

VOTE *Revenue*

Revenue

Overview

Departmental Appropriations

Departmental appropriations sought for Vote Revenue in 2006/07 total \$531.468 million. This is intended to be spent as follows:

- \$11.186 million (2% of departmental appropriations) on the provision of policy advice.
- \$158.635 million (30% of departmental appropriations) on services to inform the public about entitlements and meeting obligations.
- \$111.184 million (21% of departmental appropriations) on services to process obligations and entitlements.
- \$105.616 million (20% of departmental appropriations) on the management of debt and outstanding returns.
- \$124.347 million (23% of departmental appropriations) on taxpayer audits.
- \$20.500 million (4% of departmental appropriations) on collection of ACC levies.

Non-Departmental Appropriations

Benefits and other unrequited expenses sought for Vote Revenue in 2006/07 total \$2,528.800 million. This is intended to be spent on social assistance, including payments of Child Support, Family Support credit, Family Tax Credit, Child Tax Credit, Parental Tax Credit, In-work Payment, Paid Parental Leave payments and Payroll Subsidy.

Borrowing expenses sought for Vote Revenue in 2006/07 total \$2.093 million. This represents the interest payable to adverse event scheme and income equalisation schemes. Interest is affected by fluctuations in the level of withdrawals and deposits by taxpayers in the farming, fishing or forestry industries. Also it represents the interest payable on the deposit made to the Environmental Restoration Accounts Schemes.

Other expenses sought for Vote Revenue in 2006/07 total \$205.847 million. This represents the cost of student loan impairment under the interest free policy change and the change in doubtful debt provisions for general tax and Child Support penalties debt pursuant to the Public Finance Act 1989.

Crown Revenue and Receipts

Inland Revenue expects to assess \$46,597.468 million of total Crown Revenue and Receipts in 2006/07, \$45,366 million of which is tax revenue including:

- \$20,534 million from source deductions from individual taxpayers.
- \$8,799 million from the net goods and services tax.
- \$8,579 million from income tax on companies.
- \$3,431 million from other income tax from individuals and trusts.
- \$3,229 million from withholding taxes.

Details of how the appropriations are to be spent appear in Parts B1, C, D and E. Details of Crown revenue appear in Part F.

Terms and Definitions Used

ACC	Accident Compensation Corporation
AEIERS	Adverse Event Income Equalisation Reserve Scheme
CTC	Child Tax Credit
ERA	Environmental Restoration Account
FBT	Fringe Benefit Tax
FS	Family Support Credit
FTC	Family Tax Credit
GST	Goods and Services Tax
IERS	Income Equalisation Reserve Scheme
PAYE	Pay As You Earn
PPL	Paid Parental Leave
PTC	Parental Tax Credit
RWT	Resident Withholding Tax
SSCWT	Specified Superannuation Contribution Withholding Tax

Minister Portfolio Table

57	Minister of Revenue
----	---------------------

Revenue

VOTE MINISTER: Minister of Revenue

ADMINISTERING DEPARTMENT: Inland Revenue

The Minister of Revenue is the Responsible Minister for Inland Revenue

Part A - Statement of Objectives and Trends

Part A1 - Objectives for Vote

Linkages to Government Goals

Inland Revenue's outcomes

Inland Revenue's primary function is to collect revenue under the taxation laws of New Zealand. In addition, Inland Revenue has a collection and distribution role under a range of social support programmes. Inland Revenue's outcomes focus on the collection and distribution roles.

Government priorities	Economic transformation. Families - young and old. National identity.
Inland Revenue's primary outcome	Improving the economic and social wellbeing of New Zealanders.
Inland Revenue's intermediate outcomes	Revenue is available to fund government programmes through people meeting their payment obligations of their own accord. People receive payments they are entitled to, enabling them to participate in society.

Our primary outcome reflects the important contribution that we make in improving economic and social wellbeing of people living in New Zealand. The primary outcome provides a single high-level focus for our planning across all areas of our work.

The ways we can influence the achievement of the primary outcome include:

- effectively and efficiently collecting revenue
- paying refunds and other entitlements on a timely and accurate basis
- administering social support programmes
- supporting participation in education by administering parts of the student loan scheme
- ensuring that people have trust and confidence in the tax system through operating in a transparent and professional manner
- working collaboratively with The Treasury and the Ministry of Social Development, to advise Government on the design of the policy and legislative framework.

The intermediate outcomes articulate the main ways that we can influence the achievement of our primary outcome. The outcomes help us to focus on the results we want to achieve and align the interventions we will need to take to achieve those results.

These outcomes allow us to create an environment that promotes compliance and helps to direct our activities to collect tax and social support programme payments (such as child support and student loan repayments), and ensure that people receive their social support programme entitlements (such as family assistance entitlements under the *Working for Families package*, child support and paid parental leave).

To do this effectively and efficiently, we need to create an environment that allows people to easily and voluntarily comply with their tax and social support programme obligations. At the same time, we need to enforce the law where people do not comply.

