Memorandum of Understanding (MOU).

A copy of the approved information sharing agreement is available to view on our website, https://www.ird.govt.nz/about-us/information-sharing/information-sharing/dia

	Financial year ending 30 June 2020	Financial year ending 30 June 2021
Contact records received from DIA	486,165	99,049
Contact records not matched to a corresponding Inland Revenue record for: • overseas-based child support debtors • overseas-based child support non-debtors who do not appear to have up-to-date contact information • overseas-based student loan defaulters	471,765	95,125
Contact records matched to corresponding Inland Revenue records for:		
• overseas-based child support debtors	1,406	23
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	428	381
• overseas-based student loan defaulters	9,154	3,027
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	3,412	493
Ongoing programme operating costs[1]	$1,728	$1,728
Individuals successfully contacted[2] using contact records matched to:		
• overseas-based child support debtors	79 (6%)	0 (0%)
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	34 (8%)	5 (1.3%)
• overseas-based student loan defaulters	688 (8%)	37 (1.2%)
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information	544 (16%)	10 (2%)
Payments received from individuals as a result of successful contact with:		
• overseas-based child support debtors	108 ($21,423)	0 ($0)
• overseas-based student loan defaulters	1,159 ($626,526)	16 ($1,336)
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Inland Revenue:		
• overseas-based child support debtors	0.7% (10 individuals)	0% (0 individuals)
• overseas-based student loan defaulters	4.4% (401 individuals)	0% (12 individuals)

[1] Approximate annual incidental administrative charge.

[2] From 3,924 matches, we have made attempts to contact 152 individuals and 52 have passed our identity verification process.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

Information sharing with New Zealand Police, New Zealand Customs Service and Serious Fraud Office

Our approved information-sharing agreement (AISA) with New Zealand Police, New Zealand Customs Service and Serious Fraud Office sets out key activities that we need to report on each year in our annual report.

Under sections 154(1)(b), 155 and 156 of the Privacy Act 2020, the Privacy Commissioner has specified the following reporting in respect of the AISA for: supply of information for the purpose of prevention, detection, investigation or providing evidence of serious crime. A copy of the AISA is available at:

https://www.ird.govt.nz/about-us/information-sharing/information-sharing/nz-police

Information shared - 1 July 2020 to 30 June 2021

Please note that the Memorandum of Understanding with the New Zealand Customs Service and the Serious Fraud Office was signed in December 2020, so the sharing with those agencies started from January 2021 onwards.

Description	Serious Fraud Office	New Zealand Customs Service	New Zealand Police	
	2020–2021	2020–2021	2019–2020	2020–2021
Number of requests for information made by the agency	6	1	203	332
Number of responses with information provided by Inland Revenue to the agency	6	1	198	315
Number of occasions Inland Revenue proactively provided information to the agency	1	1	5	4

Costs

The estimated cost of the sharing agreement for the year ended 30 June 2021:

- New Zealand Police–$14,693.12
- Serious Fraud Office–$1,188.00
- NZ Customs–$272.00.

Benefits

The number of times that information provided by Inland Revenue has been used in a case with a resolution of:

Description	Serious Fraud Office	New Zealand Customs Service	New Zealand Police	
	2020–2021	2020–2021	2019–2020	2020–2021
No offence			27	75
Prosecution	4		69	92
Warning			1	1
Still under investigation	2	1	104	147
No response received (still in progress)			2	17
Total	6	1	203	332

Warning, diversion and youth case action do not apply as the AISA focuses on serious offending and these possible resolutions are for lower-level offending which fall below the serious crime threshold.

Assurance

An internal Critical Task Assurance Review is applied across a selection of information requests and proposed responses. There have been no instances identified of information being shared contrary to the AISA.

Amendments

The information-sharing agreement between Inland Revenue and New Zealand Police has been extended to include the Serious Fraud Office and the New Zealand Customs Service. A new AISA negotiated between parties was signed in July 2020 and enacted in October 2020.

Information sharing with the Ministry of Social Development (MSD)

Under sections 154(1)(b), 155 and 156 of the Privacy Act 2020, the Privacy Commissioner has specified the following reporting in respect of the approved information-sharing agreement listed in schedule 2A of the Privacy Act between Inland Revenue and the Ministry of Social Development (MSD) to facilitate the following public services:

(a) The accurate and efficient assessment of eligibility for, and entitlement to, benefits and subsidies;

(b) The accurate and efficient assessment and enforcement of tax obligations, including recovering any associated debt; and

(c) The accurate and efficient assessment and enforcement of obligations relating to benefits and subsidies, including recovering any associated debt.

