



# Briefing to the Incoming Minister

November 2023



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# Introduction to the Revenue Portfolio

Kia ora and welcome to the Revenue portfolio. We look forward to working with you and discussing how Te Tari Taake Inland Revenue can best help progress your priorities.

As Minister of Revenue, you are accountable for the overall working of Aotearoa New Zealand's tax system and for protecting its integrity. The tax system is a major piece of national infrastructure. You are also the Minister responsible for Vote Revenue, its appropriations, and policy priorities and direction within this Vote.

Constitutionally, tax can only be levied according to laws enacted by Parliament. As Minister of Revenue, you will make decisions about tax and social policy jointly with other Ministers as appropriate. Historically, significant tax policy decisions have been made jointly by the Ministers of Finance and Revenue.

Inland Revenue is the principal steward of New Zealand's tax system. Over 80% of the Crown's core revenue is collected by Inland Revenue. The New Zealand Customs Service collects most of the remaining 20%. Inland Revenue is required by law to maintain the integrity of the tax system and the confidentiality of people's tax affairs.

Alongside administering the tax system, Inland Revenue administers five social policies – Working for Families, child support, student loans, KiwiSaver and paid parental leave. We are also responsible for the distribution and collection of the Small Business Cashflow (Loan) Scheme and payment of the Research and Development Tax Incentive. More information about the products Inland Revenue currently administers, and the present ministerial and departmental responsibilities relating to them, is in the table starting on page 5.

As steward, we are required to consider whether the products we administer, and the tax system as a whole, are effective and efficient, work as intended, achieve the intended outcomes and are fit for purpose.

The Commissioner of Inland Revenue is charged with the care and management of the tax system and has a legal duty to collect the highest net revenue over time. The Commissioner has statutory independence from Ministers regarding the administration of the Inland Revenue Acts, to ensure Inland Revenue can levy tax and carry out its duties independently. This includes matters relating to the tax affairs of specific taxpayers, the interpretation of tax law and determining where resources should be focused.

We are happy to provide further information on any of the points raised in this briefing.

# The tax and social policy system

New Zealand's tax system currently provides reliable sources of revenue to fund government programmes. Both policy coherence and well-functioning administration are critical for the tax system to be effective. The level of revenue raised is a factor of the tax bases, the tax rates and the level of compliance.

In New Zealand there are currently three major tax bases: individual income tax, corporate tax and goods and services tax (GST). These taxes generally apply in a neutral way, so that particular sectors or taxpayers are neither favoured nor penalised by the tax rules (unless as a result of an explicit policy decision). This keeps the tax system relatively simple and efficient. Over 95% of the tax revenue we collect is from these three main taxes and those that support them (for example, resident withholding tax – the tax on interest and dividend income).

Alongside Te Tai Ōhanga the Treasury, Inland Revenue provides advice to the government on tax policy, and with other agencies we provide advice on the social policies we jointly administer. We also provide advice to the government on international tax issues and are involved in the development and implementation of New Zealand's international tax legislation.

In June 2022 we completed our Business Transformation programme, which involved a combination of changes to policy, process, technology and our people capabilities. Our transformation delivered a modern, digital revenue system, and we will continue to transform by making the most of the capabilities we now have. A key part of the success of our transformation was the focus on the customer experience and making tax and social policy payments easy and simple.

## Customers and products

Inland Revenue has a relationship with nearly all individuals in New Zealand, all New Zealand businesses, and hundreds of thousands of New Zealanders living overseas.

Our customers include employees, employers, the self-employed, companies, not-for-profit organisations, trusts, Māori authorities, tax agents and other intermediaries, parents, students, savers and investors, and people who live overseas but have tax affairs or social policy obligations in New Zealand.

Since 2017 the New Zealand population has grown by over 400,000 people. We have successfully managed customer growth through our enhanced digital services that enable customers to do as much for themselves as possible, in a way and at a time that suits them. The use of our digital channels has increased dramatically, with millions of straightforward transactions happening with no intervention by us, providing customers with certainty sooner.

Over this time there has been a significant increase in the volume of interactions we have with New Zealanders. This has occurred not only because of the growth in customer numbers and an increase in activities available through our digital services, but also

because of changes in policy, including automatically calculated income tax returns and employers now filing employment information at the time they pay their staff.

As we mature our capabilities following our transformation, we are still assessing what sustainable resourcing to service customers looks like as the economic conditions continue to change.

### Products for which there are shared responsibilities

Product	Activity	Responsibility
<b>Working for Families Tax Credits</b>	Inland Revenue, with Te Manatū Whakahiato Ora the Ministry of Social Development (MSD), distributed \$2.78 billion in net entitlements for Working for Families Tax Credits during the 2021/22 tax year. There are four different types of Working for Families Tax Credits, including the Best Start payment to families and whānau supporting newborn babies.	As Minister of Revenue, you share policy responsibility with the Minister of Finance and the Minister for Social Development. Administrative responsibility is shared between you and the Minister for Social Development.
<b>Child support</b>	As at June 2023, 157,500 children were covered by the child support scheme and 135,700 parents were assessed to pay child support. Inland Revenue collected \$481 million from parents in 2022/23 and distributed \$294 million to carers. More is expected to be distributed in 2023/24 when child support is passed on to sole-parent beneficiaries.	As Minister of Revenue, you have policy and administrative responsibility. Consultation may be required with other Ministers – typically the Minister of Finance, the Minister for Social Development, and the Minister for Children.
<b>Paid parental leave</b>	Inland Revenue, on behalf of Hikina Whakatutuki the Ministry of Business, Innovation and Employment (MBIE), distributed \$605 million in paid parental leave payments to around 57,000 parents in 2022/23.	As Minister of Revenue, you are responsible for overseeing the administration of payment. The Minister for Workplace Relations and Safety is responsible for policy decisions.

