

Treasury Report: Bilateral Briefing for Vote Revenue

Date:	27 February 2007	Treasury Priority:	High
Security Level:		Report No:	T2007/207

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Dr Michael Cullen)	Read the attached briefing and use it as a basis for making decisions in your bilateral with Hon Peter Dunne	28 th February 2007
Associate Minister of Finance (Hon Trevor Mallard)	Read the attached briefing and use it as a basis for making decisions in your bilateral with Hon Peter Dunne	28 th February 2007

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
<i>[information deleted in order to protect the privacy of natural persons, including deceased people]</i>			
Benedikte Jensen	Manager, Tax Policy		

Enclosure: No

Treasury Report: Bilateral Briefing for Vote Revenue

Attached is a briefing for the bilateral between the Minister of Finance and the Minister of Revenue at 4:30pm on 28 February 2007 to discuss the budget initiatives for Vote Revenue.

The bilateral briefing is structured as follows:

Recommendations	p. 3
Analysis by Vote	p. 10
One-page initiative summaries	p. 21

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

In the context of overall pressures in the 'Other' and capital allocations, Treasury's view is that funding should be allocated only for those initiatives that represent agreed government policy and immediate requirements to deal with internal pressures. As a consequence for this bilateral the Treasury has:

- Recommended supporting additional operating funding of \$13.604 million for initiatives in 2007/08 (increasing to \$14.704 million in 2008/09) and additional capital funding of \$9.066 million for initiatives in 2007/08; and
- *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

The approach also recognises the wider context of Budget 2007 in which the Business Tax Package represents a major policy priority for the Revenue portfolio, but the costs of which will not be agreed as part of this bilateral. In addition, there are a number of tax policy changes/initiatives that are in the process of being confirmed but Inland Revenue have not put these forward as 2007 Budget bids due to differences in the timing of the Budget and the timing of the tax policy process. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Recommended Action

We recommend that you **read** the attached briefing and use it as the basis for making decisions in your bilateral with the Minister of Revenue at 4:30pm on 28 February 2007.

Benedikte Jensen
Director, Tax Policy
for Secretary to the Treasury

Hon Dr Michael Cullen
Minister of Finance

Recommendations

VOTE REVENUE

a) *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

analysis p. 12

[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]

Noted

(i) *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

(ii) *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

Noted

(iii) *[information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

(iv) *information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

(v) *information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

(vi) *information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

(vii) *information deleted in order to enable the Crown to carry out commercial activities without disadvantage or prejudice]*

b) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* **analysis p. 14**

(vii) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

(viii) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

(ix) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

(x) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

c) *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]* **analysis p. 16**

(i) *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

(ii) *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

d) Income Tax Act – Implications of rewrite of Part F onwards

analysis p. 17

(i) **Note** that Inland Revenue sought funding to enable a rewrite of publications that support and align to the new sections of the Income Tax Act 2004, but have now agreed to self-fund the bid.

Noted

e) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* **analysis p. 18**

(i) *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

(f) Compliance and Penalties

analysis p. 18

- Inland Revenue seeks funding for administrative costs to put in place policy changes aimed at encouraging voluntary compliance through the review of penalty rules. In addition to administrative costs, the policy changes also have an ongoing

fiscal cost to the Crown of tax penalties foregone.

- The Treasury supports funding to enable these policy changes to occur. The policy change should result in increased voluntary compliance and a positive impact on revenue collected, however the quantum of these benefits are difficult to estimate.

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
<i>Operating (GST excl)</i>					
Department	0.352	1.792	-	-	-
Treasury	0.352	1.792	-	-	-
<i>Capital (GST excl)</i>					
Department	-	-	-	-	-
Treasury	-	-	-	-	-

Noted

(i) **Note** the following changes to Crown Revenue as a result of agreement to Compliance and Penalties policy above, with a corresponding impact on the operating balance:

	<i>\$million - increase/(decrease)</i>				
	<i>2006/07</i>	<i>2007/08</i>	<i>2008/09</i>	<i>2009/10</i>	<i>2010/11 & Outyears</i>
Tax revenue	0.133	4.400	8.000	8.000	8.000

Vote Revenue – Analysis

Analysis of Initiatives

1. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

2. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

3. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

4. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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7. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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9. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

10. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

11. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]
(recommendation a)*

12. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

13. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

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27. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

28. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials] (recommendation b)

29. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

30. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

31. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

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38. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

39. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

*[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]
(recommendation c)*

40. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

41. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

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44. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

45. *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Income Tax Act – Implications of rewrite of Part F onwards (recommendation d)

46. Inland Revenue sought funding to rewrite publications/communications following the simplification and passing of the Income Tax Act 2004 (Part F onwards). However, Inland Revenue have agreed to self-fund this initiative.

