

# *Information Supporting the Supplementary Estimates*

## *Vote Revenue*

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MINISTER(S) RESPONSIBLE FOR APPROPRIATIONS: Minister of Revenue (M57)

ADMINISTERING DEPARTMENT: Inland Revenue Department

MINISTER RESPONSIBLE FOR INLAND REVENUE DEPARTMENT: Minister of Revenue

## Part 1 - Summary of the Vote

### Part 1.3 - Trends in the Vote

#### Summary of Financial Activity

	2008/09				
	Estimates \$000	Supplementary Estimates			Total \$000
		Departmental Transactions \$000	Non- Departmental Transactions \$000	Total Transactions \$000	
<b>Appropriations</b>					
Output Expenses	626,508	40,052	-	40,052	666,560
Benefits and Other Unrequited Expenses	5,330,880	N/A	(673,180)	(673,180)	4,657,700
Borrowing Expenses	2,710	-	300	300	3,010
Other Expenses	993,500	-	599,000	599,000	1,592,500
Capital Expenditure	77,973	2,837	-	2,837	80,810
Intelligence and Security Department Expenses and Capital Expenditure	-	-	N/A	-	-
<b>Total Appropriations</b>	<b>7,031,571</b>	<b>42,889</b>	<b>(73,880)</b>	<b>(30,991)</b>	<b>7,000,580</b>
<b>Crown Revenue and Capital Receipts</b>					
Tax Revenue	51,208,000	N/A	(2,999,000)	(2,999,000)	48,209,000
Non-Tax Revenue	888,000	N/A	77,706	77,706	965,706
Capital Receipts	679,200	N/A	183,100	183,100	862,300
<b>Total Crown Revenue and Capital Receipts</b>	<b>52,775,200</b>	<b>N/A</b>	<b>(2,738,194)</b>	<b>(2,738,194)</b>	<b>50,037,006</b>

## Part 2 - Details and Expected Performance for Output Expenses

### Part 2.1 - Departmental Output Expenses

#### Management of Debt and Outstanding Returns (M57)

##### *Scope of Appropriation*

Taking follow-up action where returns are outstanding and where payments are overdue, including providing people with assistance on the actions they need to take to meet their obligations.

##### *Reasons for Change in Appropriation*

The changes since the 2008/09 Main Estimates are attributable to:

- funding for the operating pressures contingency received as part of Budget 2009. The total for this initiative is \$15 million and the portion applicable to this appropriation is estimated at \$2.084 million
- an expense transfer between 2008/09 and 2009/10 for some of the funding that relates to the long-term accommodation solution in Wellington. The total approved transfer out of the 2008/09 baseline is (\$1.982 million), of which (\$325,000) is applicable to this appropriation
- a fiscally neutral adjustment between departmental output expenses which totals (\$1.500 million) for this appropriation
- a baseline adjustment of \$542,000 (funded through revenue department) to appropriate for compulsory KiwiSaver employer contributions, of which \$76,000 applies to this appropriation.

#### Policy Advice (M57)

##### *Scope of Appropriation*

Advising on all aspects of tax policy and social policy measures that interact with the tax system. Drafting tax legislation and rewriting the Income Tax Act. Negotiating and maintaining New Zealand's network of double tax agreements with other countries. Forecasting tax revenues and providing ministerial services.

##### *Reasons for Change in Appropriation*

The changes since the 2008/09 Main Estimates are attributable to:

- funding for the operating pressures contingency received as part of Budget 2009. The total for this initiative is \$15 million and the portion applicable to this appropriation is estimated at \$326,000
- an expense transfer between 2008/09 and 2009/10 for some of the funding that relates to the long-term accommodation solution in Wellington. The total approved transfer out of the 2008/09 baseline is (\$1.982 million), of which (\$46,000) is applicable to this appropriation
- a fiscally neutral adjustment between departmental output expenses which totals (\$1.500 million) for this appropriation
- a baseline adjustment of \$542,000 (funded through revenue department) to appropriate for compulsory KiwiSaver employer contributions, of which \$13,000 applies to this appropriation.

## Services to Inform the Public About Entitlements and Meeting Obligations (M57)

### *Scope of Appropriation*

Providing information and assistance to customers on the application of the law. Responding to customer enquiries about tax and social support programmes. Adjudication on behalf of the Commissioner on proposed taxpayer assessments. Providing binding rulings and other statements on the interpretation and application of the law administered by Inland Revenue.