Product	Activity	Responsibility
<b>KiwiSaver</b>	<p>Inland Revenue administers the KiwiSaver scheme by collecting contributions and transferring them to scheme providers for investment.</p> <p>Inland Revenue transferred \$8.8 billion in KiwiSaver contributions and \$961 million in government contributions to scheme providers during 2022/23.</p> <p>As at 30 June 2023, over 3.3 million people were enrolled in KiwiSaver.</p>	<p>The Minister of Finance is responsible for policy decisions likely to have major fiscal or economic impacts.</p> <p>The Minister of Commerce and Consumer Affairs is responsible for withdrawal rules and scheme provider administration.</p> <p>As Minister of Revenue, you have responsibility for membership rules and contributions.</p>
<b>Student loans</b>	<p>Inland Revenue jointly administers the student loan scheme with Te Tāhuhu o Te Mātauranga the Ministry of Education and with MSD.</p> <p>Over 635,000 student loan customers made \$1.6 billion in repayments in 2022/23.</p>	<p>The Minister of Education is responsible for student loan policy.</p> <p>The Minister for Social Development is responsible for administering student loan applications.</p> <p>As Minister of Revenue, you are responsible for all student loan collection matters.</p> <p>The Secretary for Education is the lead official for the scheme and is responsible and answerable to Ministers for the scheme.</p>
<b>Research and Development tax incentive</b>	<p>Inland Revenue is the lead administrator of this scheme, working in conjunction with Callaghan Innovation.</p> <p>MBIE has policy responsibility for all research and development initiatives.</p> <p>Tax credits for eligible expenditure can be claimed for years starting from the 2019/20 income year.</p>	<p>The Minister for Research, Science and Innovation is responsible for an appropriation in Vote Revenue for the Research and Development tax incentive and makes the overall policy decisions.</p> <p>As Minister of Revenue, you have responsibility for decisions on technical legislative drafting and remedials.</p> <p>Inland Revenue has administrative responsibility.</p>

Product	Activity	Responsibility
<b>Unclaimed money</b>	<p>Inland Revenue administers unclaimed money, which is money held by banks, with solicitors, or other organisations and people, but left untouched by its owner.</p> <p>In 2022/23, Inland Revenue received \$204 million, and distributed \$15 million to 4,800 customers who made claims.</p>	<p>Policy responsibility sits with Inland Revenue and the Treasury.</p> <p>Inland Revenue has administrative responsibility.</p>
<b>COVID-19 products</b>	<p>Since 2020, Inland Revenue has implemented and administered several COVID-19 relief schemes. Remaining activity is focused on collecting Small Business Cashflow (Loan) Scheme repayments.</p> <p>\$2.4 billion has been lent under the loan scheme to 129,000 businesses. As at 30 June 2023, \$911 million of these loans have been repaid.</p> <p>Applications for the Small Business Cashflow (Loan) Scheme remain available until December 2023.</p>	<p>The Treasury and Inland Revenue are responsible for providing policy advice on support delivered by Inland Revenue.</p> <p>Inland Revenue has administrative responsibility.</p>
<b>Cost of Living Payment</b>	<p>Inland Revenue implemented and administered the Cost of Living Payment, with \$573 million paid out to over 1.7 million eligible customers during 2022/23. Any eligible customers who have not received the payment because Inland Revenue does not hold bank account details have until 31 March 2024 to provide their details to receive the payment.</p>	<p>Inland Revenue has administrative responsibility.</p>

In addition, Inland Revenue administers some small and bespoke products: Lotteries Duty, Totalisator Duty, Gaming Duty and the New Zealand Foreign Trust regime.

## System partners

Inland Revenue works with many other government agencies and third parties that help manage and run the tax and social policy system. These include tax agents, employers, KiwiSaver providers, financial institutions, payroll providers, and tax and accounting service providers.

Working with our partners creates a better customer experience and allows the system to run more smoothly and efficiently. Customers can manage more of their tax obligations digitally, including in the systems they use to operate their businesses. This makes it easier for customers, improves speed to process large volumes of information and improves compliance.

Inland Revenue supports the delivery of products and the efficient delivery of wider government services and outcomes through sharing information with other agencies. Our interactions with all businesses and individuals make the data, information and insights we hold valuable assets for both Inland Revenue and the wider public sector.

For example, we are a major contributor of information to two of Tatauranga Aotearoa Stats New Zealand'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 decisions across the public sector.

To help us advise the government on international tax issues, and develop and implement New Zealand's international tax legislation, we work with groups such as the Organisation for Economic Co-operation and Development (OECD) and tax agencies in other countries. We exchange financial account information with more than 70 countries.

