The Treasury

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

[2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials

[3] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions

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[10] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Vote Revenue

Four-year Budget Plan

Version 1

1 December 2010

Submitted by:

Inland Revenue Department

Section 1: New Baseline and Summary of Changes

Executive Summary

Our priorities for Vote Revenue for the next four years are to transform Inland Revenue so it operates more efficiently and effectively while continuing to maintain the integrity of the tax and social policy systems we administer, and to maximise compliance and revenue flows. Inland Revenue's priorities for Vote Revenue in 2011/12 and the next three financial years are:

- implementation of the tax measures announced in Budget 2010
- supporting the Savings Working Group process and advising on matters arising from its report
- delivery of the Government's tax policy work programme including income splitting, child support and charities
- continue the international tax reforms that aim to improve the competitiveness of New Zealand companies overseas and to make New Zealand more attractive for overseas investment
- delivery of our business transformation programme

Of the above priorities, the business transformation programme has significant impacts on Budget 2011 and includes the following initiatives:

1. Student Loans Redesign

Set to be operational from April 2012, the loan management system will significantly improve performance by improving the rate and timeliness of student loan repayment collection.

[2]

4. Our eServices programme

Our eServices programme is an integral part of our transformational strategy. The eServices programme is building enterprise capability, enabling business transformation and delivering significant customer and administrative benefits. The focus for the online experience will be families and individuals workspace as well as Tax Agent workspaces.

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Without future investment in our transformation programme Inland Revenue will find it challenging to deliver further process and system technology efficiencies to deliver future policy changes effectively. Opportunities to improve customer compliance behaviours and reduce customers' compliance burdens will be compromised and pose the risk that current system failures will increase with time.

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Section 2: Vote Priorities and Pressures

Background

Inland Revenue has three main responsibilities:

- collecting revenue—we assess and collect over 80% of core Crown revenue
- administering social policy programmes—these include child support, paid parental leave, student loans, Working for Families tax credits, and KiwiSaver
- providing policy advice—we provide advice to the Government (with the Treasury) on all aspects of tax policy and social policy measures that interact with the tax system, including drafting legislation

In 2009/10 we:

- provided services for 6.9m taxpayers (individuals, businesses, partnerships, trusts and other entities)
- collected $46bn in tax revenue
- disbursed $2,787m of Working for Families tax credits, and $2,648m of KiwiSaver payments to fund providers
- collected $2,085m in overdue debt
- responded to 24m customer contacts, mostly via telephone, correspondence, and self-help service enquiries

Priorities in Vote Revenue from 2011/12 to 2014/15

The Government's economic vision includes ensuring we have a growth-enhancing tax system, which creates incentives for people to work hard, improve their skills and get ahead. The aims for tax reform are also to encourage savings and boost productivity and to be fair to all New Zealanders and in the current fiscal climate implementing Government's tax policy has a clear role in supporting a return to strong economic growth. Inland Revenue's priority is focused on reducing cost and maximising compliance and revenue flows, whilst continuing to maintain the integrity of the tax and social policy systems we administer.

In support of Government objectives our priorities for Vote Revenue in 2011/12 and the next three financial years are to deliver an effective and efficient tax administration system. This will be achieved by:

- implementation of the tax measures announced in Budget 2010
- supporting the Savings Working Group process and advising on matters arising from its report

- delivery of the Government's tax policy work programme (income splitting, child support and charities)
- continue the international tax reforms that aim to improve the competitiveness of New Zealand companies overseas and to make New Zealand more attractive for overseas investment
- delivery of our business transformation programme including:
  - redesigning the student loan system (already approved by Cabinet and funded)
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  -
  - improving our eServices
  - [2]
  - enterprise desktop project (stabilising and enhancing our desktop environment)
  - strengthening and renewing our Information Technology (IT) infrastructure (including cross-agency collaboration on infrastructure capability)

Our Transform Inland Revenue priority is one of moving from a paper based system to a more electronic and smarter approach providing customers greater certainty and speedier interactions. This will provide benefits of reducing compliance costs and providing better value for money to Government. The transformation programme will deliver a more agile, flexible and fit-for-purpose tax system. [2]

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Operating and Capital Pressures and Risks

Inland Revenue makes a significant contribution to the Government's priorities for a growth enhancing tax system and better public services. We support these priorities by developing a tax system that provides certainty, speed and high levels of voluntary compliance. However, we are facing rapid growth in the total volume of outputs as demand for our services increases and more complex customer relationships develop.