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials] (recommendation e)

47. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

48. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

49. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

50. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

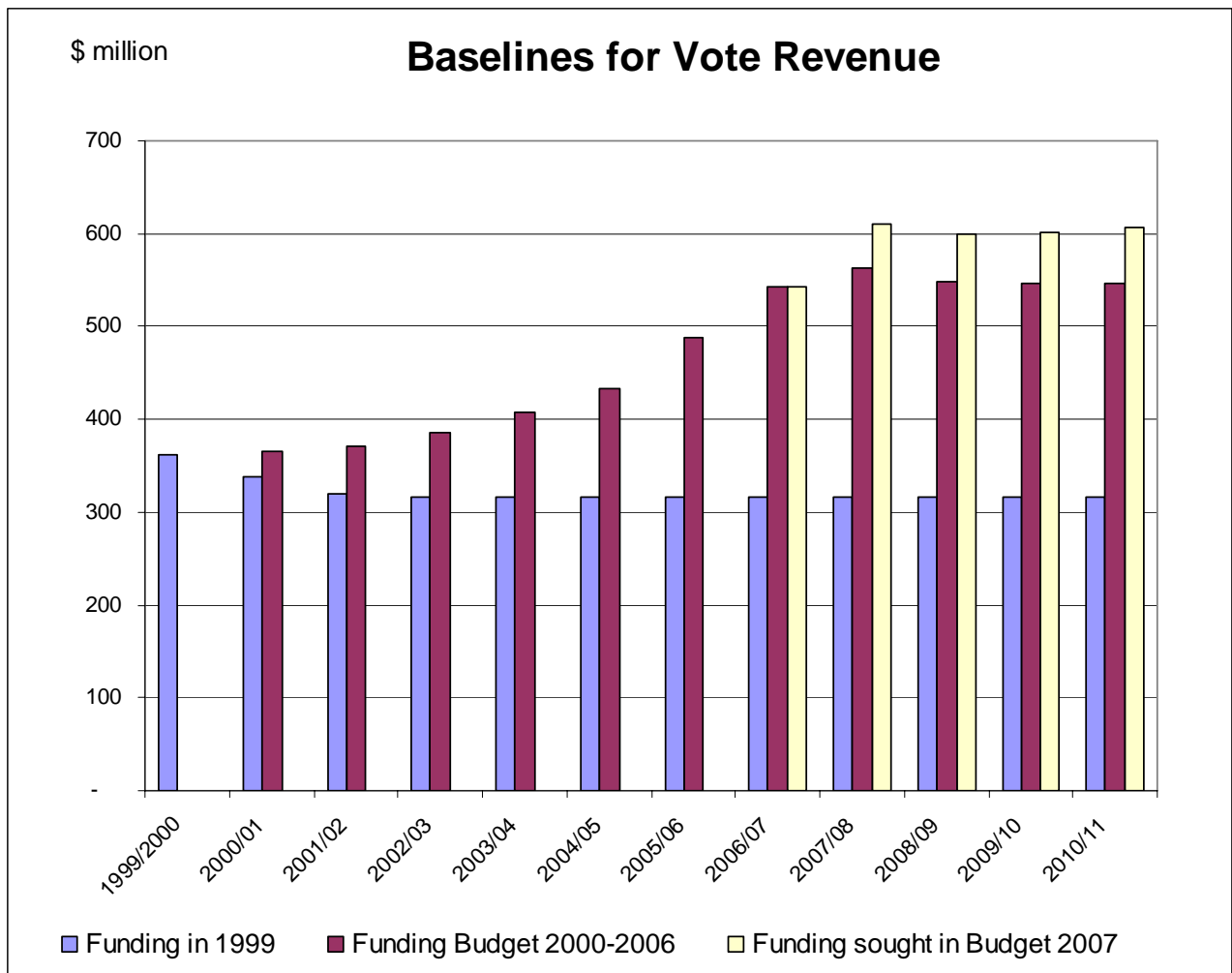
51. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Compliance and Penalties (recommendation f)

