Inland Revenue
Te Tari Taake

Inland Revenue Annual Report
Te Tari Taake Pūrongo ā-Tau
2022–23

ird.govt.nz

Te Kāwanatanga o Aotearoa
New Zealand Government

Thank you for reading our Annual Report Ngā mihi ki a koe mōu i pānui i tā mātou Pūrongo ā-Tau

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

For almost 150 years we've protected the integrity of the tax system so New Zealanders can trust that everyone is contributing what they are meant to.

We support people with initiatives such as Working for Families, child support payments and KiwiSaver.

We also administer government initiatives that provide additional support to individuals and businesses when things are tough or they are impacted by adverse events.

Inland Revenue
Te Tari Taake

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

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

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

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

This is our Annual Report for 2022–23
Ko tēnei te Pūrongo ā-Tau 2022–23 a Te Tari Taake

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Inland Revenue
Te Tari Taake

A word from the Commissioner

It has been a year since Te Tari Taake, Inland Revenue successfully completed its transformation programme. In this Annual Report, I am pleased to see the benefits of that transformation and how it is making tax simpler for customers.

99% of tax returns are now filed electronically—more than 7 million of them through customers' accounting systems integrating with ours. The vast majority of payments are made online and on time.

It is not just the collection of information and tax that is more efficient, but also the payments we make. Over 3.3 million New Zealanders are in KiwiSaver, and most of the funds invested pass through Te Tari Taake, Inland Revenue. This year, we passed on $9.7 billion to KiwiSaver scheme providers with 99.5% of members' funds reaching providers within 3 days of us receiving the information. We are also seeing the benefits for parents and children from changes made to child support under our transformation programme. Payments are reaching receiving carers 14 days faster than before.

Most tax returns are now checked by our systems and processed without manual intervention. Many New Zealanders and businesses receive a refund from Te Tari Taake, Inland Revenue in a matter of days. This is money they can then put to good use supporting their family or growing their business.

I am particularly pleased we got back out into the community, helping people deal with the impacts of the cyclones and floods or explaining changes to tax rules. With over 300 seminars, 100 presentations to community groups or expos, and visits to marae, we have helped groups understand both their tax obligations and the support available to them. We have been able to help New Zealanders and their businesses through a difficult year. 163,000 payment arrangements were set up to help people meet their tax payments over time—many of these were set up online and accepted automatically.

I am very proud of our strong commitment to, and focus on, diversity and inclusion at Te Tari Taake, Inland Revenue. This is important for us as an organisation and for the way in which we deliver services for New Zealanders. Also important are the steps we are taking to become a Tiriti-based organisation, which we continued to make progress towards this year.

I am looking forward to leading our organisation as we steward the tax system and protect and care for the assets we are responsible for over the coming years. Already, we are using our new system and analytics to quickly correct the tax affairs of those who may get something wrong, and to find those few who deliberately try to cheat the system. And as tax and social policy settings continue to change, I am confident we are in a good position to both advise on and implement those changes to ensure a healthy tax and social policy system for Aotearoa New Zealand.

As I look at the year gone by, I am proud to share our many achievements in this Annual Report.

P. Mersi

Peter Mersi
Kaikōmihana oTe Tari Taake
Commissioner of Inland Revenue

He kupu nā te Kaikōmihana

Kua hipa te kotahi tau mai i te wā i oti i Te Tari Taake tana hōtaka whakaumu. Kei tēnei Pūrongo ā-Tau, nōku te whiwhi ki te kite i ngā hua o taua whakaumutanga, me te āhua o tana whakangāwari i ngā mahi tāke mā ngā kiritaki.

99% o ngā whakahokinga tāke ka tukuna ā-matihikotia—neke atu i te 7 miriona ka tukua mā ngā pūnaha kaute a ngā kiritaki, e pāhekoheko ana ki tā mātou ake pūnaha. Ko te nuinga o ngā utunga ka utua ā-tuihonotia, ā, i te wā tika hoki.

Ehara ko te kohinga anake o ngā mōhiohio, me ngā tāke whāomo ake, engari ko te āhua o ngā utunga. Neke atu i te 3.3 miriona kainoho o Aotearoa kei roto i te KiwiSaver, ā, ko te nuinga o ngā pūtea ka haumitia, ka kuhu mā Te Tari Taake. I tēnei tau, i tukua e mātou te $9.7 piriona tāra ki ngā kaiwhakarato KiwiSaver, ā, ko te 99.5% o ngā pūtea a ngā mema i tae atu ki ngā kaiwhakarato i roto i te 3 rā o tā mātou whiwhi i ngā mōhiohio. Kei te kite hoki mātou i ngā hua ki ngā mātua me ngā tamariki i ngā panoni ki te pūtea tautoko tamariki i raro i te hōtaka whakaumu. E tae wawe atu ana ngā utunga ki ngā kaitiaki, otirā mā te 14 rā te tere ake.

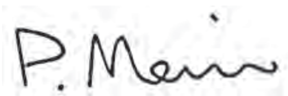
Ko te nuinga o ngā whakahokinga tāke ka tirohia e ā mātou pūnaha, ā, ka tukatukahia aunoatia. He tokomaha ngā tāngata me ngā pakihi o Aotearoa ka whiwhi whakahokinga pūtea i Te Tari Taake, i roto i ngā rā ruarua nei. He pūtea tēnei ka whakapaua pea ki te tautoko i ō rātou whānau, te whakatipu rānei i ō rātou pakihi.

E tino koa ana au i hoki atu ai mātou ki te hapori, ki te āwhina i te iwi ki te whakahaere i ngā pāpātanga o ngā huripari me ngā waipuke, te whakamārama rānei i ngā huringa ki ngā ture tāke. Neke atu i te 300 ngā hui awheawhe, 100 ngā whakaaturanga hoki ki ngā rōpū hapori, ngā taiopenga rānei, me ngā haerenga ki ngā marae, otirā i āwhina mātou i ngā rōpū kia mārama ake rātou ki ngā takohanga tāke me te tautoko whakamōhio ake i ngā tautoko e wātea ana ki a rātou. I taea e mātou te āwhina i ngā tāngata o Aotearoa me ō rātou pakihi i te wā o te tau pakeke. 163,000 ngā whakaritenga utu i haere ki te āwhina i te tangata ki te utu i ā rātou utunga tāke i te pahemotanga o te wā—ko te nuinga o ēnei i whakaritea ā-tuihonotia, ā, i aunoa te whakaaetia.

Kei te tino whakahī au ki tō mātou piripono pakari, me te aronga ki te kanorautanga, te kauawhitanga hoki ki Te Tari Taake. He mea hira tēnei mō mātou hei whakahaere, tae atu ki te āhuatanga o tā mātou whakahaere i ngā ratonga mā ngā tāngata o Aotearoa. Ko tētahi atu take hira ki a mātou ko ngā mahi e whāia ana e mātou kia noho hei whakahaere i poua ki te Tiriti, otirā i koke whakamua mātou ki tēnei whāinga i tēnei tau.

E rikarika ana ahau ki te ārahi i tō mātou whakahaere, i te wā e āta tiaki ana i te pūnaha tāke me te tiaki i ngā rawa e noho haepapa nei mātou hei ngā tau e tū mai nei. Kua tīmata kē tā mātou whakamahi i te pūnaha hou me ngā tātaritanga, ki te whakatika wawe i ngā āhuatanga tāke a te hunga ka hē pea i a rātou, me te kimi i te hunga tokoiti e takahi nei i ngā ture o te pūnaha tāke. I te wā hoki e panoni haere ana ngā tautuhi tāke me te kaupapahere pāpori, e manawanui ana ahau i te pakari o tō mātou tūnga ki te tuku tohutohu me te whakatinana i aua panonitanga, hei whakarite i te pakari o te pūnaha tāke me te kaupapahere pāpori mō Aotearoa.

I ahau e titiro ana ki te tau kua hipa, kei te whakahī ahau ki te kōrero i ā mātou whakatutukitanga ki tēnei Pūrongo ā-Tau.



Peter Mersi
Kaikōmihana o Te Tari Taake

Our customers want us to keep making tax and payments simpler and more certain
Kei te hiahia ā mātou kiritaki kia māmā ake te utu i ā rātou tāke me ngā utunga, otirā kia tūturu ake

We focus on making it simple for the 4.88 million customers who pay individual income tax.

It's important that we:

- send annual tax assessments out quickly and explain things clearly
- help people through key events such as registering for an IRD number
- make it straightforward to set up an instalment arrangement for repaying debt.

3.3 million

CUSTOMERS

received an automatically issued individual income tax assessment in the tax year to March 2022.*

3.3 million

KIWISAVER MEMBERS

were enrolled at 30 June 2023. We transferred $9.7 billion to scheme providers to invest in 2022–23.

635,000

STUDENT LOAN BORROWERS

made $1.63 billion in repayments in 2022–23.

$355 million

IN DONATION TAX CREDITS

were paid out in 2022–23 to 340,000 customers.

* Figures for the tax year ended March 2023 are not available for this Annual Report because customers have until April 2024 to file their 2023 returns.

Businesses play a special role in the tax and social policy system by providing us with employment information and collecting tax and payments such as student loans and child support.

Small businesses want interactions with Te Tari Taake, Inland Revenue to be as simple and efficient as possible.

Providing certainty and clarity for bigger companies is critical so they can manage their tax obligations.

Businesses need us to:

- help them get set up right from the start if they're new to the market
- understand their circumstances if they're going through difficulties
- make it easy to advise us about any significant loss of income or set up a payment instalment arrangement.

243,000

EMPLOYERS

filed more than 7.4 million employer information returns in 2022–23.

705,000

CUSTOMERS

were registered for GST at some point in 2022–23. They filed 3.2 million GST returns.

410,000

COMPANY RETURNS

were filed in the 2022 tax year.*

Social policy payments that we make support thousands of families
Ka tautoko ā mātou utunga kaupapahere pāpori i ngā tini whānau

Families receive social policy payments that we deliver along with Te Manatū Whakahiato Ora, the Ministry of Social Development (MSD) and Hīkina Whakatutuki, the Ministry of Business, Innovation and Employment.

Many customers are facing hardship, have complex circumstances or can be unsure about the payments they're entitled to.

Families and whānau want us to:

- give them certainty about the payments they receive from week to week
- take the time to understand their situations and find the best options for receiving entitlements or paying child support.

$2.97 billion

in net entitlements was distributed by us and MSD to support working families this year.

158,000

CHILDREN

are in the Child Support Scheme.

$481 million

in child support was collected from 135,000 parents in 2022–23 and $294 million was distributed to carers.

The government has retained the balance of support collected to help offset the costs of benefits paid. This ended in June 2023. Page 32 has more details.

$605.6 million

in paid parental leave payments went to around 57,000 new parents.

How do we ensure our customers are at the centre of what we do and deliver? In October 2021, we launched our first in-house customer research panel, IR Connection. Through IR Connection, we're engaging with customers to learn about their experiences, motivations and needs. They're helping us to improve our products and services.

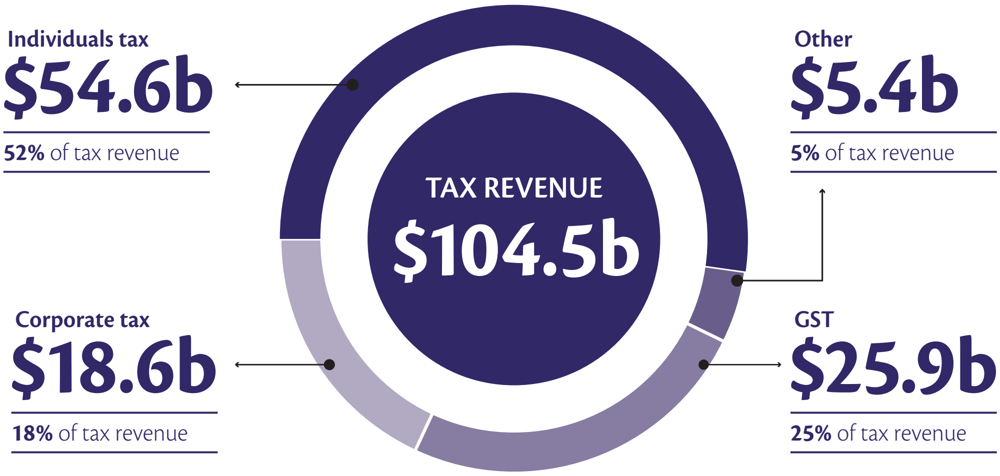
IR Connection is now an 18,000 strong community, making it one of the largest public sector customer research panels in Aotearoa New Zealand. It's a diverse and inclusive space, made up of individual customers, customers with families and business customers—from sole-traders to large corporations.

Feedback from members has already helped make our individual income tax assessment letters easier to understand and assisted our policy team to learn more about New Zealanders' awareness and understanding of Working for Families Tax Credits.

We'll continue to work in partnership with customers to ensure that their voices are heard. We are grateful to IR Connection members for their time and valuable contributions.

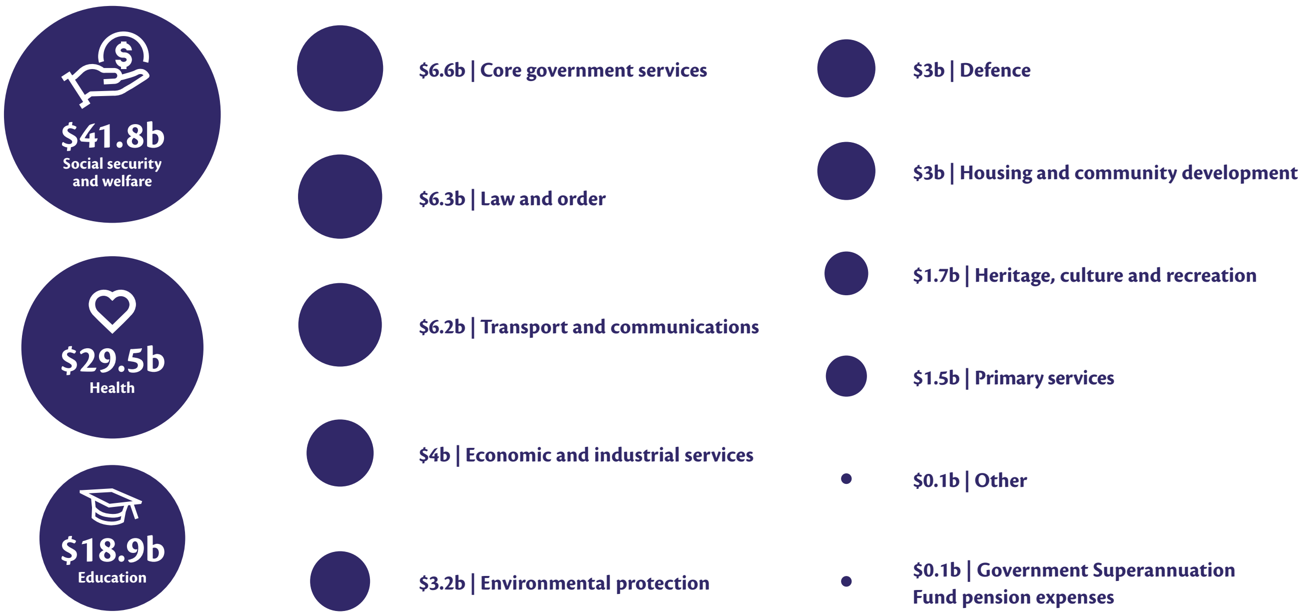
Everyone benefits from tax
Ka puta he hua ki te katoa i te tāke

The money Te Tari Taake, Inland Revenue collects helps pay for the essential services that all New Zealanders benefit from such as healthcare, social policy payments, education and protecting our environment. It's our responsibility to ensure government has funding for them.



In 2022–23, total revenue was $105.5 billion. Tax revenue was $104.5 billion. Direct or income taxation (for example, individuals income tax or corporate tax) accounted for 75% of tax revenue. GST accounted for 25%.

In 2022–23, the Government expected to spend in these areas:[1]



[1] From Te Tai Ōhanga, the Treasury's Budget Economic and Fiscal Update 2023, published in May 2023: treasury.govt.nz/sites/default/files/2023-05/befu23.pdf

We work to ensure that New Zealanders continue to agree paying tax is a good thing
Ka mahi mātou ki te whakarite kia whakaaro tonu ai te iwi o Aotearoa he mea pai te utu tāke

The vast majority of people and businesses in Aotearoa New Zealand have a great attitude towards paying tax. The tax and social policy system relies on high levels of trust and people's willingness to pay voluntarily—we work hard to keep ensuring people believe that:

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

WHEN I'M TRYING TO DO THE RIGHT THING, TE TARI TAAKE, INLAND REVENUE WILL HELP ME

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

We deliver 3 long-term outcomes for Aotearoa New Zealand
Ka tuku mātou i ngā putanga mauroa e 3 mō Aotearoa

Revenue

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

Read a summary of our assessment and collection of revenue this year starting on page 15.

There's detailed information on our performance on pages 67 to 72.

Financial information and notes on revenue start on pages 156 and 168.

Social policy payments

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

There's a summary of our delivery of payments to support New Zealanders from page 29.

The section on Our Performance provides more details on pages 72 to 73.

Financial information and notes on social policy payments start on pages 158 and 173.

Collaboration

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

Throughout the summary of our year, there are stories about our people teaming up with other agencies, community groups and international organisations.

The section on Our Performance provides case studies on the cross-government responses to the major weather events across Aotearoa New Zealand and on the information we share with other agencies. They are on pages 74 to 76.

These are the key results we achieved this year
Koinei ngā hua matua i tutuki i a mātou i tēnei tau

REVENUE

Tax revenue was

$104.5 billion

2022: **$100.6 billion**

2021: **$93.8 billion**

We identified or assured

$973 million

in revenue through our interventions

89%

of the tax payments made by customers were on time

2022: **89%** | 2021: **90%**

SOCIAL POLICY PAYMENTS

83%

of student loan customers met their repayment obligations

70.8%

of child support assessments were paid on time

67%

of Working for Families customers who received their payments during the year were paid within 20% of what they should have, with the remaining customers paid out at year end (provisional figures as at 30 June 2023)

This involves our work to help customers get paid the right amounts during the year and avoid an overpayment that can lead to debt

2022: **64%** | 2021: **66%**

MAKING IT EASIER FOR CUSTOMERS

88%

of customers who received automatically issued individual income tax assessments this year had nothing to do (provisional figures as at 30 June 2023)

65%

of customers found us easy to deal with

2022: **65%** | 2021: **67%**

59%

of new customer debt was resolved within 6 months

2022: **62%**

EFFECTIVE AND EFFICIENT

99%

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

2022: **99%** | 2021: **98%**

It cost

43 cents

to collect every $100 of tax revenue

2015: **80 cents**

We're on track to reduce our carbon emissions by

43%

by 2025, from a baseline year of 2018–19

To achieve our outcomes, we work with many others E tutuki ai ā mātou putanga, he tokomaha ā mātou hoa mahi ngātahi

As the principal steward of the tax system, we play a crucial role in maintaining and enhancing its integrity by striving for clarity, consistency and simplicity. We're accountable to the Minister of Revenue.

Te Tari Taake, Inland Revenue works with many other organisations that help manage and run the tax system, with community groups and with international tax networks. Increasingly, we're working together on ways to improve family and whānau wellbeing and make sure people can access their entitlements.

Advice

We advise the Government on tax policy and the social policies that we administer. We work with other agencies such as Te Tai Ōhanga, the Treasury to help deliver wellbeing and positive outcomes for all New Zealanders.

This includes meeting our obligations under te Tiriti o Waitangi and working to become a better partner in the Māori Crown relationship.

Products

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

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

Partnerships

We work with many other parties that help manage and run the tax and social policy systems such as tax agents, employers, KiwiSaver providers, financial institutions and community groups such as Citizens Advice Bureau. We're also part of a digital 'ecosystem' that includes service providers such as payroll software companies.

We have information-sharing arrangements with more than 20 agencies.

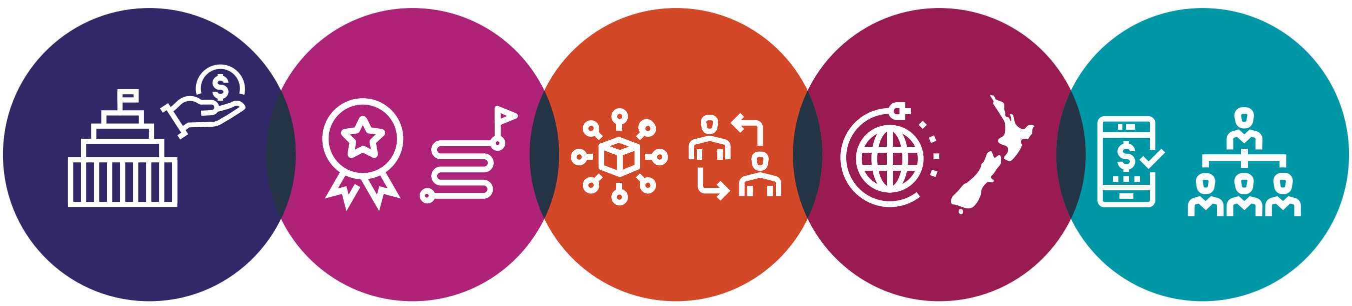
International revenue

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

We work with groups such as the Organisation for Economic Co-operation and Development and tax agencies in other countries. We exchange financial account information with almost 100 jurisdictions.

Social policy payments

We administer various social policy programmes. We work closely with other government agencies, especially Te Manatū Whakahiato Ora, the Ministry of Social Development and Hīkina Whakatutuki, the Ministry of Business, Innovation and Employment.



Helping customers get it right is at the heart of our approach
Ko te āwhina i ngā kiritaki te aronga matua o tō mātou tikanga whakahaere

The approach we take is to focus on collecting revenue, and ensuring New Zealanders get the social policy payments they're entitled to, with less effort for our customers and us.

You can read about the work we've done this year that made the biggest difference to customers in the following section.

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

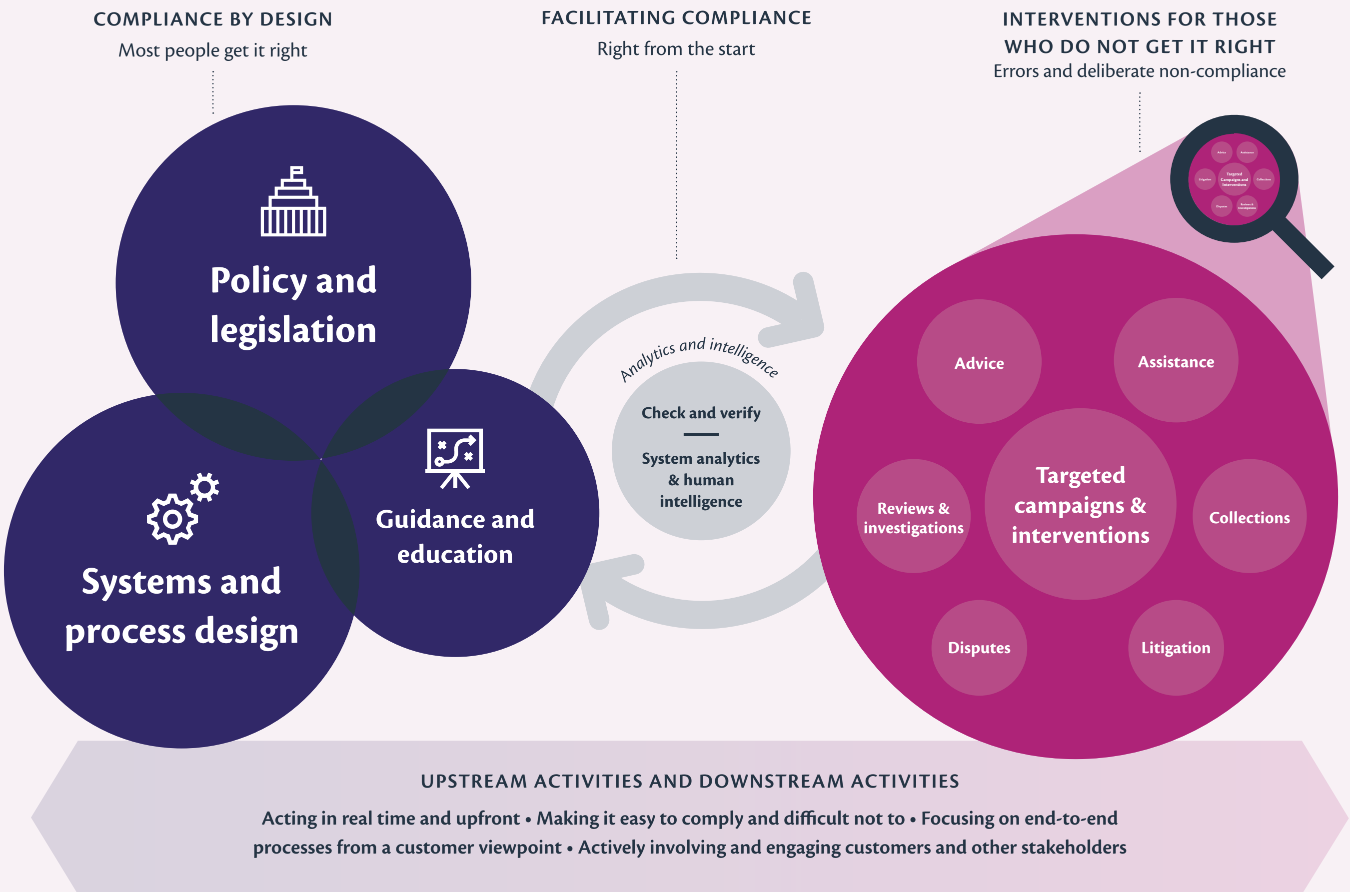
In the diagram below, the left side shows how we design tax policy, systems, processes and guidance that help the majority of our customers get their obligations right.

We use analytical tools to help ensure people get things right

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

We step in when people get things wrong

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



This year,
tax revenue was
$104.5 billion.

From page 15.

A range of social
policy payments
have supported
our customers in a
challenging year.

From page 29.

Te Tari Taake,
Inland Revenue is
increasing our focus
on stewardship of
Aotearoa's tax and
social policy system
into the future.

From page 36.

Collecting New Zealand's revenue is what we're here to do.

Te Tari Taake, Inland Revenue is using tools and expertise we did not have a decade ago to keep bringing in revenue efficiently and making tax simpler for our customers.

You can read more about revenue and simplifying tax in this section, along with:

- the work we do in communities giving support and practical ways to keep on top of tax payments
- how we have protected revenue by stepping in when customers got it wrong
- the ways we've assisted customers in debt to resolve their situation
- what Te Tari Taake, Inland Revenue has done to provide certainty for larger companies around tax law and obligations.

Revenue to pay for the things New Zealanders value

Te Tari Taake, Inland Revenue contributed to 80% of the Crown's tax revenue for 2022–23.

Our aim is to collect revenue as efficiently and effectively as possible. We work to ensure the tax system continues to be a reliable source of revenue for government to fund services.

This year's tax revenue was $104.5 billion. The result is 3.9% higher than in 2021–22, driven mostly by growth in tax deducted at source from individual taxpayers, resident withholding tax on interest income and GST. We collected $103.1 billion in tax payments.

On the other hand, actual tax revenue was $4.9 billion lower than the unaudited budget. This was mainly due to lower business profits, higher-than-forecast goods imports, lower-than-forecast government consumption and residential investment. These factors were partially offset by higher wage and salary growth as well as growth in employment.

Revenue certain from year to year

Of the tax payments that customers made this year, 89% were on time, which shows the vast majority of people and businesses voluntarily meet their obligations.

The investment that government made in transforming Te Tari Taake, Inland Revenue supported customers by making paying their tax easier.

Revenue is collected efficiently—87% of employer information was processed 'straight through' with no need for involvement from our people. This amounts to less effort for customers and revenue for New Zealand that is highly certain from year to year.

Tax is being collected from a customer base that's grown over the past 6 years in some areas. For instance, we serve 15% more employers than in 2017 and 5% more GST-registered businesses.

We have become more cost-efficient through better equipping ourselves to identify and collect revenue over time. It cost 43 cents to collect every $100 in tax revenue, compared to 80 cents in 2015.

Overdue debt

While tax revenue increased this year, overdue debt was higher than forecast. We continue to watch this closely—at 30 June 2023, 44,000 more customers were in debt than in June last year.

Further on, you can read about what we're doing to help customers in debt resolve their situation.

Tax revenue

2023
$104.5B

2022
$100.6B

2021
$93.8B

2020
$77.7B

Overdue general tax debt was
5.3%
as a proportion of tax revenue
2022: **4.6%** | 2021: **4.5%**

The cost to collect $100 in tax revenue was
43 cents
2015: **80 cents**

Simplifying tax always the focus

Paying tax should not take a lot of work. This year, Te Tari Taake, Inland Revenue has kept working to make filing and paying simpler and easier for customers.

Getting the big events right

For many New Zealanders, the one time of the year they can expect contact with us is on their annual income tax assessment. We've been fine-tuning our approach since 2019 when we first sent out individual income tax assessments that automatically calculated customers' returns.

As at 30 June 2023, 3.2 million people had received a finalised automatic assessment. Preliminary figures at 30 June 2023 show 88% of the people who received one this year had nothing further to do.

There were fewer refunds and write-offs for customers who owed small amounts. More customers received a bill with tax to pay for a range of reasons. You can read more on page 71 about this.

We worked to keep the experience as stress-free as possible by letting people know ahead of time what to expect. As a result, fewer customers needed to contact us about their assessments.

Improvements to this year's process included proactively removing out-of-date income sources from people's accounts. More than 160,000 additional customers were able to receive an automatic assessment.

Careful scrutiny of last year's assessments also enabled us to update income source data for another 100,000 customers, and issue assessments to them at the outset rather than their having to confirm their income.

Through the year, we contacted 598,000 customers and their employers about their tax codes, including when our information indicated they were using the wrong code.

Tailored tax codes were recommended for 74,000 customers to help get their tax right.

The difference made by tax agents

Tax agents handle the tax affairs of a quarter of our customers. Their knowledge and systems are really helpful for people whose income is not taxed at source. We recognise their importance by providing dedicated account management and surveying agents weekly about their experiences.

This year, agents shared critical information with their clients such as the relief measures we provided for people affected by this year's weather events and the impacts of tax law changes introduced in April 2023.

Tax agents' overall satisfaction and their views on the ease of dealing with us have improved over the past 4 years. Reasons why include quick responses to their queries, the practical and problem-solving approach we take and improvements to our digital services.

As a group, tax agents want to 'self-serve' via our online services so we've been working to make this as easy as possible.

Improving customer experience

Across the year, our customers called us, wrote or emailed around 3.9 million times. We saw fewer overall contacts than in 2021–22 and customers continued to shift to digital channels.

However, at times customers found it hard to speak to us or get a prompt response to their messages or emails. We adjusted resourcing through the year to prioritise assistance for customers who most needed it, for example, families and those affected by the weather events.

To maintain our capacity, we have recruited additional staff, taken on temporary workers and offered overtime to our people. We are also modernising our voice channel and

Automatically calculated tax assessments as at 30 June 2023

56%
of customers sent an assessment got a refund or credit

84%
of total refunds or credits went to customers earning below $70,000

9%
of customers had tax to pay, with an average bill of $511

25%
of customers had a debit that was written off because it was less than $50

9% paid exactly the right amount of tax during the year management of contact demands—a new platform will be in place in late 2023.

We know the experience our customers get when contacting us is a significant factor in their perceptions of Te Tari Taake, Inland Revenue. Overall satisfaction and customers' views on the ease of dealing with us remained consistent with last year but lower than 2021.

In our surveys, customers have acknowledged the convenience of our digital services and quality of service from frontline staff. Customers commented on our people's knowledge and empathy when they needed to explain difficult matters and 'going the extra mile' to deliver solutions.

→ There's more about our customers' experiences and their use of our contact channels on pages 78 to 79.

'Good evening. You have done it again. Like last year I am very impressed with the speed my tax refund was processed. The tax return was filed yesterday and the money was in my account today. Very impressive.'

Customer feedback from April 2023

What our customers experienced

65%

found it easy to deal with us

2022: **65%** | 2021: **67%**

69%

were satisfied with their last interaction with us

2022: **70%** | 2021: **73%**

67%

of customers' issues or queries were resolved at their first call

2022: **70%**

In the lead-up to income tax assessments, we reminded customers on social media and in online advertising why some people receive an automatic assessment while others need to a file a return.

Revitalising our work in communities

During pandemic restrictions, we were unable to meet people in person and get out around Aotearoa New Zealand as we normally do.

This year, our teams have been back out providing support for different communities and customers.

'You're back. It's good to see you.'

The time that our people spend building relationships creates trust in Te Tari Taake, Inland Revenue and an understanding that we're here to help.

Our 17 community compliance teams throughout Aotearoa spent the year re-establishing relationships and building new connections.

For example, Amy leads our community team of 34 in Ōtautahi, Christchurch, which has been invigorated by getting back out in the region, meeting people where they're comfortable.

A common reaction from communities is, 'You're back, it's good to see you.' Amy says. 'We have quickly stepped back into communities, educating and supporting but also just providing a face for Inland Revenue. When you're not visible, trust can go away quickly because there's a perception that nobody's watching. Overwhelmingly, we've found that people have appreciated seeing us.'

A key part of our teams' work is also being aware of who the vulnerable customers in our communities are and touching base with them when it matters.

Whāngarei Community Team Lead Diane says this can mean working to understand if any customers have a disability and need to communicate with us in a certain way, or assisting customers who visit our offices but do not trust us with their details straight away.

300+
people work in our Community Compliance teams

17
locations around Aotearoa, with outreach to many communities

Our work in communities this year

190,000
customer visits to our front of house

331,000
customers registering for an IRD number

60,000
customers registering for GST

5,347
annual visits with tax agents

103
expos and presentations to community groups

372
in-person and online seminars

We're working closely with MSD at 27 Heartlands sites around New Zealand. We also have a good number of new sites in varying stages of set-up.

Enduring relationships with whānau Māori

Our Kaitakawaenga Māori Service's connections and mahi across Māori communities have been critical to our long-term commitment to whānau Māori.

The service has also connected with businesses, sports clubs, marae and other not-for-profits.

For example, we have made a strong, lasting committed to working with Te Kōhanga Reo at all levels. This includes working with the organisation's national trust on co-design to provide those who support Māori in our communities with access to the tools they need.

There at key moments

Te Tari Taake, Inland Revenue does not want to miss the stages in customers' lives where the approaches we take can make a big difference.

Bringing new workers into the tax system is one of those moments; 331,000 new customers registered for an IRD number this year.

Many new workers have come from migrant communities. For example, Te Moana a Toi, the Bay of Plenty has welcomed people from Pacific countries, Latin America, India, China and elsewhere to work in kiwifruit and other industries.

Tauranga Community Team Lead Stephen says, 'We know that tax probably will not be top of mind for say a group of young workers arriving from South America. We listen carefully so the support and information we give feels relevant. We spend time ensuring people start off on the right track with tax. With our support, they can take it from there.'

For example, Stephen's team helped 65 workers from the Solomon Islands in February 2023 who needed IRD numbers to be able to open bank accounts. The group were not able to apply online so we worked with the Pacific Island Community Trust to provide in-person support.

Top: Kaitakawaenga Māori representing Te Tari Taake, Inland Revenue at the 2023 Te Matatini Herenga Waka Herenga Tangata Kapa Haka festival in Tāmaki Makaurau, Auckland.

Below: Letting communities know about Working for Families to ensure eligible customers are aware of these payments.

Teaming up with those our customers trust

Colleen's team in Kirikiriroa, Hamilton spent time this year partnering with community groups and government agencies that know our customers well.

Pacific Peoples have moved into the region from Tāmaki Makaurau, Auckland, many as contractors and self-employed.

Colleen says, 'Some customers start out worried about getting their tax right so by establishing relationships with Te Manatū Whakahiato Ora, the Ministry of Social Development and community organisation K'aute Pasifika, we've upskilled ourselves on talking about tax in ways that are meaningful for people from Pacific communities. It's about what they most want to know.'

In Northland, Diane's team has held tax clinics with budget advisors in the region's communities such as Dargaville and Mangōnui.

'Many of the people we want to reach get support from budget advisors. We're keen that they can offer the same information and advice that we do. They can take a customer through myIR if they've never used it.'

Diane says these connections have been critical as Government has encouraged people to set up businesses and go for small business grants.

Talking payments alongside tax

All of our community teams talk to customers about social policy payments as well as tax.

Colleen says, ‘Sometimes customers come from other countries that don’t have entitlements such as Working for Families payments. Some new residents have no idea they qualify so we work to establish a basis of trust by helping people understand their entitlements, not just their tax obligations.’

Mobilising for communities under pressure

At times through 2022–23, our teams have mobilised in communities hit hard by the major weather events such as Cyclone Gabrielle.

In Whangārei, Tairāwhiti, Gisborne, Whakatū, Nelson and Ahuriri, Napier, we worked in cross-government forums and built rapid connections with other organisations to let New Zealanders know what support we could provide.

Using our experiences responding to the Canterbury and Kaikōura earthquakes, our first message was, ‘Look after your families and businesses. We’ll talk about tax later.’

Once customers could turn their mind to tax, we provided tailored support to help navigate their challenges. Page 74 has a case study on our response to Cyclones Hale and Gabrielle.

Finding those who are not paying their fair share

People who avoid their tax obligations are not paying their contribution towards public services. They may be undercutting honest businesses or getting benefits or tax credits they are not entitled to.

Alongside the work of our community compliance teams, Te Tari Taake, Inland Revenue has used our expertise and analytics to identify customers most at risk of getting their tax wrong.

With most COVID-19-related compliance work ending, we've ramped up our focus on changing behaviours in the traditional sectors that operate in New Zealand's 'hidden economy' and in emerging online industries.

Reaching into the hidden economy

Hidden economies exist in most countries because a significant number of people transact in cash and businesses operate partly or fully outside the tax system.

Post-COVID-19, our monitoring of customer perceptions and attitudes saw a 5% increase in customers who indicated a willingness to accept or offer cash jobs.

Te Tari Taake, Inland Revenue has increased efforts in sectors where cash jobs are more common such as residential construction and hospitality.

We've worked to ensure the many people and businesses in the property sector understand their obligations across areas such as the bright-line rule, interest limitation and loss-ringfencing for rental properties, property GST and emerging issues. Across our property compliance programme, we assessed additional revenue of $129 million this year.

We have continued to work with industry bodies and associations to help their members get tax right. For example, we've teamed up with the real estate agents sector to help educate members about claiming expenses in their tax. This came after monitoring of real estate agents' returns identified a significant number claiming high expenses relative to their income and non-deductible private expenses. We have seen a 5% reduction in expenses claimed in the 2022 tax year compared to 2021.

Emerging online risks

Authorities including Te Tari Taake, Inland Revenue rely on information to ensure people are paying the right amount of tax. The growth and popularity of the sharing economy, and new and emerging technologies such as crypto-assets, present information gaps that pose a global threat to the integrity of revenue systems.

We have worked with partners at the Organisation for Economic Co-operation and Development (OECD) on solutions for these global challenges. This year has seen real momentum from the development of frameworks that countries can use to improve the visibility of income gained online.

Changes made by the Taxation (Annual Rates for 2022–23, Platform Economy, and Remedial Matters) Act 2023 require operators of digital sharing platforms to report information on the income of sellers who operate here such as ride-share drivers and accommodation hosts.

This information will be shared globally under an automatic exchange of information where it relates to non-residents. Te Tari Taake, Inland Revenue will also receive information about New Zealanders who earn income from activities carried out through foreign digital platforms.

Tax 'toolbox' for tradies

Our analytics show around 50,000 customers working in New Zealand's construction industry have at least 1 outstanding return and/or some form of tax debt. We also know under-declaring income is prevalent, with some customers avoiding tax obligations and others struggling to keep up with their paperwork.

We launched an online 'toolbox for tradies' in March 2023 to help customers get their tax affairs in order. It packaged up core tax topics, linked customers to pre-recorded seminars and encouraged them to book a business advisory visit with us or talk to a tax agent.

We and our OECD partners have also developed stronger compliance around crypto-assets over the past 2 years.

Crypto-assets are treated as personal property under New Zealand's tax rules and taxed when sold. Unlike other types of investment income, we do not currently receive regular or standardised information about them.

In October 2022, we consulted with New Zealand-based crypto-asset service providers on implementing another OECD information reporting and exchange framework. This would require crypto-asset exchanges, brokers and dealers to report aggregated data on their customers annually to tax authorities.

New Zealanders transact around 80% of crypto-asset activity through offshore exchanges, so information from other countries will benefit our country especially. We're working to implement this new framework in New Zealand in 2026.

Role of data and analytics in protecting revenue

Te Tari Taake, Inland Revenue collects and processes a lot of data that tells us where customers are getting things wrong, accidentally or deliberately. For example, we receive details of financial account information on New Zealand tax residents from nearly 100 other jurisdictions and supply data to them.

We use this information and other data to check people are paying the right tax on overseas investments. We've received more than 600 voluntary disclosures over the last 3 years, resulting in more than $74 million in omitted overseas income being assessed.

As a result of our work to help these customers understand their obligations, we expect to see a continued revenue benefit without the need to undertake further compliance actions.

Beginning in November 2023, Te Tari Taake, Inland Revenue will begin to get electronic sales data regularly, initially from a sample of payment service providers. It will help validate the accuracy of GST reported sales, the extent to which electronic and cash transactions may be under-reported and businesses who may be operating outside of the system.

It will also indicate where we can provide additional support through information, education or investigations.

A team from the OECD's Global Forum visited in March 2023 to assess how we manage and safeguard confidentiality and data. The forum is the leading body for implementing international standards on tax transparency. We are regularly peer-reviewed on the minimum standards for meeting our international obligations. This helps ensure a level playing field around the globe.

Any major deficiencies identified through the review could impact our ability to receive information and New Zealand's international reputation generally. Te Tari Taake, Inland Revenue received a clear report from the review team, with no recommendations. This means our current approach qualifies us to keep taking part in international exchanges, including new schemes such as the crypto-asset reporting framework.

In a separate visit in May 2023, a Global Forum team reviewed our effectiveness in collecting and exchanging financial account information. This review looked at how we assure accuracy, completeness and timeliness of exchanging information.

Above: The Global Forum review team's visit in March 2023. Back row: David Clarke, John Nash, Stephen Lynch, Jesse Thwaites, Malcolm Breadmore, Jay Harris, Vanessa Johnson and Patrick O'Doherty. Front row: Anu Anand, Erina Clayton, Mark Ketchell, Dawn Swan, James Cole, Gudrun Jonsdottir, Peter Mersi, Richard Burke and Kevin Mallek.

The few wrongdoers got our attention

It's important that New Zealanders understand that Te Tari Taake, Inland Revenue is adapting rapidly to new risks and taking firm action on wrongdoing and fraud. We have continued to target resources to areas where the risks are greatest.

This year, our systems and intelligence tools prevented potentially incorrect and fraudulent claims across large volumes of returns.

We've begun to move on from prioritising COVID-19 support to a more typical range of enforcement activities. However, COVID-19 support products have remained a focus.