Inland Revenue will collate the following information annually (for the period between 1 July and 30 June) and report the information in its annual report for that year:

Scale

Metric	Shares derived from:	2019–2020	2020–2021
Administration of shared services:			
Number of records disclosed (MSD to Inland Revenue)	Commencement Cessation benefits/students	1,081	610
	Housing Share	Note[1]	Note[1]
	Child support administration	94,378[2]	94,378[2]
	Student Loan Programme	5,547,303[3]	24,531,906
Administration of social assistance:			
Number of records disclosed (Inland Revenue to MSD)	Community Service Card	5,908,889	3,066,557
	Commencement Cessation benefits/students	1,081	610
	Proactive Information Share—benefits and students	429,025	303,626
	Housing Share	Note[1]	Note[1]
	Child support administration	402,047[2]	402,047[2]
	Student Loan Programme	42,450[3]	387,504

Benefits (Quantitative)

Metric	Shares derived from:	2019–2020	2020–2021
Administration of shared services (Inland Revenue):			
Number of services automatically transferred	Working for Families Tax Credit (WfFTC) administration	21,583	19,667
Value of services stopped (over-payments)	WfFTC double payment (number)	1,170	995
	WfFTC double payment (value)	$241,017	Note[5]
Administration of social assistance (MSD) (across product range):			
Services offered or renewed (number)	Community Services Card	203,992	415,134
Service cancellations (number)	Proactive Information Share—benefits and students	725	33
	Housing Share	Note[1]	Note[1]
Adverse action notices (number sent)	Community Services Card	0	14,473
	Commencement Cessation benefits/students	4	1
	Proactive Information Share—benefits and students	43,930	15,985[4]
	Housing Share	Note[1]	Note[1]
Challenges (number received and number upheld)	Community Services Card (received)	0	75
	Community Services Card (upheld)	0	23
	Commencement Cessation benefits/ students (received)	0	0
	Commencement Cessation benefits/ students (upheld)	0	0
	Proactive Information Share—benefits and students (received)	171	176
	Proactive Information Share—benefits and students (upheld)	79	36
	Housing Share (received)	Note[1]	Note[1]
	Housing Share (upheld)	Note[1]	Note[1]

Benefits (Quantitative) cont.

Metric	Shares derived from:	2019–20	2020–21
Over-payments established (number and value)	Commencement Cessation benefits/students (number)	0	0
	Commencement Cessation benefits/students (value)	$0	$0
	Proactive Information Share—benefits and students (number)	10,971	5,247
	Proactive Information Share –benefits and students (value)	$25,780,688	$12,363,552
	Housing Share (number)	Note[1]	Note[1]
	Housing Share (value)	Note[1]	Note[1]
Arrears created (number and value)	Commencement Cessation benefits/students (number)	0	0
	Commencement Cessation benefits/students (value)	$0	$0
	Proactive Information Share—benefits and students (number)	14	0
	Proactive Information Share—benefits and students (value)	$1,637	$0
	Housing Share (number)	Note[1]	Note[1]
	Housing Share (value)	Note[1]	Note[1]
Referrals for suspected fraud (number)	Proactive Information Share –benefits and students	0	0
	Housing Share	Note[1]	Note[1]
Prosecutions successful (number)	Proactive Information Share—benefits and students	10	5
	Housing Share	Note[1]	Note[1]

Notes

[1] Housing Shares not yet commenced—MSD's intention was to improve how it delivers services to customers by expanding the information sharing with Inland Revenue in this area. Due to other Ministry priorities, resources to implement these changes have not yet been prioritised.

[2] Estimated (as agreed with the Office of the Privacy Commissioner).

[3] Transactions recorded in Inland Revenue's START system that occurred between 16 April and 30 June 2020. Due to data migration as part of Inland Revenue's business transformation programme, the whole year could not be reported on.

[4] The programme was on hold for most of the year, as MSD staff were diverted to other priority COVID-19 related tasks, resulting in a reduction in proactive information share (records were still received from Inland Revenue). The figure reported for 'Proactive Information Share–benefits and students' means 'Clients with a case or an investigation created'. An adverse action letter may not need to be sent to the client in all situations and multiple letters may be sent in some situations.

[5] The $ value of the Working for Families Tax Credit double payment could not be assessed due to a change of reporting system.