52. Inland Revenue seeks funding for administration costs for systems changes required as a result of modifications to the Tax Penalties rules. When changing the penalties policy, systems changes are inevitable due to the nature of the tax penalties which apply to late filing, late payment, and tax shortfalls. In addition to administrative costs, the policy changes also have an ongoing fiscal cost to the Crown of tax penalties foregone.
53. Treasury supports this bid to ensure that Inland Revenue receives the necessary level of funding to deliver this government policy.
54. The Tax Penalties rules were introduced to encourage accurate and timely voluntary compliance by taxpayers. Sections of the taxpaying community have repeatedly asked for reforms of these rules since their introduction and over this time small modifications have been made. However, the existing Tax Penalties rules are, in some cases, serving to discourage voluntary taxpayer compliance. Accordingly, a set of proposals to remedy this were developed, approved by the Ministers of Finance and Revenue and set out in a government discussion document (DD) entitled: *Tax Penalties, Tax Agents & Disclosures* that was released in October 2006.
55. Administration costs arise largely in respect of systems changes to implement the proposals and are one-off. They are expected to be largely incurred in the 2007/08 fiscal year although around \$0.352m is likely to occur in 2006/07.
56. The fiscal (revenue) costs are difficult to estimate with accuracy and arise primarily as a result of the reduction in penalties which would ordinarily be charged to taxpayers. These costs may be partly offset by the imposition of a new GST late filing penalty (recently estimated at \$3.300m). However, we expect any revenue from this new penalty to diminish quickly (i.e. within two years) as taxpayers adjust their behaviour and file GST returns on time. Officials also expect voluntary compliance, and hence revenue collection, to increase following the policy change. However, estimating the extent of this is extremely difficult. These implications have also already been 'counted' in the tax forecasts as the forecast methodology is based on the existing laws being followed.

Analysis of Vote

57. The 2007/08 baseline for Vote Revenue, reflecting departmental expenditure, is \$542.653 million. The vote has received significant increases in the past six years due to:
 - Funding to bring remuneration up to Hay public sector medians;
 - Funding to increase compliance activity, particular in high risk areas;
 - Funding to increase child support activity;
 - Implementation and ongoing delivery of KiwiSaver;
 - Delivery and implementation of the Student Loan zero interest and amnesty schemes;
 - Implementation, delivery and communication of the Working for Families package, and its extension;
 - Implementation and delivery of the system changes associated with Taxation of Investment Income; and
 - Implementation of the Department's business plan, *The Way Forward and Future Directions*.



- 58. The graph above shows Vote Revenue trends in the growth of Inland Revenue baselines and does not include non-departmental costs of initiatives (such as the cost of tax penalties foregone associated with Compliance and Penalties initiative). As is illustrated above the Department's baseline has nearly doubled since 1999.
- 59. There are no significant underspends in Vote Revenue.
- 60. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*
- 61. *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

One-page Initiative Summaries

One-page summaries of the initiatives for discussion at this bilateral are attached on subsequent pages.

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Description: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Purpose: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]* **Ranking:** 3

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0				
	Saving	0	0	0	0	0
	Net	0				
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Problem Definition (provide evidence)

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How do we know this initiative will deliver the outcomes (intervention logic)?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Evaluation of Initiative's contribution to Outcome

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How could the initiative be scaled?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Description: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Purpose: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]* **Ranking:** 1

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0				
	Saving	0				
	Net	0				
Capital	Gross	0				
	Saving	0				
	Net	0				

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Problem Definition (provide evidence)

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How do we know this initiative will deliver the outcomes (intervention logic)?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Evaluation of Initiative's contribution to Outcome

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How could the initiative be scaled?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Description: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]*

Purpose: *[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]* **Ranking:** 2

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross Saving					
	Net					
Capital	Gross Saving					
	Net					

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>						
<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>						
<i>[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]</i>						

OR Option 2 - where performance/outputs are best expressed as text

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Problem Definition (provide evidence)

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How do we know this initiative will deliver the outcomes (intervention logic)?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Evaluation of Initiative's contribution to Outcome

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

How could the initiative be scaled?