We have been reviewing support payments and loans made between 2020 and 2022. 860 cases were selected after analysing all customers who received support and identifying industries at highest risk of improper use. These included ride-share and taxi drivers, courier drivers and construction workers.

$18.5 million in funds has been recalled from the 600 customers reviewed so far. The reasons for recalls mainly related to:

- customer mistakes such as not applying COVID-19 payments correctly to business expenses, and
- customers who did not experience the required drop in revenue.

New fraud risks

New areas of risk have continued to emerge from criminal uses of internet technologies.

In December, the Commissioner issued a Revenue Alert over the development, promotion and use of electronic sales suppression tools that are designed to alter point-of-sale data. These tools exist only to evade tax and launder money.

Revenue Alerts provide information about a significant and/or emerging issue that threatens the integrity of the tax system.

We've been investigating these tools and upgrading the technologies our digital forensics team uses to support this work. Going into 2023–24, we're taking an assertive approach to identify both users and promoters.

Prosecutions

The re-prioritisation of compliance work while we delivered COVID-19 support has had a flow-on effect on new prosecutions being taken by us—8 fewer cases were before the courts at 30 June 2023 than in June 2022.

This year, customers have been taken to court for offences such as failing to account for PAYE, providing false information with the intent to evade the payment of tax and dishonest use of a document. We publicised the outcomes of several cases to illustrate the actions we take when dishonesty has led to harm to New Zealanders.

High-profile cases included a New York property developer turned Canterbury winery owner who pleaded guilty in March 2023 to tax fraud involving $1.3 million in false GST returns. He was sentenced to 3 years and 7 months' imprisonment.

In September 2022, a businessman and musician from Tāmaki Makaurau, Auckland was imprisoned over nearly $2 million in tax evasion gained through not paying employees' deductions for income tax, KiwiSaver and student loans.

Trust that we're taking action

A long-term indicator we monitor is the extent to which customers believe that, if someone tries to avoid paying the right amount, they will get into trouble with us. 79% of customers believed so this year, the same as in 2021–22.

Overall, we identified $973 million in revenue through our range of compliance activities.

Compliance results at 30 June 2023

3,608

audits were completed

2022: **3,080**

$8.92

was the return on every dollar spent on compliance activities

34

PROSECUTIONS

were completed

2022: **38** | 2021: **50** | 2020: **58**

A further 85 cases are before the courts

Keeping payments manageable

Te Tari Taake, Inland Revenue continues to take the approach that every payment or return missed by a customer is an opportunity for us to act early and resolve it. This aligns with a key tax belief we want New Zealanders to hold—that we'll help people trying to do the right thing.

Of the returns that customers filed, 96% were on time. 89% of the payments that customers made were paid on time. However, more customers missed payments this year, which was consistent with economic conditions. At 30 June 2023, 44,000 more customers had tax debt than in June 2022.

Overdue general tax and Working for Families debt at the end of the year amounted to $5.8 billion, $957 million higher than in June 2022. Overdue student loan debt was 9.3% higher, and debt owed on COVID-19 support products grew from $34 million last year to $104 million.

On the other hand, child support debt fell 8%. There's more on this on page 94.

These total amounts of overdue debt are point-in-time numbers, and most customers quickly resolve what they owe. However, we did see a slight decline in the resolution of new customer debt. 59% was resolved within 6 months compared to 62% in 2021–22.

We have stayed focused on connecting with customers and stepping in to resolve issues early.

Instalment arrangements, where customers pay debt over time, are a 'workhorse' in our approach to help customers manage their payments. 163,000 arrangements were set up this year compared to 140,000 in 2021–22.

Customers can set up an arrangement themselves online, and it's one way we help people gain more control over their situation.

Customers who set up their own arrangement tended to stick to them more—63% of arrangements that customers set up themselves were kept to, compared to 48% of arrangements set up with our support.

As at 30 June 2023, there were 77,000 active arrangements for tax and student loan debt covering $1.62 billion.

Tax relief a core tool

Another way to help customers overcome short-term issues is the Commissioner's ability to offer tax relief in the form of writing off tax. Government allocates an amount for write-offs every year.

This year, 213,000 customers in difficult financial circumstances were granted a write-off.

In response to COVID-19, we applied an indicator in our system in 2020 that identified around 400,000 businesses that qualified for relief from penalties and interest if they paid their core tax. This has prevented around $524.8 million in debt from going into the tax system since 2020.

We have begun to retire use of this COVID-19 indicator for recovering businesses, although we continued to write off penalties and interest for those still affected this year.

When customers do not engage

Despite our efforts, a number of customers do not engage with us. This year, we contacted 2,850 customers with a notice of legal proceedings—these are customers with significant debt who have demonstrated insolvent behaviours.

35% of those contacted settled their tax in full or through instalment arrangements or part-payments. Where appropriate, customers received a write-off.

Stepping up liquidations activity

40% of the 2,850 businesses we contacted took no action—a next step is to begin the liquidations process. We served over 1,000 statutory demands this year.

Liquidation is an essential role we play to stop unviable businesses from incurring more debt, support the trading community and ensure a level playing field for businesses that are meeting their tax obligations.

Across the trading community, 1,929 businesses entered formal insolvency this year, compared to 1,347 in 2021–22. Approximately 75% of these customers had a tax debt.

We stay focused on risks

Te Tari Taake, Inland Revenue will keep using marketing, education and data to reach customers missing payments and tailor approaches to help them.

We're having good success upskilling our people to be able to negotiate appropriate solutions with customers facing debt.

We also continue to liquidate unviable businesses, and focus on employer debt and the few customers with high-value debt.

As at 30 June 2023, GST debt accounts for 39% of overdue general tax and Working for Families debt. We are seeing the impacts of economic conditions on customers such as sole-traders and small-to-medium-sized businesses. Some have faced tough choices about who and when they pay.

We are taking preventive measures to halt this growth.

→ You can read more about our work in managing debt and unfiled returns on pages 92 to 97.

$5.8 billion

in general tax and Working for Families debt was overdue at 30 June 2023

2022: **$4.8 billion** | 2021: **$4.4 billion**

As at 30 June 2023

524,000

CUSTOMERS

had a tax payment that was overdue

315,000 customers owed less than $1,000

$754 million

of debt was written off or remitted this year

2022: **$689 million**

$231 million

of the $754 million written off was penalties and interest remitted for customers impacted by COVID-19

Re-engaging overseas-based student loan customers

Over the past couple of years, Te Tari Taake, Inland Revenue has taken a supportive approach with student loan customers. We wanted to keep borrowers engaged even if they could not make a loan repayment.

As at June 2023, 94% of New Zealand-based customers and 26% of overseas-based borrowers were making required repayments.

In the second half of the year, we generated an extra $2.3 million in repayments by contacting 46,000 overseas-based customers and reaching out through social media.

Starting in April 2023, we have sent approximately 3,000 cases a month to third parties in Australia that can pursue collection and recently 300 cases to a UK collector. Third-party collection is showing good results—it contributed $10 million of the overall $40 million in loan repayments made in the final 3 months of this year.

→ Read more about our work here on page 81.

Certainty for larger companies

Providing certainty around tax obligations is a core principle for an effective, fair revenue system. With this in mind, our tax technical, legal and compliance experts have provided a broad range of rulings, advice and guidance for customers.

Explaining tax laws

Because tax laws are sometimes hard to understand and apply, our Tax Counsel Office produces resources to help customers get assurance that what they're doing is consistent with Te Tari Taake, Inland Revenue's view of the law.

Some advice covers topics that touch most New Zealanders such as recent property law changes. This year, the Tax Counsel Office provided guidance about areas such as the new interest limitation rules for rental properties and exclusion of the main home from the bright-line test.

Tax advisors look after the tax affairs of many of our customers so we work to ensure our guidance provides the clarity they need.

This year, customers received guidance on topics such as schools and early childcare centres charging GST to parents, tax on crypto-assets being used as employee payments, and GST issues for companies when payments are made to directors or board members.

Rulings for specific circumstances

Te Tari Taake, Inland Revenue also provides taxpayer rulings that give certainty about how we will interpret tax laws in specific customer circumstances. These include financing arrangements, reorganisations and property transactions. This year, we issued rulings on arrangements worth $11.2 billion with associated tax of more than $3 billion.

'Certain transactions cannot progress without tax rulings—in these cases rulings are not just useful, they are critical. Even where rulings are not required, they are still very helpful in obtaining certainty for clients in relation to important decisions and investments. I think tax rulings are a critical part of our tax system.'

Customer feedback from an August 2023 survey on our rulings service

Legal decision around tax avoidance

The tax community watched the outcome of a long-running litigation case that began when the Commissioner disallowed interest deductions claimed in 2006–07 by a predecessor company to Frucor Suntory New Zealand Limited (Frucor). This related to a structured finance transaction by Frucor that Te Tari Taake, Inland Revenue argued amounted to tax avoidance.

Following various appeals, the case reached a conclusion in September 2022 with the Supreme Court finding there was tax avoidance by Frucor and that shortfall penalties applied.

In February 2023, following extensive consultation with the tax community, we issued an Interpretation Statement on the general anti-avoidance provision to provide guidance and clarity for tax advisors and their clients on how Te Tari Taake, Inland Revenue interprets and applies this law.

Certainty valued by significant enterprises

Our focus on providing certainty is valued by our larger corporate customers—significant enterprises—when we carry out regular compliance work. These are customers with more than 50 employees or with turnover greater than $30 million.

We aim to help customers understand their positions and associated risks and avoid mistakes that can result in significant penalties and interest.

This group of customers has generally maintained their tax obligations despite economic conditions and the impacts of flooding in Tāmaki Makaurau, Auckland and Cyclone Gabrielle.

65% of significant enterprise customers are multi-nationals. This group is monitored via a range of sources that include an annual international questionnaire and intelligence from domestic and international agencies.

We now hold 9 years of information on multi-nationals that helps us ensure they are complying with their tax obligations. The data also helps us design tailored approaches as we consider implementing major international initiatives in New Zealand.

The most recent information on multi-nationals is from our annual international questionnaire, completed by 755 enterprises, on the 2021 tax year. This was the first full year reflecting the impacts of COVID-19 on these customers.

Despite some significant losses reported by tourism and hospitality enterprises, most of the group reported steady profits.

Information from the questionnaire has also shown that recent measures taken here to reduce instances of companies shifting profits overseas have been working well.

Working on priorities such as tax governance

This year, we've assisted some significant enterprise customers that have had high error rates when processing their returns. We also worked to complete annual tax reviews of companies more quickly, which frees up our capacity to address compliance issues such as restructuring risks and governance.

Good tax governance by significant enterprises not only involves setting the right 'tone from the top', but also effective management of operational tax risks through a robust set of controls that are followed closely in practice.

This year, we ran our second campaign on tax governance. To date, we have engaged with nearly 300 significant enterprises. Taking a strong focus in this area has led to company boards and senior management in significant enterprises giving considerable attention to governance. This is resulting in fit-for-purpose policies, procedures and controls, coupled with much improved documentation.

Our work with significant enterprises

We provide an account management service for approximately

200

COMPANIES AND CROWN ENTITIES

This year, we reviewed detailed annual compliance information from

1,210

COMPANIES

92

CUSTOMERS

had an active advance pricing agreement with us at 30 June 2023

The agreements represent tax assured of approximately

$440 million

A YEAR

Te Tari Tohutohu Tāke, our Tax Counsel Office, issues guidance and rulings interpreting and applying tax law. They're a team of 67 located across New Zealand, made up of solicitors and accountants who specialise in tax law. Their public advice and guidance work programme for the year ahead is selected by considering the importance of a range of issues, level of uncertainty involved, number of taxpayers affected and potential revenue implications.

The Tax Counsel Office also provides an adjudication service as part of the disputes process for when a customer disagrees with our organisation's position. It also has an internal escalations process to decide on how we will interpret the law when our staff are not sure that Te Tari Taake, Inland Revenue's current approach is correct.

While we are New Zealand's revenue agency, administering social policies is a significant part of our work.

We want to get social policy payments right for our customers so they can come through difficult economic times and thrive.

Read about what we've done this year to:

- support 340,000 families with Working for Families payments
- prepare for the 'pass-on' of child support to an estimated 42,000 sole-parent beneficiaries
- deliver Cost of Living Payments to 1.7 million New Zealanders
- speedily process the KiwiSaver contributions of 3.3 million members to start earning investment returns.

Payments that families relied on

Around 340,000 families receive Working for Families payments. For many, the payments are an important part of their weekly income—approximately 24% of customers who receive them earn under $42,700 a year.

Working for Families can be complex and difficult for some customers to understand. Customers need to estimate their income, and it's been hard for some to do this, especially if people worked variable hours or multiple jobs or earned unexpected lump sums. Paid out leave, changing jobs or child support can also be a factor.

We're always focused on helping families get the amounts right, minimising underpayments or overpayments. This relies in part on customers giving us timely updates during the year if their circumstances change.

Around two-thirds of customers who received payments during the year were paid within 20% of what they should have—the remaining customers were paid out at the end of the year. 22% of customers received exactly the right amount during the year.

As a way of exploring potential improvements, we've talked with customers about their experiences getting the credits, including the effect of underpayments and overpayments. If a family's income or circumstances have changed during the year, we may need to reduce their payments, sometimes down to nil. Customers are billed at the end-of-year square-up if they've received overpayments; may be written off if the family is experiencing serious hardship.

Some families told us they often deliberately overestimate their income to stay safe.

Avoiding debt

Families have continued to contact us over 2022–23 to get reassurance about their payments and talk about their circumstances. During the year, we identified families at risk of overpayment and worked with them to avoid this happening, for example by reducing their payments for the remainder of the year.

In February 2023, we reviewed 4,000 customers who were receiving the minimum family tax credit to ensure they should still be receiving it in the new year starting April 2023. This credit is a top-up to weekly incomes for our lowest-income families (earning $34,126 or less after tax) so providing them with certainty around their payments was a special priority.

Te Tari Taake, Inland Revenue also continued to write off Working for Families debt for customers in serious hardship.

The number of customers in debt and the amount owed has been slowly trending up over time. 12% of families customers owed debt at 30 June 2023.

Paid parental leave (PPL) sits alongside Working for Families and child support as a way to help families at a very important time. This year, $605.6 million in PPL payments went to 57,000 new parents. PPL helps make up for lost income after a baby is born.

96% of parents who applied for PPL did it online, and we pre-populated as much information on their applications as possible. 99.9% of the initial payments went into customers' bank accounts on the first payday after their agreed date of entitlement.

Driving change through collaboration

Since 2019, Te Tari Taake, Inland Revenue has been involved in cross-government work to improve the persistent issues that affect families. The debt owed by customers to multiple agencies has been a primary focus. Research from September 2020 showed that approximately 566,600 low-income New Zealanders owed $3.5 billion of debt to us and 2 other agencies. Of this debt, over $2.5 billion was owed by people in households with children.

This year, we have led the development of an all-of-government policy framework covering the creation and management of debt. It was adopted by the Government in July 2023.

The aim of the framework is to:

- improve fairness and consistency of how people are treated across government agencies
- put more emphasis on debt prevention in policy design
- ensure people get appropriate relief if they're in hardship.

A report back to Cabinet in July 2024 will assess whether the framework has been effective. In tandem with the framework, Te Tari Taake, Inland Revenue and other agencies are working on specific policy options to improve the management of problem debt.

→ There's more about the services families received from us on page 73 and information on an upcoming review of the Working for Families Scheme on page 38.

In 2022 and 2023, we ran a campaign to raise people's awareness of Working for Families entitlements. The campaign was inspired by what children say they would do with the extra money from the payments.

Working for Families

Families received a net

$2.97 billion

in Working for Families payments this year

226,000

CUSTOMERS

received weekly or fortnightly payments in the 2023 tax year

97,000

CUSTOMERS

were assessed at the end of the year and received a lump sum if their income qualified them

$2,200

was the median amount owed by families customers as at 30 June 2023

46% of the debt was over 2 years old

Provisionally at 30 June 2023

60,500

CUSTOMERS

received an overpayment this year

2022: **99,000** | 2021: **93,000**

Extra cash in hand for sole parents

Child support is paid by parents who do not live with their children or who share care with someone else. We administer the Child Support Scheme, which supports 158,000 children.

Te Tari Taake, Inland Revenue has been preparing to implement policy that sees child support collected from parents 'passed on' to carers who are sole-parent beneficiaries on a main benefit.

It's estimated the pass-on will make a positive impact on approximately 41,550 families.

Government policy has been to retain payments to recoup the cost of providing welfare to sole parents. In 2019, the Welfare Expert Advisory Group recommended abolishing this approach, saying 'money intended for children should not be withheld by the government'.

The pass-on took effect from 1 July 2023, meaning these sole parents are no longer treated differently from other beneficiaries.

The first payments are being passed on from late August 2023 when child support from July is paid. We've been informing customers and preparing our systems and processes, as the pass-on brings new customers into the Child Support Scheme.

More parents meeting their obligations

We have been starting to see the benefits for parents and children from changes made to child support in 2021 under our transformation programme. Payments are reaching receiving carers within 2 days of the due date for a liable parent's payment—14 days faster than before.

We wanted to help more liable parents stay on top of their child support obligations. One way to do this was removing incremental penalties on liable parents with debt.

This has helped keep child support debt stable. Debt fell by \$90 million, although it should be noted we wrote off \$79 million, including write-off of penalties, to encourage parents to restart or keep up with payments.

We also implemented automatic employer deductions from the pay of newly liable parents in October 2021. These deductions applied to 83% of the liable parents earning salaries and wages this year.

The result of automatic deduction is an increase in parents paying in full and on time. Before our changes, 68.3% of newly liable parents were paying their child support in full and on time over their first 6 months. Figures from November 2021 to May 2022 showed that after the changes:

- 77.7% of newly liable parents were meeting their obligations
- the percentage of new liable parents with debt in the first 6 months dropped from 57.3% to 45.4%.

With automatic deductions, if liable parents change their job, we're also able to tell their new employer sooner. This means payments to receiving carers continue with significantly fewer interruptions.

While these improvements have helped many child support customers, they were among our least-satisfied customers this year. We expected automatic deductions could lower liable parents' satisfaction. We're also watching the impacts of the child support pass-on as this could increase the demand for liable parents to meet their obligations.

We processed

17,000

child support applications this year

70.8%

of child support assessments were paid on time

2022: **70.2%**

7,700

liable parents put in for a change of circumstances, 12% more than last year

\$79 million

in child support debt was written off

2022: **\$181 million** | 2021: **\$998 million**

84%

of debt cases were closed within 12 months

Delivering payments and savings

Research from Te Ara Ahunga Ora, the Retirement Commission in August 2023 reported that 55% of New Zealanders have struggled with their financial situation this year.

We used our systems and data to deliver a new type of payment to New Zealanders to help with rising living costs. We also sent $9.7 billion to KiwiSaver providers, ensuring funds start earning investment returns for members as soon as possible.

For the first time—a cost of living payment

This year, 3 payments totalling $350 went to help 1.72 million New Zealanders with day-to-day living costs. This delivered on a Government announcement in Budget 2022.

This was a new type of payment for New Zealand, and we needed to build the system to make the first payments in August 2022. To meet this date, we recommended, and Government agreed to, a number of decisions, including the following:

- Payments would be made based on our information.
- There would be no application process to provide or verify information.
- A person's income would be determined by finalised tax assessments only, and would be individual income, not household income.
- There would be no recovery action taken for payments made incorrectly due to Te Tari Taake, Inland Revenue having the wrong information.
- Customers could opt out of the payments.

Ahead of the second and third payments in September and October 2022, we refined our screening tests for eligibility using additional data. For example, extra screening looked for non-eligible people using an overseas IP address to log into myIR or people who had filed a non-resident individual income tax return for the 2022 tax year.

Following the August 2022 payment, the Auditor-General reviewed the scheme. He recommended that we consider improvements to future payments to:

- ensure they are targeted appropriately, and
- highlight that ineligible people who have received a payment have an obligation to repay it.

As at 3 July 2023

$573 million

has been paid out in total

The number of payments:

AUGUST 2022: **1.68 million**

SEPTEMBER 2022: **1.63 million**

OCTOBER 2022: **1.60 million**

67,000

CUSTOMERS

have not received the payment because we do not have their bank account information

These customers can give us their information up until 31 March 2024

13,000

customers have made repayments, totalling $1.6 million

15,000

customers opted out of receiving 1 or more payments

$9.7 billion into KiwiSaver funds

96,000 new savers joined KiwiSaver this year—the scheme has 3.3 million members as at 30 June 2023. We handled $8.8 billion in KiwiSaver member and employer contributions and ensured 99.5% of funds reached scheme providers to invest within 3 days.

One of the most important KiwiSaver events happens in July when we process annual claims for the KiwiSaver Government Contribution to members' savings. Over 2 weeks in July 2022, we processed 2.7 million claims and paid out $961 million in the contribution to savers. Processing these claims quickly meant the contributions began earning investment returns for members as soon as possible.

Changes made back in April 2022 to make it easier for members to change their KiwiSaver contribution rate have worked well. Previously, customers would have to request this via their employer—now savers can come to us, their scheme provider or employer. The process is fully automated.

KiwiSaver activity can be a barometer for the wider economy. At 30 June 2023, 1,691 members were on a hardship savings suspension, 64% more than in June 2022. 42% more customers (20,600) made a hardship-related withdrawal of funds than in 2021–22.

Paying the right PIR rate

Over the past few years, we've notified portfolio investment entity (PIE) fund managers, which includes KiwiSaver schemes and individual investors, when we think an investor is using an incorrect prescribed investor rate (PIR).

We started at a point where approximately 1.6 million investors were using an incorrect PIR, meaning they were not paying the right amount of PIE tax. By 2023, this had reduced to approximately 450,000 investors.

While 450,000 customers is still higher than we would like, PIR is hard for investors to calculate and the rate changes as people's financial situations change. Customers on incorrect rates are squared up at the end of the tax year.

Te Tari Taake, Inland Revenue has also adjusted the notifications sent to individual investors to ask them to contact us rather than their PIE manager if they think the rate we've suggested is wrong. As intended, this has resulted in investors talking to us directly about their PIR.

$173 million

in hardship-related withdrawals from KiwiSaver were granted

2022: **$104.4 million**

We processed most claims from members for the KiwiSaver Government Contribution within

2 to 3 days

Spending time to build and maintain trust is essential

Collectively, our efforts this year have gone to help maintain New Zealanders' motivation to do the right thing when it comes to paying tax. Most customers voluntarily met their obligations, although this year has been financially stressful for many.

Customers' tax morale has remained relatively stable compared to last year after falling in 2021 and 2022. 58% of customers felt good about paying their tax this year.

Around the world, trust in governments and societal institutions has been falling. Within this global trend, customers' trust in us has continued to trend down slowly from past years.

People's beliefs about tax can be influenced by many factors outside of what we do, but trust is largely driven by our customers' experiences.

We're staying focused on improving our services as we rebalance our overall work programme to include a broader range of compliance activities.

Getting that balance right will continue to challenge us, as will our work to:

- meet our customers' expectations of timely, clear responses to their questions
- address debt, especially where there is a high risk of customers not repaying
- improve the experiences of customers receiving Working for Families and child support
- tackle those who intentionally do the wrong thing
- address emerging opportunities and issues from online technologies and platforms.

→ There's more about our customers' tax morale and trust in Te Tari Taake, Inland Revenue on pages 77 to 78.

→ You can read about what we are doing to shape the future of the tax and social policy system in the next section.

'It is a great system, helped by the easy to use myIR. I wouldn't have bothered chasing for receipts, filing a tax return on it. Now donate freely, upload receipt. Boom, first few days in April got $330 back, nothing to sniff at.'

Customer feedback from May 2023

'I appreciated the service Inland Revenue provided throughout my solo parent journey. I was broken after a difficult breakup, lost in finding my way, lacked confidence, contacting government agencies for help was always scary, especially IR.

IR listens and then responds covering everything a customer is required to know. IR's customer service team are thorough in response, educating myself on entitlements e.g. Working for Families. I'm grateful IR does that as I and maybe other customers would be missing out on their entitlements.'

A customer in June 2023

The tax and social policy system is a major national asset that underpins the wellbeing of all New Zealanders.

As you can read in this section, we are taking a broader, more proactive role as a steward of the system. We're already helping to shape the future through:

- providing high-quality evidence for future-focused policy discussions
- working with international agencies on global issues
- developing our strategy for working with external providers as they play an increasingly bigger part in helping to deliver tax and social policy services.

Supporting New Zealand's wellbeing into the future

As a steward of the tax and social policy system, Te Tari Taake, Inland Revenue is uniquely placed to ensure its long-term integrity and help drive better outcomes and experiences for New Zealanders.

We are gearing up to take a more proactive stewardship role that looks to a longer-term view of the system, products and processes we and others are accountable for and the information we collect. Key pieces of work completed this year, and others under way, are helping to shape the future.

Evidence for future-focused discussions

Te Tari Taake, Inland Revenue implements the Government's Tax and Social Policy Work Programme. The current programme includes:

- enacting changes to taxation of residential investment property
- working on the role of tax in the sustainable economy and the environment
- ensuring a fair and efficient tax administration, and
- progressing international priorities.

This year, our policy work included a review of fringe benefit tax (FBT) published in August 2022. The last full review of FBT was in 2003 so a part of this latest review was to explore whether the tax, as currently constructed, is fit for the future. Our findings are there for future governments to consider when determining their tax and social policy work programmes.

Our findings noted that FBT continues to deliver its primary task—ensuring remuneration from employment is taxed whether it is paid in cash or as a non-cash benefit.

However, we noted it is not clear that the tax functions well—stakeholders spoken to said it imposes a high administrative and compliance burden relative to the tax at stake. Some also believe FBT is not complied with by all businesses or enforced by us.

Te Tari Taake, Inland Revenue also released 2 documents aimed at providing high-quality information and evidence for discussions around tax policy.

In August 2022, we published a long-term insights briefing on tax, foreign investment and productivity. The briefing supported the OECD's conclusion that New Zealand has a relatively high cost of capital, which has the potential to adversely impact productivity and economic performance.

We noted that many factors can affect productivity outside of company tax settings.

The briefing considered the pros and cons of a set of policy reform options that could affect costs of capital. While the options all had some benefits, they also all came with their own trade-offs that would have to be managed if any changes were to be made.

In April 2023, we published a report on a 2-year research project that looked at the effective tax rates of 311 of New Zealand's wealthiest families.

A key finding was that the median effective tax rate paid by these families on taxable income was about 30% while the rate in relation to all income sources, including capital gains, was 8.9%. In making these calculations, we used a comprehensive set of data that included information provided by the families themselves.

Global solutions for global tax priorities

Internationally driven measures feature heavily in our work to ensure Aotearoa's tax system contributes to global solutions for global tax issues.

A key change coming up is legislation enabling New Zealand to take part in an OECD and G20-led plan for a 15% global minimum tax on multinational groups.

The new rule would apply to around 24 New Zealand-headquartered groups and mean they are required to:

- calculate their effective tax rates in each country where they operate, and
- pay additional tax to New Zealand on 'mobile income' that has been taxed at less than 15%.

The rule would also allow our country to take part in collecting equivalent tax from groups headquartered in other countries if they're not already subject to tax there.

Partnerships matter

Te Tari Taake, Inland Revenue operates in a wider digital ecosystem that includes external providers that offer business solutions to their customers—some make tax just a part of their service or product.

Providers connect with us via our gateway services channel. This channel supports 75% of all customer interactions with us and all cross-government information-sharing. 2.7 million accounts across 1.9 million New Zealanders are directly supported by gateway services.

We receive requests from other providers to come onboard. Providers are taking an increased role where it benefits customers, tax compliance and Te Tari Taake, Inland Revenue.

We're developing a strategy outlining which providers we are able to work with, what data they should have access to and how they can use that data. It will help improve services to our customers and compliance results, within a robust risk framework.

Plenty to do for Aotearoa New Zealand

Te Tari Taake, Inland Revenue has a view to the future, and we're undertaking research and analysis to ensure the tax and social policy programmes we administer will be fit for purpose in the long term.

A good example is the work we have begun to review Working for Families. This project is focused on developing our long-term strategy on income support payments delivered through the tax system. It will consider what an ideal tax and transfers (social payments) structure could look like, what the implications might be, how the current tax credits could be improved and how support for customers could be more accessible and timely.

This work contributes to our stewardship obligations under the Public Service Act 2020.

We are also on a journey to becoming an organisation based on te Tiriti o Waitangi. We have a range of initiatives under way that will help us become a better Treaty partner over time and benefit Māori customers.

You can read more about what we've done to build our capability as a Treaty partner in the next section as well as our work to make Te Tari Taake, Inland Revenue a diverse and inclusive workplace, and our governance and management.

About us
Mō mātou

We're building a stronger Te Tari Taake, Inland Revenue through our people, our culture and management.

In this section, you can read about:

- the leadership team guiding us
- what we're doing to attract and keep capable people and ensure our workforce reflects New Zealand's diverse communities
- our journey to become an organisation based on te Tiriti o Waitangi
- our progress on Government environmental priorities
- how we've governed and managed our organisation, workplaces, technology and finances.

Leading Te Tari Taake, Inland Revenue through an eventful year

Peter Mersi leads our Executive Leadership Team

Peter was appointed Commissioner and Chief Executive | Kaikōmihana of Te Tari Taake, Inland Revenue in July 2022. Before this, he was the Secretary and Chief Executive for Transport (2016–22), Chief Executive of Toitū Te Whenua, Land Information New Zealand (2012–16) and spent 6 months as the Acting Secretary and Chief Executive of Te Tari Taiwhenua, the Department of Internal Affairs (2011–12).

Peter has held senior leadership roles at Te Tari Taake, Inland Revenue (2010–12) and Te Tai Ōhanga, the Treasury (2001–10).

Peter is the System Lead for Service Transformation, which involves leading and coordinating best practice across government for aligning and delivering services to customers using digital technology.

He co-chairs Papa Pounamu, an initiative to support and grow diversity and inclusion in the public sector. Page 43 has more on Papa Pounamu.

James Grayson

Deputy Commissioner, Customer and Compliance Services—Individuals
Kaikōmihana Tuarua, Kiritaki me te Tautukunga—Takitahi

James has been with Te Tari Taake, Inland Revenue for almost 20 years. He's worked in a variety of roles, including leading large operational groups and making a significant contribution to our business transformation.

James leads our business group for Customer and Compliance Services—Individuals. They make tax compliance simpler by giving guidance and support to individuals, families and tax agents.

David Carrigan

Deputy Commissioner, Policy and Regulatory Stewardship
Kaikōmihana Tuarua, Kaupapa me te Tiaki Waeture

David has held several tax policy positions at Te Tari Taake, Inland Revenue since joining us in 1996. He's led a number of reforms, including the policy work to support our transformation. David leads our Policy and Regulatory Stewardship business group, which provides tax and social policy advice alongside Te Tai Ōhanga, the Treasury.

The group represents New Zealand overseas on tax policy issues, and negotiates and maintains the network of tax treaties with other countries. They also draft most tax legislation and support the passage of proposed changes through Parliament.

Tony Morris

Acting Deputy Commissioner, Customer and Compliance Services—Business
Kaikōmihana Tuarua, Ratonga Kiritaki me te Tautukunga—Pakihi

Tony has had an extensive career with us, working across our tax technical areas. He acted as Deputy Commissioner of our business group for Customer and Compliance Services—Business this year until July 2023, when Lisa Barrett joined Te Tari Taake, Inland Revenue as the new Deputy Commissioner.

This group provides certainty and accuracy on complex and global tax arrangements, working to support micro-businesses, small-to-medium-sized enterprises and significant enterprises.

Michelle Redington

Chief Tax Counsel
Rōia Tāke Matua

Michelle has been our Chief Tax Counsel since March 2021—she leads Te Tari Tohutohu Tāke, our Tax Counsel Office. Michelle has over 20 years' professional taxation experience, including several senior leadership roles, primarily in the private sector.

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

Mary Craig

Deputy Commissioner, Enterprise Design and Integrity
Kaikōmihana Tuarua, Hinonga Hoahoa me te Tika

Mary has had an extensive and varied career since joining us. She leads our business group for Enterprise Design and Integrity, which supports the Commissioner and Executive Leadership Team to lead and govern effectively.

This group facilitates integrated business architecture and system and digital design, along with prioritisation and investment across our organisation. They safeguard our integrity and reputation and lead the programme to help build our Māori cultural capability.

Mike Cunnington

Deputy Commissioner, Enterprise Services
Kaikōmihana Tuarua, Ratonga Hinonga

Mike joined Te Tari Taake, Inland Revenue in July 2013 and has led our approach to compliance and customer strategies and our digital, data analytics and marketing capabilities.

In February 2023, Mike became Deputy Commissioner for Enterprise Services. This group supports our people to operate efficiently, effectively and safely by providing seamless, integrated services across Te Tari Taake, Inland Revenue.

Our people

Our people work from cities and towns around Aotearoa and come from many different communities.

We focus on attracting and keeping capable people and increasing diversity, equity and inclusion at Te Tari Taake, Inland Revenue. Taking a long-term, data-driven approach to workforce planning is helping to build capability for the future.

How we do things here

Our business transformation has enabled entirely new ways of working—our people are empowered to resolve issues for customers at their first contact, and we use networked teams where groups of experts and stakeholders from different fields come together to work on a project or achieve a specific outcome.

We want to reflect this in our culture, along with the importance of our role to help improve Māori Crown relations. This year, Te Tari Taake whānau came together to create a new set of organisational behaviours. These were designed by our people to provide clarity on how we do things.

The new behaviours were launched in March 2023 as Te Pou o te Tangata. Te Pou o te Tangata relates te ao Māori concepts to our work and recognises everything we do starts and ends with people:

Mahi tika. We do the right things, are open and accountable. We do what we say. We are flexible and learn as we go.

Manaakitanga. We seek to lift the mana of others, are generous with our knowledge, and care for those around us. We see the value in diversity.

Whanaungatanga. We make connections, listen and value the experiences of others. We are open minded, inclusive and show respect.

Capability-based approach

We develop our people's capabilities in areas that represent the mix of skills, experience, knowledge and behaviours we need to adapt to a changing environment and customer needs.

A core way we do this is through regular coaching conversations between our people and their leaders. Together they create tailored learning plans. We support this with tools and resources—for example, tax technical learning—for staff at different career stages.

We've had good success in developing people to move into different parts of our organisation in line with their career aspirations. For example, this year, 650 people across our 4,000 plus workforce were seconded to different roles or worked with different customer groups.

Workforce for the future

Like many organisations, we have experienced the impacts of a volatile talent market, and we're actively planning for the workforce needed in years to come.

Through regular surveys, our people tell us they like our flexible, supportive and inclusive environment. We're emphasising our commitment to offering current and future employees a work experience that people value. A positive reputation in the market has resulted in a significant shift in the volume and quality of candidates applying for roles.

A new video for recruitment advertising aims to help build the public's awareness of what Te Tari Taake, Inland Revenue really does. It's one way that we're working to attract a wide range of people who may not have considered a career here.

Diversity, equity, inclusion

Te Tari Taake , Inland Revenue wants to be representative of all the communities we serve. We are committed to building an inclusive workplace free from inequalities, where everyone feels valued, respected and supported to reach their full potential.

Our Commissioner Peter Mersi co-leads Papa Pounamu, the initiative that sets the diversity and inclusion work programme for the Public Service. The areas of focus are:

- Te urupare i te mariu—Addressing bias
- Hautūtanga ngākau tuwhera—Inclusive leadership
- Te whakawhanaungatanga—Building relationships
- Te āheinga ā-ahurea—Cultural competence
- Ngā tūhononga e kōkiritia ana e ngā kaimahi—Employee-led networks.

To make meaningful changes in these focus areas, and build on them further, we have set 3 goals:

- Inclusive workplace
- Diverse workplace
- Leadership and accountability.

These goals are supported and reinforced through focused work on gender and ethnicity pay gaps. Here, we also align with Kia Toipoto, the set of actions to help close gender, Māori, Pacific Peoples and ethnic pay gaps in the Public Service.

We are seeing the impacts from our focus on increasing diversity and inclusion:

- Over this year, 86% of staff who responded to our people experience survey felt 'mostly included' or 'really included' in their day-to-day experience at work.
- Our people tell us they like our flexible, supportive and inclusive environment—this is helping to attract people to work here.
- Gender and ethnic pay gaps have continued to fall.
- Our various people networks are helping to improve our services.

There's more detailed information in our current roadmap for increasing diversity and inclusion at www.ird.govt.nz.

An updated roadmap will be available online from November 2023.

We link in with wider initiatives

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

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

Aotearoa New Zealand Skills Pledge.

Citizens Advice Bureau: work on digital inclusion.

Commitment to equal employment opportunities

Te Tari Taake, Inland Revenue is committed to identifying and eliminating bias and discrimination in our policies and practices. Our work programmes across diversity, equity and inclusion, Māori Crown relations and our people strategy are designed to ensure everyone receives fair and equitable treatment.

Addressing bias | Te urupare i te mariu

Unconscious bias

Unconscious bias can impact us all—we acknowledge the importance of our people identifying and knowing how to address it. Training is a core part of induction, with guidance for all leaders to embed learning about unconscious bias into how we work.

76% of our current workforce have completed unconscious bias learning.

Our learning has been updated with a refresher module to specifically address bias in recruitment. We're also reviewing guidance for hiring leaders and recruitment panel members.

Gender and ethnic pay gaps

Te Tari Taake, Inland Revenue has been working over a number of years to ensure gender and ethnicity are not a determining factor in what people get paid.

The drivers of our pay gaps relate to representation. This means that, although we have diversity within our frontline roles and lower-paid roles, diversity reduces in higher-paid, more senior or influential roles.

Our average gender pay gap has fallen from 17.7% in June 2022 to 16.0% in June 2023. On average, there is no gap for both men and women in the same or similar roles.

However, women are less represented than men in roles earning above $116,000. Since 2022, their representation has decreased in roles earning between $170,000 and $209,000.

Where the average salary differs within roles, this can be attributed to factors such as experience, age or length of service.

Te Tari Taake, Inland Revenue has a much higher proportion of women in lower-paid roles than men.

We began analysing the ethnic pay gap in 2020—we've found it is driven by representation, the same as for gender. Our employee ethnicity range closely reflects that of Aotearoa.

See pages 46 to 48 for more on gender and ethnic representation and our workforce profile.

Recruiting, developing and retaining diversity

We continue to build our people's awareness of bias in decision-making, work to develop diverse talent into senior and technical roles and help leaders recruit diverse talent at all levels.

A relatively low turnover, particularly in senior and influential roles, means a shift to equal gender and ethnic representation will happen over time.

We're looking at the ways we seek and select Māori and Pacific Peoples to join us. This includes working with our internal people-led networks to understand the different experiences people have here, and barriers to development and career progression.

We partner with TupuToa and Te Tari Mātāwaka, the Ministry for Ethnic Communities to increase diversity amongst our young graduates—we're working to further develop our graduate network.

We rank in the top 2 of New Zealand's graduate employers in government and Public Service. Our most popular graduate role is the position of graduate policy advisor.

Our group that works with business customers is introducing its own graduate programme, with recruitment starting in Feburary 2024.

Hautūtanga ngākau tuwhera | Inclusive leadership

Te Tari Taake, Inland Revenue promotes inclusive leadership throughout our people practices. This involves addressing bias and building inclusion into equitable pay, career development and progression opportunities.

We provide tools and guidance for leaders to develop their understanding of how to be an inclusive leader. Leaders are required to complete training in areas such as mental health and addressing unconscious bias.

93% of our people leaders have completed unconscious bias learning.

Our recruitment systems and processes have been refreshed this year to ensure leaders know how to create an inclusive experience for candidates.

As part of our performance approach, leaders are supported to help their people achieve in ways that work for them through tailored coaching and development.

Te whakawhanaungatanga | Building relationships

Building relationships that create honesty and trust among our people, and encourage diverse perspectives, help to improve things for our people and customers.

As noted on page 42, new organisational behaviours put whanaungatanga (relationships) and manaakitanga (lifting up) deliberately at the centre of how we do things every day.

These concepts matter especially when people from across our organisation team up to work on priorities, sometimes at short notice. They also underpin the way our teams work in communities, as you can read about on pages 19 to 21.

Te āheinga ā-ahurea | Cultural competence

The approach at Te Tari Taake, Inland Revenue to building Māori cultural capability comes under our wider te Tiriti o Waitangi strategy, Māhutonga. You can read about Māhutonga starting on page 50.

This year, we've supported leaders to keep driving cultural competency learning with their teams, celebrate language weeks, including New Zealand Sign Language Week, and practise basic cultural elements regularly.

Mana Āki online learning has been available since May 2021. Mana Āki was developed by Hīkina Whakatutuki, the Ministry of Business, Innovation and Employment. It gives teams ways to reflect on how we think about and interact with colleagues and customers from different cultures. We'll continue to review, promote and add to our cultural capability learning over time.

5.9% of our people have completed Mana Āki learning as at 30 June 2023. 21.3% have either completed or actively used it.

18.2% of our current staff have engaged with Mana Āki over the last 2 years.

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

Employee or people-led networks play a significant role in making our workplaces inclusive. The networks foster many opportunities for our people to grow connections, create a sense of belonging and build their capabilities.

The networks have thrived and contributed to some critical organisational decision-making. For example, development of our new organisational behaviours, workforce planning, technology changes, and initiatives for health, safety, wellbeing and learning and development.

The Diversability Network is helping us to build a welcoming environment for people with visible and invisible disabilities. 7% of our people indicated they have a disability in the 2021 Te Taunaki Public Service Census.

He Toa Takitini Rainbow Network helped us get reaccredited with the Rainbow Tick in September 2022. The Tick recognises our continued mahi to be a safe place where people from the rainbow communities can feel they belong.

The Rainbow Tick Organisation, which reaccredited us, commended work such as our initiative for validating a customer's identity when their voice does not match their expected or assumed gender.

Using plain language and making our communications clearer has also been a key focus as it helps both customers and our people when our information is easy to read and understand.

Te Tari Taake, Inland Revenue currently provides executive sponsorship and financial support to help these networks deliver their annual network plans:

- Tagata Pasifika Network
- He Toa Takitini Rainbow Network
- Wāhine Tūhono Women's Network
- Diversability Network
- Multicultural Network.

We also support Ngā whānau Māori o Te Tari Taake—the whānau from around Aotearoa. You can read more on their work on page 52.

Over recent years, Te Tari Taake, Inland Revenue has been working with Citizens Advice Bureau (CAB) to understand more about the challenges some customers face when accessing our digital services.

We know that not everyone can or will interact with us digitally. By working with CAB, along with our networks such as the Diversability Network, we've made improvements to both digital and non-digital services. These include:

- introducing a priority service to callers using the NZ Relay service for people with hearing or speech impairments
- improving customer advice when registering for myIR
- increased registration for our Voice ID service (providing additional access, ease and security for 24/7 self-service over the phone).

We're a digital first, but not digital only, organisation. We'll continue to focus on the need to design and keep improving non-digital service channels alongside digital ones.

Members of He Toa Takitini Rainbow Network attending the Cross Agency Rainbow Network conference in Ōtautahi, Christchurch in June 2023.

Our efforts to make tax easier were recognised by a finals placing at the 2022 Plain Language Awards.