Our customers are our partners too. We have a good understanding of our customers' needs and take a collaborative design approach where possible. We keep a focus on being able to respond to customers' needs and expectations as they change.

We will continue to explore opportunities for partnerships that provide value for Inland Revenue, our customers, and the wider public sector.

## Compliance

The New Zealand tax system operates primarily through customers meeting their tax obligations voluntarily. There are three fundamental beliefs that underpin voluntary compliance and are vital to upholding the integrity of the tax system. It is important that New Zealanders believe that:

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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, Inland Revenue will help me.

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

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Compliance levels are affected by many different factors, some within our control and some not. We measure tax morale (the willingness to pay tax) and trust in the tax system and in Inland Revenue through our Customer Experience and Perceptions Survey. Our ability to influence these perceptions ranges from how we interact with customers through to the advice we provide on policy changes that are under consideration.

Business confidence and sentiment have an impact on compliance levels. We are monitoring areas of compliance risk.

## Our strategic approach to compliance

In the past, public perception of our compliance activities focused on audits, investigations, litigation and prosecution. Under our current approach, we think of compliance as everything we do, from helping customers get things right from the start through to enforcement. We balance our activities across customer segments and interventions to maintain the integrity of the system. This helps make sure everyone pays the right amount of tax, files the right information, and receives the right amount of entitlements.

Our 'right from the start' approach to compliance means we aspire to support customers before issues arise. This includes:

- acting early
- making it easy to meet obligations
- reducing the motivation and opportunities for non-compliance
- actively engaging customers and other stakeholders.

## Our compliance capabilities

The modern systems, tools and processes that we implemented through our Business Transformation have transformed our compliance capabilities. While we are yet to realise the full potential of these capabilities, we are already seeing compliance benefits.

Following the improvements to our systems, the majority of tax is filed and paid digitally. For example, 99% of income tax, GST and employment information is filed electronically, and 87% of employment information is processed without the need for any additional action. This has significantly reduced the manual processing effort required, which has enabled us to focus on those operating outside the tax system.

Our analytical tools and capabilities allow us to approach compliance more strategically. We can now better understand our customers and their reasons for not getting it right, develop more tailored and efficient interventions, and respond faster to deliberate non-compliance. Our compliance experts are using analytics tools to look deeper into the economy, and identify errors or wrongdoing and customer groups or sectors in need of our assistance.

Our new capabilities are integrated into our daily work and allow us to see more, earlier, and have provided more tools to respond to issues we find. We are carrying out a far greater volume of automatic checks than we could in the past when we relied on manual processes.

Our real-time 'Integrity Manager' tool reviews returns filed, including GST and donation tax credits. In 2022/23, this resulted in \$145 million of incorrect or fraudulent refunds and tax reductions being stopped at the time of filing.

We use proactive automated messaging to help customers understand their obligations. For example, we message customers prior to the February income tax payment date to help them pay on time and avoid penalties and interest. Recently we ran an automatic messaging campaign to contact 102,000 sole parent beneficiaries to remind them about a change that will see child support payments passed on to them in full. This helped ensure most of these customers provided us with up-to-date bank account details in time for the first payments due.

The value of our new tools for compliance was demonstrated with the COVID-19 products we administered. For example:

- 48,000 Covid Support Payment applications were stopped by prepayment checks, and 30,000 of these were then rejected after review, saving \$140 million.
- 11,000 Small Business Cashflow (Loan) Scheme applications were stopped by prepayment checks, and of these 6200 applications were rejected after review, saving \$99 million.
- 143,000 Resurgence Support Payment applications were stopped by prepayment checks, and of these 43,000 were rejected after review, saving \$112 million.

However, as a consequence of diverting resources to deliver the COVID-19 support products, we reduced activity in collecting unfiled returns and in proactive compliance activity. We focused primarily on high-risk areas and, overall, maintaining the integrity of the tax and social policy system. These resources are now being directed back towards proactive compliance.

# Policy and regulatory stewardship

As mentioned earlier, you and the Minister of Finance are jointly responsible for tax policy, and you will receive joint tax policy advice from Inland Revenue and the Treasury. You are also responsible with other Ministers for some of the social policy programmes we administer, such as Working for Families Tax Credits, student loans, and aspects of KiwiSaver.

Inland Revenue's Policy and Regulatory Stewardship group is responsible for providing you with tax and social policy advice, forecasting and costings of policy proposals, and legislative drafting.

One of Inland Revenue's key strengths is end-to-end policy development. Having the policy and operational delivery functions, alongside forecasting and legislative drafting, within Inland Revenue allows all aspects of policy options to be considered – for example, the revenue impact, economic and social objectives, and compliance and administrative costs. This enables Ministers to be aware of both the policy and operational consequences of the decisions they are making.

As tax can be complex and have significant impacts, the Generic Tax Policy Process (GTPP) was developed to ensure our policy advice reflects the views of a broad range of stakeholders. There is more information on the GTPP on page 16.

In the following content we have suggested a process for developing the Revenue Strategy and the Tax and Social Policy Work Programme and progressing your more immediate priorities. We have also highlighted some other decisions you will need to make in the short-term.

