The Treasury

Budget 2023 Tax Initiatives Information Release

July 2023

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[36] 9(2)(h) - to maintain legal professional privilege

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Inland Revenue report: **Budget 2023 and Inland Revenue's initiative work programme**

Date:	14 March 2023	**Priority:**	High
Security level:		**Report number:**	IR2023/096

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report **Agree** to recommendations	16 March 2023 - Joint Ministers meeting
Minister of Revenue	**Note** the contents of this report **Agree** to recommendations	16 March 2023 - Joint Ministers meeting

Contact for telephone discussion (if required)

Name	Position	Telephone
Peter Mersi	Commissioner of Inland Revenue	[35]
Mike Nutsford	Strategic Adviser, Enterprise Design & Integrity	[39] [35]

14 March 2023

Minister of Finance
Minister of Revenue

Budget 2023 and Inland Revenue's initiative work programme

Executive summary

1. This report provides a consolidated view of the revenue, expenditure, resource and capacity impacts for the existing tax and social policy work programme, Budget 2023 initiatives, and international tax initiatives that impact Vote Revenue.

2. Our work programme over the Budget forecast period (2022/23 to 2026/27) is significant, particularly when the proposed Budget 2023 initiatives and international tax initiatives are overlaid. Without the additional funding we are seeking, including our proposal to self-fund some of the costs, we will be unable to deliver all the initiatives being considered as part of Budget 2023 in the timeframes required and to the level of quality needed. We will need to defer some work even if funding is approved, including initiatives in the existing tax and social policy work programme, as we do not have the specialist design and delivery capability needed to support all these initiatives, nor can we recruit them quickly enough.

3. There will be additional demands on our front-line people. Without additional funding, we will be unable to respond to customer demand both for our existing core business and the Budget 2023 initiatives. Our customer service levels would deteriorate, and this would be reflected in our service performance. While our people have supported the implementation of business transformation, the COVID-19 response, and Cost of Living Payments over the last 6 years, additional staff will be required to support the Budget 2023 initiatives if they all proceed.

4. Aside from the impacts on Inland Revenue, there are also impacts on our customers and external delivery partners if all the Budget 2023 initiatives being considered are approved. With the volume of change being considered, there is a risk that customers will be unable to understand and comply with their new obligations and that those intended to benefit from the changes will miss out. The likelihood of this occurring will increase if customers cannot contact us. Another highly likely risk is that partners will be unable to deliver the changes required to their systems and processes in time.

5. We have therefore done some initial thinking about already agreed non-Budget policy initiatives that would be deferred, and we would defer non-critical internal maintenance and optimisation initiatives to release resource capacity and funding. Deferral of these initiatives will defer the associated efficiencies and incremental customer compliance cost benefits. The policy initiatives we have identified that could be paused to free up specialist resources [34]

The exact resourcing effort required

will depend on what Budget initiatives proceed and the implementation timetable. We will report back with a definitive proposal for initiatives to be deferred once the core Budget decisions have been taken.

6. The estimated implementation and administration costs1 for the Budget 2023 initiatives and international tax initiatives is $111 million. This includes $89 million for the Minister of Revenue led initiatives and $22 million for initiatives led by other Ministers that impact Vote Revenue.

7. The net increase in Crown revenue, from the tax related initiatives, over the forecast period is approximately $2 billion, depending on final policy decisions. The revenue from two of the initiatives, personal tax relief changes and the wealth tax, effectively offset each other, so the notional additional tax revenue to be collected from an administration perspective is in the vicinity of $17 billion.

8. We are proposing a mix of Crown funding and Inland Revenue self-funding for the Budget 2023 and international tax initiatives. Our proposed funding approach includes:

   (a) self-funding initiatives that leverage existing system and process functionality, with low development and administration costs
   (b) seeking Crown funding for new tax/levy/expenditure types or initiatives with substantial system changes and/or administration costs, and
   (c) seeking funding for new initiatives led by other Ministers.