Following customer feedback, we updated our 'Income tax assessment from Inland Revenue' letter to make our messaging easier to understand. A customer who received the letter nominated us for the Plain Language Awards.

The customer nominating us said, 'The tone and language in this letter make me feel good about paying my tax. This letter is a real turnaround from previous correspondence with Inland Revenue.'

Gender pay and representation

The gender pay gap indicates the average difference between women's and men's earnings. It's calculated as the difference between the average total remuneration for females and the average total remuneration for males.

The median gender pay gap is calculated as the difference between the middle value of all females' total remuneration and the middle value of all males' total remuneration.

WOMEN IN LEADERSHIP ROLES

as at 30 June 2023

65% of team leads are women
2022: **64%**

43% of managers are women
2022: **46%**

57% of senior managers are women
2022: **57%**

THE GENDER PAY GAP HAS SHIFTED SINCE 2016

20.6% in 2016 → **16.0%** as at 30 June 2023

THE MEDIAN GENDER PAY GAP BETWEEN WOMEN AND MEN

as at 30 June 2023

16.0% overall (mean) gender pay gap

20.4% median gender pay gap

0.0% average gender pay gap (weighted) within role

0.04% within pay band

TE TARI TAAKE, INLAND REVENUE EMPLOYEE ETHNICITY

as at 30 June 2023

	European	Māori	Asian	Pacific Peoples	MELAA	Other ethnicity
New Zealand, from 2018 Census data	70.2%	16.5%	15.1%	8.1%	1.5%	1.2%
Te Tari Taake, Inland Revenue	63.0%	12.4%	21.1%	9.2%	3.0%	0.7%

TE TARI TAAKE, INLAND REVENUE LEADERSHIP ETHNICITY

as at 30 June 2023

Team leader

European	Māori	Asian	Pacific Peoples	MELAA	Other ethnicity
75.6%	13.6%	9.0%	10.0%	2.3%	1%

Management

European	Māori	Asian	Pacific Peoples	MELAA	Other ethnicity
88.2%	9.1%	6.4%	3.6%	1.8%	3%

Senior management

European	Māori	Asian	Pacific Peoples	MELAA	Other ethnicity
92.9%	10.7%	3.6%	3.6%	0%	0%

Ethnic pay and representation

Ethnic pay gaps are calculated by comparing the average salaries of people identifying with a group and the average salaries of everyone else who has declared an ethnicity.

A negative percentage means the group is paid above the overall average salary, and a positive percentage means they are paid less.

TE TARI TAAKE, INLAND REVENUE ETHNIC PAY GAP

as at 30 June 2023

European	Māori	Asian	Pacific Peoples	MELAA	Other ethnicity
-22.0%	8.6%	13.0%	13.6%	9.4%	-14.9%

Because our people can identify with multiple ethnicities, figures may add up to over 100%.

Our workforce profile

Total turnover fell from 18.7% to 10.1% this year. This is partly because we've made fewer organisational changes since completing our transformation programme. Unplanned turnover fell from 13.4% in 2021–22 to 9.6%.

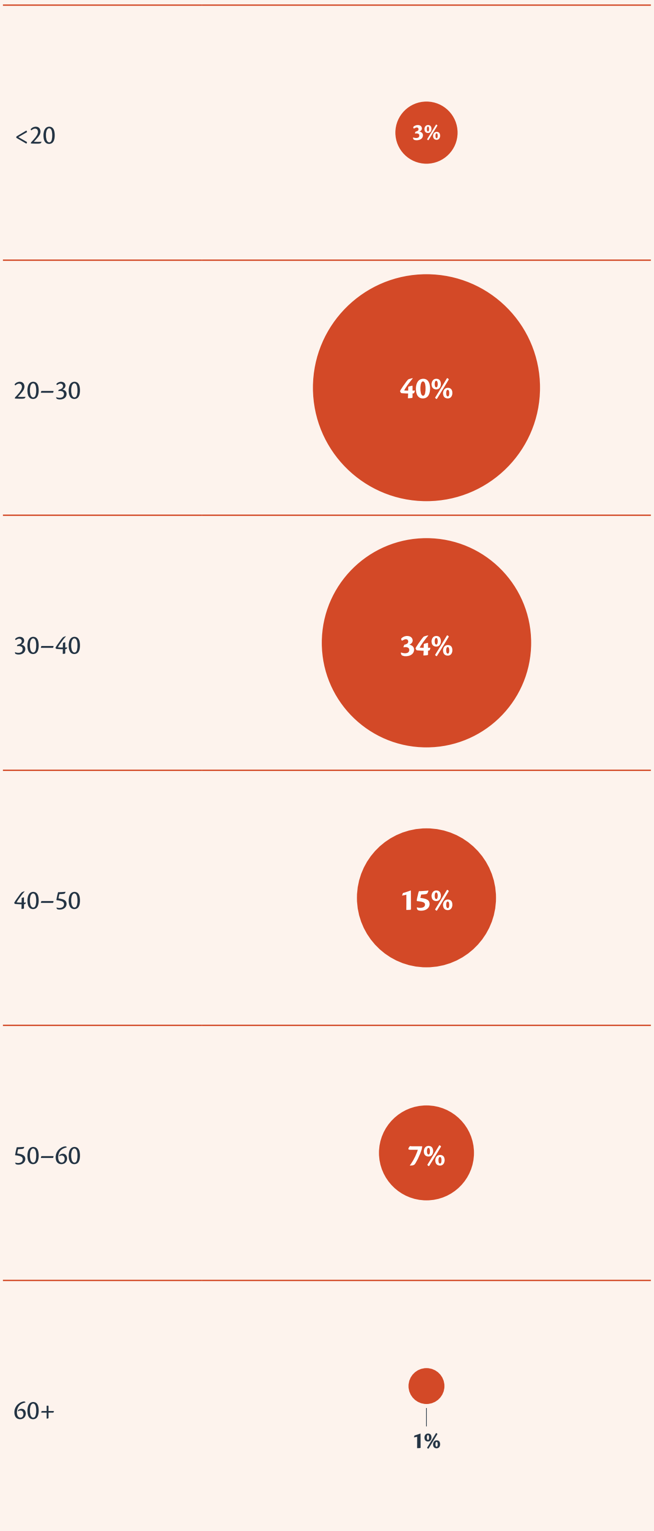
The unplanned turnover rate for people working in tax technical roles dropped from 6.8% in 2021–22 to 4.2% at 30 June 2023.

Measure	2019	2020	2021	2022	2023
Headcount	5,009	4,831	4,210	3,923	**4,130**
Full-time equivalent	4,888	4,724	4,106	3,819	**4,023**
Average age	44.6	44.9	46.3	45.8	**45.3**
Full time	90%	90%	90%	90%	**90%**
Part time	10%	10%	10%	10%	**10%**
Permanent	87%	84%	94%	99%	**97%**
Fixed term	13%	16%	6%	1%	**3%**
Contractors	599	371	106	75	**94**

Measure	2019	2020	2021	2022	2023
Female staff overall	65%	65%	65%	66%	**66%**
Female all people leaders	61%	59%	56%	57%	**58%**
Female managers	50%	49%	48%	48%	**48%**
Male staff overall	35%	35%	35%	34%	**33%**
Male all people leaders	39%	41%	44%	43%	**41%**
Male managers	50%	51%	52%	52%	**51%**

Measure	2019	2020	2021	2022	2023
New hires	425	540	97	539	**627**
Exits	693	763	700	787	**431**
Unplanned turnover	9.1%	8.1%	8.2%	13.4%	**9.6%**
Total turnover (annual)	9.6%	10.5%	10.4%	18.7%	**10.1%**
Average length of service (years)	14.5	15.4	15.5	14	**13.7**

PERCENTAGE OF PEOPLE WHO HAVE JOINED US BY AGE GROUP IN 2022–23



0.6%

of our staff indicated either other gender or preferred not to report.

Wellbeing, health and safety

Te Tari Taake, Inland Revenue integrates health and safety into all our activities and encourages everyone to show manaakitanga—lifting others up. We work proactively to understand and manage risks to people's health, safety and wellbeing.

Through regular surveys, we check on how our people are feeling and provide the support they need.

On average over the past year, 65% of respondents to surveys rated their wellbeing as 'good' or 'very good'.

73% of respondents over the year felt 'good' or 'very good' about their day-to-day work experience.

Some of our whānau were affected by the heavy rainfall, flooding and cyclone damage across Aotearoa. We used several ways to reach people, coordinate support for them and look after their wellbeing. A key for us was that our people were able to step away from work to look after their families and help their communities.

Working environment

We continue to look at ways to incorporate WorkSafe's priority of Mentally Healthy Work into our work design and environment and the working relationships we foster between staff.

We delivered in-house resilience coaching for teams who requested it this year, and introduced a new health and safety reporting tool. The tool provides better oversight of incidents and information on areas of risk and where we can improve.

Focus on the critical risks

Key risks to our people's health, safety and wellbeing include driving, and risks that can arise from isolated and remote work when visiting customers.

A significant risk is a failure to manage risks to our people's mental health—this is not dissimilar to other agencies. This includes negative impacts on wellbeing from encountering offensive customer behaviour or stresses such as workload or difficult working relationships.

We continue to strengthen what we do to protect and support people. For example, leaders follow up with team members who report an incident potentially harmful to their psychological health. This year, 91% of these welfare check-ups were completed within 48 hours.

We offer an Employee Assistance Programme to our people. 894 of our employees sought assistance during the year, 1% less than in 2021–22. Our people are generally proactive in seeking help before their wellbeing and work performance is affected.

Monitoring illness and work-related injuries

This year, average sick leave was 12.3 days per person, up from 11.3 days in 2021–22.

The number of ACC claims has continued to trend down, with 21 accepted claims compared to 24 in 2021–22. The average number of days lost for work-related injuries has fallen from 29.9 days per injury last year to 18.5.

Becoming a Tiriti-based organisation

The Public Service Act 2020 requires public service agencies to build their capability to support the Crown in the Māori Crown relationship. Te Tari Taake, Inland Revenue is doing this through our Māhutonga strategic approach, supported by our enterprise planning. It's helping us to achieve this by:

- enhancing our Māori capability and cultural competency.
- bringing te Tiriti o Waitangi and te ao Māori principles, concepts and practices into the design and delivery of our policy and services. This includes an effort to directly seek and incorporate Māori voice as part of this work.

Bringing together Tiriti perspectives, te ao Māori worldviews and our organisational perspectives will create an enduring organisational cultural shift. It will also help us to move towards being a Tiriti-based organisation.

Building Māori capability and cultural competence

Through Māhutonga, Te Tari Taake, Inland Revenue is bringing te ao Māori into our culture, thinking and our daily work—making our spaces feel more at home for Māori staff and customers, valuing te reo Māori, and leaders creating space for their teams to learn.

As you can read on page 42, we developed Te Pou o te Tangata, new organisational behaviours, that are anchored in te ao Māori concepts: mahi tika, manaakitanga and whanaungatanga. These provide us with a starting point for understanding how to use te ao Māori in practical terms.

To work with Māori and respond to issues that affect Māori, we are equipping our people with skills and knowledge that support them in their work.

We have developed Te Arapiki (staircase), our Māori cultural capability learning framework.

Te Arapiki is consistent with the learning needs identified by Te Arawhiti, the Office for Māori Crown Relations and Public Sector Act 2020 requirements.

Foundational level learning is already in place, with modules covering te ao Māori, te Tiriti o Waitangi and New Zealand history and te reo skills such as greetings and pronunciation. Since January 2022, 302 people have completed the foundational level.

We have designed the full Te Arapiki programme, which will lift most of our people's capability from foundational to comfortable on the capability framework developed by Te Arawhiti. For the smaller percentage of roles that need higher levels of expertise, Te Arapiki will also cater for those levels of capability.

The progressive delivery of learning assets will begin to roll out in mid-2024.

Te Mata o te Arero, our te reo Māori plan

The goals of Te Mata o te Arero are to have te reo Māori spoken, heard and seen every day.

Supplementing the foundational level language learning offered through Te Arapiki, our Whānau Māori have developed classes on te reo Māori, tikanga (practices), kawa (etiquette) and kīwaha (sayings).

Some of our people are also studying te reo Māori at more advanced levels. Te Tari Taake, Inland Revenue offers a te reo Māori allowance for people who have achieved a certain level of proficiency in line with assessments run by Te Taura Whiri i te reo Māori, the Māori Language Commission.

Building te ao Māori worldviews into the design and delivery of our policy and services

Te Tari Taake, Inland Revenue is continuing the journey to bring Māori voices and aspirations into our thinking and actions. One way we are doing this is by using the insights contained in:

- Tuitui te Hono Māori outcomes, a kaupapa Māori approach that highlights Māori voices and their aspirations (or outcomes).
- Haehae Whakarei, a framework to help us provide services that contribute to and support better outcomes for Māori.
- He Waka Tuia, an evaluation framework that helps us to identify what 'good looks like'.

At the centre of this approach is what whānau Māori have said matters to them: oranga tangata, oranga whānau and oranga whenua. The holistic wellbeing of a person, of family and of the natural land.

Over the past 2 years, our policy teams have built their capability and approaches to engaging with Māori and understanding Māori perspectives. This has focused on learning about te reo and tikanga Māori and how to use frameworks such as He Ara Waiora in policy development.

An external reference group of Māori experts has been advising us since October 2021. This panel is helping improve our understanding of appropriate methodologies for engaging with Māori. They have also helped us to put into practice the frameworks built around Māori perspectives.

Our policy people have tested the analytical power of these frameworks in our project for addressing debt to government (which you can read about on page 30). For example, it helped us think more deeply about how Māori might view proposals or how solutions might impact oranga tangata, whānau and whenua.

From here, our policy teams can apply the appropriate engagement methods and frameworks right at the start of policy projects.

Delivering services

Under our Māori customer strategy, Mauri Ora te Whānau, we're working to be customer-centric, build trust and partner with whānau Māori in a Tiriti-based way that is mana enhancing, mauri inducing and whānau focused.

The Kaitakawaenga Māori Service is part of our community compliance group—they are at the forefront of working with whānau to improve our services. As you can read on page 20, the rōpū (group) role models whanaungatanga—building enduring relationships with our customers.

Understanding Māori data sovereignty

Māori consider that their data is recognised as a living taonga over which they have sovereignty. We're considering how we incorporate guidance from the all-of-government work led by the Government Chief Data Steward and Government Chief Digital Officer around Māori data sovereignty and Māori data governance.

Our budget this year for funding the Māhutonga programme, a team of 7 staff to lead it and Ngā Whānau Māori o Te Tari Taake was $0.9 million.

This does not include broader unquantified self-funded costs for activities such as developing learning material or staff time spent on learning.

Te Tari Taake, Inland Revenue has many taonga in our offices across the motu. We recognise the need to protect and, when necessary, take action to restore them. As we do, our people learn about the meaning put into the designs by their creators. Taonga help create an environment where both Māori staff and customers can recognise our offices as their spaces too.

In November 2022, taonga and tukutuku panels in our Manukau location were restored and reawakened after an office refurbishment. The panels (above) were made by master weaver Hinemoa Harrison and her daughter Caroline. Their designs represents the many different people that we serve and the communication that's essential in developing good relationships to deliver our services.

Ngā Whānau Māori—our Māori Networks

Te Tari Taake, Inland Revenue recognises the importance of people coming together to support and uplift themselves. Nationally, we have 12 rōpū (groups) that are bringing kaupapa Māori perspectives and practices to uplift and better serve staff, customers, whānau, hapū and iwi. Collectively, they are known as Whānau Māori.

Whānau Māori have taken an active role in building cultural capability and giving people at Te Tari Taake, Inland Revenue a better understanding of te ao Māori. Some of the initiatives undertaken include:

Supporting te reo Māori learning

Ahakoa Kotahi me Kaha (Whānau Māori based in Te Whanganui-a-Tara, Wellington) are facilitating te reo Māori classes open to all staff. With the tautoko (support) of Kaiako Matua Whetu Rangihaeata te reo Māori lessons came to life. Since starting, 327 people have registered for the classes and over 150 staff have graduated from them.

14 September 2022 was the 50th anniversary of the Māori language petition, and so the theme of Te Wiki o te reo Māori was 'kia kaha te reo Māori'. Whānau Māori organised activities in each of our sites, centred around hearing, seeing and speaking te reo Māori to celebrate our taonga tuku iho.

Members of Whānau Māori in Takapuna helped create the content for our mobile phone app that launched in June 2022—Tūrama. Tūrama provides foundational guidance on waiata, karakia, pronunciation, mihimihi, pepeha and tikanga. Whānau Māori across the motu have helped grow daily use of the app—1,911 people have downloaded Tūrama, and visits have grown to 25,000 in June 2023 alone.

Supporting the Māori community

Te Manu Taiko (Whānau Māori based in Tauranga) were invited to Opureora Marae on te Moutere o Matakana, Matakana Island this year. As guests to the island, they were embraced within the whare tīpuna—Tuwhiwhia, where they learned the history behind te Moutere o Matakana and its significance to the rohe. At the time of their visit, there was work being done to re-awaken a marae—Te Manu Taiko contributed by tidying up the whānau urupā (cemetery).

Supporting Māori cultural events

Te wā o Matariki, the Māori new year, saw many celebrations. Whānau Māori took a leading role in building knowledge about Matariki. Highlights included the rōpū in Kirikiriroa organising a Matariki Market Day that brought together all our people-led networks, an example of whanaungatanga in action. Te Rōpū Āwhina (Whānau Māori based in Te Papaioea, Palmerston North) held a traditional hāngī, with displays of manaakitanga, whanaungatanga and mahi tika seen throughout the process.

Above: Whānau Māori National Hui, Pipitea Marae, 2022.

Governing and managing

Te Tari Taake, Inland Revenue is a relatively large and multi-faceted organisation working to deliver core commitments and support customers alongside additional Government priorities.

Governance and planning are helping us prioritise work, allocate resources for best value and manage our risks and performance.

Governance and risk

The Executive-level Governance System at Te Tari Taake, Inland Revenue helps guide delivery of our plans and manage change.

At the centre, the Commissioner has a dual role as governor and manager of our organisation. He has statutory independence from Ministers to ensure Te Tari Taake, Inland Revenue can levy tax and carry out duties independently.

The Commissioner carries prime responsibility for our performance and must exercise statutory judgement to determine where resources should be focused.

The Commissioner and our Executive Leadership Team make up our Strategic and Investment Board. The board provides guidance on the overall governance and strategic direction, deciding what we want to achieve, by when and what's important along the way.

Supporting the board are committees for technical, performance and organisational health, portfolio and data and information governance.

Our governance system evolves over time so that it stays fit for purpose within our changing circumstances and operating environment.

In May 2022, we updated the charters for the board and 2 committees to ensure they are fit for our post-transformation needs. Since then, governance groups have helped Te Tari Taake, Inland Revenue to balance competing priorities during the COVID-19 pandemic and to navigate our path forward, including developing a new enterprise strategy and approach to delivery of change.

Risk

Our Executive Leadership Team manages 7 strategic risks that apply to our whole organisation:

- Failure to deliver for customers or government priorities.
- Compliance is reduced to the point of having a material impact on revenue collection for the Crown.
- Inability to ensure continuity of business services.
- Insufficient people capability and capacity to deliver outcomes.
- Our approach to data and information governance is sub-optimal.
- Unexpected negative stakeholder reaction to change.
- Failure to provide appropriate stewardship of the tax and social policy system.

Over the past 2 years, we have evolved our risk management approach to a centralised, more transparent framework of risk and controls. It's helping us manage risks in a more coordinated way.

Independent advice on risk and assurance

The Commissioner receives independent advice from a committee of external members to help assist him in his statutory and governance responsibilities. They bring a mix of skills in assurance, financial management, risk management and organisational change.

This year, Michael Ahie, Sandie Beatie QSO and Karen Jordan retired from the committee. New Chair Mark Darrow and Melanie Templeton were joined on the committee by Howard Fancy, Maria Rawiri and Craig Owen.

Planning

Business planning across our organisation rolls up to a high-level enterprise plan that aligns activities to the outcomes outlined in our Statement of Intent (available at ird.govt.nz).

Priorities this year were:

- delivering and improving services for our customers and managing our performance
- supporting our people in the workplace
- increasing our ao Māori capability.

To help manage our ability to deliver, we've been improving planning processes, prioritising and sequencing initiatives, tracking progress and adjusting to new challenges, risks and opportunities.

Progressing Government environmental priorities

Te Tari Taake, Inland Revenue is committed to minimising our environmental footprint by managing the impacts of our day-to-day work. We are part of the Carbon Neutral Government Programme's (CNGP) efforts to combat climate change and achieve carbon neutrality by 2025.

We are in the initial group of government organisations taking part in the CNGP. In December 2022, we reported our results to Manatū Mō Te Taiao, the Ministry for the Environment (MfE) for the first time.

Our efforts focus on delivering the requirements of the CNGP. We're measuring carbon emissions and progressing an emissions reduction plan.

Measuring our emissions

Last year, we set our emissions base year as 2018–19. At the time, it was the most recent full year of Te Tari Taake, Inland Revenue operating without the impacts of COVID-19. This year, our emissions have been re-stated for each year from 2018–19 to reflect revised emissions factors published by MfE in July 2023.

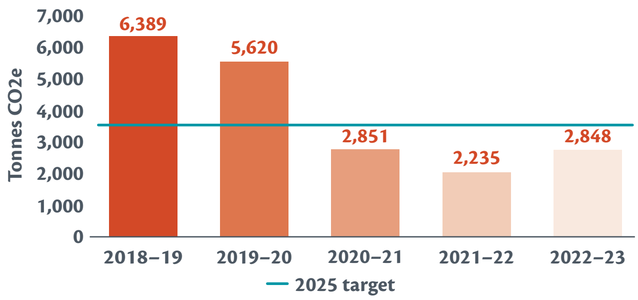
Our results for 2022–23 are provisional and unverified. The verification audit is nearing completion with no material adverse findings.

In 2022–23, we emitted 2,848 tonnes of carbon dioxide equivalent (tCO2e), which is 27% higher than 2021–22 but 55% lower than the 2018–19 base year.

Air travel generated 41% of 2022–23 emissions, followed by freight associated with our mail (35%) and the electricity used in our permanent and temporary sites (11%).

As expected, lifting COVID-19 travel restrictions has led to an increase in all related emissions (air travel, accommodation, and use of our vehicle fleet, rental and private vehicles and taxis).

OUR CARBON EMISSIONS BY YEAR



Our office technology enables our people to work remotely and virtually. However, domestic travel remains essential for some activities such as tax audits and our leaders connecting with remote teams.

International travel to specialist meetings and conferences with overseas authorities and other tax jurisdictions remains important—it made up 48% of air travel emissions in 2022–23.

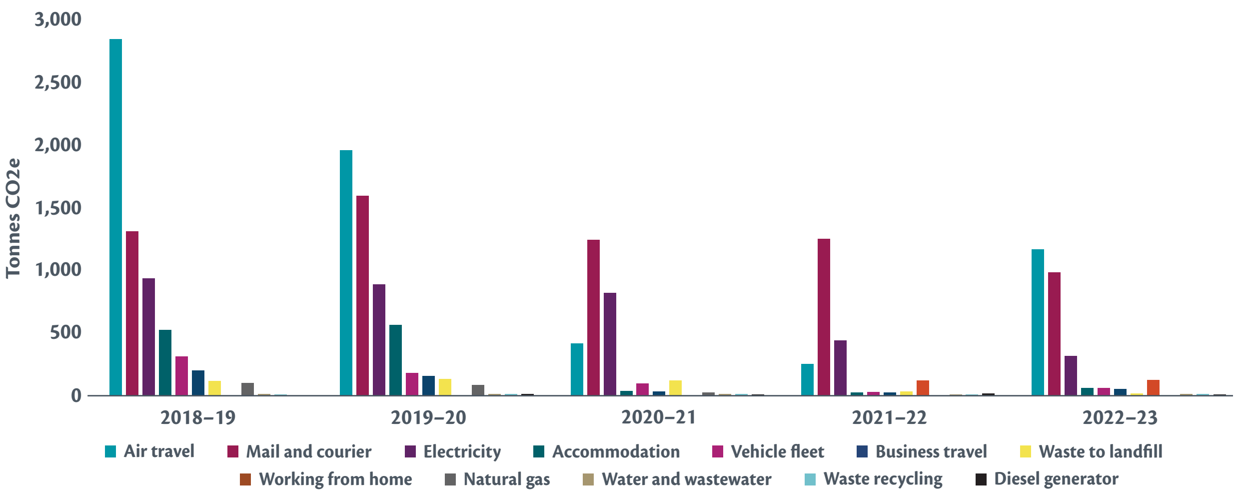
Mail freight emissions fell 21% from 2021–22. International mail continues to make up just under 5% of our paper-based mail volumes but accounts for 59% of mail freight emissions.

The graph below shows a breakdown of emissions by source across 5 years. Please note that 1 source (waste composting) is too small to feature.

Some of the energy benefits gained from exiting older, less-efficient buildings have been offset by our need for temporary office space over the past 2 years. Reasons for this include concerns over the seismic robustness of some offices and seismic upgrades at 3 permanent sites.

While electricity use increased at our permanent sites this year, the associated emissions have reduced due to the revised MfE emissions factors.

OUR CARBON EMISSIONS (TONNES CO2e)



Reduction targets

Under the CNGP, we must reduce gross emissions in line with the Paris Agreement. The Agreement is to limit global average temperature increases to no more than 1.5 degrees above pre-industrial levels. This requires us to reduce gross emissions by 21% by 2025 and 42% by 2030 from the 2018–19 base year.

We're aiming higher with a commitment to reductions of 43% by 2025 and 50% by 2030. These targets are not affected by the restatement of emissions for past years.

Based on our latest projections, which take property changes and reduction efforts into account, we estimate a small rise in emissions in 2023–24 followed by a drop in 2024–25. Current modelling indicates we will achieve a 58% reduction by 2025 and 64% by 2030.

The CNGP has defined a minimum mandatory set of emissions that agencies are to measure. At the end of 2025–26, we will need to offset all remaining mandatory emissions to achieve carbon neutrality. Over 99% of our emissions in 2022–23 are mandatory as defined by the CNGP.

Our plan

Te Tari Taake, Inland Revenue is working on 8 key initiatives to achieve our emissions reduction targets:

- Transition to a fully electric vehicle (EV) fleet.
- Reduce the fleet size and explore other optimisation options.
- Enhance the energy efficiency of buildings—energy efficiency is being assessed at all sites over 2,000m^2. As leases near expiry or renewal dates, we're working with landlords to upgrade air-conditioning systems and lighting.
- Minimise office waste—we're reviewing and enhancing waste management practices.
- Reduce postal freight emissions—we are analysing postal volumes and will explore:
  - options to reduce them further, and
  - alternative lower-emissions ways to deliver mail to overseas customers.
- Reduce taxi and rental car emissions—we will consider options to switch to electric taxis and electric and low-emission rental cars.
- Minimise the post-COVID-19 growth in air travel—we continue to explore how to minimise travel.
- Minimise employee commuting emissions—we will look at workplace barriers that prevent our people choosing to walk, run, scoot or bike to work.

Progress on our reductions plan

This year, chargers for EVs were installed in 11 sites, and we are looking at 3 further locations. Installation at our other sites will be completed as changes to our property portfolio are confirmed.

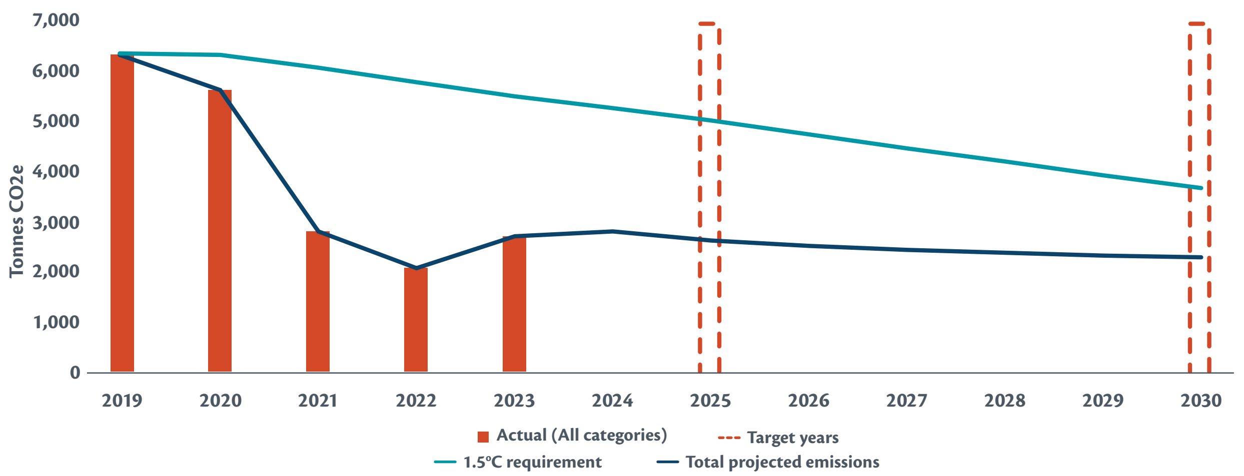
With the arrival of 20 new EVs in August 2023, nearly 60% of our fleet is electric. To promote greater use of vehicles for travel between our sites, we're installing visitor chargers where carparks are available.

LED lighting is being installed in our sites.

A pilot at one of our sites has been testing ways to minimise waste sent to landfill. We're considering how to apply what we have learned at other locations.

Te Tari Taake, Inland Revenue has also developed a dashboard to give more visibility to travel emissions. Our travel policy is being refreshed to prompt staff to consider the environment when making travel decisions.

OUR EMISSIONS PROJECTED OUT TO 2030



Moving forward

This current reporting accounts for emissions from our core business activities. We are also looking at emissions from the cloud-based data centres we use and staff commuting. We expect these emissions to be material and that we will add them to reporting next year.

We are also working on ways to enhance data quality and automate gathering of the activity information used to calculate emissions. As part of this, we're developing dashboards to better monitor and report on emissions from quarter to quarter.

Our workplaces

Te Tari Taake, Inland Revenue is based in 17 cities and towns across Aotearoa. We have 21 permanent offices. We run a property programme that takes opportunities to:

- modernise workplaces, and
- ensure our sites are robust for the future and reflect emissions reduction initiatives.

Where circumstances allow, we're reducing our footprint and co-locating with other agencies.

This year, we:

- completed seismic assessments of most properties
- upgraded the security and operation of front-of-house facilities at 6 locations, with enhanced accessibility for customers, and
- neared completion of the refits of the Asteron Centre in Te Whanganui-a-Tara, Wellington and our office in Māwhera, Greymouth following seismic upgrades.

Upgrading Asteron

Asteron Centre is the home site to over 20% of our people. The building has undergone a seismic upgrade that required removal of a substantial portion of our existing 12 year-old fit-out.

We have reduced our footprint in Asteron due to lower people numbers and a workspace re-design that supports more flexible, activity-based working. Our lease has reduced from 8 to 5 floors from December 2022, with an annual saving of $5.8 million.

Reducing costs in our refit of Asteron has been a focus throughout this project. Where it was more cost-effective, we have re-used the existing fit-out, our old furniture or furniture from other agencies.

For example, Te Rua Mahara o te Kāwanatanga, Archives New Zealand has donated shelving and we're using some existing kitchenware. We chose to buy generic furniture instead of initial specifications from the project architect, saving $350,000. We also installed re-locatable meeting pods instead of building permanent meeting rooms.

The workplace re-design has kept our diverse workforce in mind by providing, for example, accessible kitchen benches and gender-neutral bathrooms.

Environmental factors have been a key consideration. We have worked with a relocation partner that deconstructs and recycles furniture that is of no further use. 54 tonnes of carpet have been donated instead of being sent to a landfill, saving 33.6 tonnes of carbon.

How we performed

We monitor 6 indicators of the performance of our property portfolio and vehicle fleet against organisational goals and government guidelines—2 of 6 indicator targets were achieved.

Our buildings need to comply with fire safety regulations and the Building Act 2004. All have a current building warrant of fitness and evacuation procedures. We worked with landlords to put regular trial evacuation schedules back in place after they were suspended due to COVID-19. Our target this year was not achieved because 1 remaining trial took place in July 2023, outside the 2022–23 timeframe.

NABERSNZ is a system for rating the energy efficiency of office buildings. We have completed assessments of our larger sites—10 met the minimum acceptable rating. The landlord in 1 remaining building is working to address an issue.

10 of our 12 metro sites met a space utilisation target of no more than 16 square metres per person. We have planned recruitment in the 2 sites that fell outside the target.

Our teams used the vehicle fleet more as they stepped up community engagements and visits. However, work that we needed to prioritise this year, such as supporting customers affected by weather events, kept our people in the office. This limited community activities to an extent and contributed to our fleet utilisation being lower than our target.

86%

of legislative compliance requirements met by their due date against a target of 100%

2022: **74%**

100%

of non-legislative compliance requirements met by their due date against a target of 100%

2022: **96%**

100%

of front-of-house facilities which meet security standards against a target of 100%

New measure

91%

of NABERSNZ building energy efficiency assessments rated a 4 or more for existing buildings and 5 for new buildings (target: 100%)

New measure

83%

of metro buildings where the square metre utilisation is no more than NZ Government Property Group guidelines (target: 100%)

2022: **77%**

18%

utilisation of bookable vehicles against a target of 45%

2022: **7%**

Our technology

Our technology is based on software as a service and commercial off-the-shelf products. This means third parties can collaborate with us easily, our people can access tools and data from any location, data is securely located and accessible in the event of a natural disaster and software is regularly updated.

This year, our focus has been on managing and enhancing our technology assets to ensure they support performance. We'll continue to make updates to our core system, START, that allow us to benefit from advances in technology and gain efficiencies.

Operating effectively in a challenging year

During the year, our systems continued to handle high loads from automatically calculated income tax assessments and customer online interactions.

We have kept improving our mobile workplace technology, which has been essential during periods where people were not able to work from the office. Everybody has a device so they can work in the office and remotely.

Cyber security continually strengthened

Te Tari Taake, Inland Revenue has been improving our cyber security capability significantly over the last 5 years. We have increased our resourcing, delivered security initiatives and partnered with third parties to ensure a managed response to security threats.

We have developed our security position to ensure we have:

- effective overall insight from our Chief Information Security Office and team
- an effective security operations and incident response team
- a mature security information and event management capability
- evidence-based control testing through external auditors and security exercises
- enhanced technical integration and an automation by design approach
- a risk-based, continuous validation and increased visibility of key controls
- the ability and agility to react to the rapidly changing security landscape
- threat intelligence and threat hunting as a core capability, and
- increased ability to react quickly and reduce the impact of cyber security incidents.

How we performed

We monitor and report on the availability, utilisation, condition and functionality of our key assets. Indicators aim to provide robust information on how our internal and customer-facing operational systems are performing. We met all of our targets.

99.9%

% of serviceable hours that systems were available to users against a target of >99.5%

2022: **99.9%**

4.2

average score for assessment of functionality against a target of 4.0

New measure

99.0%

average of various asset condition indicators against a target of >95%

2022: **97.8%**

96.4%

utilisation of infrastructure against a target of >89%

2022: **91.2%**

4.86

supplier performance against a target of 4.0

2022: **4.85**

Our finances

As part of our transformation programme, we committed to being approximately 25% to 30% smaller from an administration perspective, all things being equal. We have achieved this commitment.

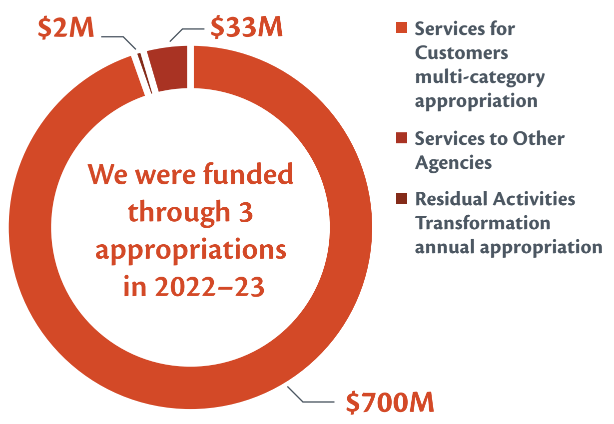
Remuneration and inflationary cost pressures have been and will be our key financial risks. Our current financial position will help lessen the level of this risk.

Departmental appropriations

Each year, we receive funding from the Government to deliver services under 3 departmental appropriations.

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.

2022–23 APPROPRIATIONS



The total budgeted appropriation for 2022–23 was $735 million. Our actual spend was $691 million, $44 million lower.

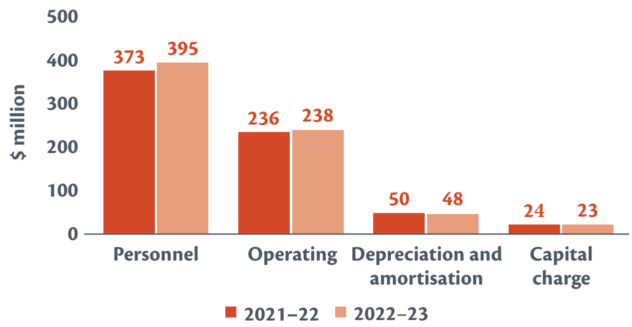
This underspend was partly due to challenges recruiting staff in the tight labour market and the timing of residual transformation activities.

Some of this underspend will be transferred to 2023–24, subject to confirmation by Ministers.

Operating expenditure

Our operating expenditure against appropriations including remeasurements (expenditure that does not require an appropriation) was $704 million. It covers spending on personnel (56% of the total), operating (34%), depreciation including amortisation and impairment (7%) and capital charge (3%).

2022–23 EXPENDITURE BY CATEGORY



Total personnel costs were for our people's remuneration, employee entitlements and training and development costs. New collective agreements incorporating the outcome of the Public Sector Pay Adjustment increased this spending in 2022–23 and will do so in outyears.

Operating costs this year mainly related to information technology, telecommunications, accommodation leases, contractors, consultants and office expenses.

Operating expenditure on contractors and consultants fell to $42 million in 2022–23 from $75 million in 2021–22. This reflects reduced requirements for contractors and consultants now that the transformation programme has ended.

The ratio of contractors and consultants operating expenditure to workforce operating spend was 10.3% in 2022–23 compared to 17.6% last year.

Capital expenditure

We spent $40 million on capital investments ($35 million in 2021–22) primarily on technology, software development and leasehold improvements.

Our future outlook

Our operating expenditure for 2023–24 is forecast to be $738 million, an increase of $47 million from 2022–23.

In terms of capital expenditure, Te Tari Taake, Inland Revenue is maintaining capital reserves, funded from annual depreciation for technology and other upgrades and replacements.

Getting the best public value from what we buy

Like other government agencies, Te Tari Taake, Inland Revenue considers social, environmental, cultural and economic outcomes when sourcing goods and services. Our key considerations around these broader outcomes when we go to market include:

- increasing New Zealand businesses' access to government contract opportunities, including supplier diversity
- supporting quality employment outcomes for potentially disadvantaged groups
- helping to improve conditions for New Zealand workers, and
- reducing carbon emissions.

We report on the awarding of contracts to suppliers who have self-selected as a Māori business—our result this year improved slightly from 0.96% of contracts to 1.78%. Because of the market we operate in, we're unlikely to improve this result. We're continuing to identify Māori businesses where possible and raise awareness within our organisation.

We also track timeliness in paying invoices to domestic suppliers as a way of ensuring we're paying businesses quickly for their services. This year, 96.6% of the 10,200 invoices were processed within our target of 10 working days.

$691m

operating expenditure against appropriations to deliver outcomes in 2022–23

2022: **$685m**

$40m

capital investment in 2022–23

Nil

breaches of departmental appropriations

96.6%

of domestic invoices paid within 10 working days against a target of 95%

2022: **96.3%**

1.8%

of our contracts (based on purchase orders issued) awarded to Māori businesses to March 2023

2022: **0.8%**

Our performance
Ko tā mātou mahi

We track the progress we're making through a range of measures and indicators. Our Performance Measurement Framework on page 64 shows how we use our resources to deliver our services, and how our services connect with the outcomes we want to achieve for our customers and Aotearoa New Zealand.

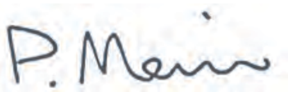
Statement of responsibility

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

- the preparation of Te Tari Taake, Inland Revenue'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 Te Tari Taake, Inland Revenue 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 Te Tari Taake, Inland Revenue, whether or not that information is included in this Annual Report.

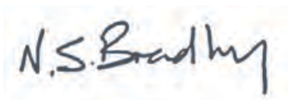
In my opinion:

- the Annual Report fairly reflects the operations, progress and organisational health and capability of Te Tari Taake, Inland Revenue;
- the financial statements fairly reflect the financial position of Te Tari Taake, Inland Revenue as at 30 June 2023 and its operations for the year ended on that date; and
- the forecast financial statements fairly reflect the forecast financial position of Te Tari Taake, Inland Revenue as at 30 June 2024 and its operations for the year ending on that date.



Peter Mersi
Chief Executive and Commissioner of Te Tari Taake, Inland Revenue
28 September 2023

Countersigned by:



Nick Bradley
Chief Financial Officer and Enterprise Leader Finance Services
28 September 2023

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

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

- Our outcomes
- Our customer outcomes
- Our services
- Our organisational health.

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

Our Performance Measurement Framework

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

Revenue	Payments	Collaboration
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 Te Tari Taake, Inland Revenue working collaboratively across our external environment.

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

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

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

Services for Customers	Services to Other Agencies	Residual Activities Following the Transformation Programme's Substantive Closure

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

Our people	Our processes	Our assets	Our environment

How we performed
Ko ā mātou whakatutukinga

Our focus this year was on maintaining the integrity of the tax and social policy system and supporting customers adversely affected by weather events and economic conditions.

Our outcomes

Our performance towards our outcomes has remained relatively steady.

- Tax revenue of $104.5 billion was 3.9% higher than in 2021–22. The increase is mainly due to stronger source deductions, resident withholding tax on interest income and GST.
- The cost to collect $100 of tax revenue has decreased from 80 cents in 2015 to 43 cents in 2023. This reduction primarily reflects considerable growth in revenue over this time, and to a lesser degree the efficiencies gained from higher levels of automation and straight-through processes that lower effort for customers and us.
- We set up and paid out Cost of Living Payments. As at 3 July 2023, we have made 4.91 million payments totalling $573 million.
- The accuracy of our Working for Families Tax Credits (WFFTC) assessments remains steady. For those customers that received their payments during the year, two-thirds received within 20% of their entitlement, similar levels to the previous 3 years. Remaining customers receive their full entitlements following the finalisation of their annual income tax assessments.
- Businesses rated their experience with us higher in 2023 than last year in the Better for Business survey.
- We worked with a number of agencies to provide relief and support to customers affected by the cyclones in early 2023.

Our customer outcomes

Our performance against our customer outcomes reflects the challenges customers have faced during the year.

- Customers' perceptions of ease when dealing with us, and their satisfaction with their interactions, remained stable this year.
- Trust in Te Tari Taake, Inland Revenue dropped 3 percentage points in 2022–23. We know our customers' direct experiences with us influence their trust in us, and it was sometimes challenging for customers to interact with us this year.
- Significantly more people are now using our digital channels. Over the last 6 years, myIR user sessions have increased from 17 million to 70 million, and website sessions have increased from 29 million to 53 million.