## Initial priorities

### Progressing the Government's Priorities

We understand you will have immediate priorities that you will want to focus on over the next six months. We look forward to engaging with you to understand these priorities so that we can focus our early advice and engagement with you.

We can provide you with initial advice on your priorities in our first few meetings with you. We can follow up with briefings to provide you with advice on the choices available to you to meet your objectives, the design of initiatives, including fiscal costings and impacts, and key decisions that will need to be made. We can also provide you with implementation advice and identify areas that may involve discussion about trade-off decisions and the options available. Some initiatives may involve other government agencies and could benefit from consultation with the public and/or the tax advisory profession.

## Bills in progress

One of the early decisions of the new government is to determine which Bills to carry over into the new Parliament. There are currently two tax-related Bills going through the parliamentary process.

A summary of the Bills is provided below. We recommend that we provide you with a more detailed briefing shortly, given the possible timelines for these Bills.

### **Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill**

The Taxation (Annual Rates for 2023-24, Multinational Tax, and Remedial Matters) Bill is currently at the select committee stage, and public submissions closed on 14 July 2023. The Bill contains a number of changes, including:

- increasing the trustee tax rate to 39%
- introducing Global Anti-base Erosion rules developed by the OECD
- amending the tax treatment of certain backdated lump sum payments.

The Bill also sets the annual income tax rates for the current tax year. There is a legislative requirement to enact the annual tax rates for the next tax year by 31 March 2024.

A Supplementary Order Paper to the Bill was referred to the Finance and Expenditure Committee on 6 September 2023. This Supplementary Order Paper contains proposals to:

- ensure that a tax liability does not arise under the bright-line and other timing-based land sale tests for property owners impacted by the North Island flood events; and
- allow Fonterra to deduct certain distributions to its shareholders, consistent with the treatment that applied under its previous constitution.

If the Bill is carried over, we expect the Committee to hear oral submissions in early December 2023. Following this we would provide you with the draft Departmental Report before the end of the year. The Bill would be expected to be reported back to the House in February, with the remaining stages occurring in March 2024.

### **Digital Services Tax Bill**

The Digital Services Tax Bill has been introduced. This Bill would allow the government to impose, at an appropriate time, a tax on gross revenues of large multinational entities with highly digitised business models that earn income from New Zealand.

The OECD's 'Pillar One' solution is seeking multi-lateral agreement to address the issue. Because of concerns over the likelihood of the OECD's Pillar One being effectively implemented within an acceptable timeframe, the previous government was considering the unilateral implementation of a digital services tax as an interim solution while we wait for Pillar One to progress.

In the current Bill, the digital services tax would not be imposed before 1 January 2025, in keeping with commitments given to the OECD. The application date can be extended by an Order in Council.

After previous delays, the OECD had hoped to finalise Pillar One at its July 2023 Inclusive Framework meeting. However, they were unable to do so. The OECD is now aiming to finalise Pillar One by the end of the year.

## Other upcoming matters

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Inland Revenue's Annual Report 2023 will be tabled in the House once the new Parliament convenes.

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The Half-year Economic and Fiscal Update 2023 has been completed, and we will submit a report seeking your joint approval with the Minister of Finance for changes to non-departmental appropriations.

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The International Fiscal Association (IFA) will likely invite you to speak at its conference in Queenstown in February 2024.

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## Near-term priorities

### Process for setting the Revenue Strategy and the Work Programme

Legislation requires that as part of Budget 2024 the government will set its Revenue Strategy. The purpose of the Revenue Strategy is to outline the objectives for the tax system.

By convention, successive Ministers have chosen to publish a Tax and Social Policy Work Programme (TSPWP), which is the government's plan for developing, managing and delivering on changes to the tax and social policies Inland Revenue administers. The TSPWP is informed by the Revenue Strategy. It is usually refreshed every 18 months and is published on the Inland Revenue website.

For your information, we have attached the current TSPWP. We can also provide you with a progress report that outlines the status of each item.

Developing the TSPWP involves identifying and scoping broad policy proposals, and prioritising and sequencing the development of initiatives. External stakeholders (for example, the tax advisory profession) are usually invited to make suggestions for items to be included on the TSPWP. We also look at budgeted resource requirements and fiscal implications; the time needed to develop, legislate for, and implement initiatives; and the methods of consultation and communication to be employed throughout the process.

### 2024 legislative programme

If you have tax policy changes you would like to progress to take effect in the next six months, this will require legislation to be introduced as soon as possible.

Ministers will also be asked to put forward bids for legislation for the 2024 parliamentary legislative programme.

## Longer-term priorities

### Policy and regulatory stewardship work

Inland Revenue has stewardship responsibilities set out in the Public Service Act 2020. We think of stewardship in a wide sense. It includes our:

- regulatory stewardship responsibility to ensure the rules that govern the tax and social policy programmes we administer are maintained and are fit for purpose
- system stewardship responsibility, which includes our duty of care for the systems, products, and processes we are accountable for, and the information we collect
- responsibility to protect the long-term sustainability of the tax and social policy system and, where possible, take proactive steps, rather than a responsive or passive approach.

As part of our regulatory stewardship obligations, we will regularly provide you with advice on updates to legislation, including integrity issues that are identified and where the rules do not reflect the policy intent.

