

# *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

	2009/10				
	Estimates \$000	Supplementary Estimates			Total \$000
		Departmental Transactions \$000	Non- Departmental Transactions \$000	Total Transactions \$000	
<b>Appropriations</b>					
Output Expenses	626,998	15,722	-	15,722	642,720
Benefits and Other Unrequited Expenses	4,045,380	N/A	199,020	199,020	4,244,400
Borrowing Expenses	3,510	-	5,500	5,500	9,010
Other Expenses	1,039,805	-	671,684	671,684	1,711,489
Capital Expenditure	76,300	4,143	-	4,143	80,443
Intelligence and Security Department Expenses and Capital Expenditure	-	-	N/A	-	-
<b>Total Appropriations</b>	<b>5,791,993</b>	<b>19,865</b>	<b>876,204</b>	<b>896,069</b>	<b>6,688,062</b>
<b>Crown Revenue and Capital Receipts</b>					
Tax Revenue	45,926,000	N/A	(57,000)	(57,000)	45,869,000
Non-Tax Revenue	1,020,569	N/A	159,431	159,431	1,180,000
Capital Receipts	810,650	N/A	(22,450)	(22,450)	788,200
<b>Total Crown Revenue and Capital Receipts</b>	<b>47,757,219</b>	<b>N/A</b>	<b>79,981</b>	<b>79,981</b>	<b>47,837,200</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 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. This includes collection on behalf of other agencies and external parties.

##### *Expenses and Revenue*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	89,419	1,911	91,330
Revenue from Crown	85,299	1,911	87,210
Revenue from Other	4,120	-	4,120

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

Changes to this appropriation since Budget 2009, all funded by revenue from the Crown, are attributable to:

- a Budget 2010 decision to fund an operating pressures contingency of \$2.194 million
- an expense transfer of \$423,000 relating to the previous year's operating pressures contingency
- a return of savings to the Crown of (\$300,000) arising from operational efficiencies, and
- an expense transfer of (\$406,000) for the long-term accommodation solution in Wellington.

## Policy Advice (M57)

### *Scope of Appropriation*

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

### *Expenses and Revenue*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	13,565	1,902	15,467
Revenue from Crown	13,418	1,902	15,320
Revenue from Other	147	-	147

### *Reasons for Change in Appropriation*

Changes to this appropriation since Budget 2009, all funded by revenue from the Crown, are attributable to:

- a fiscally neutral adjustment between departmental output expenses totalling \$1.500 million
- a Budget 2010 initiative to provide funding for the operating pressures contingency of \$367,000, and
- an expense transfer of \$35,000 relating to the previous year's operating pressures contingency.

## 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.

### *Expenses and Revenue*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	234,284	6,968	241,252
Revenue from Crown	230,709	8,150	238,859
Revenue from Other	3,575	(1,182)	2,393

### *Reasons for Change in Appropriation*

Changes to this appropriation since Budget 2009, funded by revenue from the Crown, are attributable to:

- a Budget 2010 decision to fund an operating pressures contingency for \$5.793 million
- a fiscally neutral adjustment between departmental operating expenses totalling \$4.500 million
- an expense transfer of \$1.024 million for the KiwiSaver enhancements
- an expense transfer of \$998,000 relating to the previous year's operating pressures contingency
- a fiscally neutral capital to operating transfer of \$500,000 for the student loans voluntary repayment bonus project
- an expense transfer of \$418,000 for the student loans stabilisation project
- funding of \$340,000 for the student loans redesign project
- a return of savings to the Crown of (\$55,000) resulting from a reduction to the scale of the KiwiSaver joint evaluation strategy
- a return of savings to the Crown of (\$424,000) as a result of the repeal of KiwiSaver employer tax credits
- a return of savings to the Crown of (\$426,000) for the 2010 tax rates alignment initiative
- a return of savings to the Crown of (\$600,000) resulting from operational efficiencies
- an expense transfer of (\$1.001 million) for the long-term accommodation solution in Wellington, and
- a return of savings to the Crown of (\$2.917 million) for tax relief for redundancy payments project.

Changes to this appropriation since Budget 2009, funded by other revenue, are attributable to:

- funding of \$94,000 to conduct research on behalf of the Royal Society of New Zealand and the Ministry of Economic Development
- funding of \$39,000 to conduct a research project on behalf of Statistics New Zealand, and
- a return of funding of (\$1.315 million) resulting from renegotiated inter-departmental fees.