[information deleted in order to enable the Crown to negotiate without disadvantage or prejudice]

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: Income Tax Act – implications of rewrite of part F onwards

Description: With the final rewritten parts of the Income Tax Act 2004 due to come into effect on 1 April 08, funding is required to ensure customers are correctly informed of changes. This involves changes to publications and databases, staff training and informing tax agents.

Purpose: New Policy **Ranking:** 4

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1430	0	0	0
	Saving	0	0	0	0	0
	Net	0	1430	0	0	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

The initiative will ensure the internal and external information sources that Inland Revenue uses to provide advice and assistance to taxpayers & administer the tax Acts are correctly aligned with the rewritten Income Tax Act. The publications and knowledge bases covered by IR's regular updates are not included, but there remains a significant number which are only updated with changes to policy.

Problem Definition (provide evidence)

While the law generally has not changed, the words and organisation of the new re-written Income Tax Act are significantly different. Some provisions have also been rewritten to eliminate inconsistencies. Customers will seek clarification so these changes need to be communicated to customers by updating all internal and external IR publications, internal & external knowledge bases & on line & telephone communications. Funding was provided for the implementation of initial changes.

How do we know this initiative will deliver the outcomes (intervention logic)?

The Income Tax Act 2004 provides increased certainty & clarity to legislation and will result in an overall reduction in business compliance costs. Not all taxpayers refer to the Income Tax Act itself as a guide to meeting their compliance obligations. They rely on IR publications, website & helplines for support. To properly support taxpayers Inland Revenue publications & communications need to be clearly align to the changes that have resulted in the Income Tax Rewrite.

Evaluation of Initiative's contribution to Outcome

Once initial updates have been completed Inland Revenue's publications will be reviewed under ordinary processes and errors addressed as appropriate.

How could the initiative be scaled?

Any scaling would affect the quality of information supplied to customers and would have negative effects on compliance, as customers could receive incorrect information.

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Description: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

Purpose: *[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]* **Ranking:** 5

Theme: Economic Transformation **Theme Objective:** Non-specific

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross					
	Saving					
	Net					
Capital	Gross					
	Saving					
	Net					

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Problem Definition (provide evidence)

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

How do we know this initiative will deliver the outcomes (intervention logic)?

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials].

Evaluation of Initiative's contribution to Outcome

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

How could the initiative be scaled?

[information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: Compliance and Penalties

Description: Policy changes regarding proposals aimed at encouraging voluntary compliance through the review of penalty rules.

Purpose: Current Policy - Increase in Quality **Ranking:** 6

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	485	6192	8000	8000	8000
	Saving	0	0	0	0	0
	Net	485	6192	8000	8000	8000
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quality						
Impact on revenue assessed of proposed policy changes (included in totals above)	(\$000)	-133	-4400	-8000	-8000	-8000

OR Option 2 - where performance/outputs are best expressed as text

Subject to policy decisions

Problem Definition (provide evidence)

Following amendments made to the penalties rules in 2002 & 2003 and the commitment made in the Business Tax Review discussion document, Inland Revenue undertook to review penalty rules and other areas affecting voluntary compliance. A discussion document has been released & submissions received. The fiscal cost is estimated at \$8m per annum but may be partially offset by the impost of a new GST late filing penalty. Associated administrative are currently estimated at \$1.792 m for 07/08.

How do we know this initiative will deliver the outcomes (intervention logic)?

The initiative is subject to policy decisions. System changes will be necessary for Inland Revenue to implement the revised policy.

While these proposals may result in fewer penalties being imposed in aggregate (and hence a fiscal cost), they are aimed at increasing the incentives for taxpayers to voluntarily comply, thus resulting in more taxpayers filing and paying tax on time and more accurately calculating their tax liabilities.

Evaluation of Initiative's contribution to Outcome

The initiative is subject to policy decisions. The proposals are aimed at providing incentives to taxpayers to voluntarily comply.

How could the initiative be scaled?

The timing of changes are subject to policy decisions. Administrative changes for each adjustment could be scaled, but only at the risk of providing incorrect advice to taxpayers through not providing the required level of systems changes, staff training or updating of publications.