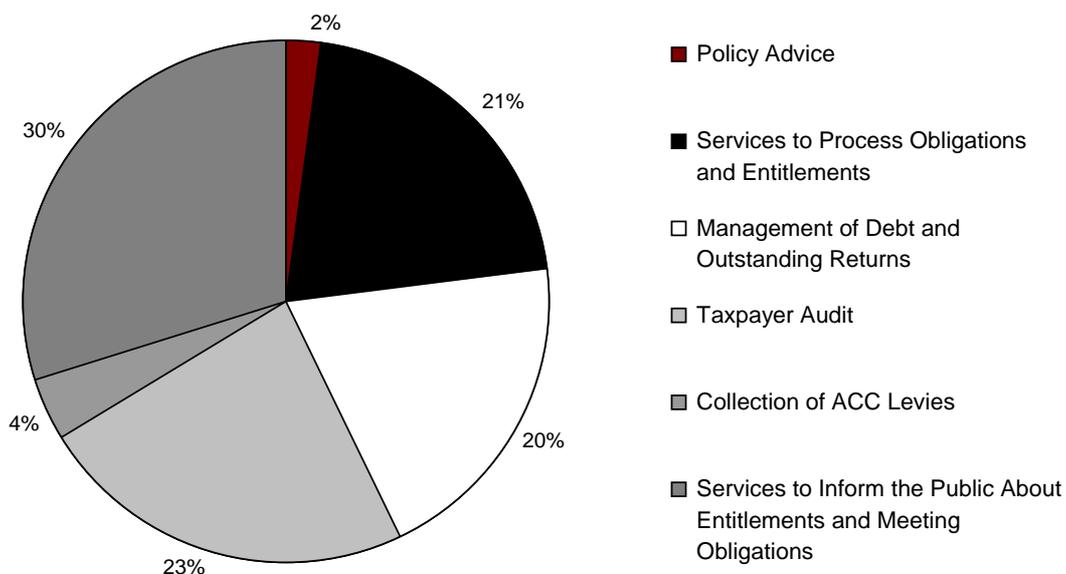
Linkages to output expenses

The output expense descriptions detailed in Part C (Explanation of Appropriations for Output Expenses) explains how our interventions impact on, and link to, our outcomes.

2006/07 Vote Revenue Output Expenses Budgeted Expenditure

The proportions of 2006/07 budgeted expenditure among departmental output expenses are depicted in Figure 1.

Figure 1 - Total Departmental Output Expenses 2006/07



Source: Inland Revenue

Part A2 - Trends in Vote

Departmental Output Trends 2001/02 to 2006/07

As outlined in the table below, annual departmental output expense costs have increased by \$163.721 million (44.5%) from \$367.747 million in 2001/02 to \$531.468 million in 2006/07.

Total Output Expense Costs	2001/02 Actual \$000	2002/03 Actual \$000	2003/04 Actual \$000	2004/05 Actual \$000	2005/06 Estimated \$000	2006/07 Vote \$000
Total Output Expense Costs	367,747	382,262	404,617	433,029	486,123	531,468

Significant movements over this period are as follows:

- The increase in 2002/03 relates to funding to maintain the tax base, implementation of the department's business plan, The Way Forward, and the implementation of the debt and hardship rules.
- The increase in 2003/04 relates to funding to enhance audit capability and initiatives in Child Support designed to cope with growth and to reduce debt levels.
- The increase in 2004/05 relates to funding to build future capability, enhance the administration of Child Support and to maintain and improve taxpayer compliance. Baseline increases were also received for implementing the rewrite of the Income Tax Act, simplification initiatives for small and medium sized enterprises, enhancements to the Paid Parental Leave scheme, and the delivery of the student support review and Working for Families package.
- The increase in 2005/06 relates to funding to address future challenges with taxation administration, implement Government initiatives (including the business package), increase child support reciprocal debt cases in Australia, extend paid parental leave to the self-employed, Working for Families, implementing KiwiSaver, and implementing Student Support initiatives.
- The increase in 2006/07 relates to funding to implement and deliver the extension of eligibility and entitlements under Working for Families in 2006/07, to implement and deliver interest free student loans and student loan amnesty in 2006/07, to implement and deliver the systems changes associated with the taxation of investment income and SSCWT, to implement the student loan data match system, to prepare a business case for the student loan system rebuild, to retain people capability, to protect the integrity of the tax system and to address current infrastructure pressures.

The following table outlines the costs of all output expenses from 2001/02 to 2006/07:

Output Expense	2001/02 Actual \$000	2002/03 Actual \$000	2003/04 Actual \$000	2004/05 Actual \$000	2005/06 Estimated \$000	2006/07 Vote \$000
Policy Advice	8,273	7,473	9,868	9,729	9,986	11,186
Adjudication and Rulings	6,179	6,230	6,545	6,462	6,975	-
Services to Inform the Public About Entitlements and Meeting Obligations	72,264	88,318	95,797	104,571	130,664	158,635
Services to Process Obligations and Entitlements	52,301	57,691	58,540	57,533	65,960	111,184
Management of Debt and Outstanding Returns	45,823	56,897	59,439	63,249	67,786	105,616
Taxpayer Audit	89,251	91,282	98,207	110,538	118,261	124,347
Assessment and Collection of Child Support	47,077	50,440	55,571	60,447	65,991	-
Collection of ACC Levies	27,757	24,031	20,650	20,500	20,500	20,500
Administration of Income Maintenance	8,830	-	-	-	-	-
Student Loan Scheme	8,552	-	-	-	-	-
Supply of Information to Other Agencies	1,440	-	-	-	-	-
Total Output Expenses	367,747	382,362	404,617	433,029	486,123	531,468

Comments on major trends:

- Between 2001/02 and 2006/07 the cost of the Policy Advice output expense increases by \$2.913 million (35%). This change is due to an increased tax policy work programme and the rewrite of the Income Tax Act. The 2006/07 increase is mainly due to funding aimed at increasing the technical capacity within policy advice.
- From 2006/07, the cost of the Adjudication and Rulings output expense will be incorporated into the Services to Inform the Public About Entitlements and Meeting Obligations output expense.
- From 2006/07, the Information Services output expense will be renamed as Services to Inform the Public About Entitlements and Meeting Obligations. The renamed output expense will also incorporate the whole of the Adjudication and Rulings output expense as well as a portion of the Assessment and Collection of Child Support output expense, a total of \$13.698 million. Adjusting for this amount, the cost of the Services to Inform the Public About Entitlements and Meeting Obligations output expense increases by \$72.673 million (50%) between 2001/02 and 2006/07. From 2002/03 the Student Loan Scheme and Administration of Income Maintenance output expenses have been partially integrated within this expense. The increase in 2005/06 relates to Working for Families and future challenges with taxation administration. The increase in 2006/07 relates mainly to the interest free student loans and the student loan amnesty, the extension of the Working for Families eligibility and entitlements, the retention of people capability and the taxation of investment income and SSCWT initiatives.
- From 2006/07, the Revenue Assessment and Collection output expense will be renamed as Services to Process Obligations and Entitlements. The renamed output expense will also incorporate a portion of the Assessment and Collection of Child Support output expense, a total of \$28.844 million. Adjusting for this amount, the cost of the Services to Process Obligations and Entitlements output expense has increased by \$58.883 million (36%) between 2001/02 and 2006/07. From 2002/03 the Student Loan Scheme and Administration of Income Maintenance output expenses have been

partially integrated within this expense. The Supply of Information to Other Agencies output expense has been fully integrated. The increase in 2005/06 relates to Working for Families, implementing Work Based Savings Scheme and future challenges with taxation administration. The increase in 2006/07 relates mainly to the retention of people capability, the extension of the Working for Families eligibility and entitlements, the taxation of investment income and SSCWT and the interest free student loans and the student loan amnesty initiatives.

- From 2006/07, the Management of Debt and Outstanding Returns output expense will incorporate a portion of the Assessment and Collection of Child Support output expense, a total of \$32.349 million. Adjusting for this amount, the cost of the Management of Debt and Outstanding Returns output expense increases by \$27.444 (37%) million between 2001/02 and 2006/07. From 2002/03 the Student Loan Scheme and Administration of Income Maintenance output expenses have been partially integrated within this expense. The increase in 2005/06 relates to future challenges with taxation administration. The increase in 2006/07 relates mainly to the retention of people capability.
- Taxpayer Audit output expense increased by \$35.096 million (28%) between 2001/02 and 2006/07. From 2002/03 the Student Loan Scheme and Administration of Income Maintenance output expense have been partially integrated within this expense. The increase in 2005/06 relates to future challenges with taxation administration. The increase in 2006/07 relates mainly to the retention of people capability and the protection of the integrity of the tax system through the increase in technical capacity.
- From 2006/07, the cost of the Assessment and Collection of Child Support output expense will be incorporated in the following output expenses: Services to Inform the Public About Entitlements and Meeting Obligations, Services to Process Obligations and Entitlements, and Management of Debt and Outstanding Returns.

Non-Departmental Expenditure and Revenue Trends 2001/02 to 2005/06

Benefits and unrequited expenses

Benefits and other unrequited expenses represent payments by Inland Revenue to individuals for which no direct exchange of value is expected in return. In the case of Child Support, payments made to custodial parents are not made until payment has been received from the liable parent. The major categories of benefits and other unrequited expenses are listed below and further information is provided in the table in part B1 "Details of Appropriations: Benefits and Other Unrequited Expenses".

- Paid Parental Leave provides support for new parents who have been in paid employment for more than six months before the due date of the new-born child and working a weekly average of at least 10 hours per week. The maximum payment is \$347.300 gross per week. Costs are expected to increase from \$63 million in 2003/04 to a projected \$132.900 million in 2006/07. This increase is due to changes in government policy - payments will now be paid for 14 weeks (previously 13 weeks) for babies born on/after 1 December 2005, extending the paid parental leave to the self-employed and extending the eligibility criteria to include employment tenure of at least six months in the same job.
- The disbursement of Child Support payments to non-beneficiary custodians is projected to increase by \$96.720 million from \$91.280 million in 2001/02 to \$188 million in 2006/07. This increase is due to strong growth in employment over recent years as more custodial parents are moving from benefits into paid work, and the natural growth in non-custodians wages.
- Payment of Family Support Credit and Family Tax Credit is projected to increase by \$843 million from \$882 million in 2001/02 to \$1,725 million in 2006/07. This movement reflects changes in government policy, including an increase in Family Tax Credit for non-beneficiary families whose net income from 1 April 2006 is less than \$17,680 per annum (\$340 per week after tax), further family support increase (\$10 per week) from 1 April 2007 and major changes to family assistance under the Working for Families package.

- The Child Tax Credit is projected to cost \$52 million in 2006/07 compared to \$159 million in 2001/02. The decrease is due to the replacement of the Child Tax Credit with an in-work payment.
- Parental Tax Credit provides support for eligible working families with a new child born after 30 September 1999, up to \$150 per week for eight weeks. It is projected to cost \$17 million in 2006/07 compared to \$19 million in 2001/02.
- In-work Payment provides extra assistance for low to middle families. It is replacing the Child Tax Credit, with the additional qualification that the recipient must be working at least 20 hours per week or 30 hours per week between both parents if they are a couple. This payment commenced in April 2006. It is projected to cost \$409 million in 2006/07.
- The Payroll Subsidy provides support for payroll agents, by subsidising the cost of a payroll agent undertaking an employer's compliance activities. This payment will begin in October 2006, it is projected to cost \$4.900 million in 2006/07.