### *Reasons for Change in Appropriation*

The changes since the 2008/09 Main Estimates are attributable to:

- funding for the operating pressures contingency received as part of Budget 2009. The total for this initiative is \$15 million and the portion applicable to this appropriation is estimated at \$5.759 million
- funding for the implementation of tax and KiwiSaver changes received as part of Budget 2009. The total for this initiative is \$7.450 million and the portion applicable to this appropriation is \$4.470 million
- funding for the Budget 2008 personal tax package follow-up measures and revised administrative costs. \$1.674 million, out of a total of \$2.790 million, relates to this appropriation
- drawdown of the employer tax credit square up contingency funding of \$1.668 million for this appropriation, out of a total of \$2.220 million
- an expense transfer for KiwiSaver enhancements from the previous year, approved in-principle during 2007/08 and confirmed during 2008/09. This totals \$4.100 million, of which \$2.460 million relate to this appropriation
- an expense transfer for Student Loans from the previous year, approved in-principle during 2007/08 and confirmed during 2008/09. This totals \$725,000, of which \$435,000 relates to this appropriation
- an expense transfer between 2008/09 and 2009/10 for some of the funding that relates to the long-term accommodation solution in Wellington. The total approved transfer out of the 2008/09 baseline is (\$1.982 million), of which (\$702,000) is applicable to this appropriation
- a fiscally neutral adjustment between departmental output expenses which totals \$5 million for this appropriation
- a baseline adjustment of \$542,000 (funded through revenue department) to appropriate for compulsory KiwiSaver employer contributions, of which \$204,000 applies to this appropriation.

## Services to Process Obligations and Entitlements (M57)

### *Scope of Appropriation*

Registering tax payers, making tax assessments, assessing child support liabilities including providing a readily accessible inexpensive process for reviewing assessments, receiving and making payments to customers, processing applications and payments for social support programmes, collection of ACC Earners' levies, supplying information to other government agencies and accounting and reporting the collection of Crown revenue.

### *Reasons for Change in Appropriation*

The changes since the 2008/09 Main Estimates are attributable to:

- funding for the operating pressures contingency received as part of Budget 2009. The total for this initiative is \$15 million and the portion applicable to this appropriation is estimated at \$2.850 million

- funding for the implementation of tax and KiwiSaver changes received as part of Budget 2009. The total for this initiative is \$7.450 million and the portion applicable to this appropriation is \$2.980 million
- funding for the employer tax credit square up contingency of \$2.800 million received as part of Budget 2009
- funding for the Budget 2008 personal tax package follow-up measures and revised administrative costs. \$1.116 million, out of a total of \$2.790 million, relates to this appropriation
- drawdown of the employer tax credit square up contingency funding of \$552,000 for this appropriation, out of a total of \$2.220 million
- an expense transfer for KiwiSaver enhancements from the previous year, approved in-principle during 2007/08 and confirmed during 2008/09. This totals \$4.100 million, of which \$1.640 million relates to this appropriation
- an expense transfer for Student Loans from the previous year, approved in-principle during 2007/08 and confirmed during 2008/09. This totals \$725,000, of which \$290,000 relates to this appropriation
- an expense transfer from 2008/09 to 2009/10 for some of the funding that relates to the long-term accommodation solution in Wellington. The total approved transfer out of the 2008/09 baseline is (\$1.982 million), of which (\$390,000) is applicable to this appropriation
- an expense transfer of (\$949,000) from 2008/09 to 2009/10 for some of the funding that relates to the tax relief for redundancy payments initiative
- a fiscally neutral adjustment between departmental output expenses which totals (\$11 million) for this appropriation
- a baseline adjustment of \$542,000 (funded through revenue department) to appropriate for compulsory KiwiSaver employer contributions, of which \$114,000 applies to this appropriation
- funding for standard business reporting (funded through revenue department) of \$1.500 million
- funding for industry classification (ANZSIC) codes (funded through revenue department) of \$442,000.

## Taxpayer Audit (M57)

### *Scope of Appropriation*

Identifying risks to revenue and designing and undertaking audit activities accordingly. Managing litigation of disputed tax cases.

### *Reasons for Change in Appropriation*

The changes since the 2008/09 Main Estimates are attributable to:

- funding for the operating pressures contingency received as part of Budget 2009. The total for this initiative is \$15 million and the portion applicable to this appropriation is estimated at \$3.981 million
- funding for structured finance litigation of \$4.500 million received as part of Budget 2009
- an expense transfer of \$914,000 for structured finance litigation from the previous year, approved in-principle during 2007/08 and confirmed during 2008/09
- an expense transfer between 2008/09 and 2009/10 for some of the funding that relates to the long-term accommodation solution in Wellington. The total approved transfer out of the 2008/09 baseline is (\$1.982 million), of which (\$519,000) is applicable to this appropriation
- a fiscally neutral adjustment between departmental output expenses which totals \$9 million for this appropriation
- a baseline adjustment of \$542,000 (funded through revenue department) to appropriate for compulsory KiwiSaver employer contributions, of which \$135,000 applies to this appropriation.