Vote: Revenue **Portfolio Minister:** Rt Hon Helen Clark

Title: Annual inflation adjustment of the student allowance personal income threshold

Description: Funding is sought to annually adjust the personal income threshold by inflation in the Annual General Adjustment process on an ongoing basis effective from 1 April 2008. This also means corresponding increases to the joint income threshold and joint income maximum limit.

Purpose: Current Policy - Increase in Quantity **Ranking:** 14

Theme: Economic Transformation **Theme Objective:** Firms' innovative capacity

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	0	1	4	6
	Saving	0	0	0	0	0
	Net	0	0	1	4	6
Capital	Gross	0	0	1	2	4
	Saving	0	0	0	0	0
	Net	0	0	1	2	4

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
Full SA (previously abated SA)	Recipients	0	160	160	150	150
Higher abated SA	Recipients	0	1750	1750	1740	1740
New Student Allowance (SA)	Recipients	0	10	10	10	10

OR Option 2 - where performance/outputs are best expressed as text

Problem Definition (provide evidence)

The personal income threshold was increased from \$135.13 gross per week to \$180 per week in the 2005 Budget. The previous "cliff-face" income limit was replaced by dollar for dollar abatement once earnings exceed the threshold. This bid will ensure that the value of the threshold does not erode over time.

How do we know this initiative will deliver the outcomes (intervention logic)?

The inflation adjustment of the personal income threshold is unlikely to have a significant effect on improving take-up of student allowances, but would ensure that the effect of wage growth on personal income does not affect students' allowance entitlements - stopping the need for step-wise adjustments which occur as a result of minor creep each year.

Evaluation of Initiative's contribution to Outcome

The student loan integrated data set is being expanded this year to include information on student allowances. The first analysis of this data will be available next year and over the next few years a sufficient time-series will emerge to enable good outcomes data to be collected.

How could the initiative be scaled?

This initiative is a manifesto commitment. In terms of reprioritisation, Ministers could defer this commitment until Budget 2008.

Vote: Revenue **Portfolio Minister:** Rt Hon Helen Clark

Title: Increasing the parental income threshold by 10 percent

Description: Funding to increase the student allowance parental income threshold by 10% to approximately \$44,334 from 1 January 2008. As a consequence the cut-off point will increase to approximately \$75,269 pa for those living away from home and approximately \$69,081 pa for those living at home.

Purpose: Current Policy - Increase in Quantity **Ranking:** 13

Theme: Economic Transformation **Theme Objective:** Firms' innovative capacity

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	0	22	69	119
	Saving	0	0	0	0	0
	Net	0	0	22	69	119
Capital	Gross	0	0	10	36	68
	Saving	0	0	0	0	0
	Net	0	0	10	36	68

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
Full SA (previously abated SA)	Recipients	0	1600	1630	1650	1670
Higher abated SA	Recipients	0	7510	7660	7740	7830
New Student Allowance (SA)	Recipients	0	780	800	810	820

OR Option 2 - where performance/outputs are best expressed as text

Problem Definition (provide evidence)

Increasing student allowances parental income thresholds will assist the government to meet its goal of improving the affordability of tertiary education for students. The bid would represent a further step in meeting the election manifesto pledge to progressively increase parental income thresholds so that at least half of all full-time students receive a student allowance.

How do we know this initiative will deliver the outcomes (intervention logic)?

Increasing the parental income threshold will: make more students eligible for student allowances (since the parental income cut-out thresholds are increased); increase the student allowance entitlement of those in receipt of a parentally abated entitlement; and reduce the reliance of the above students on the Student Loan Scheme and thereby reduce the cost of tertiary education to those students.

Evaluation of Initiative's contribution to Outcome

The student loan integrated data set is being expanded this year to include information on student allowances. The first analysis of this data will be available next year and over the next few years a sufficient time-series will emerge to enable good outcomes data to be collected.

How could the initiative be scaled?

Could defer until Budget 2008, when further student allowance outcome data is available through the integrated data set.

Vote: Revenue **Portfolio Minister:** Rt Hon Helen Clark

Title: Placeholder Bid - Expansion of Step Up Scholarships

Description: This placeholder bid seeks funding to expand the Step Up Scholarship scheme by maintaining the 2006 volume of new awards and increasing that volume of new awards by 50 percent from 1 January 2008. Cabinet is also being asked to redesign the scheme to increase equity and access opportunities.