Key to our measures

Stable or minimal change | Improved | Declined | Achieved

Our services

Our performance in delivering services to our customers and government reflects our focus on maintaining the integrity of the tax and social policy system and supporting customers who were adversely affected by weather events and economic conditions.

We achieved 29 out of 36, or 81%, of our output performance measures this year. This is an increase from 2021–22, when we achieved 30 out of 42, or 71%, of our output measures.

Our organisational health

Our performance against our organisational health reflects the work we have done to strengthen our people, supplier and workplace approaches to embed our culture and deliver positive outcomes. More information is in the organisational capability section on page 39.

Regular checks with our people show that, on average, 65% of survey respondents rated their wellbeing as 'good' or 'very good' (up from 62% in June 2022) and 73% felt 'good' or 'very good' about their day-to-day work experience (up from 65% in June 2022).

We emitted 2,848 tonnes of carbon dioxide equivalent. Although this is a 27% increase on the previous year, it is 55% lower than our 2018–19 base year.

Results for most of our asset performance indicators improved this year.

Over 96% of domestic invoices were paid within 10 working days, a small increase on last year and above the target of 95%.

Key statistics

$104.5 billion
of tax revenue to help fund government programmes

Along with MSD, we distributed a net
$2.97 billion
in Working for Families Tax Credits entitlements to support families

We distributed
$573 million
in Cost of Living Payments

We completed
1.6 million
items of correspondence

We answered
1.3 million
calls

We identified or assured
$973 million
in revenue through our interventions

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

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

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

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

Outcome 1—Revenue is available to fund government programmes through people meeting payment obligations of their own accord

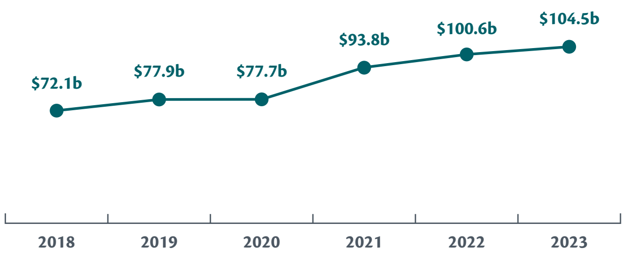
The taxes we collect for the government help to fund things like education and healthcare. Taxes also provide money that's paid out in benefits and entitlements to hundreds of thousands of New Zealanders every year through different government agencies.

Revenue trend over time

We look at the overall trend for tax revenue to see how the revenue in 2022–23 compares with revenue in previous years.

$104.5 billion

in tax revenue



The year-on-year increase in tax revenue is mainly due to stronger source deductions, resident withholding tax on interest income and GST, partially offset by lower corporate tax and other persons tax. Source deductions grew by $4.752 billion (11.5%) as a result of wage and salary growth as well as growth in employment.

Revenue assured through our interventions

We assure revenue to make sure customers are doing the right thing. The actions we take range from interventions that promote voluntary compliance and prevent revenue loss occurring in the first place, to finding and correcting things where people have got them wrong. A key building block of voluntary compliance is tax morale or the willingness to pay tax. Read more about customer perceptions of tax morale and trust in Te Tari Taake, Inland Revenue on pages 77 to 78.

We identified or assured

$973 million

in revenue through our interventions[1]

Our real-time review of returns stopped $145 million in incorrect or fraudulent refunds and tax deductions at the time of filing.

Voluntary disclosures by customers resulted in $219 million in additional revenue. $56 million of this amount was initiated from a review reported in the $145 million noted in the previous paragraph.

We used our tools, data and intelligence to ensure the integrity of COVID-19 products, identifying $267 million from declined applications or post-payment reviews.

We continued to identify tax position differences through our investigations activities, assessing $397 million in additional tax.

We assured a further

$58 million

in revenue for the next 3 years

Some of our interventions result in assurance that future revenue will be returned correctly through changes in customer behaviour and an increased understanding of their obligations. We estimate how much additional revenue is assured in future years.[2]

Revenue assured from providing certainty

This year, we ruled on arrangements worth

$11.17 billion

with associated tax of more than

$2.97 billion

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

[1] A comparison to prior years is not possible as the components that make up the overall figure are derived from a new reporting methodology that came into effect on 1 July 2022.

[2] The additional revenue assured for future years reported in the 2022 Annual Report of $49 million should have been $45 million. Future revenue benefit quantifies the effects of our compliance interventions on customers' future behaviour. The estimated future revenue assured is the value of prevented revenue loss through audit activity and specific campaign results forecast over 3 years. Results are then adjusted by the rate from the output measure 'percentage of customers whose compliance behaviour improves after receiving an audit intervention'.

On 30 June 2023, 92 customers had active advance pricing agreements with us representing approximately

$440 million

in assured tax each year

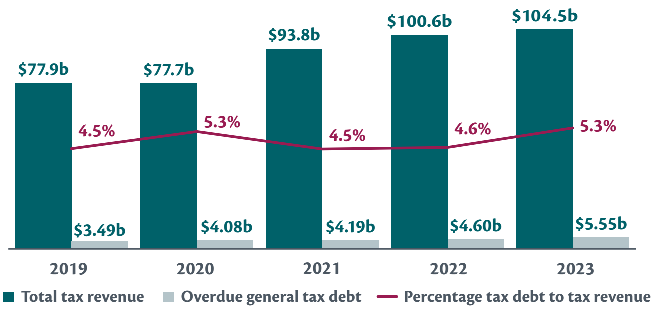
Advance pricing agreements provide customers with certainty on tax for specific transfer pricing arrangements for an agreed period. In return, Aotearoa New Zealand gets a level of certainty that these businesses are paying the right tax for that period of time.

Total tax debt to tax revenue

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

5.3%

overdue general tax debt to tax revenue



The increase in the ratio of overdue general tax debt to tax revenue was driven by a 21% increase in overdue general tax debt, reflecting the challenging economic environment. The increase in overdue general tax debt was also higher than forecast, and with higher levels of write-offs and COVID-19 remissions than expected, this resulted in unappropriated expenditure for our Impairment of Debt and Debt Write-Offs appropriation. Tax revenue increased by 4%. Read more about debt on pages 92 to 93.

The ratio compares favourably with other similar tax administrations, some of which have ratios of as much as 10% to 14%.

We have plans to address debt growth and we provide options for customers who get into debt, including paying off what they owe in instalments. Arrangements set up in 2022–23 covered $3.4 billion in debt, compared to $2.4 billion last year, although slightly fewer customers adhered to their arrangements in 2023. Of this, $398 million has been paid in full.

Note: Overdue general tax debt and tax revenue figures exclude child support, student loans, Working for Families Tax Credits and COVID-19 support products.

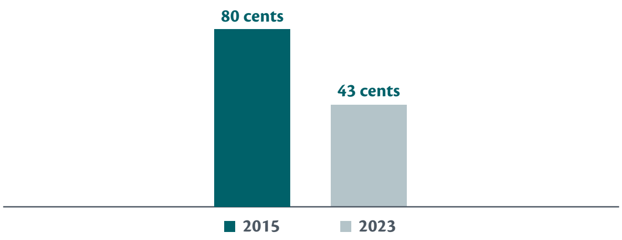
Cost of collecting $100 in tax revenue

The indicator provides an overall measure of how efficiently we collect tax revenue. The ratio compares the operating costs with total tax revenue assessed.

It cost us

43 cents

to collect $100 in tax revenue



The cost to collect $100 of tax revenue has decreased from 80 cents in 2015 to 43 cents in 2023. This reduction primarily reflects considerable growth in tax revenue over this time, and to a lesser degree the efficiencies gained from higher levels of automation and straight-through processes that lower effort for customers and us.

Outcome 2—People receive payments they are entitled to, enabling them to participate in society

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

Delivery of Cost of Living Payments

We paid

$573 million

in Cost of Living Payments

We set up and paid out Cost of Living Payments to help New Zealanders with their day-to-day living costs.

As at 3 July 2023, we have made 4.91 million payments totalling $573 million. There were 67,000 customers who have not received a payment as we do not have their bank account information.

Read more about this on page 33.

Timeliness of tax refunds

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

Our target for issuing GST refunds is 95% within 4 weeks. We met this target, issuing 96.6% of refunds within the timeframe.

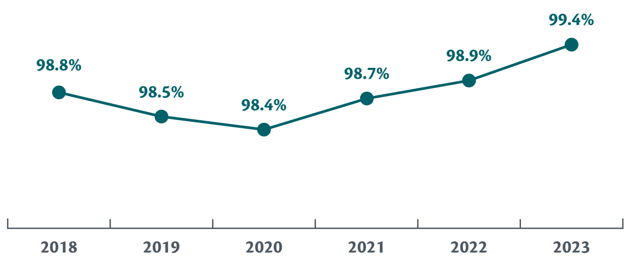
Our target for issuing income tax refunds is 85% within 5 weeks. We issued 87.0% in 2022–23, an improvement on 2021–22 when we achieved 84.4%.

Accuracy of GST refunds

Our measure of the accuracy of GST refunds is the number of returns that are accepted without any changes.

99.4%

of GST refunds were not amended after the initial refund



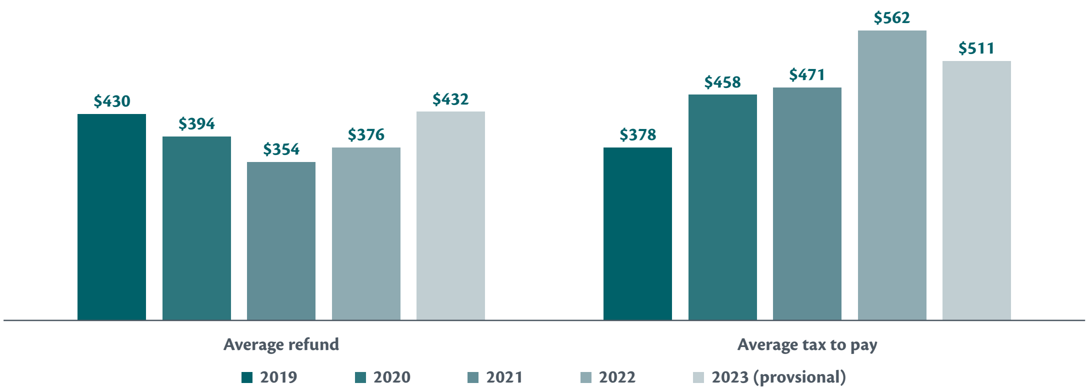
The accuracy of GST refunds has increased each year since 2020 and reached 99.4% in 2023.

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

This indicator is based on how automatically issued income tax assessments for individuals are making tax simpler for New Zealanders. We use the data we get from employers every payday to increase the number of customers who pay the right amount of tax during the year.

For 2022, over 1.1 million customers paid the right amount of tax or received a small-balance write-off. The average refund and tax to pay amounts increased from 2021. Factors that have influenced these results include: fluctuating income, incorrect tax codes, people being on the wrong prescribed investor rate, and the timing of when banks and financial institutions implemented changes for the 39% marginal tax rate in 2022.

2023 results are preliminary and may change, as customers with a tax agent have until 31 March 2024 to finalise their assessments. The 2023 decrease in the average tax to pay may partly be due to customers becoming more aware of the implications of using the right tax rates and our early intervention to identify and advise customers of potential tax rate concerns.



Note: 2023 information is at 30 June 2023. 2019 information is as at 31 March 2020, 2020 information is at 31 March 2021, 2021 information is at 31 March 2022 and 2022 information is at 31 March 2023.

Timeliness of social policy payments

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

We achieved all 3 timeliness targets. Read more about the following measures on pages 91 and 96.

- Working for Families Tax Credits payments made on the first regular payment date following an application.
- Paid parental leave payments made on the first payday following the agreed date of entitlement.
- Child support assessments paid by liable parents on time.

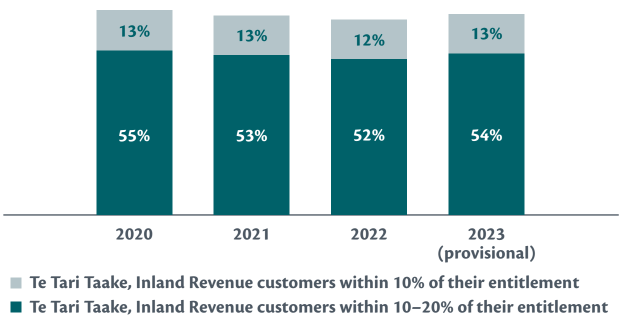
Working for Families Tax Credits overpayments or underpayments get progressively smaller

Working for Families Tax Credits (WFFTC) include 4 types of payments, each with different eligibility rules. The payments depend on income, the number of dependent children and any shared care arrangements.

We aim to improve the accuracy and give customers more certainty of their WFFTC payments by detecting changes in customers' incomes and adjusting payments when necessary. Payment accuracy also partly relies on customers giving us timely updates if their circumstances change.

We continue to improve our early interventions to pick up changes to customer income that will affect their entitlements. We're also assessing what customers need to be aware of and understand at different points in their lives to ensure our communications are proactive, timely, relevant and effective. This work has helped to make sure families are getting their payments throughout the year when they need them.

Overall, accuracy levels have remained steady over the last 4 years. For those customers that received their payments during the year, two-thirds received within 20% of what they should have. This is a positive result given the external factors that have increased income variability for customers over this time—COVID-19, the economic environment and adverse weather events. We continue to get large numbers of updates from families advising of changes to their circumstances, making it a challenge to maintain accurate payments. Customers can also opt to receive their entitlement following the finalisation of their income tax assessment.



This year, we have been out in communities to let families know about WFFTC and encourage families to register, especially if they were not aware they were eligible. We've identified the customers who need us most and focused on helping them to get the right payments at the right time.

In February, we contacted each of our lowest-income families with a minimum family tax credit entitlement to make sure they would receive the right entitlement for the new year starting 1 April 2023. A specialised team works on minimum family tax credit as their priority. They ensure we capture customer changes quickly to give families certainty of their ongoing payments and what they will receive.

We continue to look at ways we can improve the delivery of Working for Families to better meet families' expectations. This includes playing an active part in the Government's Working for Families review and wider Debt to Government Project work.

Note: Results are for customers who receive WFFTC payments during the year. Results for 2020, 2021 and 2022 are as at 30 June 2021, 2022 and 2023 respectively. Provisional 2023 results are as at 30 June 2023, noting that a number of 2023 assessments are still to be finalised.

Outcome 3—New Zealanders benefit economically and socially through Te Tari Taake, Inland Revenue working collaboratively across our external environment

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

You can read more about the work we do with others on page 12, our partnering with community groups in Kirikiriroa, Hamilton on pages 19 to 21, our work with OECD partners to address global challenges such as crypto-assets on pages 22 to 23, and our work with other agencies to develop a fairer and more consistent approach for managing debt to government on pages 30 to 31.

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

The following case studies provide examples of our work with others.

Results from working with others to deliver services and improve compliance

CASE STUDY 1

Providing relief and support to customers affected by the cyclones

When Cyclone Hale and Cyclone Gabrielle caused states of emergency in Te Ika-a-Māui, the North Island in early 2023, Te Tari Taake, Inland Revenue was ready to help. By embracing a hands-on approach, cross-agency collaboration, targeted support and proactive community engagement, we worked with others to support businesses and individuals.

People were dealing with strong winds and severe floods, as well as loss of power, internet connection and cell phone coverage. We distributed relief packages and reached out to people door to door. This was vital—without digital communications, we had to communicate with people directly to ensure they were receiving the support they needed.

We worked with other organisations to extend our reach and provide relief to people. Together with Trust Tairāwhiti and Te Manatū Whakahiato Ora, the Ministry of Social Development, we also organised a business hub for local enterprises. The hub helped businesses carry on with their essential operations such as paying wages to employees, filing tax returns and navigating obligations where necessary. The hub was available every day, including weekends.

We know that different industries have their own challenges so we organised targeted hui (meetings) for the horticultural, hospitality and tourism sectors. We identified businesses that needed immediate assistance and provided tailored support to help them navigate their specific challenges.

To ensure our customers were aware of the support available and knew how to reach us, our teams spoke on local radio stations. We proactively worked with tax agents through webinar sessions, ensuring they were equipped with the latest information to relay to their clients.

We also worked with Rīpeka Whero Aotearoa, New Zealand Red Cross and local councils in the Whangārei area to enable welfare checks and door-to-door visits. Our Whangārei team distributed non-perishable food packs to the local marae and ensured the local community felt supported.

In the aftermath of the floods in Tāmaki Makaurau, Auckland, we worked with Hīkina Whakatutuki, the Ministry of Business, Innovation and Employment to find housing for families who had been left homeless. The team comprised 40 members from various agencies, including: Te Mana Ārai o Aotearoa, the New Zealand Customs Service; Te Tari Taiwhenua, the Department of Internal Affairs; and Te Kaporeihana Āwhina Hunga Whara, Accident Compensation Corporation. 2 specific cases demonstrate the team's swift action and successful outcomes.

Case 1: Rapid response for a family of 8. When a family of 8 faced homelessness after their house was yellow stickered, the team swiftly coordinated efforts with other agencies and secured new accommodation for the family overnight.

Case 2: Supporting a family with a child with special needs. A family with a child with special needs had difficulty finding suitable housing, which was causing them immense stress. The team found the family a suitable home—it was accessible and near essential health services.

CASE STUDY 2

Data sharing with Tatauranga Aotearoa, Stats NZ

Te Tari Taake, Inland Revenue is a critical member of Aotearoa New Zealand's data system. We hold significant data assets that we and our government partners realise value from to produce statistics, reports and insights into our population and economy. The managed access to sensitive data content is led by Tatauranga Aotearoa, Stats NZ, which collects data from a variety of sources.

Te Tari Taake, Inland Revenue is a major contributor of information to 2 of Stats NZ's large research databases: the Integrated Data Infrastructure and Longitudinal Business Database. The anonymous information in these databases helps government and academic researchers with social and economic questions in the public interest and informs government decision-making and policy change.

Recently, our data has helped build an understanding of how the groups of people who are unemployed and those who receive a Jobseeker Support Benefit overlap each other, and to understand which people are not in the overlap. The data was also used to examine trends in the labour market, and will help support people returning to the workforce.

Our data is also helping researchers to build an understanding of Aotearoa's kaiāwhina workforce (community, health and disability workers). The research aims to provide updated insights on the kaiāwhina workforce, including demographic characteristics, employment profiles and movements in and out of the workforce. It seeks to support the needs of relevant agencies and contribute to the public good by improving competency and service provision in the health sector.

Anticipated outcomes include input for pay equity settlement, a more comprehensive understanding of the health workforce, collaborative partnerships and reusable code for future workforce analysis. The research will also contribute to broader policy-related questions regarding transitions in the labour market and recovery from events like the COVID-19 pandemic.

We also have a memorandum of understanding with Tatauranga Aotearoa, Stats NZ, which allows us to provide information that is critical to its work, which includes:

- quarterly retail statistics—shows the level of confidence in the economy
- gross domestic product statistics—an official measure of economic growth
- balance of payments statistics—a comprehensive record of New Zealand's economic relationship with the rest of the world
- the New Zealand Census of Population and Dwellings—how, as a country, we are changing over time, and the
- Household Economic Survey—measuring the economic wellbeing of New Zealanders.

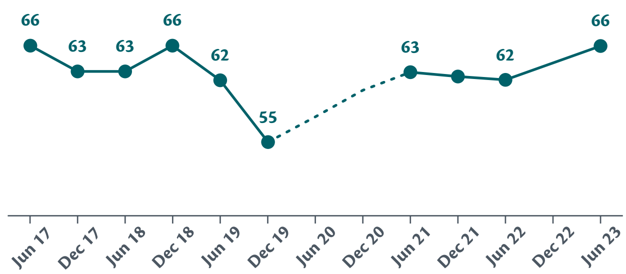
Business customers gain value from easy and seamless dealings with government

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

We scored

66

on the Customer Experience Index



Over the past year, our CXI score increased by 4 points to 66. More businesses are feeling satisfied and not experiencing frustration during their most recent interaction with us. Some businesses recently had less contact with us. This perceived upswing in service level could also be related to our increased efforts to help businesses get their tax affairs in order. For example, the launch of the Tax Toolbox to help construction businesses understand their tax obligations.

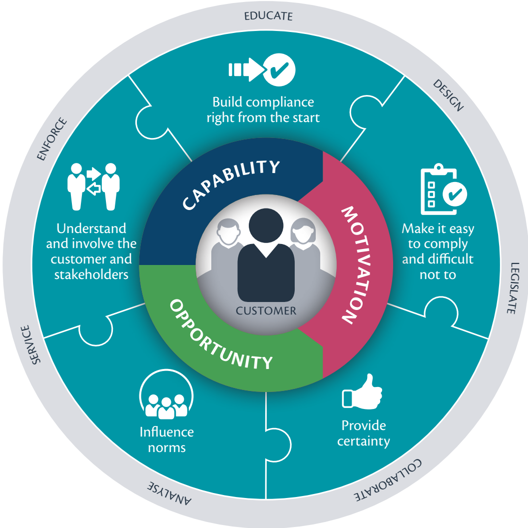
Note: The survey used to generate information for the Customer Experience Index was put on hold in 2020 due to the effects of the COVID-19 pandemic on businesses.

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

Our compliance model helps us understand our customers so we can work proactively and tailor our approach.

With the customer at the centre of the model, we recognise 3 factors that influence customers' behaviour: motivation, opportunity and capability.

These factors help us to provide the right support for customers such as providing certainty and making it easy to comply. This helps us achieve our outcomes.



Customer outcome 1—Customer motivation

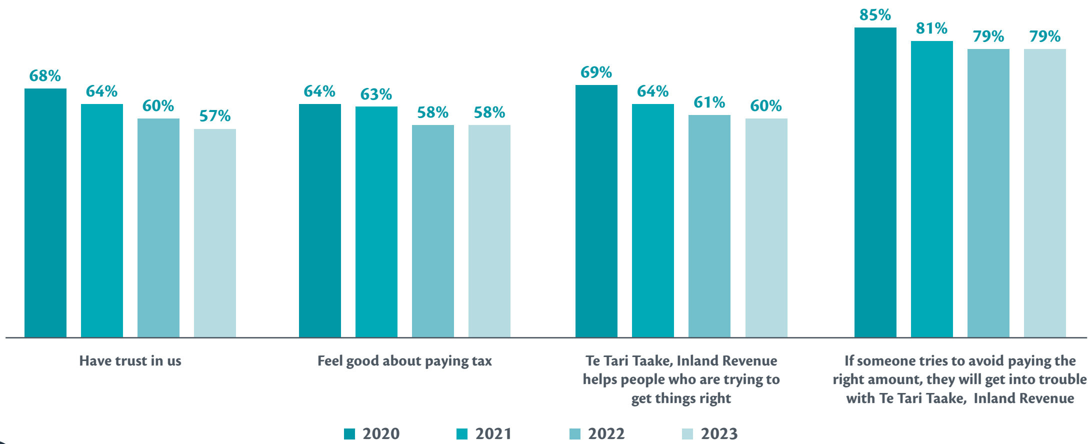
We define customer motivation as the factors that make people willing to comply and follow through with an action.

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

Customer trust and tax morale

Aotearoa New Zealand's tax system is based on the voluntary compliance of individuals and businesses. Tax morale, or the willingness to pay tax, is a key building block of voluntary compliance. Not all the factors that influence trust and tax morale are within our control. Based on the factors we can influence, we measure 3 beliefs that reflect the views we aim to create among our customers.

We measure our customers' trust in us and their tax morale through our Customer Experience and Perceptions Survey. This survey asks customers to rate their responses on a 7-point scale. Results reflect scores of 5 or more, where 1 means 'strongly disagree' and 7 means 'strongly agree'.



In 2022–23, 57% of customers gave a trust score of 5 to 7 on a 7-point scale. This result is 3 percentage points lower than last year. We know our customers' direct experiences with us are a key driver of trust, and it was sometimes challenging for customers to interact with us this year. The downward trend in trust may also reflect a broader global trend of the impacts that the COVID-19 pandemic had on trust in government.

This year has also been financially stressful for many. Domestic and international issues are also weighing on the minds of New Zealanders, influencing how they think and feel. Maintaining public trust is a challenge for both public institutions and governments. With our tax system based on the voluntary compliance of individuals and businesses, ensuring customer trust in us is an important focus.

Tax morale levels remained steady in 2022–23.

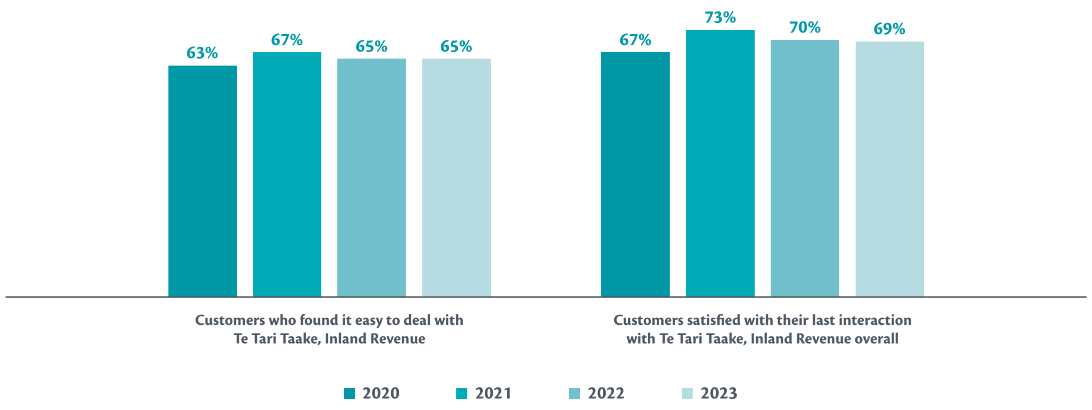
Note: In previous annual reports, results reported included neutral responses, ratings of 4 to 7 on a 7-point scale. Results in this report for 2020 to 2022 have been adjusted to exclude neutral responses to provide consistent criteria to 2023 results.

Customer outcome 2—Customer opportunity

We define customer opportunity as customer ease and satisfaction when interacting with us to meet their obligations or access their entitlements.

Customer satisfaction and perceptions of effort

We use 2 questions in our Customer Experience and Perceptions Survey to measure our customers' perceptions of effort and satisfaction. Results reflect scores of 5 or more, where 1 means 'strongly disagree' and 7 means 'strongly agree'.



This year's survey results showed no change in how easy customers found us to deal with, and a small decrease in their satisfaction when interacting with us. These results reflect the challenges of supporting customers affected by the weather events and economic conditions in line with increased contacts at times during the year from key annual events. We acknowledge we could not always provide the level of service we wanted to.

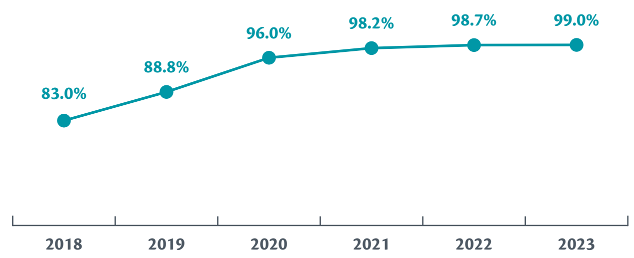
Note: Previous annual report results included neutral responses, ratings of 4 to 7 on a 7-point scale. Results in this report for 2020 to 2022 have been adjusted to exclude neutral responses to provide consistent criteria to 2023 results.

Returns filed digitally

Most customers use digital channels, particularly when filing their tax returns.

99.0%

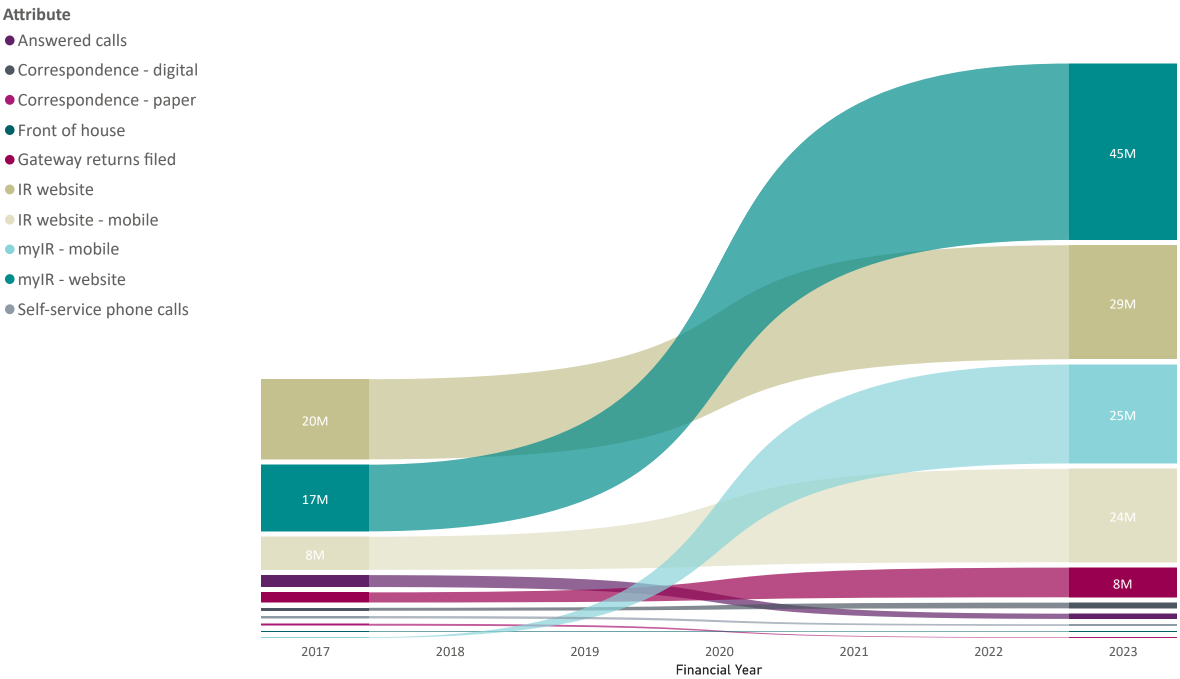
of returns were filed digitally (income tax, GST and employment information returns)



Most returns are now filed digitally.

Customer interactions across assisted and unassisted channels

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



Over the last 6 years, significantly more customers have used our digital channels:

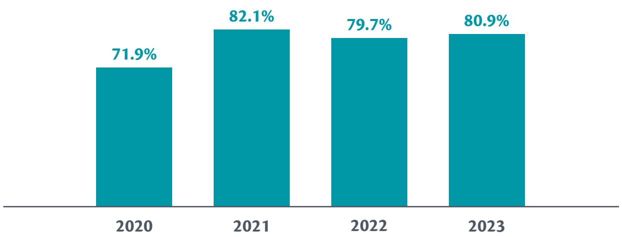
- myIR sessions have increased from 17 million in 2017 to 70 million in 2023. Satisfaction for customers interacting via myIR was 73% in 2023, reflecting a positive experience.
- Website sessions have increased from 29 million in 2017 to 53 million in 2023.
- Use of gateway services by businesses to file returns from their own systems increased from 2.6 million returns filed in 2017 to 7.6 million in 2023.

Donation tax credit claim submissions sent digitally

Customers can submit their donation receipts in myIR at any time during the year or they can send us paper records. At the end of the tax year, we automatically pay out refunds for approved submissions.

80.9%

of donation tax credit claims were submitted digitally



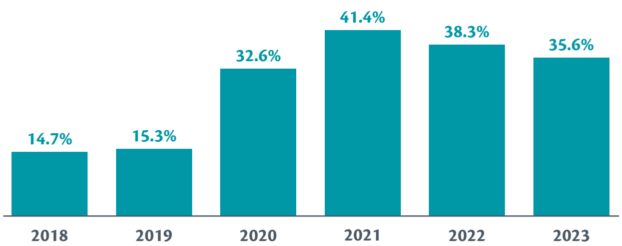
This year, 80.9% of donation tax credit claims were submitted digitally, which is 1.2 percentage points higher than 2021–22.

Instalment arrangements set up through self-service

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

35.6%

of instalment arrangements were set up in myIR



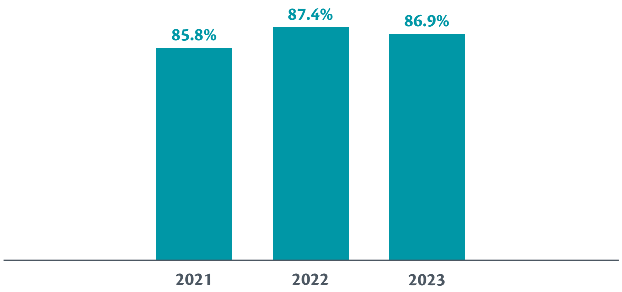
In 2022–23, 35.6% of instalment arrangements totalling over $1 billion were set up through myIR by customers themselves, a small decrease from 38.3% in 2021–22. We know customers who set up their own arrangements are more likely to stick to them. More detail on this is on page 83.

Returns processed without the need for intervention (straight through)

The level of employment information returns that are processed without the need for system or staff intervention means reduced effort for customers and us.

86.9%

of employment information returns were processed without requiring further intervention



Around 87% of employer information returns are processed straight through. High levels of automation and rules built into our systems mean straightforward transactions are processed with few errors or the need for human intervention.

Insights into customers' digital interactions and experiences with Te Tari Taake, Inland Revenue

CASE STUDY 1

Overseas-based student loan borrowers payment campaign

Student loans are interest-free for borrowers based in New Zealand. However, borrowers who are based overseas pay interest on their student loans. If they miss a payment, late payment interest is added to their loan. Overseas student loan debt is growing, and we want to encourage more overseas-based borrowers to make their repayments on time to avoid the extra interest. We did this using our digital tools.

In May 2023, we contacted overseas-based borrowers who had missed their 31 March payment to remind them to get back on track. We advised them to register for myIR so they could check their balance easily and that they can pay using the method that works best for them, including direct debit. We contacted people by email, text and letter and reached out on social media and online advertising. In total, we contacted nearly 75,000 overseas-based borrowers.

The difference with this campaign was that we tailored our message based on compliance level. We sent a standard reminder to borrowers who had missed their March payment but used a stronger tone for those who had also missed previous payments.

Our objectives were to achieve an email open rate of 50% and a myIR login rate of 10%. Of these borrowers, 84% opened our email and over 25% logged in to myIR. Over 3,000 instalment arrangements were set up, an increase of 87% from May 2022.

The overseas-based borrowers we contacted using a stronger tone made an average repayment that was 101% higher ($2,329) than the standard reminder we sent to other borrowers ($1,156).

Our campaign produced great results. Overall, nearly twice as many overseas-based borrowers logged in to myIR, and more borrowers made a repayment. In addition, their average student loan repayment amount was 57% higher at $1,384 (compared to $879 for the control group). In total, overseas-based borrowers repaid $2.27 million as a result of the campaign, which is 29% higher than in May 2022.

CASE STUDY 2

Upgrading our external authentication system

Our priority is ensuring that customer information is secure, so people need to confirm their identity. We've now improved our authentication with a new solution, START IAMS, providing many benefits for us and for our customers. These include leading cyber security protection and improved performance.

Part of this upgrade is a 2-step verification, which gives customers an added layer of security for their online myIR accounts. Customers do not have to choose to go through 2-step verification, but the process will keep their information extra safe. This feature has been well received by gateway providers.

Some digital service providers needed to make updates to their software to interact with our new upgraded requirements. Customers who do not have compatible systems have until October 2023 to make the necessary changes.

Customer outcome 3—Customer capability

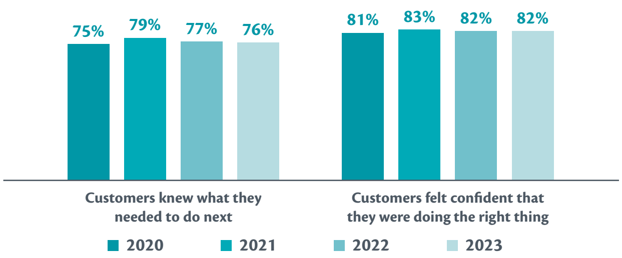
We define our customer capability as the ability of customers to meet their obligations and access their entitlements. It includes customers knowing the rules that apply to them, having access to tools and assistance and understanding what they need to do.

Customer understanding and confidence

We use 2 questions in our Customer Experience and Perceptions Survey to measure customers' understanding and confidence. Results reflect scores of 5 or more, where 1 means 'strongly disagree' and 7 means 'strongly agree'.

82%

of customers felt confident they were doing the right thing



This year, there was a small decrease in customer perceptions about knowing what to do next and no change for customers feeling confident about doing the right thing. This tells us that we're continuing to effectively support our customers to get it right from the start and they're familiar with what they need to do.

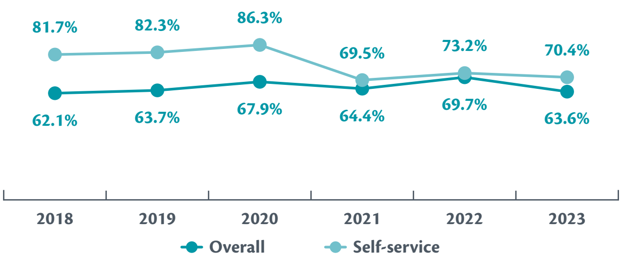
Note: Previous annual report results included neutral responses, ratings of 4 to 7 on a 7-point scale. Results in this report for 2020 to 2022 have been adjusted to exclude neutral responses to provide consistent criteria to 2023 results.

Instalment arrangement success

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

63.6%

of customers adhered to their instalment arrangement



While 19,000 more customers set up an arrangement this year, fewer customers adhered to their instalment arrangements, dropping 6 percentage points from 2022. These arrangements covered $3.4 billion in debt compared to $3.7 billion last year. Of this, $398 million has already been paid in full. Customers who set up arrangements in myIR are more likely to stick to the arrangement.

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

We measure our performance against output measures and targets in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023. Full details are on Te Tai Ōhanga , the Treasury website:

treasury.govt.nz/publications/estimates/vote-revenue-finance-and-government-administration-sector-estimates-appropriations-2022-23

Te Tari Taake, Inland Revenue has 3 appropriations to provide services to the Government and the public and deliver other activities.

Services for Customers (a multi-category appropriation)

Services to Other Agencies

Residual Activities Following the Transformation Programme's Substantive Closure

Our performance against our services: a summary

This year, we achieved 29 out of 36, or 81%, of our output performance measures. This is an increase from 2021–22 when we achieved 30 out of 42, or 71%, of our output measures.

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

None of the target and forecast figures on pages 85 to 107 are subject to audit.

The key we use to show our performance against the measure

We met the target

We 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.

Services for Customers is a multi-category appropriation with 5 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	Policy Advice

What we intend to achieve

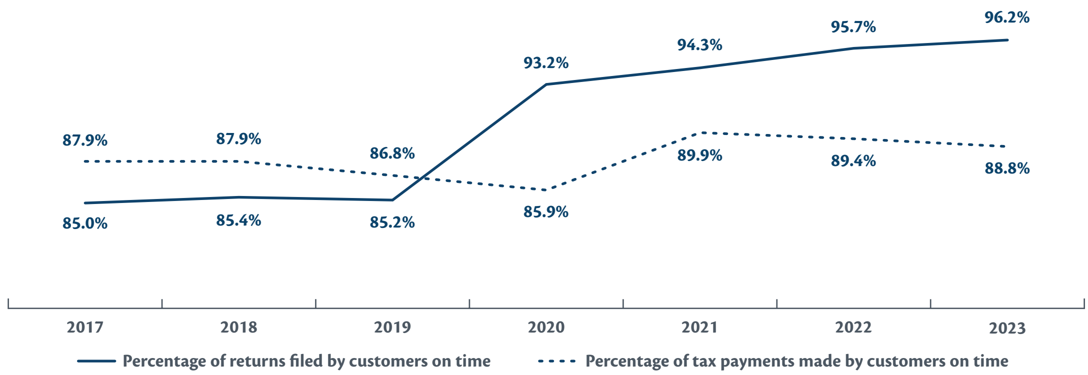
This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they're entitled to.

We start this section with our overall results for this appropriation, and present the results for each of the 5 categories on pages 87 to 103.

How we performed

This year, we focused on supporting customers who were adversely affected by the weather events and economic conditions while ensuring we upheld the integrity of the tax and social policy system. We had to make some tough trade-off decisions, reducing some non-automated compliance activities while keeping a focus on high-risk compliance areas.

Most customers want to do the right thing. This is reflected in the high proportion of customers who file returns on time, with levels increasing to 96.2% in 2022–23. However, the recent weather events and the economic climate have affected customers' ability to pay in full and on time. Although levels are still relatively high, there was a small decrease to 88.8%.



Performance measure results

This year, we achieved 1 out of 2 of the overarching performance measures in the Services for Customers multi-category appropriation.

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
95.7%	Percentage of returns filed by customers on time	90%	✓	96.2%	95% see page 116
89.4%	Percentage of tax payments made by customers on time	90%	—	88.8%	90%

Not achieved—This measure reflects compliance levels for customers paying their tax obligations in full and on time. Recent weather events and the current economic climate are affecting customers' ability to pay in full and on time. On-time payment compliance declined across all tax types: GST, income tax and employment activities, with each making up around one-third of total payments. Employment activities consistently achieves above 90%, while income tax payment timeliness levels are the lowest, contributing to 41% of all late payments.

We increased the targets for both on-time measures from 85% in 2021–22 to 90%.

All targets are unaudited.

What it cost

For the year ended 30 June 2023

Actual[1] 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
588,645	Revenue from the Crown	693,930	693,930	705,156	715,117
16,292	Other revenue	5,381	6,101	16,701	6,101
604,937	**Total revenue**	**699,311**	**700,031**	**721,857**	**721,218**
573,364	**Total expenses**	**660,493**	**700,031**	**721,857**	**721,218**
31,573	**Net surplus/(deficit)**	**38,818**	–	–	–

[1] The actual results for 2021–22 do not include the new Policy Advice category amount. A comparative may be drawn to the Actual amount of the Policy Advice appropriation that ceased to exist in June 2022 in our 2022 Annual Report.

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

Since 1 July 2022 onwards, there were 5 categories within the appropriation with the inclusion of the new Policy Advice category.