### **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.

#### *Expenses and Revenue*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	120,217	3,314	123,531
Revenue from Crown	96,685	1,533	98,218
Revenue from Other	23,532	1,781	25,313

### *Reasons for Change in Appropriation*

Changes to this appropriation since Budget 2009, funded by revenue from the Crown, are attributable to:

- a Budget 2010 initiative to provide funding of \$2.755 million for the operating pressures contingency
- an expense transfer of \$1.671 million for the student loans stabilisation project
- an expense transfer of \$1.535 million for the KiwiSaver enhancements
- funding of \$1.361 million for the student loans redesign project
- a fiscally neutral capital to operating transfer of \$500,000 for the student loans voluntary repayment bonus project
- an expense transfer of \$312,000 as part of the previous year's operating pressures contingency
- a return of savings to the Crown of (\$129,000) for the reduced scale of the joint evaluation strategy for KiwiSaver
- a return of savings to the Crown of (\$141,000) as a result of the repeal of KiwiSaver employer tax credits
- a return of savings to the Crown of (\$284,000) associated with the 2010 tax alignment initiative
- an expense transfer of (\$547,000) for the long-term accommodation solution in Wellington
- a return of savings to the Crown of (\$1.500 million) resulting from operational efficiencies, and
- a fiscally neutral adjustment between departmental output expenses totalling (\$4 million).

Changes to this appropriation since Budget 2009, funded by other revenue, are attributable to funding of \$1.781 million for the standard business reporting initiative.

### **Taxpayer Audit (M57)**

#### *Scope of Appropriation*

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

#### *Expenses and Revenue*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	169,513	1,627	171,140
Revenue from Crown	167,841	1,627	169,468
Revenue from Other	1,672	-	1,672

### *Reasons for Change in Appropriation*

Changes to this appropriations since Budget 2009, all funded by revenue from the Crown, are attributable to:

- a Budget 2010 decision to provide funding of \$3.891 million for the operating pressures contingency
- an expense transfer of \$982,000 as part of the previous year's operating pressures contingency
- a return of savings to the Crown of (\$600,000) resulting from operational efficiencies
- an expense transfer of (\$646,000) for the long-term accommodation solution in Wellington, and
- a fiscally neutral adjustment between departmental operating expenses totalling (\$2 million).

## 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).

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	207,480	7,520	215,000

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

The increase in the 2009/10 Supplementary Estimates reflects higher than expected liabilities for the current year.

#### 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).

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	3,100	1,000	4,100

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

The increase in the 2009/10 Supplementary Estimates reflects a higher than forecast entitlement for this credit. The entitlement for this credit will reduce over time and be replaced by the In-Work Tax Credit.



## 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).

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	2,147,800	43,300	2,191,100

### *Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects a timing difference since Budget 2009, with expenditure being lower in 2008/09 and higher in 2009/10.

## In-Work Tax Credit PLA (M57)

### *Scope of Appropriation*

Extra assistance for low to middle income families where the person works a minimum of 20 hours per week and does not have a partner, or a person and their partner work a minimum of 30 hours per week (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	577,600	26,400	604,000

### *Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects a timing difference since Budget 2009, with expenditure being lower in 2008/09 and higher in 2009/10.

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

To enable the payment of a fee subsidy to members for provider fees as set out in the KiwiSaver Act 2006.

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	7,000	(1,000)	6,000

*Reasons for Change in Appropriation*

The fee subsidies were repealed effective from 1 April 2009. The decrease in the 2009/10 Supplementary Estimates reflects revised assumptions on late subsidy claims from providers.

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

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

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	10,000	(4,000)	6,000

*Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates reflects improved KiwiSaver processing times and therefore a reduction in interest costs.

## KiwiSaver: Kickstart Payment (M57)

### *Scope of Appropriation*

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

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	138,000	239,000	377,000

### *Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects continuing strong growth in KiwiSaver members (particularly members under the age of 18) and hence increased growth in kickstart payments.

## 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 2007.

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	764,000	(108,000)	656,000

### *Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates reflects a revision to the accrual assumptions for this expense to take account of members who have suspended contributions. Overall, although member numbers are growing, member contributions are expected to be lower in 2009/10 and therefore member tax credits are forecast to be lower.

**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).

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	10,500	(1,500)	9,000

*Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates is due to the anticipated increase in the threshold increment in April being lower than previously assumed.

**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.

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	149,900	4,000	153,900

*Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects higher forecasts for average weekly earnings.

## Parental Tax Credit PLA (M57)

### *Scope of Appropriation*

To enable payment of additional financial support to be made 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).

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	21,000	(200)	20,800

### *Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates reflects minor forecast changes.

## Payroll Subsidy (M57)

### *Scope of Appropriation*

To enable the payment of a subsidy to a payroll agent undertaking employers' payroll-related tax compliance activities on their behalf.