We are also legally required to prepare a long-term insights briefing every three years. In 2022 we published our first insights briefing on tax, foreign investment and productivity. Our next long-term insights briefing is due to be published in 2025. We are currently in the intelligence-gathering stage for this briefing, and we intend to consult on the topic in 2024.

Another key piece of long-term stewardship work underway is Inland Revenue's role in providing income support, such as through Working for Families and the individual earner tax credits. This project is focused on developing a long-term strategy on income support payments delivered through the tax system.

Our stewardship work programme is also influenced by our work with the OECD. We collaborate with the OECD on a range of tax matters, including the draft rules for a global minimum tax and evaluating whether international tax frameworks remain fit for purpose.

# New Zealand's guiding tax design principles

The primary purpose of the tax system is to raise revenue to fund government expenditure. The ability of the tax system to raise significant and sustainable funds is a role that no other piece of national infrastructure can play. The tax system also plays a role in:

- addressing income inequality through progressive rates and tax credits redistributing income
- stimulating economic activity
- influencing behaviour through tax rules and rebates – for example, encouraging research and development or discouraging pollution.

New Zealand's tax system has evolved through decisions made over many years. Periodically, review groups have examined the tax system and made suggestions guided by the following principles:

<b>Fairness</b>	<ul style="list-style-type: none"> <li>• Treating like with like, so that different taxpayers with similar amounts of income pay similar amounts of tax.</li> <li>• Progressivity, so those who are better off pay a greater proportion of their income in tax.</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• Neutrality with respect to economic activity, so that particular sectors are neither favoured nor penalised by the tax rules (unless as a result of an explicit policy decision).</li> <li>• Minimising the burden of tax on economic activities for a given amount of revenue raised.</li> </ul>
<b>Coherence</b>	<ul style="list-style-type: none"> <li>• Considering the tax and social policy system as a whole, thinking about how different policies interact rather than looking at policies in isolation.</li> </ul>
<b>Revenue integrity</b>	<ul style="list-style-type: none"> <li>• So that there are few, if any, opportunities to avoid paying taxes.</li> </ul>
<b>Sustainability</b>	<ul style="list-style-type: none"> <li>• So that the tax system continues to collect sufficient revenue over time to meet government expenditure.</li> </ul>
<b>Administration and compliance cost</b>	<ul style="list-style-type: none"> <li>• Reasonable costs of administering the tax system and of taxpayers in complying with it, and the fiscal cost to the government of any policy change.</li> </ul>

These principles are consistent with the tax principles listed in the Taxation Principles Reporting Act. Under the Act, we are required to report to you annually on how the tax system meets these principles, with the first report due by the end of the year.

The tax system benefits from certainty so that taxpayers understand what they owe or may receive. The tax system also needs to be adaptable to meet changes in society, such as the development of digital services and currency.

When considering tax policy changes, trade-offs between the different principles are often required. One principle may need to be prioritised over another to achieve the government's desired outcome. For example, a tax policy change to increase taxes on businesses to boost progressivity and revenue sustainability may worsen the impact on the economy and increase compliance costs, depending on how it is done. These principles, and the trade-offs involved in tax policy, will underpin the advice you receive.

There are important consequences from following these principles in designing a tax system. As mentioned earlier, the New Zealand tax system raises the bulk of its revenue from three tax bases – individual income tax, corporate tax, and GST. New Zealand does not have differential tax rates on labour income such as those in Nordic countries, nor does it have a separate payroll tax. Some bases, or forms of economic income or wealth, are not taxed other than by exemption. New Zealand does not have some of the more distortionary taxes, such as stamp duties, that are found in other countries.

## The generic tax policy process and engagement with stakeholders

Good process for developing tax policy reduces the likelihood of unintended consequences and the need for remedial amendments. Tax changes are ideally developed in accordance with the Generic Tax Policy Process (GTPP), which emphasises consultation throughout the policy development process. The GTPP contributes significantly to changes being well thought through and workable in practice, especially when technical or complex. At times Ministers may decide not to use the GTPP – for example, with sensitive measures developed for the Budget.

The GTPP is beneficial because external parties can help to identify potential problems and improve the workability of a policy. The process also gives customers greater understanding about the intent of the changes, which can improve compliance. The GTPP fosters a trusted relationship between officials and stakeholders, which means New Zealand has a private sector that is well informed about tax policy design and can provide advice based on what is best for the tax system. International commentators have favourably noted the constructive and inclusive way tax policy is developed in New Zealand compared with other countries.

Because of the GTPP's emphasis on consultation and engagement throughout the policy development process, Inland Revenue has well-established relationships with the tax community. We engage regularly with professional bodies such as Chartered Accountants Australia and New Zealand (CA ANZ), the New Zealand Law Society Te Kāhui Ture o Aotearoa, and the Accountants and Tax Agents Institute of New Zealand (ATAINZ), and with industry groups such as the Corporate Taxpayers Group. These groups will also seek to regularly engage with you over significant issues within your portfolio and invite you to speak at conferences.

Inland Revenue also engages with a Māori Reference Group on some issues. We are building up our Māori engagement capability, including a Māori perspectives team within



Policy and Regulatory Stewardship. We are committed to incorporating the feedback from this engagement into our work programme. This ensures our work programme is better informed of Māori perspectives, supports the Crown-Māori relationship and improves the department's interactions with our customers.