Services to Ministers and to Inform the Public About Entitlements and Meeting Obligations

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

What we do

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

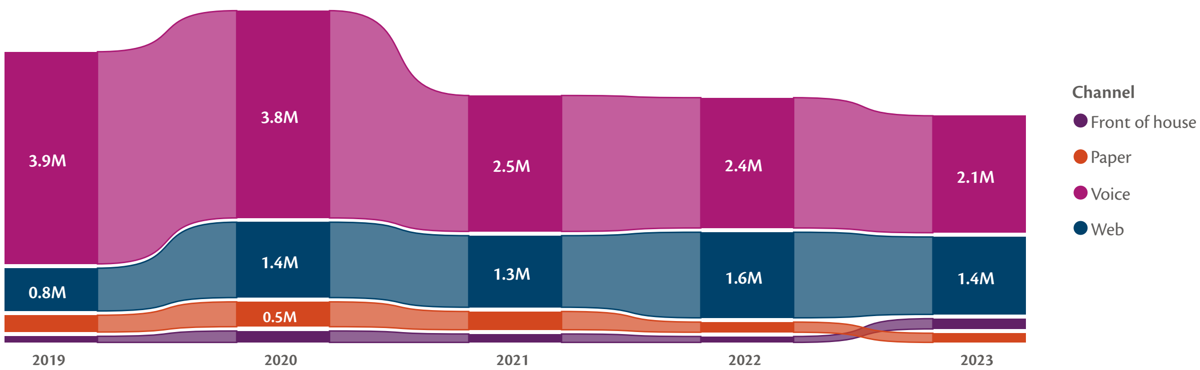
We provide certainty and clarity through public guidance, taxpayer rulings and advice, dispute reviews and an escalation service for technical issues.

How we performed

This year, we focused on supporting customers who were affected by the adverse weather events and economic conditions.

We considered web and voice channels together to deliver the best customer outcome over time. Overall, customer contacts are declining due to a reduction in the delivery of Government priorities such as COVID-19 support and Cost of Living Payments. This is enabling us to shift our focus from dealing with the immediate and urgent to a wider range of work.

Although our overall contacts have declined (3.9 million in 2022–23 compared to 4.2 million in 2021–22), we were under additional pressure during the peak 2023 individual income tax assessment process and had to provide more assessments over a shorter time. As at 30 June 2023, an additional 169,000 assessments (including 106,000 debit assessments) had been issued compared to the same time in the previous year.



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

- A statement on our position on the general anti-avoidance rule. This provides certainty and clarity for tax agents and their clients and strengthens tax compliance in commercial transactions. Read more about this on page 27.
- Guidance on the application of the new interest limitation rules and the main home exclusion from the bright-line tests.
- Updating and extending the period for the public ruling on crypto-assets, providing clarity on the tax treatment of crypto-assets as employee payments.

- Publishing a decision on provisional tax liabilities to clarify tax implications for taxpayers who receive one-off payments that have not been taxed at source.
- Updating guidance on GST issues to provide better clarity on what taxable activity is when payments are made to directors and/or board members.
- Updating guidance on GST issues when schools and early childcare centres can charge GST to parents, ensuring liabilities align with the intentions of Te Tāhuhu o te Mātauranga, the Ministry of Education.

We also give certainty through taxpayer rulings, giving our interpretation of how the law applies in specific circumstances. This year, we ruled on arrangements worth $11.17 billion, with associated tax of more than $2.97 billion.

The significant transactions we ruled on involved business disposals and reorganisations, financing arrangements, bank capital structure requirements, life insurance and reinsurance and infrastructure transactions, including with overseas investment. We often ruled on the application of general and specific anti-avoidance provisions.

Performance measure results

This year, we achieved 8 out of 9 measures for the Services to Ministers and to Inform the Public About Entitlements and Meeting Obligations category in the Services for Customers multi-category appropriation, a similar result to 2021–22 when we achieved 10 out of 12 measures.

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
New measure	Percentage of customers who agree they found it easy to get the information they needed[1]	70%	✓	72%	70%
4 minutes 14 seconds	Average speed to answer telephone calls	4 minutes 30 seconds or less	—	4 minutes 47 seconds	4 minutes 30 seconds or less
	Not achieved—The time it takes to answer a phone call is a key contributor towards a positive experience for customers. During our peak periods, we adjust our resourcing to best manage the customer experience across all our channels, for example, around key events such as individual income tax assessments. However, it does mean our ability to respond to some customers in a timely manner was affected. In 2022–23, there were 2.1 million attempted calls, 10% fewer than in 2021–22. We answered 63% of calls received compared to 56% in 2021–22.				
100%	Percentage of rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards	100%	✓	100%	100%
100%	Percentage of public items (including relevant public consultation) completed within 18 months of allocation	85%	✓	93.3%	Measure retired see page 116
94.7%	Percentage of adjudication cases completed within 10 weeks of receipt	90%	✓	90.5%	Measure retired see page 116
92.5%	Percentage of taxpayer ruling applications that have a draft ruling completed within 10 weeks of receipt	90%	✓	99.1%	Measure retired see page 116
100%	Percentage of non-qualifying ruling applications that have a draft ruling completed within 6 months of receipt	90%	✓	94.7%	Measure retired see page 116
93.9%	Percentage of submissions by the applicant on any draft ruling responded to within 1 month of receipt	90%	✓	94.4%	Measure retired see page 116

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
100%	Percentage of short-process rulings that have a draft ruling completed within 6 weeks of receipt	90%	✓	100%	Measure retired see page 116

[1] Actual performance measured using a sample of the customer population from our Customer Experience and Perceptions Survey. The survey asks customers to rate their experiences on a 7-point scale. Results represent customers who gave a score of 5 or more.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
268,884	Revenue from the Crown	327,767	327,767	311,933	309,031
1,350	Other revenue	860	1,045	1,045	1,045
270,234	**Total revenue**	**328,627**	**328,812**	**312,978**	**310,076**
256,119	**Total expenses**	**312,978**	**328,812**	**312,978**	**310,076**
14,115	**Net surplus/(deficit)**	**15,649**	–	–	–

Services to Process Obligations and Entitlements

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

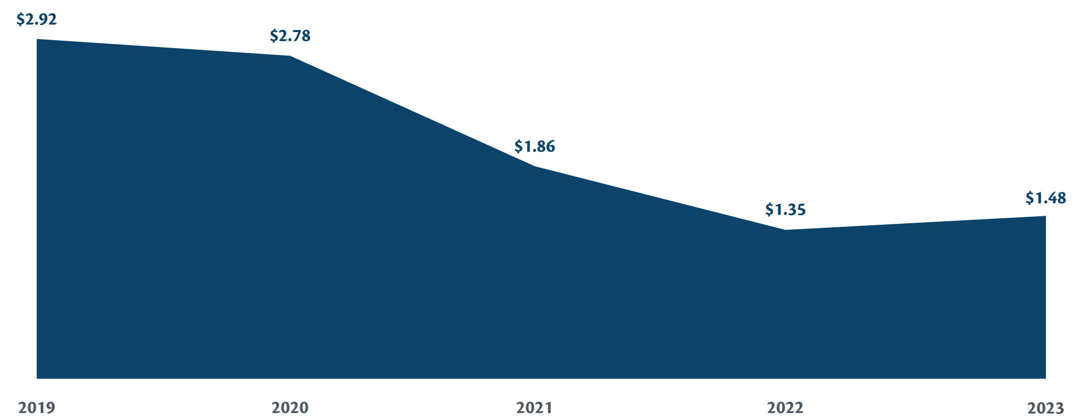
What we do

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

How we performed

Our processing performance measures have a focus on timeliness and efficiency for the key services and activities that affect customers. Our systems and more automated processes have made us more efficient. Over the last 5 years, we have seen positive results for our key efficiency measure. The average cost to process returns has reduced from $2.92 in 2019 to $1.48 in 2023.

AVERAGE COST OF PROCESSING INCOME TAX RETURNS, GST RETURNS AND EMPLOYMENT INFORMATION



Performance measure results

This year, we achieved 10 out of 11 measures for the Services to Process Obligations and Entitlements category in the Services for Customers multi-category appropriation. This is an increase on 2021–22 when we achieved 8 out of 11 measures.

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
87.9%[1]	Percentage of social policy and tax registrations processed within 5 working days	85%	✓	85.0%	85%
84.4%	Percentage of income tax refund disbursements resulting from a return issued within 5 weeks	85%	✓	87.0%	85%
96.4%	Percentage of GST refund disbursements issued within 4 weeks[2]	95%	✓	96.6%	95%
98.7%	Percentage of income tax returns finalised within 3 weeks	95%	✓	99.5%	95%
100%	Percentage of GST returns finalised within 3 weeks	98%	✓	100%	98%

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
$1.35	Average cost of processing income tax returns, GST returns and employment information	$2.50 or less	✓	$1.48	$1.75 or less see page 116
	This measure demonstrates the cost-effectiveness of our processing activities. We continue to see more returns filed digitally (99.0% in 2022–23), which is more efficient for us to process. Most returns filed digitally need no intervention from us. In 2023–24, we will use the target of $1.75 or less to measure our performance.				
68.7%	Percentage of donation tax credit claims processed within 3 weeks	70%	✓	73.2%	Measure retired see page 116
99.8%	Percentage of Working for Families Tax Credit payments made on the first regular payment date following an application	95%	✓	99.8%	Measure retired see page 116
99.8%	Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	✓	99.98%	Measure retired see page 116
49.0%	Percentage of child support administrative review decisions issued within 7 weeks	90%	—	79.2%	Measure retired see page 116
	Not achieved—While we achieved the 90% target in 8 of the 12 months of 2022–23, we headed into the year with a backlog of older cases from 2021–22. The backlog was the result of the shutdown of our systems in October 2021 for business transformation changes and COVID-19 lockdowns in Tāmaki Makaurau, Auckland where the work is carried out. We also saw a 19% increase in applications in 2022–23 compared to the previous year. This measure is retired from 2023–24.				
84.7%	Percentage of child support assessments issued within 2 weeks	80%	✓	81.1%	80%

All targets are unaudited.

[1] Result reported in the 2022 Annual Report was incorrectly reported as 89.8%.

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

What it cost

Output statement

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
107,820	Revenue from the Crown	146,613	146,613	156,915	162,084
14,184	Other revenue	3,597	3,634	14,234	3,634
122,004	**Total revenue**	**150,210**	**150,247**	**171,149**	**165,718**
114,147	**Total expenses**	**140,286**	**150,247**	**171,149**	**165,718**
7,857	**Net surplus/(deficit)**	**9,924**	**–**	**–**	**–**

Management of Debt and Unfiled Returns

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

What we do

We seek to achieve the timely and efficient collection of unfiled returns, revenue and debt owed. We believe the best approach for managing debt and unfiled returns is to help customers get it right from the start. We do this by:

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

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

How we performed

This year, we have balanced assisting customers following adverse weather events and dealing with economic pressures while supporting Government priorities such as Cost of Living Payments.

We provided additional support to those directly affected by the adverse weather events through community visits, remitting penalties and interest on delayed payments or filing, delaying automatic deductions and reminder notifications and writing off debt in specific circumstances.

We provide options for customers to pay off what they owe in instalments while they get back on track, minimising the costs they incur by paying late. As at 30 June 2023, there were 77,000 active arrangements for tax and student loan debt covering $1.62 billion. 30.6% of the arranged amount has been paid. There were 163,000 instalment arrangements set up in 2022–23, up from 140,000 in 2021–22.

We temporarily stopped or deferred some of our compliance activities. Our systems and tools were able to do much of the heavy lifting while we supported other priority work, providing automated reminders to customers where appropriate. As collection activities take time to progress, the deferral of some activities has affected some of our 2022–23 performance results. We are rebalancing our work programme and putting more focus on compliance activities.

General tax and Working for Families debt

This year, debt increased by 19.8% to $5.799 billion (excluding student loans, child support and COVID-19 support products) with 44,000 more customers with debt than in June 2022. The key driver of debt growth is GST, which is $415.3 million higher than 2021–22, followed by income tax, which is $352.2 million higher.

The increase in debt is also higher than forecast. This increase, together with higher levels of write-offs and COVID-19 remissions than expected, resulted in unappropriated expenditure in our Impairment of Debt and Debt Write-Offs appropriation. See page 120 for more information.

GENERAL TAX AND WORKING FOR FAMILIES DEBT AS AT 30 JUNE ($ MILLION)

	2019	2020	2021	2022	2023	Change since 2022
Income tax	1,609.8	1,742.6	1,585.0	1,791.1	2,143.3	19.7%
GST	1,180.6	1,550.0	1,523.0	1,824.5	2,239.8	22.8%
PAYE and KiwiSaver[1]	517.1	–	–	–	–	–
Employer activities[1]	–	741.3	919.6	822.3	1,015.9	23.5%
Working for Families Tax Credits	128.8	167.2	198.5	250.8	245.6	-2.1%
Other tax[2]	85.0	45.8	157.6	152.6	153.9	0.9%
Total general tax and Working for Families debt	**3,521.3**	**4,246.9**	**4,383.7**	**4,841.3**	**5,798.5**	**19.8%**

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

[2] Other tax amounts for 2021 and 2022 have been updated to exclude the COVID-19 Resurgence Support Payment and COVID-19 Support Payment debt amounts previously reported in this category.

GST, income tax and employer activities debt

A combination of factors has affected the increases in GST, income tax and employer activities debt. Pressure from the challenging economic environment has caused income streams for businesses to stop or slow down, resulting in some businesses not meeting their tax obligations.

Our deferral of some proactive debt recovery during the year also likely contributed to the increases in debt across these taxes.

Our plans to address this increase in debt include:

- more of our people working on compliance-focused activity
- a focus on the few customers with high-value debt
- a GST remediation plan to address overdue returns and payments, and
- an ongoing focus on employer debt including potential prosecution activity for extreme examples of non-compliance.

Working for Families Tax Credits (WFFTC) debt

WFFTC debt decreased by $5.2 million from 2021–22. This decrease partly reflects our focus over the latter part of 2022–23 on aged debt (over 4 years old) and supporting new debtors to get back on track. The number of customers with WFFTC debt at 30 June 2023 is 55,700. This is similar to the previous year, which was 55,900 at 30 June 2022.

We try to help customers avoid getting into debt by identifying who might be at risk of being overpaid, communicating with them during the year and adjusting their payments if necessary.

Social policy debt

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

Child support debt

Child support debt fell by $90 million this year. We wrote off $79 million, including penalties, to encourage paying parents to restart their payments and to reflect the revised penalty rates introduced in October 2021. The debt position has remained relatively steady from 2021–22. This is partly because incremental penalties have not been applied since 1 April 2021.

CHILD SUPPORT DEBT AS AT 30 JUNE ($ MILLION)

	2019	2020	2021	2022	2023
Total debt value	2,208	2,151	1,366	1,188	1,098
Penalties only	1,608	1,553	726	586	504

Note: The past due child support gross receivables on pages 173 to 174 comprises penalty and Crown entitlement debt. It differs to the total debt reported above as it does not include non-custodial parent assessment debt payable to the receiving carer.

Student loan debt

As at 30 June 2023, overdue student loan debt was $2.2 billion, 9.3% more than last year.

STUDENT LOAN OVERDUE REPAYMENTS AS AT 30 JUNE ($ MILLION)

	2019	2020	2021	2022	2023
New Zealand-based borrowers	131.8	133.0	140.9	152.3	168.1
Overseas-based borrowers	1,349.1	1,446.1	1,579.6	1,870.3	2,042.7
Total	**1,480.9**	**1,579.1**	**1,720.5**	**2,022.6**	**2,210.8**

The increase in New Zealand-based borrower debt is for similar reasons as the growth in income tax debt.

Repayments from overseas-based customers have reduced, reflecting the impacts of the COVID-19 pandemic across the globe. 87% of overdue overseas-based borrower debt is over 2 years old and poses significant collection challenges. We have engaged third-party providers to help us find and collect student loans from overseas-based customers to encourage them to get their repayments back on track. 74% of overseas-based borrowers owe 92% of the total overdue student loan debt. This is a long-term trend.

We are returning to a balanced portfolio of work with a focus on supporting customers and making it easier for these customers to self-manage their obligations online via myIR.

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

COVID-19 support products overdue debt

As at 30 June 2023, debt for COVID-19 support products was $104 million, 209% more than last year. The increase is due partly to repayment requirements for the Small Business Cashflow Scheme not being met following the expiry of the interest-free period for many borrowers. The increase also reflects our targeted integrity work to ensure customers were eligible to receive the COVID-19 support products and that the money was correctly applied to their business expenditure. We found that recalled payments were not due to fraud but rather because the required revenue decline was not reached or the funds were spent entirely or partially on non-business expenditure.

COVID-19 SUPPORT PRODUCTS OVERDUE DEBT AS AT 30 JUNE ($ MILLION)

	2021	2022	2023
COVID-19 Resurgence Support Payment	0.1	3.5	13.9
COVID-19 Support Payment	–	1.2	7.8
COVID-19 Resurgence Support Payment and COVID-19 Support Payment	**0.1**	**4.7**	**21.7**
Small Business Cashflow Scheme	6.7	29.0	82.4
Total	**6.9**	**33.7**	**104.1**

Write-offs

We write off debt in cases of serious hardship, bankruptcy or liquidation or if the cost of collecting the debt is uneconomical. This year, we wrote off $523.5 million of debt using these provisions compared to $512.6 million in 2021–22.

We have continued to support customers following the COVID-19 pandemic, applying specific legislative powers to write off penalties and interest, where possible. We remitted $230.9 million using these provisions in 2022–23 and $176.1 million in 2021–22. We are deactivating the COVID-19 indicator for customers who no longer require it. This means customers will no longer receive automatic COVID-19-impacted penalty and interest remissions.

WRITE-OFFS ($ MILLION)

	2021–22	2022–23
General write-offs	512.6	523.5
COVID-19 write-offs	176.1	230.9
Total	**688.7**	**754.4**

Note: Write-offs include general tax, Working for Families Tax Credits, KiwiSaver, COVID-19 Resurgence Support Payment and COVID-19 Support Payment debt.

Read more about other actions we take, such as liquidations, on pages 25 to 26.

Unfiled returns

At 30 June 2023, there were 1.5 million outstanding returns yet to be filed, including 685,000 for individual income tax, 409,000 for non-individual income tax, 332,000 for GST, 39,000 for employer activities and 36,000 for other tax products. This is a 3.4% increase in total outstanding returns as at 30 June 2022 (1.45 million).

We continue to refine return-filing criteria and adjust customers' filing requirements, where appropriate. This includes shifting customers from having to file an individual income tax return to receiving an automatically calculated assessment. We sent fewer 2022 individual income tax returns to customers than the previous year, reducing from 1.366 million to 1.312 million, a 4% decrease.

Our focus on high-value returns shows in our results for the 'value of assessed revenue for every unfiled return dollar spent', achieving $60.12 in 2022–23.

Performance measure results

This year, we achieved 6 out of 8 measures for the Management of Debt and Unfiled Returns category in the Services for Customers multi-category appropriation, a similar result to 2021–22 when we achieved 7 out of 9 measures.

2021–22 Actual		2022–23 Target	2022–23 Actual	2023–24 Target
$61.10	Value of assessed revenue for every unfiled return dollar spent	$45	$60.12	$45
	This measure demonstrates the cost-effectiveness of our work to recover assessed revenue from returns not filed by the due date. We needed to balance our efforts across key priorities and support customers dealing with a number of challenges. We targeted our unfiled return activity and used our analytical tools to identify unfiled returns that were likely to be of higher value.			
$43.43	Cash collected for every debt dollar spent	$40.00	$47.11	$40.00
	This measure demonstrates our cost-effectiveness in collecting overdue debt. Our systems did much of the heavy lifting as we had to prioritise our activities to support customers across a number of other areas. This meant the costs incurred were lower this year. We also saw more customers setting up instalment arrangements in 2022–23 to help manage their obligations during challenging times.			
70.2%	Percentage of child support assessments paid on time	70%	70.8%	70%
83.8%[1]	Percentage of student loan customers that meet their obligations	85%	83.1%	85%
	Not achieved—This measure looks at compliance levels for student loan customers. Repayment levels for New Zealand-based borrowers remain high at 94.3% but are slightly lower than 2021–22, reflecting broader economic conditions. Repayments from overseas-based customers remain low at 26% but improved slightly from 25% in 2021–22.			
42.3%	Percentage of unfiled returns that are finalised within 6 months	60%	41.1%	60%
	Not achieved—This measure demonstrates the level of activity focused on helping customers with unfiled returns. To assist customers dealing with adverse weather events and support Government priorities including the Cost of Living Payments, we focused less on proactive compliance activities. We are returning to a more balanced work programme and continue to focus on finalising returns of higher value.			
40.5%	Percentage of collectable debt value over 2 years old	40% or less	33.4%	40% or less
	This measure focuses on the age of debt as older debts tend to become harder to collect. Our year-end result reflects a large increase in new debt, mainly income tax, which made the aged debt look smaller in comparison. Total collectable debt increased from $3.74 billion in June 2022 to $4.41 billion in June 2023.			
61.7%	Percentage of new customer debt resolved within 6 months	50%	58.6%	50%
80.0%	Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	84.0%	75%

All targets are unaudited.

[1] Result reported in the 2022 Annual Report was incorrectly reported as 84.4%.

What it cost

Output statement

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
92,117	Revenue from the Crown	90,489	90,489	94,587	96,969
327	Other revenue	471	1,272	1,272	1,272
92,444	**Total revenue**	**90,960**	**91,761**	**95,859**	**98,241**
89,863	**Total expenses**	**85,511**	**91,761**	**95,859**	**98,241**
2,581	**Net surplus/(deficit)**	**5,449**	**–**	**–**	**–**

Investigations

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

What we do

We protect the integrity of the tax system through early interventions such as education and integrity reviews. We also use intelligence and risk-based analytics to direct our audit and investigation activities. Where necessary, we take prosecution action where we identify serious wrongdoing.

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

Our systems, processes and capabilities allow us to see more and earlier to identify where things do not look right so we can act promptly. We can detect potential incorrect and fraudulent returns before assessments are confirmed, making it harder for customers to get things wrong either accidentally or deliberately.

How we performed

We did not want to put more pressure on customers during a difficult year. Our systems and tools have been able to do much of the heavy lifting, allowing us to put greater effort to support customers across other priority work. We continued to run one-to-many interventions that promote voluntary compliance and real-time integrity reviews to prevent revenue loss occurring in the first place.

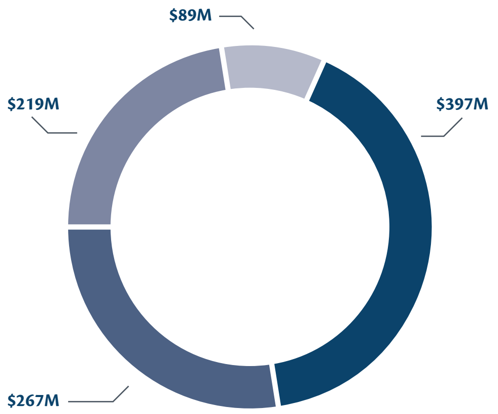
Our people take tailored approaches to help different customer groups such as new businesses get their tax sorted at the start. We've been active in communities to better understand people's issues, the information they need and how to convey it.

Although we did not meet all our performance measure targets, overall discrepancies have remained relatively steady over time.

We are returning to a more balanced work programme, and it will take time to catch up on work that was deferred or stopped. We focused on high-risk areas including:

- property (focusing on bright-line transactions, interest limitation and new builds)
- targeted COVID-19 post-payment integrity reviews to ensure customers were eligible to receive the COVID-19 Resurgence Support Payment, COVID-19 Support Payment and Small Business Cashflow Scheme loans and that monies were correctly applied to their business expenditure
- the 39% tax rate (including dividend avoidance)
- technical non-compliance (including income allocations omitted from companies or trusts, and loss mismatches)
- fringe benefit tax education and reviews
- the hidden economy (with an emphasis on sectors with a high prevalence of cash-based transactions, including construction and hospitality, real estate agents claiming high expenses relative to their income or claiming non-deductible private expenses and businesses operating partially or totally outside the tax system)
- refund integrity and fraud activity focused on risks created by customers trying to receive refunds and entitlements they are not eligible for
- corporate restructuring, and
- tax governance.

VALUE FROM COMPLIANCE ACTIVITIES



Performance measure results

This year, we achieved 1 out of 3 measures for the Investigations category in the Services for Customers multi-category appropriation. This is similar to 2021–22 when we achieved 1 out of 4 measures.

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
69.6%	Percentage of customers whose compliance behaviour improves after receiving an audit intervention[1]	85%	—	74.5%	85%
	Not achieved—This measure looks at the impact audit activity has on customer compliance behaviour across a range of compliance aspects. Although we did not achieve the target, results for 2022–23 improved 4.9 percentage points from the previous year. Many of the customers reviewed had overdue debt, an indication that the economic environment is affecting customers' ability to meet their repayment obligations.				
New measure for 2022–23	The identified value of compliance activities over associated costs	Baseline year		$8.92	$10.00 see page 116
71.4%	Percentage of litigation judgments found in favour of the Commissioner	75%	✓	77.8%	75%
69%[3]	Percentage of audited customers who are satisfied with their experience[2]	65%	—	64%	Measure retired see page 116
	Not achieved—This measure gauges the quality of the audit process across a number of aspects such as communication, education, how the auditor conducted themselves, timeliness, impacts on the customer and overall experience. Results this year are similar to 2021–22. Customers scored us lower on the length of time the audit took. To support customers through the COVID-19 pandemic, we made trade-off decisions to manage the additional demand such as reducing, pausing or stopping some compliance activity, including some audit actions. This meant the timeliness of some audit activity was affected.				

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

[2] Actual performance is measured using a sample of the customer population from our Audit Survey. The survey asks customers to rate their experiences on a 5-point scale. Results represent customers who gave a score of 4 or more.

[3] Results represent customers who gave a score of 3 or more out of 5. The results would be 64% using the same approach as that used for 2022–23 based on scores of 4 or more out of 5.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
119,824	Revenue from the Crown	112,431	112,431	125,742	133,634
431	Other revenue	453	149	149	149
120,255	**Total revenue**	**112,884**	**112,580**	**125,891**	**133,783**
113,235	**Total expenses**	**107,634**	**112,580**	**125,891**	**133,783**
7,020	**Net surplus/(deficit)**	**5,250**	–	–	–

Policy Advice

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

What we do

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

We work on policy initiatives alongside other agencies, including: Te Tai Ōhanga, the Treasury; Hīkina Whakatutuki, the Ministry of Business, Innovation and Employment; Te Manatū Whakahiato Ora, the Ministry of Social Development; Te Kaporeihana Āwhina Hunga Whara, Accident Compensation Corporation; Te Arawhiti, the Office for Māori Crown Relations; Callaghan Innovation; Manatū Ahu Matua, the Ministry for Primary Industries; and Manatū Mō Te Taiao, the Ministry for the Environment.

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

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

Our role includes:

- advising on tax and social policy measures
- developing tax and social policies
- drafting tax legislation and helping to get it passed
- negotiating and maintaining double tax agreements with other countries
- forecasting Government revenue and analysing the revenue implications of policy change
- including Māori perspectives into the design of policy and services

Our main policy achievements this year

Every year, the Minister of Revenue introduces a taxation bill that proposes tax policy and remedial changes and sets the annual tax rates. This year, the Taxation (Annual Rates for 2022–23, Platform Economy, and Remedial Matters) Act enacted in March 2023 contained 190 changes across 5 broad areas of change: the platform economy, cross-border workers, GST, property and international tax. Read more about our delivery of these changes on page 107.

This year, work continued on Government priority areas, including Cost of Living Payments, the child support pass-on, the Debt to Government Project, tax principles legislation and high-wealth individuals research.

The Cost of Living Payment announced as part of Budget 2022 was designed to help eligible people with the recent increases in the cost of living. It required a quick and simple process in time for the first payment on 1 August 2022. Read more about this on page 33.

The Child Support (Pass On) Acts Amendment Act 2023 was granted Royal assent on 12 June 2023. The child support pass-on initiative will see child support passed on to sole-parent beneficiaries from 1 July 2023, rather than retained by the Crown to offset benefit costs.

We are working with: Te Manatū Whakahiato Ora, the Ministry of Social Development; Te Tari o te Pirimia me te Komiti Matua, the Department of the Prime Minister and Cabinet; Te Tāhū o te Ture, the Ministry of Justice; Kāinga Ora, Homes and Communities; and Te Tūāpapa Kura Kāinga, the Ministry of Housing and Urban Development on the Debt to Government Project. Final recommendations were due to Cabinet in July 2023. Read more about this project on page 30.

The Taxation Principles Reporting Bill was prepared this year and introduced on 18 May 2023. The Bill sets out a list of key design principles for a tax system that we will use to determine various measures to regularly report on New Zealand's tax system.

The high-wealth individuals research project report was published in April 2023. The statistical research project sought to measure the effective tax rates of a cohort of high-wealth families.

Our other deliverables focused on our stewardship function. The regulatory review of fringe benefit tax was released and, consistent with our obligations under the Public Service Act 2020, the long-term insights briefing was reported back to Parliament by the Finance and Expenditure Committee. We continue to work with Te Tai Ōhanga, the Treasury to incorporate other agency feedback on the Officials' Framework for Environmental and Resource Pricing.

We include Māori perspectives into the design of policy and services to ensure that Te Tari Taake, Inland Revenue is being more responsive to Māori perspectives and needs. We use the Tax and Social Policy Māori Advisory Panel to advise on tax and social policy implications from a Māori perspective and provide advice on Māori engagement methods.

Read more about the Generic Tax Policy Process, the Tax and Social Policy Work Programme and our public consultations on our website: taxpolicy.ird.govt.nz

How we performed

An independent panel assessed the quality of the policy advice papers we wrote for Ministers this year. They found that 70% of the advice we provided met or exceeded a score of 3.5 out of 5, a material improvement from 60% in 2021–22.

Performance measure results

This year, we achieved both performance measures in the Policy Advice category in the Services for Customers multi-category appropriation, the same as in 2021–22.

2021–22 Actual		2022–23 Target		2022–23 Actual	2023–24 Target
3.5	Average score of papers assessed using the Policy Quality Framework	3.5 or more	✓	3.6	3.5 or more out of 5
	Scale for scoring the quality of policy advice 1—Unacceptable: Does not meet the relevant quality standards in fundamental ways. 2—Poor: Does not meet the relevant quality standards in material ways. 3—Acceptable: Meets the relevant quality standards overall, but with some shortfalls. 4—Good: Meets all the relevant quality standards. 5—Outstanding: Meets all the relevant quality standards and adds something extra.				
5.0[1]	The Minister's satisfaction with the policy advice services received	4 or more out of 5	✓	4.9	4 or more out of 5

[1] Result based on a response from the Associate Minister of Revenue.

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2023

Actual[1] 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
–	Revenue from the Crown	16,630	16,630	15,979	13,399
–	Other revenue	–	1	1	1
–	**Total revenue**	**16,630**	**16,631**	**15,980**	**13,400**
–	**Total expenses**	**14,084**	**16,631**	**15,980**	**13,400**
–	**Net surplus/(deficit)**	**2,546**	**–**	**–**	**–**

[1] The actual results for 2021–22 do not include the new Policy Advice category amount. A comparative may be drawn to the Actual amount of the Policy Advice appropriation that ceased to exist in June 2022 in our 2022 Annual Report.

02. Services to Other Agencies

1/1 ACHIEVED

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

What we do

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

How we performed

Te Kōmihana Whai Hua o Aotearoa, the New Zealand Productivity Commission rated highly the level and quality of service we provided in 2022–23. We scored maximum results across all 10 of the areas surveyed.

Performance measure results

This year, we achieved the performance measure in the Services to Other Agencies appropriation, which is the same as in 2021–22.

2021–22 Actual		2022–23 Target	2022–23 Actual	2023–24 Target
94%	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 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
1,600	Other revenue	1,520	1,824	1,524	1,824
1,600	**Total revenue**	**1,520**	**1,824**	**1,524**	**1,824**
1,600	**Total expenses**	**1,520**	**1,824**	**1,524**	**1,824**
–	**Net surplus/(deficit)**	–	–	–	–

03. Residual Activities Following the Transformation Programme's Substantive Closure

This appropriation is limited to residual activities consistent with Te Tari Taake, Inland Revenue's transformation programme that still need to be completed following its substantive closure.

What we intended to achieve

This appropriation is intended to undertake residual activities following the closure of the programme that we were unable to complete before 30 June 2022 due to COVID-19 priorities.

How we performed

Performance information for this appropriation will be reported in the 2024 Annual Report.

Performance measure results

	2022–23 Target	2022–23 Actual	2023–24 Target
All residual activities following the closure of the transformation programme are completed	By 30 June 2024	Not applicable	By 30 June 2024

All targets are unaudited.

What it cost

Output statement

For the year ended 30 June 2023

Actual 2022[1] $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
–	Revenue from the Crown	32,600	32,600	24,000	14,600
–	Other revenue	11	–	–	–
–	**Total revenue**	**32,611**	**32,600**	**24,000**	**14,600**
–	**Total expenses**	**29,188**	**32,600**	**24,000**	**14,600**
–	**Net surplus/(deficit)**	**3,423**	**–**	**–**	**–**

[1] We completed our transformation programme in 2021–22 and the Transformation appropriation closed in June 2022. We transferred $35 million from the Transformation appropriation in the 2021–22 financial year to the new Residual Activities Following the Transformation Programme's Substantive Closure appropriation for the 2022–23 and 2023–24 financial years. Due to this appropriation change, the comparative actual for 2022 is nil.

Tracking the outcomes of the transformation programme

We use several indicators to measure the outcomes of the transformation programme investment as detailed below. Read more about previous years' results in Business Transformation: Implementing a Digital Revenue System—Final Programme Business Case Addendum: ird.govt.nz/about-us/business-transformation/where-we-started/programme-business-case

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

The measures not achieved were:

- The 'percentage of customers who find it easy to comply' remained steady at 82% in 2022–23. This measure is proving difficult to shift as it measures customer perceptions of their experience with us. These perceptions are influenced by a number of factors, including the challenges from the adverse weather events and economic environment.
- Results from our 2021 survey of small-to-medium-sized enterprises (SMEs) show the target reduction in compliance effort was not achieved. SMEs reported saving 5 hours compared to a target of 17 hours. The value of the time saved by SMEs was also behind target, and COVID-19 and payday filing may have had an impact. We continue to focus on designing our services to reduce effort for SMEs. Note: We delayed the survey we had planned for 2023 to reduce the burden on businesses as they were managing the impact of the adverse weather events. The survey will run again in 2024.

We recognise that achieving targets in these areas by 2023–24 will be challenging.

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

TRANSFORMATION PROGRAMME OUTCOME INDICATORS

	Indicator	2021–22	2022–23 Target		2022–23 Actual	2023–24 Target
Easier for customers	Digital uptake by customers	99%	82%	✓	**99%**	85%
	Customers who find it easy to comply	81%	90%	—	**82%**[1]	90%
	Reduction in compliance time for SME customers	5 hours indicative[2]	17 hours	—	**5 hours indicative**[2]	18 hours
	System availability for customer-facing e-channels	99.6%	99.4%	✓	**99.6%**	99.5%
	Customer outcomes from information-sharing and security of information	Read the case study on pages 75 to 76 and information on pages 23 and 82.				
	Cumulative reduction in compliance costs for SME customers	$790m indicative	$1,070m	—	**$925m indicative**	$1,330m
	Cumulative additional Crown revenue to the Government	Target achieved[3]	$1,860m	✓	**Target achieved**[3]	$2,880m
Reduced time and cost to implement policy	Reduction in the time and cost to implement policy	Read a case study on the delivery of annual changes on the next page.				
	Increased revenue system resilience as assessed by Te Tari Taake, Inland Revenue	High	**High**	✓	High	High
Te Tari Taake, Inland Revenue is more efficient	Digital uptake by customers	99%	82%	✓	**99%**	85%
	Annual reduction in our administration costs	$105m	$100m	✓	**$110m**	$100m
	Cumulative reduction in our administration costs	$309m	$395m	✓	**$419m**	$495

[1] Results for this indicator up to 30 June 2022 were derived from our Customer Satisfaction and Perceptions Survey. This survey has been replaced by the Customer Experience and Perceptions Survey and comparable methodologies have been applied to provide results for 2022–23.

[2] Te Tari Taake, Inland Revenue will run the SME compliance cost survey again in 2024. The 2020–21 survey has been used as an indicative result.

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

Reduction in the time and cost to implement policy

CASE STUDY

Annual changes

Each year, as part of our April 2023 changes, we work on a range of enhancements, policy and remedial changes. Prior to the introduction of our core tax technology system START, the focus was primarily on delivering cyclic changes—our yearly reviews and updates. This includes updating ACC, minimum family tax credit and paid parental leave rates and updating and publishing our student loan repayment thresholds. We also update all relevant calculators and materials for these rate changes.

Other legislative changes included in the Taxation (Annual Rates for 2022–23, Platform Economy, and Remedial Matters) Act 2023 were changes to GST, property rules, our international regime, fringe benefit tax and insurance deductibility.

The introduction of START and other changes made as a result of our transformation means we are now able to make changes that benefit our customers or improve internal processes at the same time. We now have standard design patterns that allow us to deliver change in a much shorter period of time. We also listen to feedback from our customers as we develop and test improvements, making changes based on their feedback.

An example of this is the changes made to how errors are corrected on employment information returns. We tested the solution with the Aotearoa New Zealand Digital Advisory Group. Their feedback and revised solution helped make it easier for them to implement the solution. Early engagement and co-design with stakeholders will continue to be a key part of improving our change process.

Implementing Cost of Living Payments

The Cost of Living Payment Scheme was a new type of payment for New Zealand, and we needed to design system requirements and processes to do it. Although the delivery window was very short, from 11 April 2022 when policy and decisions were confirmed to the first payment on 1 August 2022, the timeframe was manageable. Cost of Living Payments were delivered on time to the agreed specifications. Read more about this on page 33.

CASE STUDY

Customer outcomes from information-sharing and security of information

Read about our data-sharing work with Tatauranga Aotearoa, Stats NZ in the case study on pages 75 to 76.

You can also read about the review of our confidentiality and data safeguards on page 23, where an assessment team from the OECD's Global Forum reviewed our frameworks, policies, procedures and practices on confidentiality and data safeguards for exchanges of information and country-by-country reporting.

Significant initiatives

The following table outlines where to find more information on Budget significant initiatives from the last 3 Budgets.

Name of initiative	Budget year first funded	Location of information
$25 per week permanent increase to welfare benefits from 1 April 2020	2021	• The flow-on increase in source deductions (PAYE) revenue is incorporated into the Schedule of Non-Departmental Revenue on page 156.
Expansion of immediate expensing for low value assets	2021	• Information on depreciation is not captured at this level of detail due to compliance cost impacts on customers. The threshold change was temporary.
Increasing the threshold for provisional tax	2021	• Information on the number of provisional taxpayers and total amount of provisional tax paid annually can be found at ird.govt.nz/about-us/publications/responses-to-official-information-act-requests/2023-responses-to-oia-requests
In-Work Tax Credit removing the hours test	2021	• Information on in-work tax credits can be found at ird.govt.nz/about-us/publications/responses-to-official-information-act-requests/2022-responses-to-oia-requests
Reinstatement of depreciation deductions for commercial and industrial buildings	2021	• Information on depreciation is not captured at this level of detail due to compliance cost impacts on customers.
COVID-19 payments (includes COVID-19 Resurgence Support Payments and COVID-19 Support Payments)	2022 and 2023	• ird.govt.nz/about-us/tax-statistics/covid-19-support-payment-statistics • ird.govt.nz/about-us/tax-statistics/resurgence-support-payment-statistics • Pages 30 to 32, 55 and 120 of the 2022 Annual Report. • Financial information on these payments is reported in the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations table: COVID-19 Resurgence Support Payment appropriation and COVID-19 Support Payment appropriation (2021 and 2022 annual reports).
Ensuring the tax system is operating fairly	2022	• Information and a report on the research project to find out more about how much tax is paid by New Zealand's high-wealth individuals relative to their economic income can be found on our website: ird.govt.nz/about-us/who-we-are/organisation-structure/significant-enterprises/high-wealth-individuals-research-project
Main Benefit Rate Increase and Complementary Changes for New Zealanders Receiving a Main Benefit	2022	• The flow-on impact is incorporated into the Schedule of Non-Departmental Revenue on page 156.

Name of initiative	Budget year first funded	Location of information
Main Benefit Rate Increase and Complementary Changes to Student Support (1 April 2022)	2022	• This initiative impacts on the Minimum Family Tax Credit PLA and Initial Fair Value Write-Down Relating to Student Loans appropriations, which are included in the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations on page 119. • Information on the broader Student Loan Scheme can be found in the Student Loan Scheme Annual Report: educationcounts.govt.nz/publications/series/student_loan_scheme_annual_reports
Providing Transitional Support to R&D Performing Businesses	2022	• Performance information will be reported in the 2024 Annual Report. Within the Research, Science and Innovation: R&D Tax Incentive appropriation, a report is required as soon as is practical after the end of the 2023–24 tax year and every 5 years after that.
Retaining capability to support the Government's response to COVID-19	2022	• Performance information relating to this initiative is integrated within existing Te Tari Taake, Inland Revenue performance measures. There were no new or amended performance measures for this initiative.
Small Business Cashflow (Loan) Scheme	2022	• Financial information on these payments is reported in the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations table: Small Business Cashflow Scheme COVID-19 appropriation (capital expenditure), Impairment of Debt Relating to the SBCS appropriation (other expenses) and Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19 appropriation (other expenses) (from the 2021 Annual Report onwards). • Additional financial and impairment information on these appropriations is included in the notes to the Financial Schedules Non-Departmental in the Annual Report (2022 Annual Report, note 2 and note 6).
Taxation of housing	2022	• Information on bright-line can be found at ird.govt.nz/about-us/publications/responses-to-official-information-act-requests/2023-responses-to-oia-requests
Cost of Living payments	2023	• ird.govt.nz/about-us/tax-statistics/cost-of-living-payment-statistics • taxpolicy.ird.govt.nz/publications/2022/2022-ir-col-payment • Financial information on this payment is reported in the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations table: Cost of Living Payment appropriation (2023 Annual Report).
Passing on Child Support payments to sole parent beneficiaries	2023	• See page 32.
Research and Development Tax Incentive administration costs	2023	• This initiative provides ongoing funding for Te Tari Taake, Inland Revenue's role in this tax credit. • The performance of this scheme will form part of the evaluation specified in section LY 10 of the Taxation (Research and Development Tax Credits) Act 2019.
Responding to COVID-19 demand and maintaining capability and integrity	2023	• Performance information relating to this initiative is integrated within existing Te Tari Taake, Inland Revenue performance measures. There were no new or amended performance measures for this initiative.
Substantive closure of Te Tari Taake, Inland Revenue's transformation programme	2023	• This initiative finalises the return of funding at the closure of Te Tari Taake, Inland Revenue's transformation programme. Information about the programme is available on our website: ird.govt.nz/about-us/business-transformation • The Final Programme Business Case Addendum, March 2022, is available on our website: ird.govt.nz/about-us/business-transformation/where-we-started/programme-business-case

Note: Significant initiatives relate to new policy initiatives included in the Vote Revenue Estimates of Appropriations for 2020–21, 2021–22 and 2022–23. New policy initiatives that are technical in nature, or where funding is not considered material, have not been included.

Disclosure of judgements

Reporting entity

Te Tari Taake, Inland Revenue is a New Zealand government department as defined by section 5 of the Public Service Act 2020. The relevant legislation governing our operations includes the Public Finance Act 1989, Public Service Act 2020 and the Public Accountability Act 1998.

Te Tari Taake, Inland Revenue's ultimate parent is the New Zealand Crown.

We are the principal steward of New Zealand's tax and social policy system. This means we consider whether the products we administer, and the system as a whole, are effective and efficient, work as intended, achieve the intended outcomes and are fit for purpose. We do not operate to make a financial return and are a Public Benefit Entity (PBE) for performance reporting purposes.