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	2,000	(500)	1,500

### *Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates reflects timing delays in the forecast up-take in this appropriation. This will now be reflected in an increase to this appropriation from 2010/11.

## Research and Development Tax Credit (M57)

### *Scope of Appropriation*

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

### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	7,000	(7,000)	-

### *Reasons for Change in Appropriation*

The decrease in the 2009/10 Supplementary Estimates is due to a change in the accrual methodology as at 30 June 2009 for this repealed tax credit.

## Part 4 - Details for Borrowing Expenses

### Part 4.2 - Non-Departmental Borrowing Expenses

#### Adverse Event Interest PLA (M57)

##### *Scope of Appropriation*

This appropriation is limited to interest on Adverse Event Income Equalisation Reserve accounts held by taxpayers in the farming and agriculture business (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	10	-	10

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

##### *Scope of Appropriation*

This appropriation is limited to interest on Environmental Restoration accounts (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	1,500	500	2,000

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

The increase in the 2009/10 Supplementary Estimates reflects growth in deposits in to the Environmental Restoration account.

**Income Equalisation Interest PLA (M57)***Scope of Appropriation*

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

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	2,000	5,000	7,000

*Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects growth in the value of deposits into the Income Equalisation Reserve Scheme. There appears to be a five year cycle in the use of this scheme and we are currently at the top of this cycle.



## 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*

This appropriation is limited to bad debt write-offs for Crown debt administered by Inland Revenue.

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	660,000	140,000	800,000

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

The increase in the 2009/10 Supplementary Estimates reflects the flow-on impact of the recent economic environment, resulting in growth in bad debt write-offs. Historically the key drivers of the growth in write-offs have been in debt written-off under serious hardship provisions and insolvency. We are now seeing more taxpayers getting into difficulties earlier. This has resulted in more recent debt being written-off under insolvency or hardship provisions. We forecast that this will continue to grow in the foreseeable future.

#### 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.

##### *Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	164,430	180,570	345,000

*Reasons for Change in Appropriation*

There are limited provisions in the legislation to write-off child support penalties that are incurred. As a result debt is increasing at a more rapid rate than before resulting in a corresponding rise in impairment in the Supplementary Estimates. Our historical analysis of child support overdue debt indicates that 97% of the debt is not collected. The primary reason for this is that more than 70% of the debt is more than five years old and continues to attract penalties.

**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 Crown debt book.

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	165,375	121,625	287,000

*Reasons for Change in Appropriation*

The increase in the 2009/10 Supplementary Estimates reflects an increase in forecast overdue debt, as a result of the recent economic environment. The economic environment is placing financial pressure on customers' available funds resulting in forcing them to prioritise their debt and reducing their debt repayments. This has contributed to the growth in the overdue debt and associated impairment.

**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 loan debt.

*Expenses*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Total Appropriation	50,000	229,489	279,489

### *Reasons for Change in Appropriation*

This increase reflects the results of a recent forecast valuation conducted by an independent actuary regarding the valuation of the student loan scheme. The interim valuation is based on scheme data to 31 March 2009, current repayment forecasts and updated macroeconomic forecasts. The forecast for 2009/10 incorporates a positive impact on impairment of \$64.511 million associated with the Budget 2010 Student support savings package.

## Part 6 - Details and Expected Results for Capital Expenditure

### Part 6.1 - Departmental Capital Expenditure

#### Inland Revenue Department - Capital Expenditure PLA (M57)

##### *Scope of Appropriation*

This appropriation is limited to the purchase or development of assets by and for the use of the Inland Revenue Department, as authorised by section 24(1) of the Public Finance Act 1989.

##### *Capital Expenditure*

	2009/10		
	Estimates \$000	Supplementary Estimates \$000	Total \$000
Forests/Agricultural	-	-	-
Land	-	-	-
Property, Plant and Equipment	16,023	1,425	17,448
Intangibles	60,277	2,718	62,995
Other	-	-	-
<b>Total Appropriation</b>	<b>76,300</b>	<b>4,143</b>	<b>80,443</b>

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

The 2009/10 appropriation increased by \$4.143 million since Budget 2009, due to:

- a capital injection of \$6.786 million to fund student loans redesign work
- a fiscally neutral capital to operating transfer of (\$1 million) for the student loans voluntary repayment bonus project
- a return of savings to the Crown of (\$1.135 million) for the 2010 tax rates alignment, and
- a return of savings to the Crown of (\$508,000) for tax relief for redundancy payments.