Qualitative benefits

In the 2020–21 year:

- The information sharing under this AISA has effectively helped MSD to assess eligibility for Community Services Cards and benefits and identify over-payments. It is also the most effective way for Inland Revenue and MSD to ensure customers receive their correct Working for Families Tax Credit entitlements.
- There have been no data breaches under the AISA.
- Data was continually shared through the period. However, it was not reviewed by MSD as a result of resources being diverted to the COVID- 19 response, which impacted both the Commencement Cessation Benefits/Student Match and Proactive Information Share.

Assurance

In the 2020–21 year:

- MSD and Inland Revenue have received no privacy complaints about the operation of the information sharing under the AISA.
- There has been no change to the Order in Council.

Information sharing with approved credit reporting agencies

In the year ended 30 June 2021, the Commissioner did not communicate any taxpayer information to an approved credit reporting agency.

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Appendix 1: Glossary

Term	Definition
Advance pricing agreements	A co-operative approach to addressing transfer pricing compliance. They produce significant time and cost savings and certainty of outcomes for both tax authorities and multinationals in comparison with adversarial audits. APAs encourage taxpayer compliance and early resolution of potential disputes.
Appropriation	A parliamentary authorisation for the Government or an Office of Parliament to incur expenses or capital expenditure. Expenditure can only be incurred under an appropriation or other statutory authority.
Approved information-sharing agreement (AISA)	A tool that allows government agencies to provide efficient and effective public services through collaborating and sharing information, without intruding on people's rights or exposing agencies to risk. Approved information-sharing agreements are listed in Schedule 2 of the Privacy Act 1993. See: https://privacy.org.nz/privacy-for-agencies/information-sharing/
Automatic Exchange of Information (AEOI)	Refers to the new global Standard for Automatic Exchange of Financial Account Information in Tax Matters, which aims to fight offshore tax evasion. Automatic Exchange of Information involves financial institutions collecting details of financial accounts held by non-residents and passing that information to us so that we can then pass it on to the relevant country.
Automatic individual income tax assessments	We automatically calculate income tax assessments for individual customers if we have all their income information (income from employment, investments such as bank deposits or savings interest or a benefit under an employment share scheme) for the tax year.
Base erosion and profit shifting (BEPS)	Refers to when multinational organisations avoid tax by using gaps and mismatches in different countries' tax rules to shift profits to countries where they have little or no tax to pay.
Bright-line rule	People who sell a residential property within five years of buying it must pay income tax on any gains, unless the property was their main home or another exemption applies.
Cabinet	The group of Government Ministers who make the Government's significant decisions. Cabinet is chaired by the Prime Minister.
Crown	All Ministers and all departments, the State as a whole.
Customer-centric	Putting our customer at the centre of everything we do. This gives us a better approach to designing new and existing services, and guides us on where to focus effort and resources and ways to reach customers in an appropriate manner.
Estimates of Appropriations	Detailed documents in which the Government sets out its spending plans for the coming financial year. The Estimates are presented to Parliament, which then approves them through an Appropriation Bill. (Full name: Estimates of Annual Appropriations for the Government of New Zealand.)
Financial Action Task Force	The global money laundering and terrorist financing watchdog. The inter-governmental body sets international standards that aim to prevent these illegal activities and the harm they cause to society. As a policy-making body, the FATF works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.
FIRST	Our legacy integrated and generic tax processing engine, which has been replaced by the START system.