The section on Our Performance covers all our activities as set out in the 2022–23 Estimates of Appropriations for Vote Revenue. It also includes other indicators from across our Performance Measurement Framework (PMF) as outlined in our Statement of Intent 2021–2025. The section on Our Performance relates to the year ended 30 June 2023. It was authorised for issue by the Commissioner and Chief Executive of Te Tari Taake, Inland Revenue on 28 September 2023.

Performance measures are reported on pages 67 to 108. Additional information, including on organisational capability, is not audited but provides additional context to our performance in 2022–23.

We also use performance information from our PMF to provide our organisation's Enterprise Priorities and Performance Committee and other internal stakeholders with a regular update on performance areas at risk and to inform decision-making, planning and prioritisation.

Statement of compliance

The Our Performance section has been prepared in accordance with Tier 1 PBE financial reporting standards, which have been applied consistently throughout the period, and it complies with PBE financial reporting standards.

We have made judgements on the application of reporting standards and estimates and assumptions concerning the future, discussed below. The estimates and assumptions may differ from the subsequent actual results.

Critical reporting judgements, estimates and assumptions

Performance measures have been selected for our key activities. In selecting measures, we have made judgements to determine which aspects of performance are relevant and material to readers.

Te Tari Taake, Inland Revenue sets targets for output and asset performance measures based on a combination of historical performance, with consideration of factors that may impact future performance and opportunities for improvement. As such, future performance may differ from budgeted performance.

There were no pervasive constraints on information that influenced our service performance information.

Judgement is also involved in determining how to measure performance for the measures selected. The judgements that have the most significant impact on selection and measurement are disclosed below.

Given the size, diversity and complexity of our functions and services, we have grouped our material judgements under the following subsets:

- Policy advice
- Customer experience
- Service delivery
- Organisational health.

We review our performance measures each year. Any proposed changes are approved by our organisation's Strategic and Investment Board—proposed changes to output measures are then approved by the Minister of Revenue. With the exception of policy advice measures and some externally mandated indicators within organisational health, we have discretion to select our measures and targets.

Policy advice

In keeping with the Policy Quality Framework provided by Te Tari o te Pirimia me te Komiti Matua, the Department of the Prime Minister and Cabinet (DMPC), we measure:

- the quality of our policy advice by applying the framework's prescribed measures for quality of policy advice, and
- Ministerial satisfaction that all government agencies with a policy advice appropriation must apply.

This includes a target score for both quality of policy advice and Ministerial satisfaction. More information can be found at The Policy Project's Progress and Performance section on DPMC's website: dpmc.govt.nz

The Policy Quality Framework sets out a common set of standards that specify what good-quality policy advice looks like. Its purpose is to assess and improve the quality of our written policy and other advice, and whether it is fit for purpose. The advice may be for a Minister, Cabinet or other decision-makers, and may be jointly provided with other agencies.

Quality is assessed by an assurance panel that reviews a random sample of policy advice papers every year. The panel, made up of external and internal members, considers whether each paper meets or exceeds the quality standards of 'acceptable'. Results are based on these characteristics:

- Context—the paper explains why the decision-maker is getting this and where it fits.
- Analysis—the paper is clear, logical and informed by evidence.
- Advice—the paper engages the decision-maker and tells the full story.
- Action—the paper identifies who is doing what next.

The overall result comes from calculating the average score of papers assessed using a 5-point scale.

The Ministerial Policy Satisfaction Survey contains a common set of questions provided by DPMC. The survey asks about general satisfaction, quality of policy advice and overall performance, using a 5-point scale. There are also 3 free-text questions about satisfaction.

The survey for the Revenue portfolio was discussed with the Minister of Revenue's office. The Associate Minister of Revenue was delegated responsibility for completing the survey. The survey covered the entire year, during which the Associate Minister was either in that role or Under-Secretary of Revenue. The survey is done once per year.

Customer experience

Customer experience surveys are an important tool to help Te Tari Taake, Inland Revenue understand customers' experiences and perceptions. Surveying our customers is critical for providing information for individual capability development and to support accountability and improvement.

Survey performance measures have been selected because they provide information on the impact of our services to customers. We use this information to understand whether the services met customers' expectations, therefore contributing towards our broader outcomes. The PMF contains 11 survey-based measures from our:

- Customer Experience and Perceptions Survey (CX&P)
- Audit Satisfaction Survey
- survey of support services provided to the New Zealand Productivity Commission (NZPC).

Our largest survey, the CX&P, is an ongoing monitor that helps us measure trust, tax morale and customer experience over time. This continuous, online survey includes weekly random samples of the general public and those who have recently had an interaction with us.

Actual performance is measured from respondents' ratings on a 7-point scale. Results represent respondents who gave a score of 5 or more. In 2022–23, we received 8,323 responses. The survey was run on behalf of Te Tari Taake, Inland Revenue by Kantar Public.

The Audit Satisfaction Survey asks customers who have been audited their views on the quality of the process across a number of aspects such as: communication, education, how the auditor conducted themselves, timeliness, impacts on the customer and overall experience.

Actual performance is measured by customers rating their experiences on a 5-point scale from 'strongly disagree' to 'strongly agree'. The result represents an aggregate of responses for scores of 4 or more ('agree' or 'strongly agree'). The survey is run quarterly and reported internally twice in the reporting year and once externally. The survey anticipates a minimum response of at least 80 customers.

The NZPC survey seeks annual feedback on the level and quality of support services we provided to NZPC, and where improvements could be made. The survey seeks feedback on the timeliness and quality of:

- accounts payable and receivable transactional services
- financial reporting services
- tax return and payment services, and
- human resource and payroll services.

Actual performance is measured from NZPC's ratings on a 5-point scale for scores of 4 or more.

Service delivery

Te Tari Taake, Inland Revenue reviews service delivery measures each year to ensure key products or services are represented in our measures, and that our measures are balanced, meaningful to customers and reflect our operating environment. Measures focus on the quality, timeliness and cost of services. They are a commitment of what we will deliver with the funding provided.

Quality

We monitor the quality of our rulings reports, adjudication reports and public items produced to ensure they meet the standards required. An evaluation of whether we have met standards is done by reviewing a random sample of 25% of each report type. Reviews consider whether the contents of reports and items meet the applicable purpose, logic, alternatives, consultation and practicality standards. For instance, that templates include overt consideration of alternative arguments raised and consideration of consultation comments.

Reviews are done by senior staff members who were not involved in the adjudication, ruling or public item.

Timeliness

Timeliness in responding to customer activities is an important part of our role to make it easy for customers to meet their tax obligations and receive their entitlements. Measures cover key activities such as customer registrations, processing returns and payments, answering customer queries, managing debt and unfiled returns and providing rulings and advice.

Cost

A number of cost-based measures in our Performance Measurement Framework demonstrate the cost-effectiveness of our activities. We allocate costs to business services, appropriations and products. Cost allocations include 2 components:

- Direct allocations, where activities contribute directly to an appropriation or category and can be mapped directly to 1 or more business services.
- Indirect allocations, where cost centres do not contribute directly to an appropriation or category and cannot be linked directly to a business service. The allocation rule for these is based on the weighting of 'direct allocations' for the direct cost centres that this indirect cost centre is aligned to.

We review direct allocation rates twice a year to ensure that the existing allocations for an individual cost centre still accurately reflect how the cost centre expends its effort.

Organisational health

Organisational health indicators provide information on how Te Tari Taake, Inland Revenue is using our resources to deliver for customers and government and ensure performance is sustainable. A number of indicators are externally mandated such as targets under the Carbon Neutral Government Programme, gender pay gap reporting and timeliness in paying invoices to domestic suppliers.

Performance measure footnotes or additional information

Te Tari Taake, Inland Revenue includes footnotes or additional information for some performance measures. We applied these criteria to ensure disclosure of the most relevant and useful information:

- The reason for not achieving a particular target.
- The reason for achieving 15% above a target.
- Assessment criteria used such as the survey scale.
- Any change in measurement methodology from the previous year.
- Any correction to a previously reported result.
- Clarifying which products or services are included or not included in the result, or the date or timing to which the data relates.

Changes to measures and targets

We review our performance measures and targets each year. We do this to make sure measures continue to be relevant, reflect the range of services we provide and changes in our operating environment, and support the achievement of our outcomes.

We apply the standard PBE FRS 48 for Service Performance Reporting with its principles-based requirements to ensure service performance information and reporting is appropriate and meaningful to users. This includes the following considerations:

- maintaining consistency of reporting, and
- ensuring performance information is comparable, relevant, reliable, neutral, understandable and complete.

Changes to our services measures for 2022–23

Services for Customers multi-category appropriation (MCA)

Our Customer Experience and Perceptions (CXP) Survey has replaced our legacy survey. The CXP survey is designed to keep up with the changes in how customers interact with us.

We have retired 2 output measures that relied on the legacy survey and 2 equivalent measures from the CXP Survey will be tracked as outcome indicators. The retired output measures were:

- percentage of customers satisfied with the overall quality of service delivery from Inland Revenue, and
- percentage of customers who feel Inland Revenue makes it easy for people to get it right.

The following 2 new measures encapsulate our overall performance in delivering services for customers, and will be used for the overarching Services for Customers MCA:

- percentage of returns filed on time, and
- percentage of payments made by customers on time.

We have increased the targets for these measures from 85% to 90% to reflect the efficiencies we've gained through the transformation programme.

Services for Customers MCA: Services to Ministers and to Inform the Public About Entitlements and Obligations category

Our CXP Survey has replaced our legacy survey and is designed to keep up with the changes in how customers interact with us.

We have retired 2 measures that relied on the legacy survey:

- percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations, and
- percentage of customers who perceive that resolving issues with Inland Revenue requires low effort.

The retired measures have been replaced by a measure from the CXP Survey:

- percentage of customers who agree they found it easy to get the information they needed.

We set a 70% target for this measure. In line with industry standards, we will not include neutral responses (customers who respond neither negatively nor positively) towards the achievement of this target.

The 'percentage of returns filed digitally' measure was an important indicator during our transformation programme to modernise and digitise New Zealand's tax system. Over the past year, we achieved the target and have reached the limit to influence any further performance increase. Therefore, we have retired this measure. We will continue to monitor and report on the trend for filing returns digitally as an outcome indicator.

We use several output measures to measure our tax advice. We have retired 1 volume-based measure, 'number of published or finalised public items that give the Commissioner's interpretation of the law', as it does not convey meaningful information to an external audience.

Services for Customers MCA: Services to Process Obligations and Entitlements category

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

Services for Customers MCA: Management of Debt and Unfiled Returns category

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

Services for Customers MCA: Investigations category

A new measure 'the identified value of compliance activities over associated costs' was introduced in 2022–23, replacing the audit-based measure 'discrepancy identified for every output dollar spent'. This better reflects our approach, facilitating compliance through more upfront and real-time interventions and helping customers get tax obligations right from the start. The measure includes voluntary disclosures, real-time integrity reviews including COVID-19 product applications, and continued enforcement action where required. The measure is baselined in 2022–23.

We updated the target from 75% to 65% for the measure 'percentage of audited customers who are satisfied with their experience'. In line with industry standards, we will not include neutral responses (customers who respond neither negatively nor positively) towards the achievement of this target. The target has been adjusted to reflect this higher bar.

Changes to our services measures for 2023–24

Services for Customers multi-category appropriation (MCA):

The target for the measure 'percentage of returns filed by customers on time' has been increased from 90% to 95%. Results have been steadily increasing year on year over the last 4 years, from 85.2% in 2018–19 to 96.2% in 2022–23.

Services for Customers MCA: Services to Ministers and to Inform the Public About Entitlements and Meeting Obligations category

We consolidated 6 timeliness measures for public items, adjudications and rulings into an overarching measure to address the imbalance with our broader suite of measures. The new measure is 'percentage of public items, adjudication cases, taxpayer rulings and short process rulings completed within agreed timeframes' (target 90%).

Services for Customers appropriation: Services to Process Obligations and Entitlements category

The target for the 'average cost of processing income tax returns, GST returns and employment information' measure has been stretched from $2.50 or less to $1.75 or less to reflect the service delivery cost-efficiencies realised through our transformation programme.

The timeliness measures for initial Working for Families Tax Credits (WFFTC) payments and paid parental leave (PPL) payments have been retired. These payments are activated automatically once the registration is completed. Therefore, the registration process determines payment timeliness for these products. This is covered by the measure 'percentage of tax and social policy registrations processed within 5 working days', of which both WFFTCs and PPL payments are components. Therefore, we have retired:

- percentage of Working for Families Tax Credit payments made on the first regular payment date following an application, and
- percentage of paid parental leave payments issued to customers on the first payday following the agreed date of entitlement.

We have retired the measure 'percentage of donation tax credit (DTC) claims processed within 3 weeks'. We process customers' DTC claims as they are submitted during the year. While it is important that we continue to manage the timely processing of these claims throughout the year, there is no impact on customers as legislation requires that we cannot pay any donation tax refund to the customer until after the end of the tax year. A refund automatically happens once we are assured there is sufficient income for the tax credit to be paid.

We have retired the measure 'percentage of child support administrative review decisions issued within 7 weeks'. The measure represents very low volumes in the broader context of child support and Te Tari Taake, Inland Revenue activity.

Services for Customers MCA: Investigations category

In 2022–23, we introduced a new measure that represents our end-to-end compliance activities: 'the identified value of compliance activities over associated costs'. 2022–23 was a baseline year. The target for 2023–24 has been set at $10.00.

We have retired the measure 'percentage of audited customers who are satisfied with their experience'. The measure relies on survey information from audited customers, and there are challenges to get sufficient responses from customers for this stand-alone survey. We are looking at ways to gather customer feedback on their audit experience as part of our wider enterprise customer survey programme and how we broaden to capture experiences of other compliance interventions. A new survey approach and measure will be available for 2024–25.

Appropriation statements

The following statements report information about the expenses and capital expenditure incurred against each appropriation administered by Te Tari Taake, Inland Revenue for the year ended 30 June 2023.

Statement of Departmental Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations

For the year ended 30 June 2023

Actual 2022 $000		Actual[1] 2023 $000	Unaudited revised budget[5] 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Vote: Revenue				
	Output expenses				
13,114	Policy Advice	–	–	–	–
	Services for Customers—MCA				
256,119	Services to Ministers and to inform the public about entitlements and meeting obligations	312,978	328,812	312,978	310,076
114,147	Services to Process Obligations and Entitlements	140,286	150,247	171,149	165,718
89,863	Management of Debt and Unfiled Returns	85,511	91,761	95,859	98,241
113,235	Investigations	107,634	112,580	125,891	133,783
–	Policy advice	14,084	16,631	15,980	13,400
586,478	**Total departmental output expenses**	**660,493**	**700,031**	**721,857**	**721,218**
1,600	Services to Other Agencies RDA[2]	1,520	1,824	1,524	1,824
588,078	**Total output expenses**	**662,013**	**701,855**	**723,381**	**723,042**
	Other expenses				
96,944	Transformation[3]	–	–	–	–
–	Residual activities following the transformation programme's substantive closure[3]	29,188	32,600	24,000	14,600
96,944	**Total other expenses**	**29,188**	**32,600**	**24,000**	**14,600**
685,022	**Total expenses**	**691,201**	**734,455**	**747,381**	**737,642**
	Capital expenditure PLA[4]				
7,496	Property, plant and equipment	25,860	27,200	21,900	24,800
28,083	Intangible assets	14,346	25,500	30,800	18,100
35,579	**Total Capital Expenditure PLA**	**40,206**	**52,700**	**52,700**	**42,900[6]**

[1] Excludes remeasurement of $13.254 million (2021–22: $2.743 million). The remeasurement consists of foreign exchange losses mainly of forward foreign exchange contracts, and macroeconomic changes in the actuarial valuations of retiring and long-service leave.

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

[3] A portion of the 2021–22 Transformation appropriation funding was returned to the Crown and $35 million transferred to financial years 2022–23 and 2023–24 to the new Residual Activities Following the Transformation Programme's Substantive Closure appropriation.

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

[5] The revised budget figures for 2022–23 are those included in The Supplementary Estimates of Appropriations and Supporting Information for the Year Ending 30 June 2023.

[6] Since The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024 were published, this forecast was increased as part of the Pre-election Economic and Fiscal Update 2023 by $22.100 million to reflect updated capital investment plans.

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

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

All of the 2022–23 performance information for each appropriation administered by Te Tari Taake, Inland Revenue has been reported in the section on Our Performance.

Statement of Departmental Expenses and Capital Expenditure Incurred Without, or in Excess of, Appropriation or Other Authority

For the year ended 30 June 2023

In the 2022–23 financial year, there were no departmental instances of:

- expenses and capital expenditure incurred in excess of appropriations (2021–22: nil)
- expenses and capital expenditure incurred without appropriation, or other authority, or outside the scope or period of appropriation (2021–22: nil).

Statement of Departmental Capital Injections and Capital Withdrawals

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget 2023 $000	Unaudited forecast 2024 $000
	Vote: Revenue			
122,560	Capital injections	2,700	2,700	–
(119,200)	Capital withdrawals	(11,900)	(11,900)	(5,500)
3,360	**Net capital injections and withdrawals**	**(9,200)**	**(9,200)**	**(5,500)**

Te Tari Taake, Inland Revenue has not received any capital injections during the year without, or in excess of, authority (2021–22: nil).

The capital injection of $122.560 million in 2021–22 was the final capital injection for the last stage of the transformation programme, including programme contingency funding. The capital withdrawal of $119.2 million reflects the return to the Crown of unused contingency funding at the closure of the programme.

Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited revised budget[1] 2023 $000	Unaudited budget 2023 $000	Unaudited forecast[2] 2024 $000
	Vote: Revenue				
	Benefits and other unrequited expenses				
307,555	Best Start Tax Credit PLA	321,341	324,000	375,000	339,000
296,495	Child Support Payments PLA	293,961	295,000	285,000	466,000
2,016,589	Family Tax Credit PLA	2,151,179	2,165,000	2,375,000	2,284,000
506,230	In-Work Tax Credit PLA	464,036	457,000	545,000	477,000
158	KiwiSaver: Interest	932	1,000	2,000	1,000
963,856	KiwiSaver: Tax Credit	995,699	1,048,000	1,028,000	1,093,000
13,130	Minimum Family Tax Credit PLA	12,324	12,000	17,000	12,000
602,634	Paid Parental Leave Payments	607,952	635,000	645,000	677,000
4,706,647	**Total benefits and other unrequited expenses**	**4,847,424**	**4,937,000**	**5,272,000**	**5,349,000**
	Borrowing expenses				
1,510	Environmental Restoration Account Interest PLA	1,912	2,100	1,400	2,100
8,444	Income Equalisation Interest PLA	8,403	9,000	7,000	9,000
9,954	**Total borrowing expenses**	**10,315**	**11,100**	**8,400**	**11,100**
	Other expenses				
–	Cost of Living payment[3]	599,986	706,000	800,000	–
2,712,507	COVID-19 Resurgence Support Payment[4]	–	–	–	–
1,306,810	COVID-19 Support Payment[5]	–	–	–	–
662,497	Impairment of Debt and Debt Write-Offs[6]	1,467,609	1,185,000	841,000	931,000
–	Impairment of Debt Relating to Child Support	6,476	90,000	–	–
–	Impairment of Debt Relating to Student Loans	–	160,000	–	–
89,000	Impairment of debt relating to the SBCS[7]	–	–	–	–
230,069	Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19	53,926	76,000	279,000	28,000
489,063	Initial Fair Value Write-Down Relating to Student Loans	550,743	572,000	662,000	640,000
7,928,486	KiwiSaver: Employee and Employer Contributions PLA	8,777,434	8,730,000	8,480,000	9,770,000
472,967	Research, Science and Innovation: R&D Tax Incentive	63,897	361,525	472,525	535,334
13,891,399	**Total other expenses**	**11,520,071**	**11,880,525**	**11,534,525**	**11,904,334**
	Capital expenditure				
537,545	Small Business Cashflow Scheme COVID-19	100,105	145,000	652,000	60,000
537,545	**Total capital expenditure**	**100,105**	**145,000**	**652,000**	**60,000**
19,145,545	**Total appropriations**	**16,477,915**	**16,973,625**	**17,466,925**	**17,324,434**

[1] The revised budget figures for 2022–23 are those included in The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.

[2] Since The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024 were published, the following forecasts were materially updated as part of the Pre-election Economic and Fiscal Update 2023: KiwiSaver: Employee and Employer Contributions PLA increases by $50 million, R&D Tax Incentive decreases by $69 million, and Impairment of Debt and Debt Write-Offs increases by $256 million.

[3] The Cost of Living payment is a new appropriation in place for 2022–23 only.

[4] The COVID-19 Resurgence Support Payment appropriation commenced on 22 February 2021 and ended on 15 February 2022. It was replaced with the COVID-19 Support Payment.

[5] The COVID-19 Support Payment appropriation commenced on 16 February 2022 and ended on 30 June 2022.

[6] Impairment of Debt and Debt Write-Offs relates to general tax, Working for Families Tax Credits, KiwiSaver and COVID-19 debt (excluding the Small Business Cashflow Scheme).

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

PLA refers to appropriations established under a permanent legislative authority.

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

The budget, revised budget and forecast figures have been prepared in accordance with NZ GAAP, using the same accounting policies as those adopted to prepare the non-departmental financial schedules. The forecast figures for 2023–24 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024.

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 2023.

Statement of Non-Departmental Unappropriated Expenditure

For the year ended 30 June 2023

In the 2022–23 financial year there:

- was 1 instance of expenditure incurred in excess of appropriation (2021–22: nil)
- were no instances of expenditure incurred outside of appropriation (2021–22: nil)
- were no instances of expense incurred without prior Cabinet authority to use imprest supply (2021–22: An in-principle expense transfer of COVID-19 Resurgence Support Payment appropriation funds ($4,768,000) from 2020–21 to 2021–22 was not covered by the parliamentary authorisation provided by the Appropriation (2021/22 Supplementary Estimates) Act 2022. This was not remedied until 16 July 2021.)

Expenses incurred in excess of appropriation and without prior Cabinet authority to use imprest supply

Expenses type and appropriation name	**Amount without or exceeding appropriation 2022–23**
	$000
Non-departmental other expenses:	
Impairment of Debt and Debt Write-Offs	282,609

We have identified a breach for the Impairment of Debt and Debt Write-Offs appropriation. Actual expenditure has exceeded appropriation by $282.6 million. In the last 4 months of the financial year, overdue debt levels across all tax types, KiwiSaver and Working for Families Tax Credits increased above the levels forecast for the Supplementary Estimates 2022–23. This was as a result of the global economic environment and the adverse weather events of 2023. Combined with a small increase in the impairment rate, this increased expenditure above the appropriation.

Financial statements Departmental
Pūrongo pūtea Ā-Tari

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Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Revenue				
716,574	Revenue from the Crown	2	726,530	729,156	729,717
18,079	Other revenue	2	6,912	18,225	7,925
734,653	**Total revenue**		**733,442**	**747,381**	**737,642**
	Expenses				
372,956	Personnel	3	395,036	415,218	412,661
235,538	Operating	4	237,716	222,769	247,823
49,537	Amortisation, depreciation and impairment	9, 10	48,596	85,772	54,990
24,248	Capital charge	6	23,107	23,622	22,168
682,279	**Total expenses**		**704,455**	**747,381**	**737,642**
52,374	**Net surplus and total comprehensive revenue and expense**		**28,987**	**–**	**–**

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 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Current assets				
46,663	Cash and cash equivalents		53,265	45,065	45,065
243,020	Debtor Crown	11	243,070	224,797	190,647
18,311	Debtors and prepayments	11	12,649	13,442	13,810
21	Derivative financial instruments	17	–	–	–
308,015	**Total current assets**		**308,984**	**283,304**	**249,522**
	Non-current assets				
48	Prepayments	11	338	550	50
22,827	Property, plant and equipment	9	40,794	46,035	58,630
303,361	Intangible assets	10	276,252	254,590	250,033
326,236	**Total non-current assets**		**317,384**	**301,175**	**308,713**
634,251	**Total assets**		**626,368**	**584,479**	**558,235**
	Current liabilities				
33,771	Creditors and other payables	12	39,961	27,808	28,156
52,266	Surplus payable to the Crown	8	41,219	–	–
55,597	Employee entitlements	13	60,330	57,570	50,070
–	Provision for other liabilities	14	68	–	–
–	Derivative financial instruments	17	2,158	–	–
141,634	**Total current liabilities**		**143,736**	**85,378**	**78,226**
	Non-current liabilities				
158	Creditors and other payables	12	117	–	–
21,655	Employee entitlements	13	22,477	25,680	23,880
75	Provision for other liabilities	14	688	100	100
–	Derivative financial instruments	17	10,053	–	–
21,888	**Total non-current liabilities**		**33,335**	**25,780**	**23,980**
163,522	**Total liabilities**		**177,071**	**111,158**	**102,206**
470,729	**Net assets**		**449,297**	**473,321**	**456,029**
470,729	Taxpayers' funds	7	449,297	473,321	456,029
470,729	**Total taxpayers' funds**		**449,297**	**473,321**	**456,029**

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 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
484,721	Opening balance at 1 July		470,729	470,621	461,529
52,374	Total comprehensive revenue and expense		28,987	–	–
(52,266)	Repayment of surplus to the Crown	8	(41,219)	–	–
122,560	Capital injections		2,700	2,700	–
(119,200)	Capital withdrawals		(11,900)	–	(5,500)
(17,460)	Taxpayers' funds—prior year adjustments		–	–	–
470,729	**Closing balance at 30 June**		**449,297**	**473,321**	**456,029**

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

Statement of Cash Flows

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Cash flows from operating activities			
654,762	Receipts from the Crown	726,480	712,459	718,441
20,461	Receipts from other revenue	7,986	18,354	7,862
(404,536)	Payments to employees	(389,256)	(369,625)	(449,120)
(232,516)	Payments to suppliers	(219,088)	(264,445)	(206,664)
(24,248)	Payments for capital charge	(23,107)	(23,622)	(22,168)
1,577	Goods and services tax (net)	1,738	1	1
15,500	**Net cash flow from operating activities**	**104,753**	**73,122**	**48,352**
	Cash flows from investing activities			
–	Receipts from sale of property, plant and equipment	612	–	–
(4,505)	Purchases of property, plant and equipment	(23,035)	(21,900)	(24,800)
(33,000)	Purchases of intangible assets	(14,262)	(30,725)	(18,102)
(37,505)	**Net cash flow from investing activities**	**(36,685)**	**(52,625)**	**(42,902)**
	Cash flows from financing activities			
122,560	Capital injections	2,700	2,700	–
(5,583)	Repayment of surplus to the Crown	(52,266)	(23,200)	–
(119,200)	Capital withdrawals	(11,900)	–	(5,500)
(2,223)	**Net cash flow from financing activities**	**(61,466)**	**(20,500)**	**(5,500)**
(24,228)	Net increase/(decrease) in cash and cash equivalents	6,602	(3)	(50)
70,891	Cash and cash equivalents at the beginning of the year	46,663	45,068	45,115
46,663	**Cash and cash equivalents at the end of the year**	**53,265**	**45,065**	**45,065**

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

Statement of Cash Flows (continued)

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
52,374	Net surplus	28,987	–	–
	Add/(less) non-cash items			
49,537	Amortisation, depreciation and impairment	48,596	85,772	54,990
(108)	Movement in fair value of derivative financial instruments	12,232	–	–
49,429	**Total non-cash items**	**60,828**	**85,772**	**54,990**
	Add items classified as investing or financing activities			
213	Net loss/(gain) on disposal of property, plant and equipment and intangible assets	139	–	–
213	**Total items classified as investing or financing activities**	**139**	**–**	**–**
	Add/(less) working capital movements			
(61,813)	(Increase)/decrease in debtor Crown	(50)	(16,697)	(11,276)
(1,375)	(Increase)/decrease in debtors and prepayments	5,372	820	4,031
8,476	Increase/(decrease) in creditors and other payables	3,241	412	4,117
(31,580)	Increase/(decrease) in employee entitlements	5,555	2,786	4,699
(224)	Increase/(decrease) in provision for other liabilities	681	29	25
(86,516)	**Net movements in working capital items**	**14,799**	**(12,650)**	**(6,638)**
15,500	**Net cash flow from operating activities**	**104,752**	**73,122**	**48,352**

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

Statement of Cash Flows (continued)

For the year ended 30 June 2023

Actual 2022 $000		Actual 2023 $000
	Movement in liability arising from financing activities:	
46,683	Increase/(decrease) in surplus payable to the Crown liability	(11,047)
46,683	**Total movement in liability arising from financing activities**	**(11,047)**
	Non-cash item	
(52,266)	Surplus payable to the Crown	(41,219)
(52,266)	**Total non-cash item**	**(41,219)**
	Add/(less) owner's injections and withdrawals	
122,560	Capital contributions	2,700
(119,200)	Capital withdrawals	(11,900)
3,360	**Net owner's injections and withdrawals**	**(9,200)**
(2,223)	**Net cash flows from financing activities**	**(61,466)**

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

Statement of Commitments

As at 30 June 2023

Actual 2022 $000		Actual 2023 $000
	Capital commitments	
1,156	Intangible assets	2,485
–	Leasehold improvements	528
–	Information technology equipment	140
1,156	**Total capital commitments**	**3,153**
	Operating lease commitments as lessee	
	The future aggregate minimum lease payments to be paid under non-cancellable operating leases:	
24,355	Not later than 1 year	24,341
68,805	Later than 1 year and not later than 5 years	59,137
14,702	Later than 5 years	4,972
107,862	**Total non-cancellable operating commitments**	**88,450**
109,018	**Total commitments**	**91,603**

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

Capital commitments

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

Cancellable capital commitments that have early exit or penalty costs explicit in the agreement are reported at the lower of the remaining contractual commitment or the value of those penalty or exit costs (i.e. the minimum future payments).

Non-cancellable operating lease commitments

Te Tari Taake, 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 $4.037 million (2022: $3.021 million).

Inland Revenue's non-cancellable operating leases have varying terms 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 2023

Actual 2022 $000		Actual 2023 $000
	Contingent liabilities	
30	Employee grievances	75
312	Legal proceedings and disputes—taxpayer	383
–	Other	20
342	**Total contingent liabilities**	**478**
	Contingent assets	
1,404	Legal proceedings and disputes—taxpayer	1,629
1,404	**Total contingent assets**	**1,629**

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

Contingent liabilities

Employee grievances

These contingent liabilities represent amounts that may be claimed by employees as a result of alleged grievances against Inland Revenue.

Legal proceedings and disputes—taxpayer

These contingent liabilities relate to potential claims against Inland Revenue for court costs only, associated with tax disputes and other tax-related legal proceedings being taken through the courts. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the Schedule of Non-Departmental Contingent Assets and Contingent Liabilities on page 162). 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

A new claim in 2023 represents an alleged breach of contract being heard by the Employment Relations Authority. The associated costs were estimated on the basis that Inland Revenue was unsuccessful.

Contingent assets

Legal proceedings and disputes—taxpayer

These contingent assets relate to potential amounts recoverable by Inland Revenue for court costs only, associated with tax disputes and other tax-related legal proceedings being taken through the courts. The actual revenue (tax) under dispute is recognised as a non-departmental contingency (refer to the Schedule of Non-Departmental Contingent Assets and Contingent Liabilities on page 162). 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 2023

These financial statements are for the year ended 30 June 2023 and include unaudited forecast financial statements for the year ending 30 June 2024.

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Who we are

Note 1. Basis of preparation

Reporting entity

Te Tari Taake, 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 includes the Public Finance Act 1989 and the Public Service Act 2020.

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 2023. The unaudited forecast financial statements are for the year ending 30 June 2024.

The Commissioner of Inland Revenue, as Chief Executive, authorised these financial statements on 28 September 2023.

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's generally accepted accounting practice (NZ GAAP) and Te Tai Ōhanga, 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 2023 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.

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 estimates 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).

Accounting policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note, and that materially affect the measurement of financial results, the financial position and/or output statements within the section on Our Performance, are outlined below.

New standards adopted

PBE FRS 48 Service Performance Reporting replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements. Inland Revenue has now applied PBE FRS 48 with effect on its statement of performance information.

We have adopted PBE IPSAS 41 Financial Instruments this year. This standard supersedes the interim Standard PBE IFRS 9 Financial Instruments with similar requirements. As a consequence, there is no significant change in accounting policy.

Goods and services tax

All amounts in the financial statements, appropriation statements 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 service agencies. 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 amount, scope and period of its Vote Revenue 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.

Comparatives

When the presentation or classification of items in the financial statements change, comparative figures for prior periods are re-stated 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.

Cost allocations

Inland Revenue allocates costs directly to an appropriation where a line of sight exists between an appropriation and a cost centre or a project. Inland Revenue uses indirect allocation where a cost centre or a project cannot be attributed directly to an appropriation. Indirect allocation rates are derived from the weighting of apportioned direct costs from relevant cost drivers to appropriations.

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 2022–23 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.

The revised budget figures for 2022–23 (refer to the Statement of Departmental Budgeted and Actual Expenses and Capital Expenditure Incurred Against Appropriations on page 117) are those included in The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.

The forecast figures for 2023–24 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024. Any significant changes to the forecast included in the Pre-election Economic and Fiscal Update 2023 are provided in the footnotes to the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations.

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. The Commissioner, in his role as Chief Executive of Inland Revenue, is responsible for the forecast financial statements including the appropriateness of the assumptions underlying them and all other required disclosures. The Commissioner approved the forecast financial statements for issue on 18 April 2023. Although Inland Revenue regularly updates its forecasts, it will not publish updated forecast financial statements for the year ending 30 June 2024.

The main assumptions are as follows:

- Inland Revenue's main activities will remain substantially the same as for the previous year.
- Inland Revenue's transformation programme ceased in 2021–22, with some residual transformation activities post the closure of the programme to occur up to 2023–24.
- Operating costs are based on historical information and Inland Revenue's best estimates of future costs to be incurred for the delivery of its services.
- Estimated year-end information for 2022–23 was used as the opening position for the 2023–24 forecasts.

Any changes to budgets during 2023–24 will be incorporated into The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024.

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
- macroeconomic impacts on estimations, judgements and assumptions
- 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 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, period and value limits of its Vote Revenue appropriations. The fair value of revenue from the Crown is considered equivalent to the funding entitlement.

Revenue from the Crown was lower than budget by $2.626 million. The variance is due to net baseline movements during the financial year as set out in the 2022–23 Supplementary Estimates.

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 accommodation sub-leases

Rental revenue from sub-leased accommodation is recognised as revenue on a straight-line basis over the term of the lease.

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
14,000	Accident Compensation Corporation earner levy collection fee	3,460	14,000
1,137	Rental revenue from accommodation sub-leases	1,136	932
209	Court costs recovered	993	1,520
982	Revenue from rulings	813	1,168
933	Foreign trust administration fees	153	–
184	Services and information provided to other agencies	113	173
175	Unrealised foreign exchange gain	3	–
459	Other	241	432
18,079	**Total other revenue**	**6,912**	**18,225**

Costs incurred in achieving our outcomes

Note 3. Personnel

Salaries and wages

Salaries and wages expenditure is recognised as an expense in the period to which they relate.

Superannuation schemes

Employer 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 in the period they are paid.

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
352,095	Salaries and wages	363,969	373,264
11,215	Employer contributions to defined contribution scheme	11,376	11,557
(770)	Retiring, long-service, annual and sick leave	6,247	2,919
2,062	Training and development	2,364	3,621
545	ACC levies	712	585
3,545	Termination benefits	(601)	–
4,264	Other personnel expenses	10,969	23,272
372,956	**Total personnel**	**395,036**	**415,218**

Explanation of major variances against budget

Personnel costs were $20.182 million lower than budget. The variance is primarily due to delays in recruiting in the tight labour market and more cost-effective training and development activities delivered in-house and online, offset by increases in leave provisions due to increases in Public Sector Pay Agreement remuneration.

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 on a straight-line basis over the term of the lease as a reduction in the rental expense.

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
88,169	Information technology and telecommunications	115,078	105,081
83,192	Contractors and consultants	45,217	56,486
36,888	Accommodation leases	28,612	27,824
388	Net realised and unrealised foreign exchange losses	14,394	–
12,078	Office expenses	10,047	12,193
4,102	Outsourced contracts	7,211	5,988
2,165	Communications and publicity	4,178	5,597
1,090	Travel and transport	4,400	3,743
2,318	Legal expenses	3,671	2,745
1,226	Audit fees for the audit of the financial statements	1,384	1,376
1,320	Bank fees	996	1,124
155	Disbursements for the audit of the financial statements	153	100
825	Debt expected credit losses and write-offs	260	–
218	Net loss on disposal of assets	147	–
1,404	Other operating expenses	1,968	512
235,538	**Total operating**	**237,716**	**222,769**

Explanation of major variances against budget

Operating expenses were $14.947 million higher than budget. This is mainly due to realised and unrealised foreign exchange losses for forward cover foreign currency contracts, and increased information technology and telecommunication costs following transformation, offset by a reduction in contractor and consultant expenditure.

Note 5. Contractors and consultants

Inland Revenue uses contractors and consultants to provide additional capacity to cover short-term demand, or where specialist skills or independent external advice are needed.

A contractor is a person who is not considered an employee, providing extra capacity in a role that exists within Inland Revenue, or acting as an additional resource for a time-limited piece of work.

A consultant is a person or supplier who is not considered a contractor or employee, engaged to perform a piece of work with a clearly defined scope and to provide expertise, in a particular field, not readily available within Inland Revenue.

Inland Revenue has elected to disclose contractors and consultants information separately in accordance with Te Kawa Mataaho, Public Service Commission guidance:

Actual 2022 $000		**Actual 2023 $000**
66,266	Contractors	36,743
9,030	Consultants	5,000
75,296	**Total contractors and consultants—operating**	**41,743**
21,274	Contractors and consultants—capital	6,953
96,570	**Total contractors and consultants**	**48,696**

The difference between the amounts in the table above and the contractors and consultants expense in note 4 is because the financial statement definitions vary slightly to Te Kawa Mataaho, Public Service Commission definitions. For example, fees paid to other government agencies are excluded for Te Kawa Mataaho purposes.

With the closure of the transformation programme, Inland Revenue has reviewed its classification of contractors and consultants expenditure to ensure alignment with Te Kawa Mataaho, Public Service Commission definitions in a post-transformation environment. Updated classifications were effective from 1 July 2022.

The ratio of contractors and consultants operating expenditure to workforce operating spend was 10.3% in 2022–23 (17.6% in 2021–22).

Capital expenditure on contractors and consultants has reduced significantly since the closure of the transformation programme in 2021–22.

Note 6. Capital charge

Inland Revenue pays a capital charge to the Crown on taxpayers' funds as at 31 December and 30 June 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 2023 was 5.0% (2022: 5.0%).

Actual 2022 $000		**Actual 2023 $000**
24,248	Capital charge	23,107

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 reflected in 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, Te Tai Ōhanga, the Treasury Instructions and the Public Finance Act 1989.

The objective of managing Inland Revenue's taxpayers' funds is to ensure that Inland Revenue effectively achieves its agreed outcomes and remains a going concern.

Note 8. Surplus payable to the Crown

The surplus is required to be paid to the Crown by 31 October each year.

Actual 2022 $000		Actual 2023 $000
52,374	Net surplus/(deficit)	28,987
(108)	Plus unrealised (gain)/loss in forward foreign exchange contracts	12,232
52,266	**Total surplus payable to the Crown**	**41,219**

Assets used to deliver our services

Note 9. Property, plant and equipment

Inland Revenue has operational assets that include information technology (IT) equipment, furniture, office equipment, motor vehicles and leasehold improvements. The capitalisation thresholds are:

• IT equipment	Over $2,000
• Furniture	Over $2,000
• Office equipment	Over $2,000
• Motor vehicles	No threshold
• Leasehold improvements	No threshold

Certain items of IT equipment, furniture and office equipment, which are low value and high quantity such as chairs and IT monitors, are pooled together. All pooled assets are capitalised.

Property, plant and equipment are stated at historical cost, less accumulated depreciation and impairment losses. Historical cost is the value of consideration given to acquire or create the asset, and includes any directly attributable costs of bringing the asset to working condition for its intended use.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue beyond 1 year, and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at fair value as at the date of acquisition.

Subsequent costs

Subsequent costs are capitalised when it is probable that the future economic benefits or service potential associated with the item will flow to Inland Revenue beyond 1 year and the cost of the item can be measured reliably. All repairs and maintenance are expensed.

Depreciation

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

• IT equipment	3 to 5 years
• Furniture	3 to 10 years
• Office equipment	5 to 10 years
• Motor vehicles	3 to 5 years
• Leasehold improvements	3 to 10 years

All property, plant and equipment other than motor vehicles are assumed to have no residual value. Motor vehicles are assumed to have a 20% to 40% residual value.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Disposals

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are recognised on a net basis in the net surplus or deficit.

2023	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 2022	26,906	22,021	2,813	64,193	2,503	118,436
Additions/capitalisation	5,147	1,534	692	6,847	11,640	25,860
Transfers between categories	–	–	–	277	(277)	–
Disposals	(15,544)	(10,690)	(65)	(11,491)	–	(37,790)
Closing balance as at 30 June 2023	**16,509**	**12,865**	**3,440**	**59,826**	**13,866**	**106,506**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2022	21,139	19,211	1,440	53,819	–	95,609
Depreciation and impairment	2,722	717	432	3,325	–	7,196
Disposals	(14,950)	(10,632)	(52)	(11,459)	–	(37,093)
Closing balance as at 30 June 2023	**8,911**	**9,296**	**1,820**	**45,685**	**–**	**65,712**
Carrying amount as at 30 June 2023	**7,598**	**3,569**	**1,620**	**14,141**	**13,866**	**40,794**

2022	IT equipment $000	Furniture and office equipment $000	Motor vehicles $000	Leasehold improvements $000	Assets under construction $000	Total tangible assets $000
Cost						
Opening balance as at 1 July 2021	29,135	23,336	2,813	63,835	324	119,443
Additions/capitalisation	4,655	20	–	23	2,798	7,496
Transfers between categories	–	(153)	–	772	(619)	–
Disposals	(6,884)	(1,182)	–	(437)	–	(8,503)
Closing balance as at 30 June 2022	**26,906**	**22,021**	**2,813**	**64,193**	**2,503**	**118,436**
Accumulated depreciation and impairment losses						
Opening balance as at 1 July 2021	25,374	19,571	1,139	50,255	–	96,339
Depreciation and impairment	2,601	733	301	3,918	–	7,553
Disposals	(6,836)	(1,093)	–	(354)	–	(8,283)
Closing balance as at 30 June 2022	**21,139**	**19,211**	**1,440**	**53,819**	**–**	**95,609**
Carrying amount as at 30 June 2022	**5,767**	**2,810**	**1,373**	**10,374**	**2,503**	**22,827**

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 net surplus or deficit.

Note 10. Intangible assets

Inland Revenue has intangible assets in the form of internally generated software and software licences. All of Inland Revenue's intangible assets have finite useful lives.

Internally generated intangible assets

There are 2 types of internally generated intangible assets: computer software configuration and business processes design.