9. We are proposing to leverage cash (capital) reserves and depreciation to fund some of these initiatives, however this does erode our cash reserves and reduces our ability to fully fund the replacement of strategic assets in the long-term. We also propose a capital to operating swap. We propose self-funding some of the operating expenditure, noting this has impacts on our outcomes and performance standards.

10. We propose self-funding $53 million of the total initiatives, including $21 million of capital form cash reserves, $12 million of operating from existing operating appropriations and $20 million of operating funded from a proposed capital to operating swap.

11. The self-funding represents almost 50% of the total funding. The financial impact of this level of self-funding means that we will have limited ability to self-fund other potential initiatives over the 2023/24 and 2024/25 financial years without significant impacts on performance and/or erosion of cash (capital) reserves.

12. We have no initiatives or funding requirements relating to the impacts of the recent North Island extreme weather events. Any additional customer contacts or assistance to our customers associated with these events are being absorbed within our existing staff levels and baseline.

[1] All expenditure and revenue figures are for the Budget forecast period of 2022/23 to 2026/27 unless otherwise stated.

Recommended action

13. I recommend that you:

Implementation capacity

(a) **Note** that there will be a significant impact on Inland Revenue from the proposed Budget 2023 initiatives and international tax initiatives, including the deferral of some initiatives in the existing tax and social policy work programme, the pausing of work to improve experiences for customers other than critical system-related work, and declines in service performance resulting from increased customer contacts.

Noted Noted

(b) **Note** that due to the significant impacts and capacity constraints on Inland Revenue from the proposed Budget 2023 initiatives and international tax initiatives the following policy initiatives could be deferred:

- [34]
-
-
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Noted Noted

Crown revenue impacts

(c) **note** the additional provisional net revenue for Minister of Revenue led initiatives is forecast at approximately $2 billion over the forecast period, depending on final policy decisions.

Noted Noted

(d) **note** that the revenue initiatives will likely have an impact on non-departmental debt impairment appropriations of $105 million over the forecast period.

Noted Noted

Administration costs

(e) **note** the total estimated implementation and administration costs for all Budget 2023 and international tax initiatives is $111 million over the forecast period (2022/23 to 2026/27), including $89 million for Minister of Revenue led initiatives and $22 million for Budget initiatives led by other Ministers.

Noted Noted

(f) **note** that the estimated total cost of $111 million includes $37 million for up-front capital build costs, $6 million operating for up-front build costs, $48 million for operating administration costs, and $20 million for depreciation and capital charge.

Noted Noted

(g) **note** that Inland Revenue proposes a mix of Crown funding and Inland Revenue self-funding based on the following approach:

- self-funding initiatives that leverage existing system and process functionality, with low development and administration costs
- seeking Crown funding for new tax/levy/expenditure types or initiatives with substantial system changes and/or administration costs, and
- seeking funding for new initiatives led by other Ministers.

Noted Noted

(h) **note** that Inland Revenue proposes to self-fund $53 million (~50%) of the total cost, including $21 million of capital form cash (capital) reserves, $12 million of operating from existing appropriations and $20 million of operating funded from a proposed capital to operating swap.

Noted Noted

(i) **note** the financial impact of self-funding $53 million means that we will have limited ability to self-fund other potential initiatives over the 2023/24 and 2024/25 financial years without significant impacts on performance and/or erosion of cash (capital) reserves.

Noted Noted

(j) **note** that Inland Revenue with the Treasury will report back to the Minister of Finance and the Minister of Revenue on the updated overall financial, resource and capacity impact of all proposed Budget 2023 tax initiatives based on recommendations from this report and upcoming policy and design decisions.

Noted Noted

Peter Mersi
Commissioner of Inland Revenue

Hon Grant Robertson
Minister of Finance

Hon David Parker
Minister of Revenue

Background

Capacity and financial position post-Business Transformation

14. Inland Revenue is now a far more agile and efficient organisation following the successful completion of the transformation programme in June 2022. This is evident in improved experiences for customers, the speed with which we are now able to respond to Government priorities, and the efficiencies achieved.