Borrowing expenses

Borrowing expenses represent the interest payable to members of the Adverse Event Scheme and Income Equalisation Schemes. Interest is affected by fluctuations in the level of withdrawals and deposits by taxpayers in the farming, fishing and forestry industries. Also it represents the interest payable on the deposit made to the Environmental Restoration Accounts Schemes.

Other expenses - non-departmental

This category of annual appropriation is projected to cost \$205.847 million in 2006/07. This cost represents the Student Loan impairment under the interest free policy change, and the change in doubtful debt provisions for General tax, and Child Support penalties debt pursuant to the Public Finance Act 1989.

Crown revenue and receipts

Total Tax Revenue has continued to rise strongly since 2001/02; it is projected to increase by \$6,443 million from \$38,923 million in 2001/02 to \$45,366 million in 2006/07. Refer to the table in Part F1 for further information.

Tax revenue assessed by Inland Revenue includes:

Direct taxation

- source deductions from individual taxpayers
- net company tax
- net other persons (other income tax from individuals and trusts)
- fringe-benefit tax (FBT)
- withholding taxes.

Indirect taxation

- net goods and services tax (GST)
- gaming, stamp and cheque duties.

Further information regarding revenue assessment is provided in the 2006 Budget Economic and Fiscal Outlook. The projected other non-tax revenue in 2006/07 is 1.25% of the total Crown Revenue and Receipts. It includes Child Support collections; Student Loan impairments, and net Unclaimed Monies.

New Policy Initiatives by Appropriation

Departmental initiatives	Appropriation as shown in Part B	\$000 increase/(decrease)				
		2005/06	2006/07	2007/08	2008/09	2009/10
Extension of eligibility and entitlements under Working for Families	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	-	4,353	3,057	2,906	2,906
	Departmental Output Expense - Services to Process Obligations and Entitlements	(900)	2,550	1,646	1,597	1,597
	Impact on Net Asset Schedule	(1,200)	-	-	-	-
Interest free student loans and student loan amnesty	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	-	10,261	4,397	4,397	4,397
	Departmental Output Expense - Services to Process Obligations and Entitlements	(600)	600	420	420	420
	Impact on Net Asset Schedule	(1,000)	1,500	-	-	-
KiwiSaver	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	400	200	-	-	-
	Departmental Output Expense - Services to Process Obligations and Entitlements	300	100	-	-	-
	Impact on Net Asset Schedule	2,100	-	-	-	-
Taxation of Investment Income and SSCWT	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	-	2,078	2,421	2,944	1,766
	Departmental Output Expense - Services to Process Obligations and Entitlements	-	1,039	2,421	2,944	1,766
	Departmental Output Expense - Management of Debt and Outstanding Returns	-	346	600	1,106	613
	Departmental Output Expense - Taxpayer Audit	-	-	611	365	208
	Impact on Net Asset Schedule	1,800	3,400	3,000	2,500	-
Student loan data matching (Co Vote Customs)	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	250	288	114	90	90
	Departmental Output Expense - Services to Process Obligations and Entitlements	91	334	425	449	449
	Impact on Net Asset Schedule	210	970	-	-	-

		\$000 increase/(decrease)				
Departmental initiatives	Appropriation as shown in Part B	2005/06	2006/07	2007/08	2008/09	2009/10
Student loan information technology system rebuild for Inland Revenue - Phase 1	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	300	450	-	-	-
	Departmental Output Expense - Services to Process Obligations and Entitlements	300	450	-	-	-
Retaining people capability	Departmental Output Expense - Policy Advice	-	325	325	325	325
	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	-	4,150	4,150	4,150	4,150
	Departmental Output Expense - Services to Process Obligations and Entitlements	-	3,150	3,150	3,150	3,150
	Departmental Output Expense - Management of Debt and Outstanding Returns	-	3,025	3,025	3,025	3,025
	Departmental Output Expense - Taxpayer Audit	-	3,750	3,750	3,750	3,750
Protecting the integrity of the tax system	Departmental Output Expense - Policy Advice	-	800	800	800	800
	Departmental Output Expense - Management of Debt and Outstanding Returns	-	300	300	300	300
	Departmental Output Expense - Taxpayer Audit	-	400	400	400	400
Addressing current infrastructure pressure	Departmental Output Expense - Policy Advice	-	25	25	25	25
	Departmental Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations	-	425	500	375	375
	Departmental Output Expense - Services to Process Obligations and Entitlements	-	325	375	275	275
	Departmental Output Expense - Management of Debt and Outstanding Returns	-	325	350	275	275
	Departmental Output Expense - Taxpayer Audit	-	400	450	350	350
Taxation of contractors in the fruit picking industry	Departmental Output Expense - Services to Process Obligations and Entitlements	-	(509)	(769)	(769)	(769)
	Impact on Net Asset Schedule	-	(250)	-	-	-
Evidence of identity	Departmental Output Expense - Services to Process Obligations and Entitlements	(1,600)	-	-	-	-
Total departmental initiatives		451	45,560	35,943	36,149	30,643