In the past few years, as part of our efforts to improve productivity and manage growth in demand for our services, Inland Revenue has sought to invest in technology that allows us to respond effectively and efficiently. The use of automated self-help services, especially web-based services, has grown significantly. These, and more recent technological developments such as virtual hold and SPK2IR voice recognition technology, have helped manage some of the demand for our services.

Inland Revenue has worked hard to manage the pressure created by the growing demand for its services. While Inland Revenue has been funded for delivery of new policy initiatives, often this funding has been insufficient to meet the additional work generated, particularly in the social policy area. For example, Inland Revenue has over 100 additional staff supporting Working for Families than originally funded for.

Operating Pressures

Our current operating financial projections indicate core cost pressures growing from approximately $70m in 2011/12 to as high as $111m by 2014/15. While Inland Revenue has committed to self fund several Government priorities, including a component of the Budget 2010 tax rate changes, the majority of our financial pressures relate to standard cost pressures[2]

In the 2009/10 financial year Inland Revenue spent $58m (9%) less than the previous financial year and delivered savings to the Crown of $36m, these cuts were swift and significa[2]

We have identified savings to manage 38% of our core cost pressures by 2014/15, it is anticipated that these will be achieved through the delivery of productivity gains and other identified savi[2]

[2]

Capital Pressures

In the early 1990s the Crown made a significant investment in Vote Revenue to implement the core components of the tax system (FIRST). While Inland Revenue has been able to leverage this investment to incorporate new functionality, such as eServices and changes in Government policy, there has only been limited investment in the core system and additional internal funding has been required to meet growing customer contact levels and increased demand for service delivery activities such as Working for Families.

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Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

Introduction

As a revenue collecting agency, the nature of Inland Revenue's core business means there is very limited potential to reduce or cease any of its current programmes and reprioritise without negatively impacting on compliance, the revenue base and/or people's access to entitlements. Inland Revenue drives efficiencies within its core activities and has delivered significant value for money to the Government in the past 6 years.

What will be new or increased?

Inland Revenue has initiated a long term programme to make compliance faster, easier, and less costly for our customers. We aim to provide innovative online services to help us respond faster to future changes, provide value for money to Government and maintain the integrity of the tax system. Our transformation programme will involve both capital and operating investment over the next 10 years. The final mix and priority of capital and operating requirements will be determined during the business case stage of each initiative.

1. Student Loans Redesign

We are redesigning our student loans system to provide the capability necessary for Inland Revenue to strengthen its management of student loan repayments, and achieve an increased rate of collection, with opportunities to leverage the technology as a platform(s) for other products in the future.

Set to be operational from April 2012, the loan management system will significantly improve performance by improving the rate and timeliness of student loan repayment collection.

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4. *Our eServices programme*

Enabling customers to self manage their obligations and compliance is key to our approach to managing compliance.—ensuring that voluntary compliance is the norm. We are increasing the range of information and services available to our customers electronically, reducing the need for them to contact us and enabling us to focus on more complex queries and targeted proactive compliance campaigns.

Our eServices programme is an integral part of our transformation strategy. The eServices programme is building enterprise capability, enabling business transformation and delivering significant customer and administrative benefits.

The rolled up operational benefits identified for eServices initiatives is $15–$20m in operational savings over five years. Other benefits from the programme include:

- reductions in paper, customer contact, and cheque volumes
- reductions in GST fraud and attempted fraud, better debt management, and general increase in compliance levels
- increases in customer eUptake and overall improvement in the customer experience

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Section 4: Summary of Financial Movements

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

This report has been generated from CFISnet.

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