## Part 3 - Details for Benefits and Other Unrequited Expenses

### Part 3.2 - Non-Departmental Benefits and Other Unrequited Expenses

#### **Child Support Payments PLA (M57)**

##### *Scope of Appropriation*

Child support payments to custodial persons who are not dependent on the state for financial support (expenses incurred pursuant to section 141 of the Child Support Act 1991).

##### *Reasons for Change in Appropriation*

The decrease of \$17 million to \$205 million is due to the change in macroeconomic outlook.

#### **Child Tax Credit PLA (M57)**

##### *Scope of Appropriation*

Extra assistance for low to middle income families who are not dependent on the state for financial support (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

##### *Reasons for Change in Appropriation*

The decrease of \$100,000 to \$6 million is due to the changes in the tax rates and the macroeconomic outlook.

#### **Family Tax Credit PLA (M57)**

##### *Scope of Appropriation*

Family Support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994). Name change as part of the Working for Families package

##### *Reasons for Change in Appropriation*

The decrease of \$5.300 million to \$2,113.100 million is due to the changes in the tax rates and the macroeconomic outlook.

## **In-Work Tax Credit PLA (M57)**

### *Scope of Appropriation*

Extra assistance for low to middle families who are working at least 20 hours per week or 30 hours per week between both parents if they are couple (expenses incurred pursuant to section 185 of the Tax Administration Act 1994). Name changed as part of the Working for families package.

### *Reasons for Change in Appropriation*

The decrease of \$700,000 to \$586 million is due to the changes in the tax rates and macroeconomic outlook.

## **Kiwi Saver: Kickstart payment (M57)**

### *Scope of Appropriation*

To enable the one-off payment made on opening a KiwiSaver account for people who meet the required eligibility criteria as set in the KiwiSaver Act 2006.

### *Reasons for Change in Appropriation*

The 2007/08 financial year was the first year of KiwiSaver. During the 2008/09 year the uptake for the scheme was higher than originally forecast. The increase of \$100 million to \$397 million reflects the level of new membership.

## **KiwiSaver Employer Tax Credit (M57)**

### *Scope of Appropriation*

To enable the payment of a tax credit to employers in respect of their contributions to KiwiSaver as set out in the Income Tax Act 2004.

### *Reasons for Change in Appropriation*

The 2007/08 financial year was the first year of KiwiSaver. In the 2008/09 year the uptake for the scheme was higher than originally forecast however there is an overall decrease in appropriation of \$134 million to \$313 million which reflects the change in legislation effective 1 April 2009.

## **KiwiSaver Member Tax Credit (M57)**

### *Scope of Appropriation*

To enable the payment of a tax credit to KiwiSaver members as set out in the Income Tax Act 2004.

### *Reasons for Change in Appropriation*

The 2007/08 financial year was the first year of KiwiSaver. In the 2008/09 year the uptake for the scheme was higher than originally forecast. The increase of \$68 million to \$661 million reflects this new level of membership despite a change in legislation which reduces the entitlement.

**KiwiSaver: Fee Subsidy (M57)***Scope of Appropriation*

To enable the payment made to KiwiSaver accounts of the subsidy for provider fees as set out in the KiwiSaver Act 2006.

*Reasons for Change in Appropriation*

The 2007/08 financial year was the first year of KiwiSaver. In the 2008/09 year the uptake for the scheme was higher than originally forecast. The increase of \$2 million to \$33 million reflects the new levels of membership.

**KiwiSaver: Interest (M57)***Scope of Appropriation*

To enable the payment made of interest on KiwiSaver contributions as set in the KiwiSaver Act 2006.

*Reasons for Change in Appropriation*

The 2007/08 financial year was the first year of KiwiSaver. In the 2008/09 year the uptake for the scheme was higher than originally forecast. The increase of \$13.900 million to \$16 million reflects the level of new membership.

**Minimum Family Tax Credit PLA (M57)***Scope of Appropriation*

Extra payment made to families where at least one parent is working for salary or wages (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

*Reasons for Change in Appropriation*

The decrease of \$3.800 million to \$9.500 million reflects the changes in tax rates and macroeconomic outlook.

**On-payment of Employee KiwiSaver Contributions to KiwiSaver Providers PLA (M57)***Scope of Appropriation*

To enable the on-payment of employee KiwiSaver contributions collected by Inland Revenue to KiwiSaver providers (expenses incurred pursuant to section 73 of the KiwiSaver Act 2006).

*Reasons for Change in Appropriation*

The decrease of \$636 million to nil is due to the fact that this appropriation is no longer required.