15. Significant savings have been realised – $309 million as at 30 June 2022. A further $200 million in savings has already been removed from our baselines for the 2022/23 and 2023/24 years. In addition, we self-funded inflationary cost pressures over this period and self-funded remuneration increases from 2009/10 to 2021/22. In real terms, our baseline funding is 15% lower in 2022/23 than it was in 2014/15.

16. The number of full-time equivalents staff members (FTEs) has reduced by 29% over the last 5 years – from 5,401 as at 30 June 2017 to 3,819 as at 30 June 2022. Our people adapted to the change resulting from transformation and new products introduced in the response to COVID-19 and the recent spike in inflation and supported customers through these changes.

17. Transformation has enabled these efficiencies to be brought forward and realised over a much shorter timeframe than would otherwise have been possible. We have few options left to realise future efficiencies, [34]

18. We have reached the point at which delivering for customers and Government will be compromised if we are expected to deliver further efficiencies or required to deliver multiple new initiatives at the same time and within short timeframes.

Policy agility

19. One of the investment objectives of transformation was to implement policy changes more quickly and cost effectively. In cases where requirements are clear and existing design patterns can be reused, new products or changes to existing products can now be delivered within weeks, as has been demonstrated by our response to COVID-19.

20. To maintain agility, ongoing, regular investment in our systems and processes is required. We need to keep current with new versions of START and preserve sufficient funding and capacity for this purpose.

21. While expectations of us are high, it is important to note that the business case for transformation never envisaged policy changes being implemented and administered at no additional cost. There are limits to what can be achieved within our existing systems, processes, and capacity.

22. When we designed our new operating model for implementing change in late 2020, we estimated resourcing based on what we knew at the time. We established a lean function on the assumption that any unexpected or new demand would be met through additional capacity and capability, which would be sourced with appropriate lead in times. Our design is a "breathe in, breathe out" model: it was never intended to be fully funded for all change activity.

Current position

23. Inland Revenue is already committed to deliver the current tax and social policy initiatives agreed by Ministers and Cabinet. These initiatives include:

- the legislative changes included and to be added to the Taxation (Annual Rates for 2022-23, Platform Economy, and Remedial Matters) Bill (No 2) – the platform economy and recent extreme weather events tax changes
- Child support pass-on (Budget 2022 announcement)
- the legislative changes to be included in the proposed May 2023 bill
- Tax Principles Act.

Implementation capacity

24. We discussed our specialist design and delivery constraints with you in February 2023 (report IR2023/043 Inland Revenue's Initiative Work Programme refers). You indicated that your priorities were the implementation and delivery of the Budget 2023 initiatives, and that re-prioritisation of other policy initiatives would be considered if required.

25. As indicated in that report, there is no short-term solution to this constraint. It is difficult to recruit the specialist design and delivery capability, [38] In addition, recruiting, onboarding, and bringing people up to speed will involve some of our existing specialists and therefore reduce our current capacity and productivity. We will look to increase capacity as a longer-term solution.

26. Our current capacity is also used to maintain the stability of our systems and ensure that critical fixes are implemented in a timely manner and will work on deploying the next START upgrade. This upgrade is required to support the Platform economy implementation changes and is scheduled to be completed by the end of October 2023.

Our financial position and cost pressures

27. Our core baseline, pending the outcome of our 2023 March Baseline Update submission, will reduce from $621 million in 2023-24 to $554 million in the 2027/28 year, a reduction of $67 million (11%).

28. In December 2022, as part of Budget 2023, we submitted a cost pressure bid of $163 million over the forecast period to cover remuneration pressures and technology cost inflation pressure. This bid was based on the cost pressure funding envelope set by the Minister of Finance. [34]

29. We are rebuilding, in the medium-term, a cash (capital) reserve of around $450 million, funded from depreciation of our transformation assets. This approach follows Cabinet guidance to use depreciation to provide for asset replacement (CAB Min (12) 10/3A refers). The cash reserve is designed to fund upgrades and replacements of existing assets in the future. [34], [38]

30. Its purpose is not to fund new initiatives, but as discussed below trade-offs are being considered to fund new initiatives. The risk of using such a reserve to fund the costs of new initiatives is that it erodes our cash (capital) reserve and our future ability to fund replacement assets.