		\$000 increase/(decrease)				
Non-departmental initiatives	Appropriation as shown in Part B	2005/06	2006/07	2007/08	2008/09	2009/10
Payroll subsidy	Benefit and Other Unrequited expenses - Payroll subsidy	-	4,900	10,500	21,500	42,500
Extension of eligibility and entitlements under Working for Families	Benefit and Other unrequited expenses	85,000	360,000	485,000	500,000	500,000
	Benefit and Other unrequited expenses	500	2,400	2,500	2,500	2,500
Paid Parental Leave – Self employed	Benefit and Other unrequited expenses	-	370	440	465	465
Total non-departmental initiatives		85,500	367,670	498,440	524,465	545,465

Part B - Statement of Appropriations

Summary of Financial Activity

	2001/02	2002/03	2003/04	2004/05	2005/06		2006/07 Appropriations to be Used				2007/08	2008/09	2009/10	
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Budget \$000	Estimated Actual \$000	By the Department Administering the Vote		For Non-Departmental Transactions		Total \$000	Estimated \$000	Estimated \$000	Estimated \$000
							Annual \$000	Other \$000	Annual \$000	Other \$000				
Appropriations														
Output Expenses	367,747	382,362	404,617	429,359	488,123	486,123	510,968	20,500	-	-	531,468	513,888	512,838	509,832
Benefits and Other Unrequested Expenses	1,133,833	1,185,000	1,189,831	1,213,177	1,852,800	1,852,800	N/A	N/A	4,900	2,523,900	2,528,800	2,983,300	3,055,300	3,106,100
Borrowing Expenses	(2,233)	7,064	1,399	5,771	2,008	2,008	N/A	N/A	-	2,093	2,093	2,100	2,100	2,100
Other Expenses	415,247	304,935	417,941	892,714	1,681,443	1,681,443	-	-	205,847	-	205,847	195,184	200,215	173,149
Capital Expenditure	-	-	-	-	-	-	N/A	N/A	-	-	-	-	-	-
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	-	N/A	N/A	-	-	-	-
Total Appropriations	1,914,594	1,879,361	2,013,788	2,541,021	4,024,374	4,022,374	510,968	20,500	210,747	2,525,993	3,268,208	3,694,472	3,770,453	3,791,181
Crown Revenue and Receipts														
Tax Revenue	31,378,683	34,970,633	37,996,846	42,002,623	44,750,000	44,750,000	N/A	N/A	N/A	N/A	45,366,000	46,742,000	48,350,000	52,509,000
Non-Tax Revenue	593,568	679,743	750,236	843,154	685,260	685,260	N/A	N/A	N/A	N/A	582,069	643,989	695,292	724,777
Capital Receipts	346,893	386,393	447,157	570,618	579,955	579,955	N/A	N/A	N/A	N/A	649,399	737,462	840,902	960,901
Total Crown Revenue and Receipts	32,319,144	36,036,769	39,194,239	43,416,395	46,015,215	46,015,215	N/A	N/A	N/A	N/A	46,597,468	48,123,451	49,886,194	54,194,678

Part B1 - Details of Appropriations

Appropriations	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Departmental Output Expenses (General)							
Adjudication and Rulings (M57)	7,025	-	6,975	-	-	-	- Adjudicating on behalf of the Commissioner to provide assurance of impartiality and consistency in the application of the tax law. Providing binding rulings, interpretation and application of the law, and guidance to taxpayers. Reason for Change: This output expense has been incorporated into the Services to Inform the Public About Entitlements and Meeting Obligations output expense.
Assessment and Collection of Child Support (M57)	66,241	-	65,991	-	-	-	- Informing people of their entitlements and obligations under the law, assessing liabilities, banking payments, disbursing payments to custodians, managing debt and taking necessary action against those who do not comply with the law. Providing an inexpensive process for reviewing assessments that is readily accessible to custodians and paying parents. Reason for Change: This output class has been incorporated into the Services to Inform the Public About Entitlements and Meeting Obligations, the Services to Process Compliance and Entitlements and the Management of Debt and Outstanding Returns output expenses.
Management of Debt and Outstanding Returns (M57)	68,086	-	67,786	-	105,616	-	- 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.
Policy Advice (M57)	10,036	-	9,986	-	11,186	-	- 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.
Services to Inform the Public About Entitlements and Meeting Obligations (M57)	131,614	-	130,664	-	158,635	-	- 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.
Services to Process Obligations and Entitlements (M57)	65,860	-	65,960	-	111,184	-	- 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, supplying information to other government agencies and accounting and reporting the collection of Crown revenue.

	2005/06				2006/07		
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	Scope of 2006/07 Appropriations
Taxpayer Audit (M57)	118,761	-	118,261	-	124,347	-	Identifying risks to revenue and designing and undertaking audit activities accordingly. Managing litigation of disputed tax cases.
Total Departmental Output Expenses (General)	467,623	-	465,623	-	510,968	-	
Departmental Output Expenses (Restricted by Revenue)							
Collection of ACC Levies (M57)	-	20,500	-	20,500	-	20,500	Collection of ACC Earners' levies and the provision of information.
Total Departmental Output Expenses (Restricted by Revenue)	-	20,500	-	20,500	-	20,500	
Benefits and Other Unrequited Expenses							
Child Support Payments (M57)	-	149,000	-	149,000	-	188,000	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).
Child Tax Credit (M57)	-	154,000	-	154,000	-	52,000	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).
Family Support Tax Credit (M57)	-	1,350,000	-	1,350,000	-	1,717,000	Family Support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
Family Tax Credit (M57)	-	5,000	-	5,000	-	8,000	Extra payment made to families whose net income is less than \$17,680 per annum and where at least one parent is working for salary or wages (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).
In-Work Payment (M57)	-	80,000	-	80,000	-	409,000	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.
Paid Parental Leave Payments (M57)	-	98,800	-	98,800	-	132,900	Paid Parental Leave Payments made to parents eligible under the Parental Leave and Employment Protection Act 1987.
Parental Tax Credit (M57)	-	16,000	-	16,000	-	17,000	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).
Payroll Subsidy (M57)	-	-	-	-	4,900	-	Subsidy for the purposes of subsidising the costs of a payroll agent undertaking employers' payroll-related tax compliance activities
Total Benefits and Other Unrequited Expenses	-	1,852,800	-	1,852,800	4,900	2,523,900	