Should you wish, Inland Revenue can provide you with a briefing on key stakeholders.

## He Ara Waiora

Inland Revenue applies the He Ara Waiora framework to policymaking. Waiora is a concept that relates to Māori perspectives on wellbeing and living standards. The framework was created to think about how tikanga Māori can help with a more future focused tax system that engages with iwi and Māori, with input with Māori businesses and thought leaders.

Our approach to Māori perspectives is to acknowledge the importance of Te Tiriti of Waitangi in the design of policy and apply He Ara Waiora to deepen our understanding of the Māori worldview.

## The Living Standards Framework

Inland Revenue applies the Living Standards Framework, which was developed to support the Treasury to deliver high-quality policy advice. The Framework helps us to understand the drivers of wellbeing and to consider the broader impacts of our policy advice in a systematic and evidenced way.

# Inland Revenue

As at 31 October 2023, Inland Revenue is made up of 4,231 people across 17 towns and cities around New Zealand. Our people are our greatest asset, and we aim to continue to be seen as a great place to work and foster an environment in which our people feel they can bring their whole selves to work.

## Our recent and current context

Inland Revenue completed its Business Transformation programme in 2022, with final benefit and outcomes reporting completed after 30 June 2024. We now have a modern, digital revenue system that has made tax and payments simpler and more certain for customers.

We are more efficient, with simplified processes for customers, expanded online services, greater automation, more straight-through processing, and analytical tools that help us better target where to put our effort and provide us with greater visibility of areas of compliance risk. This has allowed us to deliver significant cost savings.

The amount of revenue we collected grew by 62.5% for the year ended 30 June 2023 compared to the year ended 30 June 2016, the last full year before transformation began. Over the same period, the number of our full-time equivalents reduced by 29%.

Building from a solid foundation following our transformation, we are now looking to the future and continuing to transform. We are making the most of our capabilities, continuing to seek opportunities to optimise our business, and working towards harnessing the power of the data and information we hold.

## Our structure

The department is led by **Commissioner and Chief Executive Peter Mersi**. Alongside responsibility for Inland Revenue's performance and overall management, Peter Mersi has system leadership roles, as outlined on page 20.

Inland Revenue is organised around its customers. The department's people work collaboratively across teams and business units, sharing information and capabilities to improve outcomes for customers.

Business Group	Executive Leader
<b>Customer and Compliance Services – Business</b> CCS-B provide certainty and accuracy on complex and global tax compliance arrangements, working to support micro-businesses, small-to-medium enterprises (including non-profit organisations) and significant enterprises. They also provide tax technical and legal support for Inland Revenue.	<b>Lisa Barrett</b> <b>Deputy Commissioner</b>

<b>Customer and Compliance Services – Individuals</b>	<b>James Grayson</b> <b>Deputy Commissioner</b>
CCS-I make tax compliance simpler by giving guidance and support to individuals, families, and tax agents. They also provide design and delivery, planning and performance, and operational support to both the Customer and Compliance Services business groups.	
<b>Enterprise Design and Integrity</b>	<b>Mary Craig</b> <b>Deputy Commissioner</b>
EDI supports Inland Revenue’s Commissioner and Executive Leadership Team to lead and govern effectively. They facilitate integrated business architecture and system/digital design, along with prioritisation and investment across Inland Revenue, and safeguard the department’s integrity and reputation. EDI includes the Te Kāhui Tūhono team, which is helping to build Inland Revenue’s Māori cultural capability.	
<b>Enterprise Services</b>	<b>Mike Cunnington</b> <b>Deputy Commissioner</b>
This group supports our people to operate efficiently, effectively and safely by providing seamless, integrated services across Inland Revenue.	
<b>Policy and Regulatory Stewardship</b>	<b>David Carrigan</b> <b>Deputy Commissioner</b>
PaRS provide tax and social policy advice to the government, alongside the Treasury. PaRS also represent New Zealand overseas on tax policy issues and negotiate and maintain New Zealand’s network of tax treaties with other countries. PaRS draft most tax legislation and support the passage of proposed changes through Parliament.	
<b>Tax Counsel Office</b>	<b>Michelle Redington</b> <b>Chief Tax Counsel</b>
TCO 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.	

## Our strategy and outcomes

We have revisited our strategy following the completion of our transformation and to ensure it is fit for purpose for our present and future operating environment.

Inland Revenue’s aspiration is ***improving oranga for current and future generations***. The oranga (wellbeing) of New Zealanders is at the heart of what Inland Revenue does. We make our biggest contribution to oranga through economic activities including collecting and distributing money.

A key part of our strategy is recognising Inland Revenue's three roles:

- Effective and efficient – doing what we do in the best ways for the best results.
- Stewardship – actively making sure what we're responsible for today will be fit for purpose tomorrow.
- Broader contribution – working across the public service to deliver more for Aotearoa New Zealand.