Impact of Budget 2023 initiatives

31. Ministers are considering a number of tax and social policy initiatives for inclusion in Budget 2023 that will have implementation and on-going administrative implications for Inland Revenue, our customers and our external delivery partners including tax agents. These initiatives include (refer to paragraphs 46 to 48 for a full list):

- Trustee tax rate
- Bank levy
- Personal tax relief changes
- Wealth tax
- [33]
- KiwiSaver changes – Government (employer) contribution to PPL recipients.

Prioritisation of work and trade-offs

32. We have looked at what we can defer or slow down to free up our specialist design and delivery capability resources to support the Budget 2023 initiatives being considered and the committed priorities outlined in paragraph 23.

33. Even if we defer or slow down some work, we will not have the capability and capacity we need to deliver all of the Budget 2023 initiatives being considered, should they all be approved. We cannot recruit sufficient specialist design and delivery capability quickly enough to increase our capacity to the extent required in the timeframes required (refer to paragraphs 24 to 26).

34. From an internal perspective, we will only proceed with work to maintain our systems, implement critical fixes, and upgrade START. Other work which does not necessarily require our specialist resources, such as our ability to improve experiences for customers and further reduce compliance effort for them, will also be affected if resources are redeployed to support the Budget 2023 initiatives being considered. Activity to optimise our systems and processes to help us work more effectively would stop.

35. From an external perspective, due to capacity constraints, our initial thinking is that the following policy initiatives could be deferred so that implementation and effective dates for all initiatives can be staggered:

- [34]
-
-
-

36. The staggering of implementation dates will provide some capacity flexibility in managing our resources to deliver these initiatives. However, until we have decisions on implementation dates of the Budget initiatives, we do not have a complete picture of our capacity demand over this period.

Impact on Inland Revenue staff

37. Our people are resilient and agile however they are under pressure. Since 2017, the amount of change they have experienced and supported customers through has been substantial. It includes six business transformation releases from early 2017 to late 2021, the COVID-19 response since early 2020, and the Cost of Living

[34]

payments in 2022. The changes for our front-line staff in particular have been fundamental. Over the last 6 years, they have adapted to major changes in our systems and processes for every product we administer and have supported new products.

38. We cannot absorb the additional work that would result from the Budget 2023 initiatives being considered should they all proceed. Additional staff will be required to support customers to adapt to the changes and to respond to their enquiries. Otherwise, our overall service performance will decline.

39. The tight labour market is impacting our ability to recruit and retain people with the required capabilities in a competitive environment. While we have a good market reputation and are seen as an inclusive and flexible employer with modern tools, it is difficult to recruit some of the specialist roles we need. In addition, it takes time for people, even those with specialist skills, to build their capabilities so they will not be fully productive immediately.

40. If Inland Revenue is asked to deliver all the Budget 2023 initiatives being considered and does not receive funding for the changes being considered, our ability to respond to customer demand would be significantly impacted. Customers would be waiting longer to have their calls answered and their web messages responded to, and this would be reflected in our service performance standards. There is a risk that if customers are unable to contact us those who are intended to benefit from some of these changes would miss out and those with new obligations would be unable to comply. Customer experiences would deteriorate, and media attention would be likely. In addition, the appropriate level of compliance and audit activity needed to support these initiatives would not be in place.

Impact on customers and third parties

41. The Budget 2023 initiatives and the initiatives in the current tax and social policy work programme will impact on our customers and external delivery partners. Both customers and partners will need to understand the implications of the changes and delivery partners will need to make changes to their systems or products such as software packages. Given the number of initiatives to be implemented there will be a cumulative impact on these groups, with some groups being impacted a number of times.