	2005/06				2006/07		Scope of 2006/07 Appropriations
	Budget		Estimated Actual		Vote		
Appropriations	Annual \$000	Other \$000	Annual \$000	Other \$000	Annual \$000	Other \$000	
Borrowing Expenses							
Adverse Event Interest (M57)	-	1	-	1	-	3	Interest on Adverse Event deposits relating to withdrawals and deposits made by taxpayers in the farming industry.
Environmental Restoration Account Interest (M57)	-	7	-	7	-	90	Interest on the deposits made to the Environmental Restoration Accounts Scheme.
Income Equalisation Interest (M57)	-	2,000	-	2,000	-	2,000	Interest on Income Equalisation deposits relating to withdrawals and deposits by taxpayers in the farming, fishing or forestry industries.
Total Borrowing Expenses	-	2,008	-	2,008	-	2,093	
Other Expenses to be Incurred by the Crown							
Child Support Doubtful Debt Provision (M57)	91,035	-	91,035	-	89,239	-	Provisioning of Doubtful Debt for Child Support penalties debt Pursuant to the Public Finance Act 1989.
General Tax Doubtful Debt Provision (M57)	92,891	-	92,891	-	101,188	-	Provisioning of Doubtful Debts for General tax, Student Loan and Child Support pursuant to the Public Finance Act 1989.
Student Loan Fair Value Recognition (M57)	1,479,435	-	1,479,435	-	-	-	Change in the Fair Valuation as a result of the change in the accounting policy and the change to the student loan policy.
Student Loan Interest Write-offs and Student Loan Doubtful Debt Provision (M57)	18,082	-	18,082	-	15,420	-	The interest free policy for student loans applies to all borrowers who are still studying irrespective of whether they are part time or full time. It also applies to borrowers who are no longer studying irrespective of whether or not they qualified, providing they are still living in New Zealand. Reason for Change: Policy change
Total Other Expenses to be Incurred by the Crown	1,681,443	-	1,681,443	-	205,847	-	
Total Appropriations	2,149,066	1,875,308	2,147,066	1,875,308	721,715	2,546,493	

Part C - Explanation of Appropriations for Output Expenses

Part C1 - Departmental Output Expenses

Output Expense - Policy Advice

This output expense provides policy advice services, jointly with The Treasury, that contribute to achieving the government's tax and social policy outcomes and improving the economic and social wellbeing of New Zealanders.

Activities undertaken:

- 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
- Providing ministerial services.

Output Expense - Services to Inform the Public About Entitlements and Meeting Obligations

This output expense provides services that help taxpayers and other customers to meet their payment obligations of their own accord and to receive payments they are entitled to. This is achieved through a range of proactive and reactive services to make people aware of their entitlements and obligations, and the services available to help them comply. This output expense also contributes to confidence in the tax administration system through managing individual customer complaints quickly, fairly and in confidence.

Activities undertaken:

- Providing information to taxpayers on the application of the tax laws
- Responding to enquiries from taxpayers and social support programme customers
- Providing assistance to the public, businesses and tax agents
- 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.

Output Expense - Services to Process Obligations and Entitlements

This output expense provides services that contribute to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to, including tax refunds. This is achieved through services designed to achieve timely, efficient and effective assessment and processing of:

- tax payments, rebates and refunds for taxpayers, and
- entitlements for social support programmes.

Activities undertaken:

- Registering taxpayers
- Making tax assessments
- Banking tax payments and making refunds
- Processing applications and payments for social support programmes
- Supplying information to other government agencies
- Accounting and reporting the collection of Crown revenue.

Output Expense - Management of Debt and Outstanding Returns

This output expense provides services that contribute to the availability of revenue to fund government programmes. This is achieved by:

- Ensuring that taxpayers assess their liabilities when required and they and any other customers meet payment obligations (or understand the action they need to take to meet overdue obligations)
- Taking appropriate enforcement action where people choose not to comply.

Activities undertaken:

- Taking follow-up action where returns are outstanding
- Taking follow-up action where payments are overdue.

Output Expense - Taxpayer Audit

This output expense provides services to ensure that the revenue base for funding government programmes is protected. This is achieved by verifying that taxpayers are meeting their obligations through audit activity across all taxpayer groups, specifically targeting risk areas, and taking appropriate enforcement action when obligations are not being met.

Activities undertaken:

- Identifying risks to revenue and designing audit activities accordingly
- Verifying that tax obligations have been met by auditing a selection of taxpayers
- Managing tax litigation.

Output Expense - Collection of ACC Levies

This output expense involves collecting a levy that contributes to government funding for accident compensation programmes.

Activities undertaken:

- Collecting ACC employee earners' levy as a component of PAYE deductions
- Providing information.

Part D - Explanation of Appropriations for Other Operating Flows

Part D1 - Benefits and Other Unrequited Expenses

Child Support Payments

Child support is money paid by parents not living with their children to help financially support those children. The payments received from paying parents are either passed on to the person caring for the children or directly to the Crown when the custodial parent receives a benefit. Custodial parents who are beneficiaries are required by the provisions of the Act to apply for the child support. Other custodial parents may voluntarily choose to have Inland Revenue administer their entitlement.