Purpose: Current Policy - Increase in Quantity **Ranking:** 12

Theme: Economic Transformation **Theme Objective:** Firms' innovative capacity

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	2152	2530	5027	6062
	Saving	0	0	45	110	255
	Net	0	2152	2485	4917	5807
Capital	Gross	0	0	0	0	0
	Saving	0	0	23	49	140
	Net	0	0	(23)	(49)	(140)

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
Number of recipients (SUS)	People	0	181	181	181	181

OR Option 2 - where performance/outputs are best expressed as text

Problem Definition (provide evidence)

Statistics show that certain population groups are under-represented in tertiary education, particularly at higher levels. Ministry research has also found that a higher student loan leaving balance is associated with a higher likelihood of borrowers being declared overseas. This is an issue for the government because New Zealand needs to retain skilled graduates so that they may contribute to the local economy and fill local skill shortages.

How do we know this initiative will deliver the outcomes (intervention logic)?

Research from the US and the UK has shown that the initial cost of study can be a deterrent to those from low-income backgrounds. Scholarships help to address this issue by reducing the costs of tuition fees for students from the most disadvantaged backgrounds.

Evaluation of Initiative's contribution to Outcome

The uptake of the additional scholarships will be monitored by StudyLink. A formal evaluation of Step Up Scholarships is scheduled for 2007, however, Cabinet is being asked to agree to defer it until 2008.

How could the initiative be scaled?

The initiative could be scaled by only maintaining the current volume of new awards beyond 2007 (with the exception of 2009). This would not, however, result in any additional awards.

Vote: Revenue **Portfolio Minister:** Rt Hon Helen Clark

Title: Property Audit Strategy

Description: To implement a task force targeted approach to address emerging tax compliance issues involving property transactions.

Purpose: New Policy **Ranking:** 7

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	2927	5839	5839	0
	Saving	0	7351	29406	29406	0
	Net	0	(4424)	(23567)	(23567)	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
Increase in Revenue Assessed	\$	0	7351	29406	29406	0

OR Option 2 - where performance/outputs are best expressed as text

Problem Definition (provide evidence)

In recent years, Inland Revenue has devoted just under a quarter of its SME audit focus onto the various aspects of property transactions, which has translated into just under a quarter of the total discrepancy adjustments in the last two years. However, the public perception is that Inland Revenue is still not doing enough to ensure a greater proportion of property transactions are fully reported, which if unaddressed, could seriously undermine the integrity of the tax system.

How do we know this initiative will deliver the outcomes (intervention logic)?

This proposal is for the development and implementation of a consolidated and cross-functional response to the property transaction risk. This approach would be in the nature of a dedicated Task Force similar to the tactics successfully used for High Wealth Individuals and Industry Partnership industries where there is focused end-to-end, cross-functional activity.

Evaluation of Initiative's contribution to Outcome

The benefits of this approach to property compliance risks are:

- addresses the significant growth in the number of property transactions
- provides a sophisticated technology solution to address this risk effectively
- makes available more information & support in the area of proving intent

How could the initiative be scaled?

Funding of \$1.000 million would significantly reduce the strategy's effectiveness and revenue assessed would only be \$5.000 million

Vote: Revenue **Portfolio Minister:** Rt Hon Helen Clark

Title: Litigation and Complex Transactions Audit

Description: As the tax base increases and with it the complexity of taxpayers' affairs, we need to ensure that we are able to apply the appropriate resource to address the issues effectively.

Purpose: New Policy **Ranking:** 8

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	4000	4000	4000	1000
	Saving	0	20000	20000	20000	20000
	Net	0	(16000)	(16000)	(16000)	(19000)
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

	Unit of Measurement	Performance Specification				
		2006/07	2007/08	2008/09	2009/10	2010/11
Quantity						
Increase in Revenue Assessed	\$	0	20000	20000	20000	20000

OR Option 2 - where performance/outputs are best expressed as text

Problem Definition (provide evidence)

The increasing number of highly specialised, complex, high-risk tax cases is having considerable impact on the litigation area with increasing requirements for more experts (Structured Finance multiple banking institutions) and Litigation personnel to assist with case preparation. As the identification of new and growing risk areas emerges, there is a need for reprioritisation of Large Business audit resources to address these risks.