42. Many of our services are delivered with other agencies and external parties. We work with more than 100 software developers and a range of financial institutions for example. Sometimes we can only move as quickly as they can. External parties need appropriate lead times to implement changes and some agencies have less agile systems.

43. There is a risk that customers and partners will not be able to cope with the amount of change required or understand their new obligations. This would have an impact on compliance with the new requirements and wider compliance with existing obligations. There is also a risk that delivery partners will be unable to implement the changes within the required timeframes. Once decisions are made and announced, early engagement with such groups will be critical in understanding the impacts on them and what is required to support them in understanding and implementing these changes.

Summary of overall impact

44. We cannot be definitive about the impacts of the Budget 2023 initiatives being considered until the design of each initiative has been finalised and decisions made about which will proceed and their implementation dates. However, based on what we currently know we can confirm that if all Budget 2023 initiatives proceed:

- some initiatives already agreed to in the existing tax and social policy work programme will need to be deferred or slowed down
- we will only undertake critical system-related work (outside of the Budget initiatives)
- work to improve experiences for customers or reduce compliance effort for them will not be a priority
- customers will experience difficulty contacting us and getting responses to their queries and our service performance will decline
- the challenges we are facing with implementation capacity will also be faced by our external delivery partners.

45. Once final policy decisions have been made, we will need to revisit the impacts to assess whether we have captured them all.

Costing of initiatives

46. Inland Revenue has costed each of the proposed initiatives. At this stage the total implementation and administration cost of all initiatives is $111 million over the five-year forecast period (2022/23 to 2026/27).

47. The initiatives included in our cost assessment are:

Vote Revenue initiatives - initiatives led by the Minister of Revenue and/or the Minister of Finance:

- Trustee rate
- Bank levy
- Personal tax relief
- Wealth tax
- GloBE – global anti-base erosion proposal (OECD Pillar Two & CBC 2.0)
- Taxation of the platform economy[3]
- [33]

Other vote initiatives - initiatives led by other Ministers:

- KiwiSaver - Government (employer) contribution to PPL recipients (Minister of Social Development and Employment)
- RDTI in-year tax payment – Interim solution put in place by MBIE (Minister of Research, Science and Innovation)
- [33]
- Agricultural emissions pricing (Minister of Agriculture and Minister for the Environment).

48. At this stage we have excluded the following initiatives, however costs for these can be incorporated if subsequent decisions are made to progress.

- [33]
-

[3] Policy and funding have already been approved by Cabinet (CAB-22-MIN-0266 and IR2022/416 refer). This initiative is included as it is linked to our proposed self-funding approach and has an impact on development capacity.

- [33]
-
-

49. We have also excluded minor tax related changes, since Budget 2022, where there are no departmental impacts and where the revenue impacts have already been counted against the Tax Policy Scorecard or included directly into tax forecasts rather than managed through the Budget 2023 allowances. Examples include use of money interest rate changes and changes to the FBT prescribed rates of interest.

Costing approach and contingencies

50. The cost estimates are based on an upper range to reflect the potential policy and design decisions yet to be made and include an estimated contingency based on the degree of confidence with each costing. When all the initiatives are finalised from a policy perspective and assessed as a single programme of work, we expect that the total cost could be reduced. Any subsequent changes to the policy or design will have an impact on the cost estimates.

Self-funding approach from existing Vote Revenue appropriations

51. We have some ability to self-fund the capital and/or operating components of Budget 2023 initiatives and international tax initiatives. However, there are medium- and longer-term impacts associated with self-funding. For example, we need to retain sufficient cash (capital) reserves to upgrade and replace existing assets, including START.

52. We have reviewed the impact of all initiatives that impact the department over the forecast period, and our ability to self-fund some of them. Self-funding options include direct use of operating and capital appropriations, retention of underspends and/or capital to operating swaps.