Family Assistance

Family Assistance is paid to qualifying families with dependent children. Entitlement depends on: the number of children in their family, the ages of the children and the amount of family income. Family Assistance is made up of five components - Child Tax Credit (CTC), Family Support Credit (FS), Family Tax Credit (FTC), In-work Payment and Parental Tax Credit (PTC).

Child Tax Credit

It is a payment for each dependent child 18 years or younger, to families who are not receiving a benefit, NZ Superannuation, student allowances, or weekly accident compensation payments for longer than three months. The child tax credit will be replaced by the In-work Payment from 1 April 2006. Recipients disadvantaged by this change will be allowed to continue to receive CTC whilst they are still entitled. However child tax credit will be unavailable to new applicants from 1 April 2006.

Family Support Credit

Family Support Credit is a payment to families with children, whether in work or on benefit, to help with the day-to-day living costs of the family. The Family Support Credit is paid by Work and Income when the family's main source of income is a benefit or by Inland Revenue when the main source of income is from work. The entitlement depends on the family income, the number of children, their ages, and any shared custody arrangements.

Family Tax Credit

It is a payment for non-beneficiary families whose net income from 1 April 2006 is less than \$17,680 per annum (\$340 per week after tax). The payment ensures a guaranteed minimum family income for working families with dependent children that is at least the same as the minimum wage.

In-work Payment

A new in-work payment was introduced on 1 April 2006. It will be available for sole parents who work 20 hours, and couples who work at least 30 hours per week between them as long as they are not receiving a benefit or student allowance. The rate of the payment is \$60 per week for up to three children and \$15 per week for the fourth and subsequent children. Actual entitlement depends on the joint family income.

Parental Tax Credit

Parental Tax Credit is a payment to help meet the needs that come with the birth of a child. The payment is for the first 56 days after the baby is born and can be up to \$1,200 depending on family income. Parent can not receive both paid parental leave and parental tax credit for the same child.

Paid Parental Leave

An entitlement paid to birth mothers and their partners, as well as adoptive parents, to offset the loss of income that working parents experience on the birth of a child. Either this or the parental tax credit is paid, not both. It provides support for new parents who have been in paid employment for more than six months before the due date of the new-born child and working a weekly average of at least 10 hours per week. The maximum payment is \$347.30 gross per week.

Payroll Subsidy

Payroll subsidy provides support to employers for the use of a payroll agent. The subsidy will apply for up to five employees of small employers (those with less than \$100,000 of annual PAYE deductions).

Part D2 - Borrowing Expenses

Adverse Event Interest

The Adverse Event Income Equalisation Reserve Scheme (AEIERS) operates in conjunction with the Income Equalisation Reserve Scheme (IERS) for farming or agricultural business to defer income tax on additional income which has been generated by forced sale of live stock, or failure to replace life stock due to a self assessed adverse event that materially affects the business. Any AEIERS deposit will be transferred to the IERS if not refunded within twelve months.

The deposit can earn interest at rate of 6.5% per annum from the date of acknowledgment of the receipt of the deposit until the date the deposit is refunded or is credited to the taxpayer's main income equalisation account.

Environmental Restoration Account

The Environmental Restoration Account Scheme (ERA) enables the matching of a businesses restoration and monitoring expenditure against prior business income. A tax deduction is gained based on funds deposited to an Environmental Restoration Account and a refund is obtained when expenses are incurred. Interest is paid on deposits at 3% per annum. A refund is obtained when restoration and monitoring expenditure are incurred or if the anticipated liability for restoration decreases. This refund gives rise to taxable income which is offset by tax deductions for the expenditure.

Income Equalisation Interest

The Income Equalisation Reserve Scheme was introduced in 1965, to allow eligible taxpayers to even out fluctuations in income by spreading their gross income from year to year, and help them to remove a cause of inflation and therefore help to maintain a steadier rate of economic growth. The deposit is paid into the IERS for a period of twelve months to five years. In the tax year the deposit is made, or deemed to be made, it is considered as an allowable deduction, and the tax in year it is refunded it is included as gross income. The deposit can earn interest at rate of 3% per annum where the deposit is left in scheme for a period greater than twelve months. For tax purposes the interest paid then becomes part of the deposit.

Part D3 - Other Expenses

Bad Debt Provision

This appropriation records all bad debt provisions and write-offs that result from the need to value Crown debt administered by Inland Revenue at the likely recovery value in accordance with generally accepted accounting practice. The main components of Crown debt are general tax and Child Support debt. General tax debt is all tax revenues outstanding after the due date for payment. It is a combination of the core debt plus penalties and interest, less payments and credits. This is calculated from the total of all tax types with the exclusion of Child Support, Family Support and Student Loan borrowers. The total tax debt includes default assessment amounts and pre-emptive instalment arrangements.

Student Loan Fair Value

This appropriation records the change in the accounting policy for student loans to better reflect their fair value under the interest free policy. The accounting policy is to initially recognise student loans at their fair value and to subsequently report them at amortised cost. This accounting policy is to apply from 2005/06 and is consistent with the "loans and receivables" designation under International Accounting Standard 39 (IAS 39) for financial instruments.

Student Loan Interest write-offs and Student Loan Doubtful Debt Provision

This appropriation records the student loan impairment under the interest free policy change.