## **Paid Parental Leave Payments PLA (M57)**

### *Scope of Appropriation*

Paid Parental Leave Payments made to parents eligible under the Parental Leave and Employment Protection Act 1987.

### *Reasons for Change in Appropriation*

The decrease of \$3.850 million to \$142.500 million is due to the change in tax rates and the macroeconomic outlook.

## **Parental Tax Credit PLA (M57)**

### *Scope of Appropriation*

Additional financial support to working families for the eight week period following the birth of a child (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

### *Reasons for Change in Appropriation*

The decrease of \$1.800 million to \$20.400 million is due to the changes in tax rates and the macroeconomic outlook.

## **Payroll Subsidy (M57)**

### *Scope of Appropriation*

Subsidy for the purposes of subsidising the costs of a payroll agent undertaking employers' payroll-related tax compliance activities

### *Reasons for Change in Appropriation*

The appropriation has reduced by \$53,000 to \$1.200 million over the last year as actual data to date indicates that the uptake is lower than originally forecast.

## **Research and Development Tax Credit (M57)**

### *Scope of Appropriation*

This appropriation is limited to tax credits to businesses that are undertaking research and development.

### *Reasons for Change in Appropriation*

The decrease of \$54 million to \$154 million is due to the removal of these tax credits effective 1 April 2009. Therefore the figure for 2008/09 only reflects 9 months of the year.

## Part 4 - Details for Borrowing Expenses

### Part 4.2 - Non-Departmental Borrowing Expenses

#### **Environmental Restoration Account Interest PLA (M57)**

##### *Scope of Appropriation*

Interest on the deposits made to the Environmental Restoration Accounts Scheme as authorised by section 185 of the Tax Administration Act 1994.

##### *Reasons for Change in Appropriation*

The growth of \$500,000 to \$1.500 million is due to an increase in deposits into the Environmental Restoration Account.

#### **Income Equalisation Interest PLA (M57)**

##### *Scope of Appropriation*

This appropriation is limited to interest on Income Equalisation deposits relating to withdrawals and deposits by taxpayers in the farming, fishing or forestry industries (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

##### *Reasons for Change in Appropriation*

The reduction of \$200,000 to \$1.500 million in 2008/09 reflects forecast economic factors in the farming, fishing and forestry sectors.

## Part 5 - Details and Expected Results for Other Expenses

### Part 5.2 - Non-Departmental Other Expenses

#### **General Tax and Family Support Bad Debt Write-Offs (M57)**

##### *Scope of Appropriation*

Provision for write-downs of Crown debt administered by Inland Revenue due to bad debt write-offs, or bad debt provisions, resulting from the need to value debt according to accepted accounting practice.

##### *Reasons for Change in Appropriation*

There was a change made to Inland Revenue Accounting Policy in 2006/07 financial year regarding bad debt write-offs. In prior years these had been netted against revenue but in 2006/07 they were reported gross in the financial statements. The increase of \$31.500 million to \$753.500 million in appropriations for 2008/09 reflects the forecast bad debt write-off for the year.

#### **Impairment of Debt Relating to Child Support (M57)**

##### *Scope of Appropriation*

This appropriation is limited to amounts relating to impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of child support debt.

##### *Reasons for Change in Appropriation*

This is to recognise the impairment relating to Child Support. Previously it was recognised as a Provision for Doubtful Debts but, with the adoption of the New Zealand Equivalents to International Financial Reporting Standards the debt is now impaired annually. The increase of \$100 million to \$164 million is due to the change in the macro economic outlook.

#### **Impairment of Debt Relating to General Tax and Family Support (M57)**

##### *Scope of Appropriation*

This appropriation is limited to amounts relating to impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the debt, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of debt.

##### *Reasons for Change in Appropriation*

This is to recognise the impairment relating to General Tax and Family Support. Previously it was recognised as a Provision for Doubtful Debts but, with the adoption of the New Zealand equivalents to International Financial Reporting Standards the debt is now impaired annually. The increase of \$317.500 million to \$475 million is due to forecast changes in the value of the debt book.

## Impairment of Debt Relating to Student Loans (M57)

### *Scope of Appropriation*

This appropriation is limited to amounts relating to impairment arising from objective evidence of one or more loss events that occurred after the initial recognition of the loan, and the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loans.

### *Reasons for Change in Appropriation*

This appropriation relates to the impairment of the student loan debt book. Under New Zealand equivalents to International Accounting Standards the debt is impaired annually. The forecast has been updated to reflect expected changes to modelling assumptions that were not included in the original Estimates forecast. The increase of \$150 million to \$200 million is due to changes in the macroeconomic outlook.