Success is reflected in our four outcomes:

The intergenerational oranga of the people of Aotearoa New Zealand is supported by Inland Revenue's active stewardship.	Oranga increases when Inland Revenue works with other organisations.	People receive their entitlements, enabling oranga.	Revenue is available to fund government programmes and services.
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We are committed to being a responsible and responsive Tiriti o Waitangi partner and providing better services for Māori customers. The department has developed its Māhutonga strategy, which strengthens our ability to support the Crown in the Māori-Crown relationship and helps us meet the requirements of the Public Service Act 2020.

## System leadership

New Zealand's devolved public service gives chief executives significant autonomy on how their departments operate. Highly aligned system leadership across the public service supports government services being more efficient, accessible to New Zealanders and more integrated where this makes sense. It also provides an important mechanism to achieve fiscal efficiency and sustainability.

The Public Service Act 2020 requires collaboration and joint delivery across government agencies, and Cabinet has agreed to strengthen the system leadership framework.

In July 2022 the Public Service Commissioner, Peter Hughes, designated Peter Mersi as System Leader for System Transformation and as a member of the Digital Executive Board. Together with other system leads, work has begun on developing a framework to help Ministers prioritise investment decisions to transform services for customers.

Mr Mersi is also the co-lead of Papa Pounamu, the public sector's diversity and inclusion work programme.

We are looking at where Inland Revenue has areas of comparative advantage that can support the wider public service. These include the best use of the assets and capabilities noted in the section below, and understanding where we are best placed to support or deliver outcomes.

## Our assets and capabilities

The government made a significant investment in transforming Inland Revenue's assets and capabilities through our Business Transformation programme. Based on our transformed assets and capabilities, we consider our areas of strength to be:

- delivering services based on core information, particularly income and customer data
- collection and payment of money/processing at scale
- high-volume, digital transaction processing (rather than services that rely on high levels of discretion and/or an extensive customer-facing presence)
- delivering large-scale, consistent, rules-based initiatives that leverage the capabilities of our commercial off-the-shelf systems
- analytical tools and capability, including risk assessment
- developing and managing a sophisticated partner ecosystem with the private sector, to support the efficient delivery of key customer-facing services.

We are experienced at customer-centric design, and we have a set of scalable, consistent, reusable design patterns for implementing products and services. Using generic functionality, rather than customised design, allows for quick and cost-effective implementation. Deviating from our established patterns adds complexity into our systems and processes, and could lead to inconsistent customer experiences and a higher cost of compliance.

We are focusing on ensuring that we optimise and embed our assets and mature our capabilities to get full value from the transformation investment. Through optimisation and continuous improvement, we will keep lifting customer experience, reducing compliance costs and identifying compliance opportunities.

To retain the value of our tools and capabilities, and stay agile and efficient, we need to keep regularly investing in our assets and capabilities over time. For example, we need to preserve funding and capacity so that we can keep up to date with new versions of our core system as they are released by its vendor.

## Our funding

### Appropriations

As Minister of Revenue, you are responsible for all of the appropriations in Vote Revenue, with one exception. The Minister of Research, Science and Innovation is responsible for the Research and Development Tax Incentive non-departmental other expense appropriation.

The Budget and Economic Fiscal Update 2023 (BEFU 2023) Estimates of Appropriations for Vote Revenue contain more detail on the scope and amount of each appropriation within the Vote, which we can provide you with if you wish.

## Departmental funding

For the 2023/24 financial year, as at the October Baseline Update (OBU) 2023, the department's funding is provided through three operating appropriations totalling \$797 million:

- \$777 million (\$700 million for 2022/23) for Services for customers (multi-category expenses and capital expenditure).
- \$18 million (\$33 million for 2022/23) for the final year of transformation residual activities.
- \$2 million (\$2 million for 2022/23) for services to other agencies.

The figures above do not incorporate the 2% appropriation reduction (\$13.9 million per annum from 2024/25) which was announced in August 2023, although we have planned for this adjustment.

Our departmental funding reflects savings realised as part of our Business Transformation benefit commitments, including a significant reduction in our workforce. As at 31 October 2023 Inland Revenue has a workforce of 4,231 people, a reduction of 1,431 people from our June 2016 workforce of 5,662. Our smaller workforce has meant reduced personnel expenditure and associated costs such as accommodation leases.

Following transformation our expenditure composition has changed. Information technology and telecommunications expenditure has increased as a proportion of total operating expenditure. This reflects our significant investment in technology 'as a service' arrangements and cloud-based infrastructure, and our shift away from owning and maintaining our own physical IT systems.

Our funding reduces to \$731 million in 2024/25 and approximately \$700 million in outyears. This reduction primarily reflects the cessation of time-limited funding.

Our primary cost pressures in outyears will be remuneration, and inflationary cost pressures on technology, as-a-service contracts, accommodation leases, and other operating costs. We are currently developing options for meeting these costs and we will report back to you on these.

## Non-departmental funding

For the 2023/24 financial year, Inland Revenue will administer just over \$17 billion of non-departmental appropriations. As at PREFU 2023, this included:

- \$12 billion for other expenses, including impairment of debt and debt write-offs, the initial fair value write-down relating to student loans and the Small Business Cashflow (Loan) Scheme, KiwiSaver employee and employer pass-through contributions and the research and development tax incentive.
- \$5 billion of benefits or related expenses, including Working for Families Tax Credits, child support payments, KiwiSaver interest and tax credits, and paid parental leave payments.