53. From a funding perspective we have broadly categorised initiatives into three groups, with a proposed funding approach for each category, noting that some initiatives may have a mix of funding approaches (e.g. a mix of self-fund and Crown funded):

(a) *Self-fund: initiatives that use existing system and process functionality with low development and administration costs*
These initiatives can broadly be considered business as usual activities that are within our post transformation capacity. This category includes the trustee rate change and the one-cost of the personal tax relief changes. We propose that these initiatives are self-funded from within existing Vote Revenue appropriations, including the associated depreciation and capital charge costs.

(b) *Crown funded: new tax/levy/expenditure types or initiatives with substantial additional system changes and/or administration costs*
These are initiatives which require new system functionality or substantial additional system functionality, and where we are unable to leverage existing functionality. This category includes the banking levy and wealth tax. We propose that these initiatives are funded from the Crown.

(c) *Crown funded - Initiatives led by other Ministers*
These initiatives are being led by other Ministers and agencies with impacts for Vote Revenue (departmental). This includes the proposed [33] KiwiSaver (MBIE) and agricultural emissions (MPI) initiatives. These initiatives are generally additional to our core activities and therefore we have

limited ability to self-fund them without impacting our performance levels or outcomes. We propose that these initiatives are funded by the Crown.

54. The table below shows the proposed mix of self-funding and Crown funding for all initiatives. A detailed breakdown by initiative is set out in the following sections.

	$ million – increase/(decrease)					
Vote Revenue Proposed funding mix	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Self-fund	0.560	15.480	19.680	9.780	7.680	53.180
Crown-funded	-	19.160	23.680	8.070	6.770	57.680
Total	0.560	34.640	43.360	17.850	14.450	110.860
% self-funded	100%	45%	45%	55%	53%	48%

Capital – upfront build costs

55. The one-off capital build costs to implement the Budget 2023 initiatives and tax policy initiatives in our systems and process is estimated at $28.320 million for Vote Revenue led initiatives and $8.350 million for other Budget 2023 initiatives. This cost is primarily for system changes.

[38]

56. We propose self-funding $20.820 million of the Vote Revenue initiatives and seek Crown funding for the remaining $7.500 million of the Vote Revenue initiatives and the $8.350 million for other initiatives. This represents self-funding of 57% of the total capital cost.

Operating - depreciation and capital charge

57. In line with the proposed funding mix for capital expenditure we propose self-funding $11.150 million of depreciation and capital charge expenditure over the

[38]

forecast period and seeking Crown funding for $8.770 million. This represents self-funding of 56% of the depreciation and capital charge expenditure.

	$ million – increase/(decrease)				
Vote Revenue Depreciation and capital charge - operating	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Vote Revenue initiatives	-	0.570	3.100	5.760	5.760
Other initiatives	-	0.220	0.910	1.800	1.800
Total operating	-	0.790	4.010	7.560	7.560
Proposed - self-fund	-	0.420	2.350	4.190	4.190
Proposed – Crown fund	-	0.370	1.660	3.370	3.370
Self-fund percentage	-	53%	59%	55%	55%

Operating – upfront build costs

58. The one-off operating build costs to implement the Budget 2023 initiatives and tax policy initiatives in our systems and process is estimated at $4.260 million for Vote Revenue led initiatives and $1.420 million for other Budget 2023 initiatives. This cost is primarily for change management and training delivery.

[38]

59. We propose self-funding $2.710 million of the Vote Revenue initiatives through a capital to operating swap and seek Crown funding for $2.970 million for other initiatives. This would represent self-funding of 48%.

On-going administration costs and staff capacity

60. The ongoing administration costs are primarily for resources to administer the new initiatives. In most cases, this is for additional customer contacts.

[38]

Impact on staff capacity

61. The estimated ongoing staff (FTE full-time equivalent) impact of these initiatives ranges from an additional [34] FTEs in 2023/24 to [34] FTEs in 2026/27. The table below sets out the estimated FTE impacts over the forecast period.