Part E - Explanation of Capital Flows

Part E1 - Explanation of Movements in Departmental Net Asset Schedules

Details of Net Asset Schedule for Inland Revenue Department	Estimated Actual 2005/06 \$000	Projected 2006/07 \$000	Explanation of Projected Movements in 2006/07
Opening Balance	95,892	130,831	
Capital Injections	37,818	24,347	<p>Injected during Budget 2006 (\$5.870 million): Capital injections associated with the implementation of the interest free student loans and student loan amnesty initiative (\$1.5 million), the implementation of the systems changes associated with the taxation of investment income and SSCWT (\$3.4 million) and the implementation of a system that will allow Inland Revenue to use departure and arrival data collected at the border by Customs to determine whether Student Loan borrowers are eligible for the no interest on student loans policy which applies from April 2006 (\$970,000).</p> <p>Injected during Budget 2005 (\$18.477 million): Capital injections associated with the implementation of the proposed KiwiSaver scheme (\$14.777 million) and the implementation of enhancements for the Working for Families package (\$3.7 million).</p>
Capital Withdrawals	(2,879)	(250)	Capital Withdrawal associated with the implementation of taxation of contractors in the fruit picking industry initiative.
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
Closing Balance	130,831	154,928	

Part F - Crown Revenue and Receipts

Part F1 - Current and Capital Revenue and Capital Receipts

	2005/06		2006/07	Description of 2006/07 Crown Revenue
	Budgeted \$'000	Estimated Actual \$'000	Budget \$'000	
Tax Revenue				
Companies	8,664,000	8,664,000	8,579,000	Provisional and terminal tax payments by companies and superannuation funds net of refunds.
Fringe Benefit Tax	453,000	453,000	425,000	Tax on employer-provided fringe benefits.
Gaming Duties	290,000	290,000	293,000	Gaming duties include totalisator and lottery duties.
Goods and Services Tax (IRD)	8,962,000	8,962,000	8,799,000	A tax on the consumption of goods and services net of refunds (see also Vote Customs).
Other Direct Taxes	2,000	2,000	2,000	Miscellaneous direct represents gift duties.
Other Persons	3,357,000	3,357,000	3,431,000	Provisional and terminal tax payments by individuals and trusts net of refunds.
Source Deductions	19,817,000	19,817,000	20,534,000	PAYE deductions and withholding payments on employers' superannuation contributions.
Stamp and Cheque Duties	83,000	83,000	74,000	Stamp and cheque duties including the approved issuer levy.
Withholding Taxes	3,122,000	3,122,000	3,229,000	Withholding taxes, mainly taxes on investment income, eg. interest and dividends, deducted at source.
Total Tax Revenue	44,750,000	44,750,000	45,366,000	
Non-Tax Revenue				
Child Support Collections	437,000	437,000	493,000	Child Support payments received from non-custodial parents.
Student Loans - Accrued Interest	243,460	243,460	87,069	Net interest income relating to the student loan debt. Reason for Change: Policy change
Unclaimed Monies	4,800	4,800	2,000	Monies deposited with the Crown as unclaimed.
Total Non-Tax Revenue	685,260	685,260	582,069	
Capital Receipts				
Adverse Income Equalisation Account	500	500	400	Deposits made by farmers of proceeds from forced sales of livestock after an adverse event.
Environmental Restoration Accounts Scheme	1,000	1,000	12,500	Deposits made by taxpayers to the Environmental Restoration Accounts Scheme to allow the deduction for environmental expenditure.
Income Equalisation Reserve Account	68,114	68,114	77,000	Deposits made by taxpayers in the farming, fishing and forestry industries owing to fluctuations in income and economic conditions.
Student Loans - Receipts	510,341	510,341	559,499	Repayments against the principal portion of the debt received from employers who have employees with a student loan earning over the repayment threshold. Also repayments received from borrowers making a voluntary, end-of-year, interim or non-resident repayment against the principal portion of debt.
Total Capital Receipts	579,955	579,955	649,399	
Total Crown Revenue and Receipts	46,015,215	46,015,215	46,597,468	

Part G - Statement of Reconciliations

Part G1 - Changes in Appropriation Categories

The number of output classes in Vote Revenue reduces from eight to six in 2006/07. This change is designed to align the outputs more closely to the Managing for Outcomes framework. The impact of this change is detailed in the table below.

2005/06 Cumulative Vote in Old (2005/06) Structure	\$000	Structure Changes	\$000	Cumulative Vote in New (2006/07) Structure	2005/06 \$000	2006/07 \$000
Departmental Outputs						
Adjudication and Rulings	7,025	Output expense transferred to the Services to Inform the Public About Entitlements and Meeting Obligations output expense	-7,025	Adjudication and Rulings	-	-
Assessment and Collection of Child Support	66,241	Output expense transferred to the Services to Inform the Public About Entitlements and Meeting Obligations, to the Services to Process Obligations and Entitlements and to the Management of Debt and Outstanding Returns output expenses	-66,241	Assessment and Collection of Child Support	-	-
Information Services	131,614	Change of name	13,538	Services to Inform the Public About Entitlements and Meeting Obligations	145,152	158,635
Revenue Assessment and Collection	65,860	Change of name	28,153	Services to Process Obligations and Entitlements	94,013	111,184
Management of Debt and Outstanding Returns	68,086		31,575	Management of Debt and Outstanding Returns	99,661	105,616
Other Outputs	149,297			Other Outputs	149,297	156,033
Total Departmental Appropriations	488,123		-		488,123	531,468