- \$15 million for capital expenditure (that is, lending) for the Small Business Cashflow (Loan) Scheme.
- just over \$14 million of borrowing expenses for interest on the income equalisation scheme and the environmental restoration account.

The Half-year Economic and Fiscal Update 2023 (HYEFU) has been completed, and we will shortly submit a report seeking your joint approval with the Minister of Finance for changes to non-departmental appropriations.

## Forecast tax revenue

Tax revenue forecasts are included within Vote Revenue. These forecasts are prepared by the Treasury, in consultation with Inland Revenue's Forecasting and Analysis team.

The tax forecasts were updated as part of HYEFU 2023.

## Our people

We focus on attracting and keeping capable people, and on increasing diversity, equity and inclusion at Inland Revenue. Taking a long-term, data-driven approach to workforce planning is helping to build capability for the future. We keep a strong focus on our people's experience and wellbeing.

Like many organisations, we have experienced the impacts of a volatile talent market and are actively planning for the workforce we will need in the future. In May 2022, our headcount was at its lowest, at 3,877 people, as we were unable to fill all our vacancies, instead using overtime and occasionally contractors to fill any gaps in capacity.

In recent months we have seen a change in the market, resulting in a greater number of applications and more positions being filled. However, we continue to have challenges filling some specialised roles. Experience suggests it can take up to six months to source, onboard and complete initial training of our people.

Our use of contractors, consultants and agency workers has reduced significantly following the completion of our transformation. At times we will use these workers to help with specific short-term tasks or peaks in workload. Contractor and consultant spend accounts for around 10% of our personnel expenditure.

Inland Revenue's gender and ethnic pay gaps have been closing over time, supported by measures that are reflected in the Diversity, Equity and Inclusion roadmap and reported publicly in our Annual Report. On average, there are no unexplained pay gaps in the same or similar roles. Over 90% of our people work flexibly in some way.

## Engagement with unions

Inland Revenue has a highly unionised workforce, with 82% of people belonging to a union. The three unions that our people belong to are: the Public Service Association (PSA), Taxpro, and the National Union of Public Employees (NUPE).

The three unions were all part of the centrally negotiated Public Sector Pay Adjustment (PSPA) process in late 2022/23. Inland Revenue concluded bargaining successfully in mid-2023, and these collectives expire in early to mid-2025.

There are currently two pay equity claims underway in the public service covering employees at Inland Revenue, all involving all three unions at Inland Revenue. The claims relate to administration and clerical roles, including all of our Customer Service Officers, which account for a large number of our employees. The department is waiting for the claims to move to the bargaining stage with the unions.



# How we will support you

We look forward to discussing with you how best we can support you and your office. We have set out below the type of support that we have provided previously.

To assist with reports, communication and correspondence, Inland Revenue has provided two secondees to the Minister of Revenue's office: a Private Secretary (currently s 9(2)(a) ) and a Revenue Advisor (currently s 9(2)(a) ). We also have a secondee in the Minister of Finance's office (currently s 9(2)(a) ), who will shortly be handing over to s 9(2)(a) . The secondees act as advisors on tax policy, tax administration and social policy matters, assist in handling media enquiries, help liaise with Inland Revenue and manage incoming communication.

Inland Revenue staff assist in providing draft responses to ministerial correspondence and collating information for Official Information Act requests and parliamentary questions.

## Regular reports

We have previously provided a Weekly Status Report. This includes information relating to new topical issues, Cabinet and Cabinet Committee papers, Bills currently in the House, advertising and publicity, and requests made under the Official Information Act.

We will send you a quarterly performance report that covers the overall performance of the department, along with specific information on the performance measures agreed with you and published as part of the Estimates of Appropriations process. We will be seeking your approval for the suite of measures for the 2024/25 year in February 2024.

For your role as Vote Minister, we will send you finance and budget-related reports throughout the year, based on the Treasury processes and timelines. This will include budget baseline updates (October, March and June), economic and fiscal updates (November and April) and Budget-related documents for Budget initiatives and the Estimates of Appropriations. These reports will include certifications and approval for financial forecast and contingencies.

## Meetings

The table below sets out the regular meetings that the previous Minister of Revenue had with officials and other Ministers. We look forward to discussing these arrangements with you to determine your preferences.

Meeting with the Commissioner of Inland Revenue and officials to discuss portfolio-related matters, including one-to-one time with the Commissioner.	Weekly
Meeting with the Minister of Finance to discuss key decisions and issues in the portfolio.	Fortnightly
Meeting with officials to discuss policy matters.	As required

## Key Inland Revenue contacts

<b>Peter Mersi</b> Commissioner of Inland Revenue	s 9(2)(a)
<b>David Carrigan</b> Deputy Commissioner, Policy and Regulatory Stewardship	
<b>Mary Craig</b> Deputy Commissioner, Enterprise Design and Integrity	
<b>Kirsty Gemmill</b> Service Leader, Governance, Ministerial and Executive Services	
<b>Emma Grigg</b> Policy Director	
<b>Phil Whittington</b> Policy Director	
<b>Kerryn McIntosh-Watt</b> Policy Director	
<b>Josh Green</b> Domain Lead, Governance and Ministerial Services	