How do we know this initiative will deliver the outcomes (intervention logic)?

This funding request looks to strengthen and build on Litigation Management and the Assurance group taking a more integrated, multi-faceted approach to addressing complex and high-risk activity by using both specialist and cross-functional teams.

Evaluation of Initiative's contribution to Outcome

Increased audit activity & litigation will improve compliance as a result of an increased ability to focus on cases at the top of the compliance model. This will result in an increase in revenue.

How could the initiative be scaled?

Any reduction in the requested funding will result in a corresponding reduction to the proposed increase in output hours and assessed revenue.

Vote: Revenue **Portfolio Minister:** Hon Peter Dunne

Title: Family Assistance re-naming

Description: Ministers have agreed the term 'assistance' no longer captures the nature of family assistance payments and have agreed a name change. This initiative funds the required system changes to update letters, staff tools and other media to the new name, and funds reprinting of Inland Revenue products.

Purpose: New Policy **Ranking:** 9

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1300	0	0	0
	Saving	0	1300	0	0	0
	Net	0	0	0	0	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

The costs associated with renaming the Working for Families tax credits are to be met through savings from the Taxation of Investment Income project, with no corresponding impact on the operating balance.

Problem Definition (provide evidence)

Family assistance customer numbers have risen dramatically under Working for Families. Most families are now eligible. It has been agreed with Ministers the term 'assistance' no longer captures the nature of the payments & that the entitlements should be renamed. While many of Inland Revenue's print products & public information will have the name changed during 2006/07, there are existing letters, staff tools & other media which will need to be changed in 2007/08.

How do we know this initiative will deliver the outcomes (intervention logic)?

Changing of systems and products is an essential part of any name change. In the short term there may be some customer confusion over names but this will recede as customers become familiar with the new products.

Evaluation of Initiative's contribution to Outcome

The initiative is essential if the name is to be changed as Ministers have agreed it should.

How could the initiative be scaled?

Scaling is not possible as all systems and products will need to be changed to reflect the new name(s) consistently.

Vote: Revenue **Portfolio Minister:** Rt Hon Winston Peters

Title: Bloodstock write down

Description: This initiative applies the new bloodstock write down rules to bloodstock that were in foreign ownership but had been in production in New Zealand prior to 1 August 2006.

Purpose: Current Policy - Increase in Quality **Ranking:** 10

Theme: Other **Theme Objective:** Other

Funding Sought:

		2006/07	2007/08	2008/09	2009/10	2010/11
		\$000	\$000	\$000	\$000	\$000
Operating	Gross	0	1000	1000	300	0
	Saving	0	0	0	0	0
	Net	0	1000	1000	300	0
Capital	Gross	0	0	0	0	0
	Saving	0	0	0	0	0
	Net	0	0	0	0	0

Performance Information:

Either Option 1 - where performance/outputs can be expressed in a table

OR Option 2 - where performance/outputs are best expressed as text

There are approximately 24 foreign-owned stallions that have been in production in New Zealand prior to 1 August 2006. The initiative will encourage New Zealand businesses to bring some of the successful stallions into New Zealand ownership. It is conceivable that 6 of the 24 horses in question would be brought into New Zealand ownership.

Problem Definition (provide evidence)

The new bloodstock write down rules apply from 1 August 2006. However, horse breeders are not able to take advantage of the new bloodstock write down rules if they wish to purchase foreign-owned bloodstock that were in production in New Zealand prior to 1 August 2006. This discourages bringing shuttle stallions into New Zealand ownership and was an unintended consequence of the law change.

How do we know this initiative will deliver the outcomes (intervention logic)?

Applying the new write down rates to bloodstock that were foreign-owned but in production in New Zealand, will encourage horse breeders to purchase successful shuttle stallions. This will strengthen the quality of New Zealand-owned bloodstock.

Evaluation of Initiative's contribution to Outcome

The initiative will lead to increased New Zealand ownership of bloodstock, thereby strengthening the base of the breeding industry.

How could the initiative be scaled?

The scale depends on taxpayers' response to extending the new write down rules to foreign-owned bloodstock in production in NZ prior to 1 August 2006.