The cost of internally generated intangible assets comprises direct labour, materials purchased and an appropriate portion of relevant overheads. These costs are associated with the development of identifiable and unique software controlled by Inland Revenue, which will generate future economic benefits beyond 1 year.

Expenditure on development activities, where research findings are applied to a plan or design for new or substantially improved processes, is capitalised if the processes are technically and commercially feasible. Any other development costs are expensed.

Costs incurred on research of an internally generated intangible asset are expensed. Where the research phase cannot be distinguished from the development phase, the total cost is expensed.

Costs associated with maintaining internally generated computer software are expensed. Costs of configuring and customising commercial off-the-shelf software are capitalised. Costs of configuring and customising software as a service arrangements are expensed.

Website development costs are recognised as an intangible asset if it can be demonstrated that the website will generate probable future economic benefits. Subsequent costs associated with the development and maintenance of Inland Revenue's existing websites are expensed unless they meet the capitalisation requirement of PBE IPSAS 31 Intangible Assets. Staff training costs and change management costs are expensed.

Software licences

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and be able to use the specific software. Costs associated with supporting and maintaining computer software licences are expensed. The capitalisation thresholds for intangible assets are:

- Internally generated intangible assets Over $20,000
- Software licences Over $20,000

Additions

Intangible assets are initially recorded at cost and subsequently recorded at historical cost less amortisation and impairment losses.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its estimated useful life. Amortisation begins when the asset is available for use and ceases when the asset no longer has a recognisable value. The amortisation charge is expensed. The useful lives of major classes of intangible assets have been estimated as:

- Internally generated intangible assets 3 to 15 years
- Software licences 3 to 15 years

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

The assets' useful lives are reviewed and adjusted if appropriate at each balance date.

The gain or loss arising from the disposal of an intangible asset forms part of the net surplus or deficit.

Impairment

Intangible assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are also reviewed annually for indicators of impairment at each balance date. Assets under construction are tested for impairment at each balance date.

For further details, refer to the policy for impairment of property, plant and equipment in note 9. The same approach applies to the impairment of intangible assets.

Estimating the useful lives of intangible assets

The useful lives of intangible assets are based on:

- management's view of the expected period over which Inland Revenue will receive benefits
- historical experience with similar assets
- anticipation of future events which may impact their useful lives such as changes in technology or legislation.

2023	Internally generated intangible assets $000	Software licences $000	Assets under construction $000	Total tangible assets $000
Cost				
Opening balance as at 1 July 2022	408,420	151,887	6,901	567,208
Additions by purchase, software customisation and other development	7,247	–	7,099	14,346
Transfers between categories	1,203	–	(1,203)	–
Disposals	(31,460)	(91,398)	–	(122,858)
Closing balance as at 30 June 2023	**385,410**	**60,489**	**12,797**	**458,696**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2022	132,210	131,637	–	263,847
Amortisation and impairment	35,882	5,518	–	41,400
Disposals	(31,460)	(91,343)	–	(122,803)
Closing balance as at 30 June 2023	**136,632**	**45,812**	**–**	**182,444**
Carrying amount as at 30 June 2023	**248,778**	**14,677**	**12,797**	**276,252**

2022				
Cost				
Opening balance as at 1 July 2021	385,488	260,837	37,601	683,926
Additions by purchase, software customisation and other development	803	–	27,280	28,083
Transfers between categories	57,980	–	(57,980)	–
Disposals	(35,851)	(108,950)	–	(144,801)
Closing balance as at 30 June 2022	**408,420**	**151,887**	**6,901**	**567,208**
Accumulated amortisation and impairment losses				
Opening balance as at 1 July 2021	131,723	232,289	–	364,012
Amortisation and impairment	33,687	8,297	–	41,984
Disposals	(33,200)	(108,949)	–	(142,149)
Closing balance as at 30 June 2022	**132,210**	**131,637**	**–**	**263,847**
Carrying amount as at 30 June 2022	**276,210**	**20,250**	**6,901**	**303,361**

There is no restriction over the title of Inland Revenue's intangible assets, nor are any intangible assets pledged as security for liabilities. Inland Revenue's intangible assets are mainly related to the core revenue system and supporting infrastructure (START).

Of the $276.252 million carrying value for intangibles, $241.385 million relates to the development of the tax and social policy management system (START) and supporting infrastructure assets. The estimated remaining life of the START assets is 8 years.

Explanation of major variances against budget

Intangible assets were $21.662 million higher than budget. This is mainly due to a lower than budgeted amortisation, resulting from the reduction of software as a service related intangibles amortisation.

Note 11. Debtors and prepayments

Accounts receivable and other debtors transactions are considered to be exchange transactions. Debtor Crown transactions are considered to be non-exchange transactions.

Allowance for credit losses

Debtors and receivables are recorded at their face value, less an allowance for credit losses. Inland Revenue applies the simplified expected credit loss model of recognising lifetime expected credit losses for receivables.

In measuring credit losses, receivables have been assessed both on a collective basis where they possess shared credit risk characteristics, and on an individual basis where we had specific information about cost recoveries. They have been grouped based on the days past due.

Short-term receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include the debtor being in liquidation.

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
	Current assets—exchange transactions		
	Debtors		
3,742	Accounts receivable	2,366	4,642
(1,234)	Less allowance for credit losses	(1,426)	(1,200)
493	Other debtors	494	–
3,001	Net debtors	1,434	3,442
15,310	Prepayments	11,215	10,000
18,311	**Total current assets—exchange transactions**	**12,649**	**13,442**
	Non-current assets—exchange transactions		
48	Prepayments	338	550
48	**Total non-current assets—exchange transactions**	**338**	**550**
18,359	**Total debtors and prepayments—exchange transactions**	**12,987**	**13,992**

Explanation of major variances against budget

The total of debtors and prepayments were $1.005 million lower than budget. This is mainly due to the improved timeliness of payments from our key debtors.

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 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 2023 and 30 June 2022 was determined as follows:

2023	Expected credit loss rate	Gross carrying amount $000	Lifetime expected credit loss $000
Not past due	0.49%	616	3
Past due 1 to 30 days	24.00%	50	12
Past due 31 to 60 days	13.73%	51	7
Past due 61 to 90 days	32.61%	46	15
Past due > 90 days	86.60%	1,604	1,389
Total	**60.25%**	**2,367**	**1,426**
2022			
Not past due	0.10%	1,961	2
Past due 1 to 30 days	2.72%	147	4
Past due 31 to 60 days	2.94%	68	2
Past due 61 to 90 days	23.44%	64	15
Past due > 90 days	80.63%	1,502	1,211
Total	**32.98%**	**3,742**	**1,234**

Movements in the allowance for credit losses are as follows:

Actual 2022 $000		Actual 2023 $000
488	Opening balance as at 1 July	1,234
820	Additional provisions made during the year	256
(74)	Receivables written off during the year	(64)
1,234	**Closing balance as at 30 June**	**1,426**

Sensitivity analysis

The following table shows the effect of changes in the lifetime expected credit loss assumption.

2022 $000		2023 $000
(75)	Impact of a 2% increase on the lifetime expected credit loss assumption	(47)
75	Impact of a 2% decrease on the lifetime expected credit loss assumption	47

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 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
	Creditors and other payables—exchange transactions		
6,951	Accounts payable	8,989	2,000
17,405	Accrued expenses—other	19,853	17,808
233	Lease incentive	158	–
24,589	**Total creditors and other payables—exchange transactions**	**29,000**	**19,808**
	Creditors and other payables—non-exchange transactions		
9,340	GST payable	11,078	8,000
9,340	**Total creditors and other payables—non-exchange transactions**	**11,078**	**8,000**
33,929	**Total creditors and other payables**	**40,078**	**27,808**

Creditors and other payables are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates to their fair value. The Government's objective is to pay 95% of invoices to domestic suppliers within 10 business days. Inland Revenue achieved 96.6% of domestic suppliers paid within 10 business days in 2022–23.

Explanation of major variances against budget

Creditors and other payables were $12.271 million above budget due to the timing of some large suppliers' invoices being recognised in June 2023 and paid in July 2023.

Note 13. Employee entitlements

Current entitlements

Employee entitlements, which Inland Revenue expects to be settled within 12 months of balance date, are measured at nominal value based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and time off in lieu earned up to but not yet taken at balance date, and retiring and long-service leave entitlements expected to be settled within 12 months.

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

Inland Revenue recognises a liability and an expense for bonuses where it is contractually obliged to pay them, or where a past practice has created a constructive obligation and a reliable estimate of the obligation can be made.

Other provisions include the collective bargaining settlement payment for staff who remain employed by Inland Revenue on 1 December 2023.

Non-current entitlements

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

Actual 2022 $000		Actual 2023 $000	Unaudited budget 2023 $000
	Current liabilities—exchange transactions		
29,963	Annual leave	30,962	28,368
13,172	Accrued salaries and wages	18,908	22,073
4,280	Retiring leave	4,930	4,280
1,439	Other provisions	2,114	–
1,190	Sick leave	1,620	1,190
1,410	Long-service leave	1,490	1,410
4,137	Termination benefits	300	243
6	Time off in lieu	6	6
55,597	**Total current liabilities—exchange transactions**	**60,330**	**57,570**
	Non-current liabilities—exchange transactions		
16,331	Retiring leave	17,000	21,904
5,200	Long-service leave	5,410	3,776
124	Termination benefits	67	–
21,655	**Total non-current liabilities—exchange transactions**	**22,477**	**25,680**
77,252	**Total employee entitlements**	**82,807**	**83,250**

Explanation of major variances against budget

Provisions for total employee entitlements were $443,000 lower than budget. Current liabilities were $2.760 million higher than budget. This is mainly due to a higher annual leave balance as an outcome of the Public Sector Pay Adjustment base salary increase and a one-off other provision for the second collective bargaining settlement payment. Non-current liabilities were $3.203 million lower than budget due to a lower than forecast increase in the retiring leave provision.

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 accepted offer for voluntary redundancy.

Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Otherwise, they are reported as the present value of the estimated future cash outflows, where applicable.

Movements in the provisions for termination benefits and other provisions are as follows:

	Termination benefits	Other provisions	Total
	$000	$000	$000
Opening balance as at 1 July 2022	4,261	1,439	5,700
Additional provisions made	2	2,133	2,133
Amounts used	(2,958)	(1,458)	(4,226)
Unused amounts reversed	(938)	–	(1,126)
Closing balance as at 30 June 2023	**367**	**2,114**	**2,481**
Opening balance as at 1 July 2021	27,163	5,378	32,541
Additional provisions made	1,039	(1,492)	(453)
Amounts used	(23,941)	(2,447)	(26,388)
Closing balance as at 30 June 2022	**4,261**	**1,439**	**5,700**

Measuring retiring and long-service leave liabilities

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

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

Sick leave, annual leave and vested long-service leave are classified as a current liability. Non-vested long-service leave and retiring leave liabilities expected to be settled within 12 months of balance date are also classified as a current liability. All other long-service leave and retiring leave is classified as a non-current liability.

The present value of retiring and long-service leave obligations depends on a number of factors that are determined on an actuarial basis by an independent actuary. Key assumptions used in calculating liabilities are the discount rate and salary inflation. Any changes in these assumptions will impact the carrying amount of the liabilities.

The discount rates used by the independent actuary for the retiring and long-service leave valuations are based on Te Tai Ōhanga, the Treasury's published forward rates at 30 June 2023. The forward rates are derived from New Zealand government bonds. The long-term salary inflation assumption is based on the Treasury's published rates at 30 June 2023 and agreed employee collective agreements outcomes. The long-term salary inflation assumption used was 7.24% (2022: 4.52%).

The net effect of assumptions for discount rates and salary inflation 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%
2023							
Long-service leave	5,410	303	(274)	(120)	313	342	(312)
Retiring leave	17,000	1,010	(920)	(10)	1,050	495	(467)

	Actual	Discount rate change		Salary inflation change		Withdrawal rate change	
	$000	$000	$000	$000	$000	$000	$000
		-1.0%	+1.0%	-1.0%	+1.0%	-1.0%	+1.0%
2022							
Long-service leave	5,200	294	(265)	(115)	301	1,300	(1,000)
Retiring leave	16,330	1,050	(957)	(13)	1,080	4,920	(3,360)

Note 14. Other liabilities

Provision for other liabilities

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

Provisions are recorded at the best estimate of the expenditure required to settle the obligation. Provisions to be settled beyond 12 months are recorded at their present value and are discounted using market yields on government bonds at balance date with terms to maturity that match, as closely as possible, the estimated timing of the future cash flows, where applicable. The increase in the provision due to the passage of time is recognised as an interest expense and is included in finance expenses.

Actual 2022 $000		Actual 2023 $000
	Current liabilities	
–	Onerous contracts	68
–	**Total current liabilities**	**68**
	Non-current liabilities	
75	Lease make-good	688
75	**Total non-current liabilities**	**688**
75	**Total provision for other liabilities**	**756**

The increase in the provision for lease make-good in 2022–23 is for potential leasehold restoration costs if we vacate some leased buildings or floors in the future.

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 2023 (2022: nil).

Remuneration of key management personnel

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

2022		2023
	Leadership team, including the Commissioner (Chief Executive)	
3,865	Remuneration ($000)	3,547
8.98	Full-time equivalent staff	8.12

The key management personnel remuneration disclosure includes the Chief Executive (Commissioner), 7 Deputy Commissioners, the 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 and invoiced to Inland Revenue.

The remuneration disclosure excludes the Minister of Revenue. The Minister's remuneration and other benefits are set by the Remuneration Authority, are received for more than the 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 2022 $000		Actual 2023 $000
	Financial assets measured at amortised cost	
46,663	Cash and cash equivalents	53,265
243,020	Debtor Crown	243,070
3,001	Net debtors	1,434
292,684	**Total financial assets measured at amortised cost**	**297,769**
	Financial assets measured at fair value through surplus or deficit	
21	Derivative financial instrument assets	–
21	**Total financial assets measured at fair value through surplus or deficit**	**–**
	Financial liabilities measured at amortised cost	
24,356	Creditors and other payables	28,842
24,356	**Total financial liabilities measured at amortised cost**	**28,842**
	Financial liabilities measured at fair value through surplus or deficit	
–	Derivative financial instrument liabilities	12,211
–	**Total financial liabilities measured at fair value through surplus or deficit**	**12,211**

Note 17. Derivative financial instruments

For certain foreign currency transactions, Inland Revenue uses derivative financial instruments (foreign currency forward exchange contracts) to mitigate risks associated with foreign currency fluctuations. The foreign currency forward exchange contracts are entered into with the 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 and 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 $12.211 million as at 30 June 2023 (2022: an asset of $0.021 million).

The notional principal amount of outstanding forward exchange contract derivatives as at 30 June 2023 was NZ $190.205 million (2022: NZ $7.102 million). The contracts consisted of the purchase of US $105.129 million and AU $0.262 million (2022: US $4.158 million and AU $0.393 million). The unrealised loss on the forward exchange contract derivatives was NZ $12.232 million at 30 June 2023 (2022: unrealised gain of NZ $0.108 million). The majority of the forward exchange contracts relate to software maintenance and support.

Note 18. Financial instruments—fair value hierarchy disclosures

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

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

Inland Revenue's financial assets and liabilities at balance date are 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 2022 $000	Valuation technique Level 2—observable inputs	Actual 2023 $000
	Financial assets/(liabilities)	
21	Forward foreign exchange contracts (net)	(12,211)

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. Inland Revenue does not 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 goods 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 Te Tai Ōhanga, 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 2023 would be a $7.413 million decrease and a $8.198 million increase respectively.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate, or the cash flows from a financial instrument will fluctuate due to changes in market interest rates. Inland Revenue has no interest-bearing financial instruments so it has no exposure to interest rate risk.

Credit risk

The risk that a third party will default on its obligations to Inland Revenue, causing a loss to be incurred, is called credit risk. In the normal course of its business, credit risk from receivables is concentrated with the Crown and other government agencies but not with any individual agencies.

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

Inland Revenue does not require any collateral, security or other credit enhancements to support financial instruments with the financial institutions that it deals with because these entities have high credit ratings. Westpac is Inland Revenue's main bank for departmental transactions and has an S&P Global Ratings' credit rating of AA–. Inland Revenue enters into foreign currency transactions with the Treasury Capital Markets (S&P Global Ratings' credit rating of AA+). For its other financial instruments, Inland Revenue does not have significant concentrations of credit risk.

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

Liquidity risk

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

As all but an insignificant proportion of revenue and funds come from the New Zealand Government and cash is drawn down on a fortnightly basis, Inland Revenue does not have significant liquidity risk. In meeting its liquidity requirements, Inland Revenue closely monitors its forecast cash requirements with expected cash drawdowns from the Treasury Capital Markets. Inland Revenue maintains a target level of available cash to meet daily 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
2023					
Creditors and other payables	28,842	28,842	28,842	–	–
Total	**28,842**	**28,842**	**28,842**	**–**	**–**
2022					
Creditors and other payables	24,356	24,356	24,356	–	–
Total	**24,356**	**24,356**	**24,356**	**–**	**–**

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
2023					
Gross settled forward foreign exchange contracts (net liability)	(12,211)	–	–	–	–
Outflow	–	190,205	42,492	141,543	6,170
Total	**(12,211)**	**190,205**	**42,492**	**141,543**	**6,170**
2022					
Gross settled forward foreign contracts (net asset)	21	–	–	–	–
Outflow	–	7,102	7,102	–	–
Total	**21**	**7,102**	**7,102**	**–**	**–**

Note 20. Events after balance date

There have been no significant events after balance date.

Financial schedules Non-departmental
Hōtaka pūtea Wāhi kē

Why we include the non-departmental schedules

Te Tari Taake, 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.

2022–23 non-departmental tax revenue totalled $104 billion and comprises tax returns and accruals. The majority of this amount is expected to be collected and will be used to fund government programmes. 2022–23 non-departmental expenses totalled $7 billion, including Working for Families Tax Credits, KiwiSaver Tax Credits, interest and other expenses.

What non-departmental schedules are and are not

The non-departmental schedules are prepared in accordance with relevant accounting policies and Te Tai Ōhanga, the Treasury instructions to disclose non-departmental activities.

The non-departmental schedules do not, and are not intended to, constitute a set of financial statements and therefore do not include elements that would normally be expected to be found in financial statements such as details of a surplus or deficit or a 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 2023.

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Schedule of Non-Departmental Revenue

For the year ended 30 June 2023

Actual 2022 $000		Note 2	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Direct taxation				
	Income tax				
	Individuals				
41,345,926	Source deductions (PAYE)		46,097,993	43,871,000	48,981,000
11,119,903	Other persons		9,903,909	11,265,000	11,380,000
(1,739,457)	Refunds		(2,182,023)	(2,001,000)	(1,884,000)
684,424	Fringe benefit tax		768,768	657,000	739,000
51,410,796	**Total individuals**		**54,588,647**	**53,792,000**	**59,216,000**
	Corporate tax				
20,492,542	Gross companies tax		18,958,948	22,640,000	23,028,000
(630,245)	Refunds		(970,486)	(410,000)	(633,000)
515,557	Non-resident withholding tax		621,378	571,000	636,000
20,377,854	**Total corporate tax**		**18,609,840**	**22,801,000**	**23,031,000**
	Other direct income tax				
842,189	Resident withholding tax on interest income		2,092,066	1,354,000	1,839,000
1,107,888	Resident withholding tax on dividend income		1,127,363	980,000	1,180,000
1,799,830	Employer superannuation contribution tax		1,691,192	1,757,000	2,024,000
3,749,907	**Total other direct income tax**		**4,910,621**	**4,091,000**	**5,043,000**
75,538,557	**Total direct taxation**		**78,109,108**	**80,684,000**	**87,290,000**

Schedule of Non-Departmental Revenue (continued)

For the year ended 30 June 2023

Actual 2022 $000		Notes 2	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Indirect taxation				
	Goods and services tax				
41,610,926	Gross goods and services tax		44,934,862	46,208,000	47,363,000
(16,920,365)	Refunds		(19,054,797)	(17,904,000)	(19,181,000)
24,690,561	**Total goods and services tax**		**25,880,065**	**28,304,000**	**28,182,000**
	Other indirect taxation				
96,620	Approved issuer levy		153,256	93,000	125,000
272,545	Gaming duties		342,096	321,000	341,000
845	Other indirect taxation		(31)	2,000	1,000
370,010	**Total other indirect taxation**		**495,321**	**416,000**	**467,000**
25,060,571	**Total indirect taxation**		**26,375,386**	**28,720,000**	**28,649,000**
100,599,128	**Total taxation**		**104,484,494**	**109,404,000**	**115,939,000**
	Other revenue				
194,755	Child support		139,829	172,000	13,000
122,575	Interest unwind—Small Business Cashflow Scheme	5	110,192	137,000	115,000
279,550	Interest unwind—student loans	6	577,032	398,000	595,000
92,669	Other revenue		230,872	45,000	106,000
689,549	**Total other revenue**		**1,057,925**	**752,000**	**829,000**
101,288,677	**Total revenue excluding gains**		**105,542,419**	**110,156,000**	**116,768,000**

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 2023.

Schedule of Non-Departmental Expenditure

For the year ended 30 June 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Benefits and other unrequited expenses				
307,555	Best Start tax credit		321,341	375,000	339,000
2,016,589	Family tax credit		2,151,179	2,375,000	2,284,000
506,230	In-work tax credit		464,036	545,000	477,000
158	KiwiSaver: Interest		932	2,000	1,000
963,856	KiwiSaver: Tax credit		995,699	1,028,000	1,093,000
13,130	Minimum family tax credit		12,324	17,000	12,000
602,634	Paid parental leave payments		607,952	645,000	677,000
(2,000)	Payroll subsidy		–	–	–
4,408,152	**Total benefits and other unrequited expenses**		**4,553,463**	**4,987,000**	**4,883,000**
	Borrowing expenses				
1,510	Environmental restoration account interest		1,912	1,400	2,100
8,444	Income equalisation interest		8,403	7,000	9,000
9,954	**Total borrowing expenses**		**10,315**	**8,400**	**11,100**
	Other expenses				
–	Cost of Living Payment		599,986	800,000	–
2,712,507	COVID-19 Resurgence Support Payment		–	–	–
1,306,810	COVID-19 Support Payment		(23,349)	–	–
662,497	Impairment of debt and debt write-offs	3	1,467,609	841,000	931,000
230,069	Initial fair value write-down relating to the Small Business Cashflow Scheme	5	53,926	279,000	28,000
489,063	Initial fair value write-down relating to student loans	6	550,743	662,000	640,000
(41,920)	Impairment of debt relating to child support	4	6,476	–	–
(20)	KiwiSaver ex gratia payments		–	–	–
5,359,006	**Total other expenses**		**2,655,391**	**2,582,000**	**1,599,000**
9,777,112	**Total expenditure excluding losses**		**7,219,169**	**7,577,400**	**6,493,100**

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 2023.

Schedule of Non-Departmental Gains and Losses

For the year ended 30 June 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
(168,000)	Net gains/(losses) on Small Business Cashflow Scheme—fair value remeasurement	5	241,000	–	–
(1,113,000)	Net gains/(losses) on student loans—fair value remeasurement	6	500,000	37,000	26,000
(1,281,000)	**Total net gains/(losses)**		**741,000**	**37,000**	**26,000**

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 2023.

Schedule of Non-Departmental Assets

As at 30 June 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Current assets				
2,046,335	Cash and cash equivalents		1,569,006	1,300,000	1,700,000
18,465,691	Receivables	3	18,950,657	16,555,993	25,832,784
63,000	Receivables—child support	4	50,000	71,000	63,000
92	Receivables—other		42	–	–
183,000	Small Business Cashflow Scheme	5	352,000	604,000	318,000
1,506,000	Student loans	6	1,611,000	1,748,000	1,878,000
22,264,118	**Total current assets**		**22,532,705**	**20,278,993**	**29,791,784**
	Non-current assets				
492,000	Receivables	3	679,500	326,000	492,000
235,929	Receivables—child support	4	188,467	179,050	132,928
637,599	Small Business Cashflow Scheme	5	434,453	548,826	151,999
7,702,542	Student loans	6	7,761,547	7,931,485	7,069,542
9,068,070	**Total non-current assets**		**9,063,967**	**8,985,361**	**7,846,469**
31,332,188	**Total assets**		**31,596,672**	**29,264,354**	**37,638,253**

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 2023.

Schedule of Non-Departmental Liabilities

As at 30 June 2023

Actual 2022 $000		Notes	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
	Current liabilities				
20,128	Child support		19,625	13,763	250
5,466,633	Refundables and payables	7	6,186,785	5,394,129	6,007,511
28,271	Unclaimed monies	8	49,143	23,004	28,271
5,515,032	**Total current liabilities**		**6,255,553**	**5,430,896**	**6,036,032**
	Non-current liabilities				
371,457	Reserve schemes	9	475,822	334,305	393,757
371,457	**Total non-current liabilities**		**475,822**	**334,305**	**393,757**
5,886,489	**Total liabilities**		**6,731,375**	**5,765,201**	**6,429,789**

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 2023.

Schedule of Movements Between Other Government Departments

For the year ended 30 June 2023

Actual 2022 $000		Note	Actual 2023 $000	Unaudited budget 2023 $000	Unaudited forecast 2024 $000
24,277,099	Opening balance		25,445,699	22,531,553	25,318,164
90,230,565	Net result from operating activities		99,064,250	102,615,600	110,300,900
	Asset transfer between departments				
1,294,249	Ministry of Social Development—student loans	6	1,271,263	1,648,000	1,505,000
(90,356,214)	New Zealand Debt Management Office		(100,915,915)	(103,296,000)	(105,915,600)
25,445,699	**Closing balance**		**24,865,297**	**23,499,153**	**31,208,464**

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 2023.

Schedule of Non-Departmental Commitments

As at 30 June 2023

Inland Revenue, on behalf of the Crown, has no non-cancellable capital or lease commitments (2022: nil).

Schedule of Non-Departmental Contingent Assets and Contingent Liabilities

As at 30 June 2023

Actual 2022 $000		Note 10	Actual 2023 $000
	Quantifiable contingent assets		
23,381	Disputes—non-assessed		56,035
23,381	**Total quantifiable contingent assets**		**56,035**
	Quantifiable contingent liabilities		
118,408	Legal proceedings and disputes—assessed		38,958
228,740	Unclaimed monies		397,615
347,148	**Total quantifiable contingent liabilities**		**436,573**

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 2023.

Schedule of Non-Departmental Trust Money

For the year ended 30 June 2023

Actual 2022 $000		Contributions 2023 $000	Distributions 2023 $000	Total 2023 $000
	Child support			
35,311	Child support trust account	11,217	(6,041)	40,487
35,311	**Total child support**	**11,217**	**(6,041)**	**40,487**
	KiwiSaver			
296	KiwiSaver returned transactions trust account	88,113	(88,204)	205
285	KiwiSaver voluntary contribution trust account	149	(133)	301
581	**Total KiwiSaver**	**88,262**	**(88,337)**	**506**
35,892	**Total trust money**	**99,479**	**(94,378)**	**40,993**

The child support trust account was established in accordance with sections 139 and 140 of the Child Support Act 1991. The child support trust account holds all funds collected on behalf of receiving carers from liable parents who are either based in New Zealand or overseas.

The KiwiSaver trust accounts were established in accordance with section 74 of the KiwiSaver Act 2006. The KiwiSaver returned transactions trust account accepts returned payments from the scheme providers before they are passed on to scheme members or their employers. The KiwiSaver voluntary contribution trust account holds voluntary payments from members before funds are passed on to the scheme providers.

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

For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated Financial Statements of the Government of New Zealand for the Year Ended 30 June 2023.

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For the year ended 30 June 2023

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How we have prepared these schedules

Note 1. Basis of preparation

Reporting entity

Te Tari Taake, 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 includes the Public Finance Act 1989 and the Public Service Act 2020. 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 public funds managed by Inland Revenue on behalf of the Crown.

These non-departmental balances are consolidated into the Financial Statements of the Government of New Zealand for the Year Ended 30 June 2023. 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 2023.

Reporting period

The reporting period for these financial schedules is for the year ended 30 June 2023. The unaudited forecast financial schedules are for the year ending 30 June 2024.

The Commissioner of Inland Revenue, as Chief Executive, authorised these financial schedules on 28 September 2023.

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 Te Tai Ōhanga, 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 2023 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.

New standards adopted

We have adopted PBE IPSAS 41 Financial Instruments this year. This standard supersedes the interim Public Benefit Entity International Financial Reporting Standard 9 Financial Instruments (PBE IFRS 9) with similar requirements. As a consequence, there is no significant change in accounting policy.

Accounting standards issued and not yet effective

There are no relevant new standards that have been issued but are not yet effective.

Critical accounting estimations, judgements and assumptions

In preparing these financial schedules, critical estimates, judgements and assumptions have been made concerning the future.

These estimates, judgements 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. Note 2 outlines minor updates that were made to the estimations used in the measurement of income tax during the period.

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 most significant areas of uncertainties are:

- Estimation of income tax revenue for other persons and companies—Note 2 outlines the significant uncertainties, assumptions and sensitivities in estimating income tax revenue for companies and other persons for the year ended 30 June 2023. The methodology used to estimate income tax revenue for companies and other persons is based on macroeconomic forecasts. There is implicit uncertainty in the assumptions used in the macroeconomic forecasts.
- Impairment of tax receivables—Note 3 outlines the significant uncertainties, assumptions and sensitivities in estimating the value of tax receivables and the associated impairment as at 30 June 2023. The impairment of tax receivables is calculated based on expected future repayments. The future repayments are uncertain because of the uncertainty associated with the estimation of the repayment behaviour of debtors.
- Student loans—Note 6 outlines the significant uncertainties, assumptions and sensitivities in estimating the fair value of the student loan portfolio as at 30 June 2023. The fair value is based on expected future income levels and debt repayments. The expected future income levels and debt repayments are uncertain because they are dependent on macroeconomic factors and the behaviour of borrowers.

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 Schedule of Non-Departmental Assets, the Schedule of Non-Departmental Liabilities and/or the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations within the Our Performance section, are outlined below.

Expenses

Expenses are recognised in the period to which they relate.

Cash and cash equivalents

Cash and cash equivalents include cash in transit and funds held in bank accounts administered by Inland Revenue. All cash is on demand and no interest is payable to Inland Revenue.

Foreign currency transactions

Inland Revenue does not have any material non-departmental foreign currency exposure. The risk of any material foreign currency exposure is borne by the customer when they enter into the transaction.

Fair value remeasurement

Fair value remeasurement is the change in the value of a loan portfolio over the year. Loans are initially measured at fair value. The changes to fair value between periods are recognised as a gain or loss in the Schedule of Non-Departmental Gains and Losses. More information is provided in note 5 for the Small Business Cashflow Scheme and note 6 for student loans.

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.

Changes in accounting policies

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

All accounting policies have been applied consistently throughout the year.

Budget and forecast figures

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

The budget and forecast figures are not subject to audit.

The budget figures for 2022–23 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.

The revised budget figures for 2022–23 (refer to the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations on page 119) are those included in The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2023.

The forecast figures for 2023–24 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024. Any significant changes to the forecast included in the Pre-election Economic and Fiscal Update 2023 are noted in the footnotes to the Statement of Non-Departmental Budgeted and Actual Expenditure Incurred Against Appropriations.

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. The Commissioner, in his role as Chief Executive of Inland Revenue, is responsible for the forecast financial schedules including the appropriateness of the assumptions underlying them and all other required disclosures. The Commissioner approved the forecast financial schedules on 18 April 2023. Although Inland Revenue regularly updates forecasts, it will not publish updated forecast schedules for the year ending 30 June 2024.

The main assumptions are:

- 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 Te Tai Ōhanga, 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 wage inflation and discount rates. Any change in these assumptions would affect the fiscal forecast.
- Small Business Cashflow Scheme: the fair value of the scheme over the forecast period is sensitive to changes in borrower repayments and defaults, which are based on volatile factors that are subject to change.
- Estimated year-end information for 2022–23 is used as the opening position for the 2023–24 forecasts.

For other key fiscal forecast assumptions, refer to the Budget Economic and Fiscal Update 2023 (treasury.govt.nz/sites/default/files/2023-05/befu23.pdf).[1]

Any changes to budgets during 2023–24 will be incorporated into The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2024.

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 impacting revenue, expenditure and debt levels
- the timing and number of customers' filing of returns and related payments
- the timing and number of customer refunds, disbursements and credit claims
- the outcome of disputes, including litigations.

[1]This link leads to information not covered by the audit opinion on page 185.

How we have recognised revenue

Note 2. Revenue

Tax revenue

Tax revenue is a non-exchange transaction.

This means the payment of tax in itself does not entitle a customer to an equivalent value of services or benefits, because there is no direct relationship between paying tax and receiving Crown services and benefits.

Tax revenue is recognised when a taxable event has occurred, the tax revenue can be reliably measured and it is probable that economic benefits will flow to the Crown.

Tax is recognised at face value as the fair value is not materially different from the face value.

The New Zealand tax system is based on self-assessment where customers are expected to understand the tax laws and comply with them. Inland Revenue helps customers comply and addresses non-compliant activities. Most people pay their fair share of tax. For the minority who do not, Inland Revenue intervenes and encourages them to do the right thing. However, such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. Inland Revenue is unable to reliably estimate the amount of unreported tax.

Income tax

Income tax is recognised on an accrual basis in the period the taxable event occurs. It is deemed to accrue evenly over the period to which it relates.

Where income tax returns have not been filed for the relevant period, accrued income tax revenue receivable or payable has been estimated based on tax payments and/or provisional assessments for that period, or the prior year residual income tax or provisional assessments and payment information. Tax revenue is recognised proportionally based on the balance date of the customer. 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, 2023 income tax returns may not be filed until March 2024 (or after) and 2024 income tax returns may not be filed until March 2025 (or after).

While the majority of customers make provisional tax payments during a year using a 5% uplift under legislation, the income tax revenue estimation process is based on a rebuttable presumption that the forecast of firms' net operating surplus, from the most recent Treasury forecast, is used as the uplift assumption unless rebutted for material impacts. The firms' net operating surplus is a component of Income Gross Domestic Product (GDP) and is designed to measure net profits of businesses. This measure is approximately equal to accounting profit before taxes, dividends and interest, but after depreciation.

The following assumptions have been used in these financial schedules:

- An annual average growth in firms' net operating surplus for the tax year to 31 March 2023 of 2.41%.
- An annual average growth in firms' net operating surplus for the tax year to 31 March 2024 of 0.98%.

These assumptions are directly from the Treasury's most recent forecast of firms' net operating surplus growth in the Pre-election Economic and Fiscal Update 2023 which was finalised on 2 August 2023 and published on 12 September 2023.

The March 2023 tax year assumption in the forecast is materially consistent with the 2.35% annual growth rate implied by Tatauranga Aotearoa, Stats NZ quarterly national accounts data (income, saving, assets and liabilities) released in July 2023.

There is no more up-to-date publicly available information in respect of firms' net operating surplus for the 2023 and 2024 tax years and, therefore, we have not rebutted the presumption to use the Treasury's forecast of firms' net operating surplus growth.

For the 2024 income tax year, which ends on 31 March 2024, the period from 1 April 2023 to 30 June 2023 is included in these financial schedules. The non-March balance dates use a pro-rata calculation of these rates.

The measurement of income tax accruals requires significant estimates, judgements and assumptions and has a number of uncertainties. These include the following:

- Where customers have chosen to estimate their provisional tax, income tax revenue is recognised based on the most recent estimate provided to Inland Revenue.
- Where customers subject to the provisional tax regime have not yet filed a terminal tax assessment:
  - for customers with March balance dates for the 2023 income tax year, revenue is estimated as 102.41% of the prior year residual income tax
  - for customers with March balance dates for the 2024 income tax year, revenue is estimated as 100.98% of the prior year residual income tax
  - for all other income tax years, provisional tax assessments are recognised as revenue based on the provisional tax method adopted by the customer. Provisional assessments are based on 105% of the prior year residual income tax.

- Where customers have made payments for more than the provisional tax assessment submitted, their credit balance is also accrued as revenue.
- Where customers 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 customers who had a receivable or refundable terminal assessment in the prior year but are not subject to provisional tax, the estimation is based on the prior year terminal assessment.
- For customers who are subject to provisional tax and have not filed their tax return for the previous period, an estimate is made of the tax revenues receivable and refundable at year end based on prior year provisional tax assessments and any prior year payments which were in excess of their provisional assessment.

Changes in estimations

Updates were made to the estimation basis used in the measurement of income tax during the period. These include:

- Where customers 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. This estimation calculation has been updated to align with the provisional tax due dates rather than the number of payments expected for the year, and
- Where customers have made payments for more than the provisional tax assessment submitted for the prior year, the value of these payments is used as the estimation and an uplift assumption is no longer applied.

The net impact of these changes reduced tax revenue by $480 million, made up of $202 million for companies and $278 million for other persons.

Significant assumptions and sensitivities

The significant assumptions and sensitivities behind the estimation of income tax revenue for companies and other persons are:

Actual 2022		Actual 2023
13.37%	Tatauranga Aotearoa, Stats NZ average annual growth in net operating surplus—2022 income tax year	N/A
8.01%	Treasury's forecast firms' net operating surplus—2023 income tax year	2.41%
N/A	Treasury's forecast firms' net operating surplus—2024 income tax year	0.98%
	Sensitivities	
244,000	Impact on revenue of a 1% increase in firms' net operating surplus ($000)	245,000
1,218,000	Impact on revenue of a 5% increase in firms' net operating surplus ($000)	1,227,000
2,436,000	Impact on revenue of a 10% increase in firms' net operating surplus ($000)	2,455,000
(244,000)	Impact on revenue of a 1% decrease in firms' net operating surplus ($000)	(245,000)
(1,218,000)	Impact on revenue of a 5% decrease in firms' net operating surplus ($000)	(1,227,000)
(2,436,000)	Impact on revenue of a 10% decrease in firms' net operating surplus ($000)	(2,455,000)

Income tax revenue has a high degree of estimation and is therefore uncertain. Application of key assumptions used in estimating income tax revenue may not necessarily reflect actual tax returns when they are filed. The estimation of income tax revenue is challenging because estimation is required so far ahead of the point when a customer is required to file relevant income tax returns. In addition, forecasts of firms' net operating surplus are inherently uncertain and volatile.

Goods and services tax (GST)

GST returns are assessed on a 1, 2, 3 or 6-monthly basis and are due the month after the end of the period. At year end, Inland Revenue estimates the amount of GST outstanding as follows:

- For customers who file a return of GST for the June period, the actual amounts filed are used.
- For customers who have not filed a return, the estimate is based on customer payments for that return period or 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.

Non-tax revenue

Child support

Child support revenue comprises amounts owed to the Crown (this is called the Crown entitlement) and the penalties levied on child support debts owed to both custodial persons and the Crown by parents who pay child support. This revenue is recognised initially at fair value and subsequently tested for impairment at year end. From 1 July 2023, Crown entitlement will no longer be withheld by the Crown and the total liable parent payments will be passed on to receiving carers. As a result, child support revenue will decrease.

Interest unwind—Small Business Cashflow Scheme

Small Business Cashflow Scheme loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind.

The interest unwind has been calculated using a discount rate appropriate for low-rated commercial and unsecured retail lending.

Interest unwind—student loans

Student loans are initially discounted to fair value. This predominantly reflects the time value of money. As time moves on, student loans become closer to being repaid and are therefore worth more. This increase in value is recognised as interest unwind.

The interest unwind has been calculated using the official cash rate plus a risk adjustment calculated by the consulting actuaries.

Crown assets we are managing

Note 3. Receivables

Receivables include general taxes, Working for Families Tax Credits and COVID-19 debt (excluding the Small Business Cashflow Scheme) and any penalties and interest associated with these activities. These are non-contractual sovereign receivables. The interest and penalties charged on receivables are presented as revenue in the Schedule of Non-Departmental Revenue. Receivables for child support, the Small Business Cashflow Scheme and student loans are reported separately in notes 4, 5 and 6 respectively.

Receivables are initially recognised at face value as the fair value is not materially different from the face value. Receivables are subsequently tested for impairment at year end in accordance with PBE IPSAS 26 Impairment of Cash-Generating Assets.

Allowances for amounts that Inland Revenue does not expect to recover are recognised when there is objective evidence that the asset is impaired. Impairments are included in the Schedule of Non-Departmental Expenditure. Impairment losses can be reversed where there is evidence that the impaired value of the asset has increased.

At the end of the year, receivables are valued by an independent external valuer using predictive models. We provide data to the valuer on receivable balances and repayments. The data is up to 30 June 2023.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour, as well as economic factors such as discount rates. The key assumptions are explained below:

- The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data, deducting an estimate of collection costs and then discounting using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.
- Tax pooling funds held in the Crown bank accounts have been netted off against receivables. These funds have been deposited by commercial intermediaries and allow customers to pool tax payments to reduce their exposure to use-of-money interest. Underpayments and overpayments are offset within the same pool.

The gross value of receivables at 30 June 2023 is $23.641 billion, an increase of $1.386 billion (6.2%).

Not yet due debt has increased by $412 million (2.4%) reflecting higher income tax revenue this year. However, the main driver of the increase in receivables is past due debt, which has increased in 2022–23 by $974 million (20.1%) to $5.820 billion. This growth is larger than in 2021–22, when the past due debt increased by $462 million (10.5%).

The increase in overdue debt is mainly due to increases in GST, income tax and employer activities debt balances. These debt balances are $415.3 million and $352.2 million and $193.6 million higher respectively than in 2021–22.

Past due debt (rounded)

Actual 2022 $000		Actual 2023 $000
1,824,500	GST	2,239,800
1,791,100	Income tax	2,143,300
822,300	Employer activities	1,015,900
152,600	Other	153,900
4,590,500	**Total general tax debt**	**5,552,900**
250,800	Working for Families Tax Credits	245,600
4,841,300	**Total general tax and Working for Families debt**	**5,798,500**
4,700	COVID-19—Resurgence Support Payment and COVID-19 Support Payment	21,700
4,846,000	**Total past due debt**	**5,820,200**

We are seeing a growing number of customers getting into debt, most likely as a result of the current global economic environment and the unpredictable economic influence of adverse weather events seen earlier in the year.

Despite the increase in past due debt over the last year, the amount of debt collected has been higher than projected in previous valuations.

However, this is not expected to continue in 2023–24 and it is expected that defaults on debt may increase in the near future. The recent increase in employer activities debt supports this, as employer activities debt is typically the first tax type to be repaid by businesses. There has also been an increase in the number of businesses opting to set up instalment arrangements to manage their tax debt. As a result, the valuer has decreased the repayment ratios across all tax types for the 30 June 2023 valuation. For the valuation assumptions, the valuer has used a weighted average of the previous 5 years of repayments.

However, as noted by the valuer, it is not possible to fully assess the implications of global economic uncertainty on the fair value of the balances or the economy as a whole (both in terms of length and 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 2023. Future repayments of debt will be dependent on the economic conditions our customers face and on the impact of our compliance activities and relief mechanisms such as instalment arrangements.

Overall, the valuation resulted in an impairment of $713 million for 2022–23 and an increase in the average impairment of overdue debt from 67.63% to 68.30%.