High-wealth individuals	Individuals or family groups with: • control of more than $50 million in wealth or • control of more than $20 million in wealth where they control significant enterprises with turnover greater than $300 million or • substantial wealth in property development or complex business structures where minimal tax is paid relative to wealth.
Integrity of the tax system	At all times, we need to make sure we are protecting the integrity of the tax system, which section 6(2) of the Tax Administration Act 1994 defines as follows: (2) Without limiting its meaning, the integrity of the tax system includes— (a) Taxpayer perceptions of that integrity; and (b) The rights of taxpayers to have their liability determined fairly, impartially, and according to law; and (c) The rights of taxpayers to have their individual affairs kept confidential and treated with no greater or lesser favour than the tax affairs of other taxpayers; and (d) The responsibilities of taxpayers to comply with the law; and (e) The responsibilities of those administering the law to maintain the confidentiality of the affairs of taxpayers; and (f) The responsibilities of those administering the law to do so fairly, impartially, and according to law.
Intelligence-led	Means our people can access the right information at the right time, use and share it efficiently and work in collaborative and flexible ways.
Investor Confidence Rating (ICR)	A Treasury-led assessment of government agencies' investment and asset management. The Investor Confidence Rating shows the level of confidence that investors (such as Cabinet and Ministers) can have in an agency's ability to deliver an investment result. It also shows where investment management capability and performance can be lifted. The Investor Confidence Rating uses a rating scale from A to E. See: www.treasury.govt.nz/statesector/investmentmanagement/review/icr
LGBTQIA+	The LGBTQIA+ is a community and includes people who identify as takatāpui, lesbian, gay, bisexual, queer, heterosexual, intersex, female, male, transsexual or transgender.
Loss carry-back scheme	A temporary scheme that lets businesses expecting a loss in either the 2020 or 2021 year to offset that loss against income in the previous year and receive a refund of some or all of the tax paid in that previous year.
Māhutonga	Our new strategic approach to how we engage with Te Tiriti o Waitangi and how we work with Māori.
Maihi Karauna	The Crown's Strategy for Māori Language Revitalisation. It outlines what the Crown will do to support a strong, healthy, thriving Māori language in New Zealand.
Multi-category appropriation (MCA)	A single appropriation made up of multiple categories (which can be different types of expenditure, including output expenses, other expenses and non-departmental capital expenditure) that all contribute to the same overarching purpose. Multi-category appropriations allow greater flexibility.
myIR	Our online customer service portal that enables our customers to access and review their tax information online.

Organisation for Economic Co-operation and Development (OECD)	Provides a forum in which the governments of 35 member countries can work together to share experiences and seek solutions to common problems. Promotes policies that will improve the economic and social wellbeing of people around the world. See: www.oecd.org
People capability	The skills, knowledge, experience and attributes required to achieve our outcomes.
Prescribed Investor Rate (PIR)	The tax rate that a multi-rate PIE (MRP) uses to work out tax on income from an investment. PIRs are only provided when investing in an MRP.
Public rulings	Inland Revenue's interpretation of how a tax law applies to a particular arrangement and provides certainty on tax positions to the applicant. If a binding ruling applies to a taxpayer and they follow it, we are bound by it and must apply the tax consequences per the ruling.
Rainbow Tick	A certification mark for organisations that complete a diversity and inclusion assessment process. The certification process tests whether a workplace understands and welcomes sexual and gender diversity. The process involves an ongoing quality improvement process.
Residential ring-fencing	When people own a rental property, they're likely to have maintenance and administrative costs. Some or all of these costs can be claimed against rental income. Customers can claim deductions up to the amount of rental income they earn in a year (including income from the sale of a property). This is called 'ring-fencing'. Because rental deductions can now only be claimed against rental income, customers can no longer offset excess deductions against other income such as salary or wages.
Small Business Cashflow (loan) Scheme	A loan available to eligible organisations and small to medium-sized businesses, including sole traders and the self-employed, if they have been adversely affected by COVID-19.
START	An acronym for Simplified Tax and Revenue Technology—our new taxation and revenue system.
Tax position differences	The differences between the tax position filed by a customer and the position determined by our investigations. We often refer to these as 'discrepancies'.
Te Arawhiti	The Crown agency dedicated to fostering strong, ongoing and effective relationships with Māori across government.
Wage subsidy	A scheme introduced by the Government to support employers and sole traders if they were impacted by COVID-19 and faced laying off staff or reducing hours.
Whanake	Our performance approach. It is designed to support our people to develop and perform to their potential in our transforming organisation, and to help us create the culture we want for Inland Revenue.

How to contact us

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- www.linkedin.com/showcase/inland-revenue-nz-for-tax-professionals
- www.youtube.com/user/InlandRevenueNZ

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Please refer to **www.ird.govt.nz/contact-us/** for options

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General business enquiries	0800 377 774
Child support (individual enquiries)	0800 221 221
Child support (employer enquiries)	0800 220 222
KiwiSaver	0800 549 472
Working for Families Tax Credits	0800 227 773
Self-service	0800 257 777

8am to 8pm, Monday to Friday | 9am to 1pm, Saturday

Child support (individual enquiries) 8am to 5pm, Monday to Friday
Child support (employer enquiries) 8am to 4.30pm, Monday to Friday

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Child support (employer enquiries)	0800 220 222
KiwiSaver	0800 549 472
Working for Families Tax Credits	0800 227 773

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