[34]

62. The ongoing operating costs for these initiatives total $48.590 million over the forecast period.

	$ million – increase/(decrease)				
Vote Revenue Operating costs	2022/23	2023/24	2024/25	2025/26	2026/27 & outyears
Vote Revenue initiatives:					
Trustee rate[9]	-	0.600	2.700	2.100	-
Banking levy	-	-	-	-	-
Personal tax relief	-	9.700	1.100	-	-
Wealth tax	-	0.500	5.900	3.200	2.200
Global anti-base erosion	-	-	0.500	1.000	1.000
Platform economy[10]	-	3.060	2.560	2.490	2.490
[33]					
Total	-	[33]			
Other Minister initiatives	-				
Total operating	-				
Proposed - self-fund	-				
Proposed – Crown fund	-				
Self-fund percentage	-				

Note: Highlighted lines represent proposed self-funded initiatives.

63. We propose self-funding $18.500 million of the Vote Revenue initiatives and seek Crown funding for the remaining $22.800 million of the Vote Revenue initiatives and the $7.290 million for other initiatives. This would represent self-funding of 38% of the total capital cost.

[8] Assumes higher support for customers in the first two years (e.g. how to comply, how to determine wealth, education and compliance activities) reducing to a base level of support and compliance from 2026/27 and outyears.
[9] We propose to self-fund this initiative.
[10] We have previously agreed to self-fund capital costs for this initiative.

Cost pressure bids and in-principle expense and capital transfers (IPECTs)

64. Our ability to self-fund initiatives is dependent on pending decisions on our Budget 2023 cost pressure bid ($40.700 million per annum) and our proposed in-principle expense and capital transfers ($13.700 million) in our 2023 March Baseline Submission (IR2023-017 refers). [34]

	$ million – increase/(decrease)				
Vote Revenue	2022/23	2023/24	2024/25	2025/26	2026/27
B23 cost pressure bid	-	40.700	40.700	40.700	40.700
IPECT[11] – Admin. savings	(10.000)	10.000	-	-	-
IPECT[7] – Residual transformation activities	(3.700)	3.700	-	-	-
Total Operating	(13.700)	54.400	40.700	40.700	40.700

Crown revenue implications

65. The Vote Revenue initiatives are provisionally forecast to have a net increase to Crown revenue of approximately $2 billion over the forecast period (2022/23 to 2026/27).

66. The tax revenue forecasts will be updated during the Budget 2023 process as policy and design decisions (e.g. rates, thresholds, methodology) are finalised for each initiative.

67. The tax revenue forecasts for some of these initiatives are highly uncertain and are dependent on a variety of economic and behavioural responses. For example, the revenue estimate for the trustee rate change is heavily dependent on the behavioural response by trusts.

68. The timing of revenue may change depending on the final design of each initiative and the associated legislation, the timing of Cabinet decisions and the introduction of the legislation, the availability of reliable information (e.g. tax returns) and/or subsequent audit of the accounting treatment by Audit New Zealand and the Office of the Auditor-General.

69. The timing of Crown cash receipts will depend on the final design of each initiative and is likely to differ from the timing of revenue.

Scope of appropriations

70. The Budget 2023 initiatives may impact on the scope of Vote Revenue non-departmental appropriations and these will be reviewed and updated once the final design of each initiative is confirmed.

Impairment of tax and levy debt

71. In 2022/23 non-departmental tax impairment and tax write-offs are forecast at $855 million (HYEFU 2022); approximately 0.8% of forecast tax revenue for the year. The tax revenue initiatives will have a consequential impact on the impairment of debt and debt write-offs expenditure.

[11] IPECT – In-principle expense and capital transfers.

72. [34] We estimate the impact on the impairment of debt and debt write-offs from the remaining initiatives to be $105 million over the forecast period.

	$ million - inc/(dec)
Vote Revenue	2022/23 to 2026/27
Non-departmental other expenses: Impairment of debt and debt write-offs	105.000
Total operating	105.000

73. The impairment of debt and debt write-offs forecast for some of these initiatives is highly uncertain and dependent on a variety of economic and behavioural responses. The forecasts above are based on forecast impairment rates for existing taxes and adjusted for the uncertainty of taxpayer behaviour for the new initiatives.