The fair value of receivables at 30 June 2023 is $19.630 billion, an increase of $672 million (3.5%) from 2021–22.

Actual 2022 $000		Actual 2023 $000
	Receivables	
22,255,521	Gross receivables	23,641,222
(3,297,830)	Impairment	(4,011,065)
18,957,691	**Carrying value receivables**	**19,630,157**
	Current and non-current apportionment	
18,465,691	Receivables—current	18,950,657
492,000	Receivables—non-current	679,500
18,957,691	**Carrying value receivables**	**19,630,157**
	Ageing profile of gross receivables	
17,409,521	**Not due[1]**	**17,821,047**
	Past due[2]	
1,229,500	Less than 6 months	1,531,330
443,200	6–12 months	591,526
678,100	1–2 years	996,408
2,495,200	Greater than 2 years	2,700,911
4,846,000	**Total past due**	**5,820,175**
22,255,521	**Total gross receivables**	**23,641,222**
22%	% Past due	25%
	Receivables—impairment	
3,323,992	Opening balance	3,297,830
662,497	Impairment losses recognised	1,467,609
(688,659)	Amounts written off as uncollectable	(754,374)
3,297,830	**Closing balance**	**4,011,065**

[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. It also comprises social policy receivables not yet due to be paid.

[2] Receivables are classified as past due when they are not received from customers by their due date. Due dates will vary, depending on the type of revenue owing (for example, income tax, GST or KiwiSaver) and the customer's balance date. Past due debt includes debts collected under instalment, debts under dispute, default assessments and debts of customers who are bankrupt, in receivership or in liquidation. Inland Revenue has debt management policies and procedures in place to actively manage the collection of past due debt.

The estimated recoverable amount of this portfolio, and the significant assumptions underpinning the valuation of receivables, are shown below:

Actual 2022		Actual 2023
17,389,080	Recoverable amount of receivables not due ($000)	17,785,260
1,568,611	Recoverable amount of receivables past due ($000)	1,844,897
18,957,691	**Total carrying value ($000)**	**19,630,157**
7.28%	Use-of-money interest rate	10.39%
6.00%	Discount rate	6.50%
(24,100)	Impact on the recoverable amount of a 2% increase in discount rate ($000)	(31,000)
25,600	Impact on the recoverable amount of a 2% decrease in discount rate ($000)	33,000

The fair value of receivables is not materially different from the carrying value.

Credit risk

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 4. Receivables—child support

Child support is money paid by parents who do not live with their child or who share care with someone else. The money is to help with the cost of raising a child.

Liable parents can manage their child support payments through Inland Revenue by using a formula assessment or voluntary agreement, or they can be arranged through a private agreement with the other parent or non-parent carer.

For child support managed by Inland Revenue, liable parent payments are passed to receiving carers to the extent that the receiving carer has not received a benefit from Te Manatū Whakahiato Ora, the Ministry of Social Development. The withheld amount is the Crown entitlement, and this is legally enforceable. Receiving carer entitlements are not recognised as revenue, and any funds yet to be passed to the receiving carers are recorded in the Child Support Trust Account as presented in the Schedule of Non-Departmental Trust Money.

Penalties are imposed when there are defaults on child support payments.

Child support receivables include the Crown entitlement and penalties. The Crown entitlement and penalties are presented as revenue in the Schedule of Non-Departmental Revenue. Receivables are initially recognised at fair value and are subsequently tested for impairment at year end in accordance with PBE IPSAS 26 Impairment of Cash-Generating Assets.

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.

From 1 July 2023, the Crown entitlement will no longer be withheld by the Crown and the total liable parent payments will be passed on to receiving carers. Crown entitlement revenue and receivables is therefore expected to decrease from 2023–24.

Child support valuation model, significant assumptions and uncertainties

At the end of the year, receivables are valued by an independent external valuer using predictive models. We provide data to the valuer on receivable balances and repayments up to 30 June 2023.

To calculate the impairment of receivables, assumptions are applied to future repayment behaviour as well as economic factors such as discount rates. The recoverable amount of receivables is calculated by forecasting the expected repayments based on analysis of historical debt data and then discounting it using an appropriate rate. If the recoverable amount of the portfolio is less than the carrying amount, the carrying amount is reduced to the recoverable amount. Alternatively, if the recoverable amount is more, the carrying amount is increased.

As noted by the valuer, the uncertain and volatile nature of future repayments, as well as the impact of changes in the way Inland Revenue collects payments, means that there is significant uncertainty in the estimate of value.

The fair value of child support receivables at 30 June 2023 is $238 million, a decrease of $60 million from last year.

Actual 2022 $000		Actual 2023 $000
	Receivables—child support	
956,293	Gross receivables	885,762
(657,364)	Impairment	(647,295)
298,929	**Carrying value receivables**	**238,467**
	Current and non-current apportionment	
63,000	Receivables—current	50,000
235,929	Receivables—non-current	188,467
298,929	**Carrying value receivables**	**238,467**
	Ageing profile of gross receivables	
	Past due	
79,062	Less than 12 months	91,978
55,379	1–2 years	40,138
821,852	Greater than 2 years	753,646
956,293	**Total past due**	**885,762**
956,293	**Total gross receivables**	**885,762**
100%	% Past due	100%
	Receivables—impairment	
754,489	Opening balance	657,364
83,509	Impairment losses recognised	68,796
(180,634)	Amounts written off as uncollectable	(78,865)
657,364	**Closing balance**	**647,295**

The estimated recoverable amount of this portfolio, and the significant assumptions underpinning the valuation of the carrying value of receivables, are shown below:

Actual 2022		Actual 2023
220,758	Recoverable amount of receivables past due—Crown entitlement ($000)	184,531
78,171	Recoverable amount of receivables past due—penalties ($000)	53,936
298,929	**Total carrying value ($000)**	**238,467**
7.00%	Discount rate	6.00%
(8,059)	Impact on the recoverable amount of a 1% increase in discount rate ($000)	(10,200)
8,544	Impact on the recoverable amount of a 1% decrease in discount rate ($000)	10,900

Credit risk

The Crown does not hold any collateral or any other credit enhancements over receivables for child support that are past due.

Receivables for child support are widely dispersed over a number of customers, and as a result, the Crown does not have any material individual concentrations of credit risk.

Note 5. Small Business Cashflow Scheme

The purpose of the Small Business Cashflow Scheme is to assist small-to-medium-sized businesses impacted by COVID-19. It provides loans to businesses employing 50 or fewer full-time equivalent employees for a maximum loan term of 5 years. The loans are administered by Inland Revenue.

Eligible businesses can borrow a $20,000 base amount plus an additional $1,800 per equivalent full-time employee, up to a maximum loan of $110,000. To be eligible for the loans, borrowers need to declare that they are a viable business and that they will use the money for core business operating costs.

New lending for the scheme ends on 31 December 2023. Loans are interest-free for the first 2 years and then an interest rate of 3% per annum applies. Repayments are not required for the first 2 years, but voluntary payments can still be made. After this period, 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 IPSAS 41 Financial Instruments because it is uncertain when borrowers will make repayments.

The difference between the amount of the loan and the fair value on initial recognition is recognised as an expense.

The initial fair value is lower than the amount of the initial loan for a number of reasons, including that:

- repayments are not required for the first 2 years
- the time value of money will erode the value of future repayments because there is no interest charged in the first 2 years
- the interest rate of 3% charged is lower than the market interest rates for loans to small-to-medium-sized businesses
- borrowers may default on their obligations.

After loans are issued, an adjustment is made each month to unwind the interest. This adjusts the present value of the write-down over time. We also receive repayments from borrowers.

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. The difference is also shown in the Schedule of Non-Departmental Gains and Losses.

We use the following key terms to help define loan values:

Fair value	The market value of loans if they could be exchanged between knowledgeable, willing parties in an arm's-length transaction.
Nominal value	The total amount owed by borrowers at a point in time, including loan principal and interest.

Since the scheme began in May 2020, $2.363 billion has been disbursed and $911 million has been repaid. The nominal and fair values of the loan balance as at 30 June 2023 are $1.478 billion and $786 million respectively.

The nominal and fair values of loans are shown below:

Actual 2022 $000		Actual 2023 $000
920,826	Opening fair value	820,599
537,545	Lending	100,105
(230,069)	Fair value write-down on lending	(53,926)
(362,278)	Repayments	(431,517)
122,575	Interest unwind	110,192
(168,000)	Fair value remeasurement	241,000
820,599	**Closing fair value**	**786,453**
	Current and non-current apportionment	
183,000	Small Business Cashflow Scheme—current	352,000
637,599	Small Business Cashflow Scheme—non-current	434,453
820,599	**Fair value Small Business Cashflow Scheme**	**786,453**
1,609,132	Opening nominal value	1,785,260
537,545	Lending	100,105
(362,278)	Repayments	(431,517)
5,178	Interest	32,808
(4,317)	Write-offs	(8,305)
1,785,260	**Closing nominal value**	**1,478,351**

Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the Schedule of Non-Departmental Assets, fair values are determined according to the following hierarchy:

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

The Small Business Cashflow Scheme is valued at 30 June 2023 using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and no observable inputs (level 2).

The next section provides details on the model, and the table on the next page outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Small Business Cashflow Scheme valuation model, significant assumptions and uncertainties

At the end of the year, the Small Business Cashflow Scheme is valued by an independent external valuer using actuarial and predictive models. We provide data to the valuer on borrowing and repayments and data on borrowers such as industry and region. The data is up to 30 June 2023.

The key assumptions in determining the $786 million fair value of the Small Business Cashflow Scheme as at 30 June 2023 are the timing of principal and interest repayments and the default rates. The most critical assumption is the default rates which have been explicitly modelled for each industry sector and cross-checked by modelling using market discount rates. An additional cross-check was provided by applying banking capital requirements and a risk-weighted assets assumption to estimate the regulatory capital required for a bank owning these loans. This has enabled a calculation of the hypothetical fair value of the loans to a New Zealand bank.

As noted by the valuer, there are significant uncertainties in estimating the fair value of the scheme. The key uncertainties include:

- the scheme is new and there is limited data to determine the likely repayment default experience
- there are limited reference points to determine discount rates for discounting the cash flows
- there are uncertainties from the ongoing impact of COVID-19, broader geopolitical and economic uncertainties and recent natural disasters on the wider economy and on the specifics of the businesses receiving loans from the scheme
- the uncertain and volatile nature of the future debt repayments.

The fair value movement at 30 June 2023 is an increase of $241 million (2022: $168 million decrease). This is mainly due to stronger repayments than forecast, which increases the value of the scheme by $238 million.

A breakdown of the fair value remeasurement—Small Business Cashflow Scheme reported in the Schedule of Non-Departmental Gains and Losses is set out below:

Actual 2022 $000		Actual 2023 $000
(79,000)	Discount rate adjustment	3,000
(89,000)	Expected repayment adjustment	238,000
(168,000)	**Total fair value remeasurement—Small Business Cashflow Scheme**	**241,000**

The significant assumptions and sensitivities behind the fair value are:

Actual 2022		Actual 2023
	Assumptions	
3.00%	Loan interest rate	3.00%
30.70%–33.70%	Default rate	29.00%–33.20%
16.00%	Discount rate	19.00%
	Sensitivities	
(108,000)	Impact on fair value of a 20% increase in the initial fair value write-down ($000)	(20,000)
108,000	Impact on fair value of a 20% decrease in the initial fair value write-down ($000)	20,000
(54,000)	Impact on fair value of a 10% increase in the initial fair value write-down ($000)	(10,000)
54,000	Impact on fair value of a 10% decrease in the initial fair value write-down ($000)	10,000

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. There is a risk 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 6. Student loans

StudyLink (Te Manatū Whakahiato Ora, the Ministry of Social Development) administers the initial capital lending and issues student loans, which are then transferred to Inland Revenue. Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent fair value adjustments, and is also responsible for the collection of debt.

Student loans are designated at fair value through surplus or deficit under PBE IPSAS 41 Financial Instruments because borrowers only start repayments if they earn an income above a certain threshold.

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.

After loans are issued, an adjustment is made each month to unwind the interest. This adjusts the present value of the write-down over time. We also receive repayments from borrowers.

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. The difference is also shown in the Schedule of Non-Departmental Gains and Losses. Details of the models are provided later in this note.

We use the following key terms to help 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 2022 $000		Actual 2023 $000
10,841,485	Opening fair value	9,208,542
(1,604,679)	Repayments	(1,633,547)
1,294,249	Borrowings transferred from Ministry of Social Development	1,271,263
(489,063)	Fair value write-down on new borrowings	(550,743)
(1,113,000)	Fair value remeasurements	500,000
279,550	Interest unwind	577,032
9,208,542	**Closing fair value**	**9,372,547**
	Current and non-current apportionment	
1,506,000	Student loans—current	1,611,000
7,702,542	Student loans—non-current	7,761,547
9,208,542	**Fair value student loans**	**9,372,547**
16,260,483	Opening nominal value	16,137,239
(1,604,679)	Repayments	(1,633,547)
1,294,249	Borrowings transferred from Ministry of Social Development	1,271,263
120,678	Penalties	123,333
68,605	Interest on overseas-based borrowers	54,848
21,821	Administration and establishment fees	21,361
(23,918)	Death and bankruptcies	(32,164)
16,137,239	**Closing nominal value**	**15,942,333**

Financial instruments—fair value hierarchy disclosures

For those instruments recognised at fair value in the Schedule of Non-Departmental Assets, fair values are determined according to the following hierarchy:

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

Student loans as at 30 June 2023 are valued using significant non-observable inputs (level 3). There are no quoted market prices (level 1) and no observable inputs (level 2).

The next section provides details on the model, and the table on page 182 outlines the significant assumptions and sensitivities for the level 3 valuation technique.

Student loan valuation model

At the end of the year, the student loan portfolio is revalued to fair value by an independent external valuer using actuarial models. Tatauranga Aotearoa, Stats NZ collates most of the data for the actuarial valuation model from: Inland Revenue; Te Tāhuhu o Te Mātauranga, the Ministry of Education; and Te Manatū Whakahiato Ora, the Ministry of Social Development. The data is made up of borrowings, repayments, income, educational factors and socio-economic factors. It is current up to 31 March 2022. In addition, supplementary data from Inland Revenue and Te Mana Ārai o Aotearoa, the New Zealand Customs Service, about loan transactions and borrowers' cross-border movements for the period up to 31 March 2023, is also included.

The fair value movement, recognised in the Schedule of Non-Departmental Gains and Losses, relates to changes in discount rate and a reassessment of the expected repayments of loans. The fair value movement at 30 June 2023 is an increase of $500 million. This increase incorporates the following changes to the fair value:

- The discount rate adjustments have increased the value of the scheme by $194 million (2022: $1.670 billion decrease). This is largely due to risk-free rate and risk adjustment changes. The discount rates used for determining the fair value are equal to Te Tai Ōhanga, the Treasury's prescribed risk-free rates for accounting valuations plus a risk adjustment. Since 30 June 2022, risk-free rates have generally increased, which has decreased the fair value of the student loan portfolio by $309 million. Differences in the discount rates applied to interest unwind and initial fair value write-down contributed a further $36 million decrease in fair value. The risk adjustment decreased from 3.08% to 1.71%, which is in line with market data, increasing the fair value by $539 million.
- Expected payment adjustments related to the impact of COVID-19 have increased the fair value by $135 million (2022: $76 million increase). The 2022 valuation included a provision for a decline in repayments from overseas-based borrowers. Direct COVID-19 impacts are no longer a large contributor to global and domestic economic uncertainty, and as a result, we have released this entire provision.
- The other expected repayment adjustments have increased the fair value of the student loan portfolio by $142 million (2022: $443 million increase). They are:
  - Updated macroeconomic assumptions have increased the fair value by $48 million (2022: $242 million increase). This can be broken down into 3 components:
    - An increase of $49 million due to higher salary inflation assumptions, resulting in higher projected domestic incomes, domestic borrower obligations and repayments.
    - An increase of $11 million due to higher loan and late payment interest rate assumptions (i.e., more interest collected).
    - A decrease of $12 million due to increases to CPI assumptions meaning lower domestic repayment obligations.
  - The experience variance—this has increased the value by $44 million (2022: $89 million increase), largely due to higher-than-expected repayments and lower-than-expected write-offs.
  - Updates to the expense assumption—these have increased the value by $2 million (2022: $68 million increase).
  - Other modelling changes, including the roll forward of data—these have increased the value by $48 million (2022: $44 million increase).
- Updates to the cost of loan collection—these have increased the value by $29 million (2022: $38 million increase).

A breakdown of the fair value remeasurement—student loans reported in the Schedule of Non-Departmental Gains and Losses is set out below:

Actual 2022 $000		Actual 2023 $000
(1,017,000)	Risk free rates	(345,000)
(653,000)	Risk adjustment	539,000
(1,670,000)	**Discount rate adjustment**	**194,000**
242,000	Macroeconomic effects	48,000
89,000	Experience variance	44,000
68,000	Expense assumption	2,000
44,000	Data and modelling changes	48,000
443,000	**Expected repayment adjustment**	**142,000**
76,000	COVID-19 impacts—model changes	135,000
76,000	**Expected repayment adjustment—impacts of COVID-19**	**135,000**
38,000	Cost of loan collection	29,000
(1,113,000)	**Total fair value remeasurement—student loans**	**500,000**

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 the global economic uncertainty on the fair value of the scheme or the economy as a whole in terms of the length or degree of impact. For these reasons, the valuation has a high degree of inherent uncertainty and there is a significant risk of material adjustment to the fair value in future accounting periods. The key risks are:

- The proportion of overseas-based borrowers making a repayment is an important metric for the scheme, as the value of the loans for these borrowers hinges on their compliance. We have seen some deterioration in the proportion of overseas-based borrowers making a repayment in recent data and this has been reflected in the model. There is a risk that the deterioration is underestimated in the valuation.
- There is uncertainty in the domestic and global economies as economies around the world experience high inflation. Central banks have been responding by increasing interest rates in an attempt to curb inflation, but this may lead to increases in levels of unemployment that would affect repayment rates. There has been no explicit adjustment to the valuation to account for this. However, the fair value includes a risk adjustment, part of which accounts for general uncertainty in the economic outlook. In addition, macroeconomic forecasts used in the valuation take into account the current economic outlook. There is a risk that the fair value of the scheme may decrease at future valuations if the economic outlook worsens.
- Migration in and out of New Zealand has been severely impacted by the Government response to the COVID-19 pandemic. With the borders fully re-opened in 2022, there is uncertainty around whether net migration will return to pre-pandemic levels for student loan borrowers, or whether there may be a spike in the number of borrowers leaving New Zealand due to pent-up demand. No allowance has been made at this valuation as there is too much uncertainty about future net migration. There is a risk that experience may differ significantly from the assumptions.
- There is uncertainty around the characteristics and behaviour of borrowers who do not have an income. There is a risk that experience for this group may differ significantly from assumptions.

The significant assumptions and sensitivities behind the fair value are:

Actual 2022		Actual 2023
	Assumptions	
9,208,542	Fair value ($000)	9,372,547
7.36%	Discount rate	6.94%
2.80%–5.20%	Interest rate applied to loans for overseas-based borrowers	2.80%–5.80%
1.76%–6.56%	Consumer Price Index	1.93%–7.28%
3.00%–6.12%	Future salary inflation	3.00%–5.87%
	Sensitivities	
102,000	Impact on fair value of a 1% increase in average wage earnings inflation over 5 years ($000)	82,000
(106,000)	Impact on fair value of a 1% decrease in average wage earnings inflation over 5 years ($000)	(86,000)
130,000	Impact on fair value of a 2.5% increase in overseas-based borrowers making repayments ($000)	224,000
(99,000)	Impact on fair value of a 2.5% decrease in overseas-based borrowers making repayments ($000)	(166,000)
(404,000)	Impact on fair value of a 1% increase in discount rate ($000)	(397,000)
444,000	Impact on fair value of a 1% decrease in discount rate ($000)	436,000
24,000	Impact on fair value of a 1% increase in borrowers going overseas ($000)	29,000
(19,000)	Impact on fair value of a 1% decrease in borrowers going overseas ($000)	(22,000)
51,000	Impact on fair value of a 1% increase in borrowers returning to New Zealand ($000)	68,000
(56,000)	Impact on fair value of a 1% decrease in borrowers returning to New Zealand ($000)	(76,000)
53,000	Impact on fair value of a 1% increase in borrowers moving from low earner to high earner ($000)	55,000
(56,000)	Impact on fair value of a 1% decrease in borrowers moving from low earner to high earner ($000)	(59,000)

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 in the event of death or bankruptcy.

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. There is a risk that if interest rates rise, the value of the scheme will significantly decrease as the discount rates applied to the expected future repayments will be higher, decreasing their value.

Changes in interest rates could also impact on the Government's return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the Government.

Performance of the scheme

A detailed explanation and insight into the performance of the scheme is available in the Student Loan Scheme Annual Report at educationcounts.govt.nz[1]

[1]This link leads to information not covered by the audit opinion on page 185.

Crown liabilities we are managing

Note 7. Refundables and payables

Refundables and payables are financial liabilities and are recognised at their nominal value as they are due within 12 months. The nominal value is considered to approximate their fair value.

Taxes refundable represent refunds due to customers.

KiwiSaver payable mainly represents the annual government contribution payments to be paid in July 2023. The balance also includes a small amount of contributions yet to be forwarded to scheme providers at balance date.

Actual 2022 $000		Actual 2023 $000
4,476,574	Taxes refundable	5,164,482
975,524	KiwiSaver payable	1,005,823
14,535	Paid parental leave payable	16,480
5,466,633	**Total refundables and payables**	**6,186,785**

Note 8. Unclaimed monies

Under the Unclaimed Money Act 1971, entities (for example, financial institutions and insurance companies) transfer money not claimed after a prescribed length of time (usually 5 years) to Inland Revenue. The funds are repaid to the entitled owner on proof of identity.

Unclaimed money that is received or held by Inland Revenue becomes unclaimable when there is no identifying information, the amount is less than $100 or the money is unclaimed for 25 years or more.

Note 9. Reserve schemes

Actual 2022 $000		Actual 2023 $000
310,584	Income equalisation	336,629
60,873	Environmental restoration	139,193
371,457	**Total reserve schemes**	**475,822**

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 10. Contingencies

Contingent assets and liabilities are recorded in the Schedule of Non-Departmental Contingent Assets and Contingent Liabilities.

Contingent assets

Disputes—non-assessed

Contingent assets arise as part of the tax dispute process, for example, when Inland Revenue has advised a customer of a proposed adjustment to their tax assessment through a notice of proposed adjustment. 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 Assets and Contingent Liabilities 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 Assets and Contingent Liabilities. The value of the asset is based on the likely collectable portion of the default assessment, net of losses carried forward.

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 Assets and Contingent Liabilities.

Other disclosures

Note 11. Collection of earner levy

Inland Revenue collects earner levies on behalf of Te Kaporeihana Āwhina Hunga Whara, the Accident Compensation Corporation (ACC) and passes the monies directly to them. The levies are not recognised as revenue or expenditure in the non-departmental schedules. In 2022–23, ACC paid Inland Revenue $3.4 million for these services (2021–22: $14 million). The reduction in the cost of services was driven by savings from transformation and a new charging model agreed with ACC.

Actual 2022 $000		Actual 2023 $000
2,120,237	Earner levy	2,403,675
2,120,237	**Total collection of earner levy**	**2,403,675**

Note 12. Events after balance date

There have been no significant events after balance date.

Audit New Zealand
Mana Arotake Aotearoa

Independent Auditor's Report
Pūrongo Kaitātari Pūtea Tōkeke

To the readers of Inland Revenue's annual report for the year ended 30 June 2023

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 the Department on pages 123 to 152, that comprise the statement of financial position, statement of commitments, statement of contingent liabilities and contingent assets as at 30 June 2023, 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 for the appropriations administered by the Department for the year ended 30 June 2023 on pages 67 to 83 and 85 to 107;
- the statements of expenses and capital expenditure of the Department for the year ended 30 June 2023 on pages 117 to 120; and
- the schedules of non-departmental activities which are managed by the Department on behalf of the Crown on pages 156 to 184 that comprise:
  - the schedules of assets; liabilities; commitments; and contingent assets and liabilities as at 30 June 2023;
  - the schedules of expenditure; revenue; gains and losses; and movements between other Government departments for the year ended 30 June 2023;
  - the schedule of trust money for the year ended 30 June 2023; and
  - the notes to the schedules that include accounting policies and other explanatory information.

Opinion

In our opinion:

- the financial statements of the Department:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2023; 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 Public Benefit Entity Reporting Standards; and
- the performance information for the appropriations administered by the Department for the year ended 30 June 2023:
  - presents fairly, in all material respects:
    - what has been achieved with the appropriation; and
    - the actual expenses or capital expenditure incurred as compared with the expenses or capital expenditure that were appropriated or forecast to be incurred; and
  - complies with generally accepted accounting practice in New Zealand.
- the statements of expenses and capital expenditure of the Department are presented, 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 the Department on behalf of the Crown 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 2023; and
  - expenses; revenue; gains and losses; and movements between other Government departments for the year ended 30 June 2023; and
  - the schedule of trust monies for the year ended 30 June 2023.

Our audit was completed on 28 September 2023. 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 Chief Executive (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 pages 168 to 170 outlines the significant uncertainties, assumptions, and sensitivities in estimating income tax revenue for companies and other persons for the year ended 30 June 2023. The methodology used to estimate income tax revenue for companies and other persons is based on macroeconomic forecasts about economic performance. There is uncertainty in the assumptions used in the macroeconomic forecasts and the relationship between those forecasts and tax revenue.

Impairment of tax receivables

Note 3 on pages 171 to 173 outlines the significant uncertainties, assumptions, and sensitivities in estimating the value of tax receivables and associated impairment as at 30 June 2023. The impairment of tax receivables is calculated based on expected future repayments. The future repayments are uncertain because of the uncertainty associated with the estimation of the repayment behaviour of debtors.

Student loans

Note 6 on pages 178 to 182 outlines the significant uncertainties, assumptions, and sensitivities in estimating the fair value of the student loan portfolio as at 30 June 2023. The fair value is based on expected future income levels and debt repayments. The expected future income levels and debt repayments are uncertain because they are dependent on macroeconomic factors and the behaviour of borrowers.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Commissioner for the information to be audited

The Commissioner is responsible on behalf of the Department for preparing:

- Financial statements that present fairly the Department'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 the Department, 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 the Department 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 the Department 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 the Department, 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 the Department's statement of intent.

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 the Department'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 for the appropriations administered by the Department.
- 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 the Department'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 the Department 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 65, 84, 108 to 116, 121, 122, 153 to 156, and 189 to 201, 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 the Department 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.

For the year ended 30 June 2023 and subsequently, an external member of the Risk and Assurance Committee of the Department is a member of the Auditor-General's Audit and Risk Committee. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it should not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as a member of the Auditor-General's Audit and Risk Committee (when acting in this capacity) has no involvement in, or influence over, the audit of the Department.

Kelly Rushton
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Additional information
Taipitopito anō

Delegations outside the Public Service

In accordance with Schedule 6 of the Public Service Act 2020, we are required to report on situations where the Commissioner has delegated any of the Commissioner powers outside the Public Service.

Westpac

The Commissioner has delegated powers under the Treasury Delegations to Westpac's Corporate and Institutional Banking Unit to enable it to effectively manage the movement of payments received in Te Tari Taake, Inland Revenue's Australian WBC Account (Payments) to our Westpac New Zealand Account.

This delegation allows Westpac to transfer the payments out of Te Tari Taake, Inland Revenue's WBC Australia Account to our Westpac New Zealand AUD Account, apply the foreign exchange rate to the AUD amount and then transfer the NZD amount to our Westpac New Zealand Account.

This delegation has been operating as intended in line with the contractual arrangements with Westpac.

Callaghan Innovation

Callaghan Innovation and Te Tari Taake, Inland Revenue act in partnership to determine entitlement to the R&D Tax Incentive (RDTI).

To fully enable discussions with customers, agents and experts in relation to applications for the RDTI, the Commissioner has delegated powers to share information under section 18 of the Tax Administration Act 1994 to staff in Callaghan Innovation who consider RDTI applications.

This delegation is limited to information that relates to RDTI applications and has been working as intended.

Madison Recruitment Ltd

In June 2022, Te Tari Taake, Inland Revenue engaged Madison Recruitment Ltd to provide contingent labour to help with the introduction of the Cost of Living Payment and to provide additional support with other specific tasks due to the ongoing impact of COVID-19.

The last of the Madison personnel completed their engagement with us on 16 December 2022.

To enable the Madison personnel to fully undertake the engagement, some of the Commissioner's powers were delegated to those Madison personnel.

This delegation operated as intended in line with the contractual arrangements with Madison Recruitment.

Information-sharing with Te Tari Taiwhenua, the Department of Internal Affairs (DIA)

Under information-sharing regulations, Te Tari Taake, Inland Revenue must report annually for this approved information-sharing agreement (AISA) on actions taken during the financial year.

A copy of the approved AISA is available to view at:
ird.govt.nz/about-us/information-sharing/information-sharing/dia

	Financial year ending 30 June 2022	Financial year ending 30 June 2023
Contact records received from DIA	104,498	240,425
Contact records not matched to a corresponding Te Tari Taake, 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, and • overseas-based student loan defaulters.	101,913	236,980
Contact records matched to corresponding Te Tari Taake, Inland Revenue records for:		
• overseas-based child support debtors	245	349
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	8	5
• overseas-based student loan defaulters	2,109	2,910
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information.	223	181
Ongoing programme operating costs[1]	1,728	1,728
Individuals successfully contacted[2] using contact records matched to:		
• overseas-based child support debtors	22 (9.0%)	10 (2.9%)
• overseas-based child support non-debtors who do not appear to have up-to-date contact information	– (0%)	– (0%)
• overseas-based student loan defaulters	78 (3.7%)	88 (3.0%)
• overseas-based student loan non-debtors who do not appear to have up-to-date contact information.	4 (1.8%)	7 (3.9%)
Payments received from individuals as a result of successful contact with:		
• overseas-based child support debtors	16 payments ($2,671)	1 payment ($500)
• overseas-based student loan defaulters.	183 payments ($12,566)	108 payments ($16,421)
Percentage of individuals who have addressed[3] their debt as a result of being successfully contacted by Te Tari Taake, Inland Revenue:		
• overseas-based child support debtors	1.6% (4 individuals)	0.3% (1 individual)
• overseas-based student loan defaulters.	0.9% (18 individuals)	0.6% (18 individuals)

[1] Approximate annual incidental administrative charge.

[2] From 3,445 matches, 105 have passed our identity process.

[3] Individual no longer has payments overdue or has made a payment arrangement with us.

Information-sharing with: Ngā Pirihimana o Aotearoa, New Zealand Police; Te Mana Ārai o Aotearoa, the New Zealand Customs Service; and Te Tari Hara Tāware, the Serious Fraud Office

Our approved information-sharing agreement (AISA) with: Ngā Pirihimana o Aotearoa, New Zealand Police; Te Mana Ārai o Aotearoa, the New Zealand Customs Service; and Te Tari Hara Tāware, the Serious Fraud Office

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 to view at:

ird.govt.nz/about-us/information-sharing/information-sharing/nz-police

Information shared between 1 July 2022 and 30 June 2023

	Te Tari Hara Tāware, the Serious Fraud Office		Te Mana Ārai o Aotearoa, the New Zealand Customs Service		Ngā Pirihimana o Aotearoa, New Zealand Police	
Description	**2021–22**	**2022–23**	**2021–22**	**2022–23**	**2021–22**	**2022–23**
Number of requests for information made by the agency	3	75	4	14	346	463
Number of responses with information provided by Te Tari Taake, Inland Revenue to the agency	8	75	4	11	322	471
Number of occasions Te Tari Taake, Inland Revenue proactively provided information to the agency	0	1	1	0	1	3
Number of occasions Te Tari Taake, Inland Revenue proactively received information from the agency	0	0	0	1	0	0

Notes

Te Tari Hara Tāware, the Serious Fraud Office sent 1 large overall request which included numerous entities and individuals. For reporting purposes these have been recorded individually.

Te Mana Ārai o Aotearoa, the New Zealand Customs Services made 14 requests for information and 11 were responded to in the year to 30 June 2023. The remaining 3 will be recorded in the 2023–24 reporting year.

Ngā Pirihimana o Aotearoa, New Zealand Police made 463 requests for information in the year to 30 June 2023. Of the 471 replies, 8 related to the year ended 30 June 2022.

Costs

The estimated cost of the sharing agreement for the year ended 30 June 2023 is approximately $35,000.[4]

[4] Excludes estimated costs for legal services and team lead roles.

Benefits

The number of times information provided by Te Tari Taake, Inland Revenue has been used in a case with a resolution of:

Description	Te Tari Hara Tāware, the Serious Fraud Office 2021–22	Te Tari Hara Tāware, the Serious Fraud Office 2022–23	Te Mana Ārai o Aotearoa, the New Zealand Customs Service 2021–22	Te Mana Ārai o Aotearoa, the New Zealand Customs Service 2022–23	Ngā Pirihimana o Aotearoa, New Zealand Police 2021–22	Ngā Pirihimana o Aotearoa, New Zealand Police 2022–23
No offence	0	1*	0	0	59	94
Prosecution	4	7*	2	10	102	121
Warning	0	0	0	0	3	3
Still under investigation	2	0	2	9	159	227
No response received (still in progress)	0	0	0	0	0	0
No. of requests cancelled or did not meet criteria	0	0	0	0	23	18
Total	**6**	**8**	**4**	**19**	**346**	**463**

Notes

* 3 of the prosecutions were as a result of AISA requests made in previous years that have moved to either prosecution or closure (no offence) during the 2022–23 reporting year.

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

There have been no instances identified of information being shared contrary to the AISA.

Information-sharing with Te Manatū Whakahiato Ora, the Ministry of Social Development (MSD)

Under sections 154(1)(b), 155 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 Te Tari Taake, Inland Revenue and Te Manatū Whakahiato Ora, 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.

Te Tari Taake, 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:	2021–22	2022–23
Administration of shared services:			
Number of records disclosed (MSD to Te Tari Taake, Inland Revenue)	Commencement/ cessation of benefits/ students	144	55
	Child support administration	470,567	672,153
	Student loan programme	18,683,988	17,079,734
Number of records disclosed (Te Tari Taake, Inland Revenue to MSD)	Community Services Card	2,380,817	1,725,016
	Commencement/ cessation of benefits/ students	144	55
	Proactive information share—benefits and subsidies	1,130,036	846,787
	Child support administration	180,351	116,757
	Student loan programme	331,213	119,118

Benefits (Quantitative)

Metric	Shares derived from:	2021–22	2022–23
Administration of shared services (Te Tari Taake, Inland Revenue):			
Number of services automatically transferred	Working for Families Tax Credits (WFFTC) administration	16,126	14,549
Number of services stopped (overpayments)	WFFTC double payment (number)	1,985	904

Metric	Shares derived from:	2021–22	2022–23
	WFFTC double payment (value)	Ref. comment[1]	$721,118
Services offered or renewed (number)	Community Services Card	369,241	273,444
Service cancellations (number)	Proactive information share—benefits and subsidies	594	1,495
Adverse action notices (number sent)	Community Services Card	6,624	4,401
	Commencement/ cessation of benefits/ students	0	0
	Proactive information share—benefits and subsidies	72,953	66,315
Challenges (number received and number upheld)	Community Services Card (received)	0	0
	Community Services Card (upheld)	0	0
	Commencement/ cessation of benefits/ students (received)	0	0
	Commencement/ cessation of benefits/ students (upheld)	0	0
	Proactive information share—benefits and subsidies (received)	1,010	812
	Proactive information share—benefits and subsidies (upheld)	234	150
Overpayments established (number and value)	Commencement/ cessation of benefits/ students (number)	0	0
	Commencement/ cessation of benefits/ students (value)	$0	$0
	Proactive information share—benefits and subsidies (number)	24,835	17,158
	Proactive information share—benefits and subsidies (value)	$65,459,722	$57,483,151
Arrears created (number and value)	Commencement/ cessation of benefits/ students (number)	0	0
	Commencement/ cessation of benefits/ students (value)	$0	$0
	Proactive information share—benefits and subsidies (number)	29	25
	Proactive information share—benefits and subsidies (value)	$4,418	$5,868
Referrals for suspected fraud (number)	Proactive information share—benefits and subsidies	0	1
Prosecutions successful (number)	Proactive information share—benefits and subsidies	2	0

[1] The $ value of the WFFTC double payment could not be assessed due to a change of reporting system within Te Tari Taake, Inland Revenue.

Qualitative benefits

In the 2022–23 year:

- The information-sharing under this AISA has effectively helped MSD to assess eligibility for Community Services Cards, benefits and subsidies and to identify overpayments. It is also the most effective way for Te Tari Taake, Inland Revenue and MSD to ensure customers receive their correct Working for Families Tax Credits entitlements.
- There have been no data breaches under the AISA.
- Data was continually shared throughout this reporting period. However, some actions were not carried out by MSD as a result of resources being diverted to the flood and cyclone response. This has impacted both the commencement/ cessation of benefits/ students match and proactive information share—benefits and subsidies recorded values within this reporting period.

Assurance

In the 2022–23 year:

- MSD and Te Tari Taake, Inland Revenue 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 2023, the Commissioner has not communicated any taxpayer information to an approved credit reporting agency.

Algorithm Charter for Aotearoa New Zealand

Te Tari Taake, Inland Revenue adopted the Algorithm Charter (the charter) for Aotearoa New Zealand[1] in July 2020. The charter includes 6 commitments intended to shape government agency behaviours in ways that minimise risk to people and maximise the benefits algorithms can provide.

Te Tari Taake, Inland Revenue has a governance programme over our data and information, which includes how we work with the charter commitments and assessing the risk when we use algorithms. Legislation provides us and our customers with specific rights regarding information. We have legal, ethical and business responsibilities to ensure that the information we are a steward of is protected, maintained and developed for the benefit of more than just ourselves.

1 See Algorithm-Charter-2020_Final-English-1.pdf (data.govt.nz)

Appendix 1: Glossary

Term	Definition
Advance pricing agreements (APAs)	A co-operative approach to addressing transfer pricing compliance. APAs produce significant time and cost savings and certainty of outcomes for both tax authorities and multinationals in comparison with adversarial audits. APAs encourage upfront taxpayer compliance and early resolution of potential disputes.
Appropriation	A parliamentary authorisation for the Government or an Office of Parliament to incur expenses or capital expenditure. Expenditure can only be incurred under an appropriation or other statutory authority.
Approved information-sharing agreement (AISA)	A tool that allows government agencies to provide efficient and effective public services through collaborating and sharing-information without intruding on people's rights or exposing agencies to risk. Approved information sharing agreements are listed in Schedule 2 of the Privacy Act 2020. See: privacy.org.nz/privacy-for-agencies/information-sharing/
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. AEOI 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.
Automatically issued individual income tax assessments	We automatically calculate and issue income tax assessments for individual customers if we have all their income information (income from employment, investments such as bank deposits or savings interest or a benefit under an employment share scheme) for the tax year.
Bright-line rule	If a property owner sells a residential property they have owned for less than 10 years, they may have to pay income tax on any gain on its sale, unless the property was their main home or another exemption applies, including rollover relief. The bright-line property rule does not apply to properties acquired before 1 October 2015.
Cabinet	The group of Government Ministers who make the Government's significant decisions. Cabinet is chaired by the Prime Minister.
Child support pass-on	From July 2023, when a liable parent makes a child support payment, it will be passed on to receiving carers on a sole-parent rate of benefit instead of being used to pay the cost of providing the benefit.
Compliance intervention	A step or action taken to assist with compliance. This could range from a simple customer contact through to an audit, statutory dispute or prosecution.
Cost of Living Payment	As part of Budget 2022, the Government introduced the Cost of Living Payment to help eligible people with their day-to-day living costs.
COVID-19 support products	Payments introduced to support businesses and organisations that had a loss of revenue due to COVID-19. The Small Business Cashflow Scheme is a loan. The Resurgence Support Payment and COVID-19 Support Payment were grants.
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.

Term	Definition
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.)
Gateway services	Te Tari Taake, Inland Revenue's gateway services are machine-to-machine APIs, web services and file transfers that support communication of tax and social policy information between Te Tari Taake, Inland Revenue, tax software, KiwiSaver schemes and other government departments as required. These highly secure services help ensure large-scale information transfer both automatically and on demand as need requires. Each software provider has, at their discretion, chosen which of the gateway services they will integrate with and offer to their customers. Tax intermediaries can use these gateway service offerings to file their clients' tax returns or use myIR.
High-wealth Individuals	Individuals or family groups with: a. control of more than $50 million in wealth or b. control of more than $20 million in wealth where they control significant enterprises with turnover greater than $300 million or c. 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: treasury.govt.nz/statesector/investmentmanagement/review/icr
Kaitakawaenga Māori	Our Kaitakawaenga Māori deliver Te Tari Taake, Inland Revenue services in a whānau, hapū and iwi-centric way to ensure our Māori customers have the tools to self-manage their tax affairs whether they are an individual or in business.
Māhutonga	Our strategic approach to how we engage with te Tiriti o Waitangi and how we work with Māori.
Mana	Prestige, authority, control, power, influence, status.

Term	Definition
Mauri	Life principle, life force, vital essence, special nature, a material symbol of a life principle, source of emotions—the essential quality and vitality of a being or entity.
Motu	Country.
Multi-category appropriation (MCA)	A single appropriation made up of multiple categories (which can be different types of expenditure, including output expenses and other expenses) that all contribute to the same overarching purpose. Multi-category appropriations allow greater flexibility.
myIR	Our online customer service portal that enables 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: oecd.org
Order in Council	A type of secondary legislation that is made by the Executive Council presided over by the Governor-General.
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 Finance Act 1989	The purpose of the Public Finance Act is to consolidate and amend the law governing the use of public financial resources. Refer to: legislation.govt.nz/act/public/1989/0044/latest/DLM160817.html
Public rulings	Te Tari Taake, 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 as 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.
Resident withholding tax (RWT)	A tax on dividends or interest that is paid to New Zealand residents. The payer deducts RWT from this income.
Small Business Cashflow Scheme	A loan available to eligible organisations and small-to-medium-sized businesses, including sole-traders and the self-employed, if they have been adversely affected by COVID-19.
START	An acronym for Simplified Tax and Revenue Technology—our taxation and revenue system.
Taonga	Treasure, anything prized—applied to anything considered to be of value, including socially or culturally valuable objects, resources, phenomena, Māori language, ideas and techniques.
Tax and Social Policy Work Programme	A published document that sets out our policy focus for a relevant period. The work programme follows the strategic direction set out in the Government's revenue strategy.
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'.

Term	Definition
Taxpayer rulings	A decision provided by the Commissioner setting out how taxation laws apply to a specific set of facts, arrangement or product. Taxpayer rulings provide certainty about the application of taxation laws. We are bound by it and must apply the tax consequences as per the ruling.
Te ao Māori	Māori worldview.
Te Arawhiti	The Crown agency dedicated to fostering strong, ongoing and effective relationships with Māori across government.
Te reo Māori	Māori language.
Te Tiriti o Waitangi	The Treaty of Waitangi.
Whenua	Country, land, nation, state.

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