

# *Vote Revenue*

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APPROPRIATION MINISTER(S): Minister of Revenue (M57), Minister of Research, Science and Innovation (M84)

DEPARTMENT ADMINISTERING THE VOTE: Inland Revenue Department (A10)

RESPONSIBLE MINISTER FOR INLAND REVENUE DEPARTMENT: Minister of Revenue

## Overview of the Vote

The Minister of Revenue is responsible for appropriations in the Vote covering the following for the 2021/22 financial year:

- a total of nearly \$570 million for services for customers, including services to Ministers and to inform the public about entitlements and meeting obligations, services to process obligations and entitlements, management of debt and unfiled returns, and investigations
- a total of nearly \$317 million for the implementation of business transformation
- a total of nearly \$13 million for policy advice to Ministers and services to other agencies
- a total of nearly \$163 million for departmental capital expenditure for the purchase or development of assets by and for the use of Inland Revenue
- a total of \$4,916 million for benefits or related expenses, mainly for tax credits, KiwiSaver payments and benefit payments such as child support and paid parental leave
- a total of just over \$11 million relating to interest paid on deposit schemes administered by Inland Revenue
- a total of \$8,980 million for other expenses, including \$7,540 million for the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver providers, \$841 million for the impairment and write-off of debt, \$515 million for the initial fair value write-down on student loans, and \$84 million for the initial fair value write-down for the Small Business Cashflow Scheme COVID-19, and
- a total of \$175 million for the Small Business Cashflow Scheme to provide loans to eligible businesses to manage the economic impacts of COVID-19.

The Minister of Revenue is also responsible for Crown revenue and receipts in the Vote for the 2021/22 financial year covering the following:

- a total forecast of \$86,968 million for tax revenue
- a total forecast of just under \$868 million for non-tax revenue, and
- a total forecast of \$1,850 million for capital receipts.

The Minister of Revenue is also responsible for a capital injection of just under \$123 million to the Inland Revenue Department.

The Minister of Research, Science and Innovation is responsible for an appropriation in Vote Revenue for the 2021/22 financial year of \$454 million for the Research and Development Tax Incentive.

Details of these appropriations are set out in Parts 2-4.

# Details of Appropriations and Capital Injections

## Annual Appropriations and Forecast Permanent Appropriations

Titles and Scopes of Appropriations by Appropriation Type	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Departmental Output Expenses</b>			
<b>Policy Advice (M57) (A10)</b> This appropriation is limited to the provision of advice, including second opinion advice and contributions to policy advice led by other agencies, to support decision-making by Ministers on government policy matters.	11,506	11,506	<b>11,500</b>
<b>Services to Other Agencies RDA (M57) (A10)</b> This appropriation is limited to the provision of services by Inland Revenue to other agencies, where those services are not within the scope of another departmental output expense appropriation in Vote Revenue.	5,341	5,341	1,174
<b>Total Departmental Output Expenses</b>	16,847	16,847	12,674
<b>Departmental Capital Expenditure</b>			
<b>Inland Revenue Department - Capital Expenditure PLA (M57) (A10)</b> 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.	89,254	89,254	162,560
<b>Total Departmental Capital Expenditure</b>	89,254	89,254	162,560
<b>Benefits or Related Expenses</b>			
<b>Best Start Tax Credit PLA (M57) (A10)</b> This appropriation is limited to Best Start Tax Credits made to eligible recipients in accordance with section 185 of the Tax Administration Act 1994.	276,000	276,000	405,000
<b>Child Support Payments PLA (M57) (A10)</b> 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).	284,000	284,000	286,000
<b>Family Tax Credit PLA (M57) (A10)</b> Family Support payments made to beneficiaries and non-beneficiaries during the year (expenses incurred pursuant to section 185 of the Tax Administration Act 1994).	2,130,000	2,130,000	2,064,000
<b>In-Work Tax Credit PLA (M57) (A10)</b> 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).	602,000	602,000	620,000
<b>KiwiSaver: Interest (M57) (A10)</b> To enable the payment of interest on KiwiSaver contributions as set out in the KiwiSaver Act 2006.	1,000	1,000	<b>1,000</b>
<b>KiwiSaver: Tax Credit (M57) (A10)</b> This appropriation is limited to tax credits and residual KiwiSaver entitlements paid to KiwiSaver members in accordance with the Income Tax Act 2007 and KiwiSaver Act 2006.	938,000	928,000	<b>973,000</b>
<b>Minimum Family Tax Credit PLA (M57) (A10)</b> 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).	21,000	21,000	27,000
<b>Paid Parental Leave Payments (M57) (A10)</b> This appropriation is limited to Paid Parental Leave Payments made to parents in accordance with the Parental Leave and Employment Protection Act 1987.	528,000	523,000	<b>540,000</b>

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Titles and Scopes of Appropriations by Appropriation Type</b>			
<b>Research, Science and Innovation: R&amp;D Tax Incentive (M84) (A10)</b>	250,000	250,000	-
This appropriation is limited to providing an R&D tax credit to eligible R&D performing businesses.			
<b>Total Benefits or Related Expenses</b>	5,030,000	5,015,000	4,916,000
<b>Non-Departmental Borrowing Expenses</b>			
<b>Environmental Restoration Account Interest PLA (M57) (A10)</b>	1,400	1,400	1,400
This appropriation is limited to interest on Environmental Restoration accounts, authorised by section 65ZH(1) of the Public Finance Act 1989.			
<b>Income Equalisation Interest PLA (M57) (A10)</b>	7,000	7,000	10,000
This appropriation is limited to interest on Income Equalisation Reserve Scheme accounts held by taxpayers in the farming, fishing or forestry industries, authorised by section 65ZH(1) of the Public Finance Act 1989.			
<b>Total Non-Departmental Borrowing Expenses</b>	8,400	8,400	11,400
<b>Non-Departmental Other Expenses</b>			
<b>Impairment of Debt and Debt Write-Offs (M57) (A10)</b>	1,241,000	1,041,000	<b>841,000</b>
This appropriation is limited to write-offs and remissions for Crown debt administered by Inland Revenue, excluding child support and student loans, and to the impairment of this debt.			
<b>Initial Fair Value Write-Down Relating to Student Loans (M57) (A10)</b>	496,000	476,000	<b>515,000</b>
This appropriation is limited to the initial fair value write-down of student loans.			
<b>Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19 (M57) (A10)</b>	180,000	180,000	<b>84,000</b>
This appropriation is limited to the to the initial fair value write-down of small business cashflow scheme COVID-19.			
<b>KiwiSaver: Employee and Employer Contributions PLA (M57) (A10)</b>	6,950,000	6,950,000	7,540,000
To enable the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver Scheme providers in accordance with section 73 of the KiwiSaver Act 2006.			
<b>Research, Science and Innovation: R&amp;D Tax Incentive (M84) (A10)</b>	63,000	63,000	<b>453,500</b>
This appropriation is limited to providing an R&D tax credit to eligible R&D performing businesses.			
<b>COVID-19 Resurgence Support Payment (M57) (A10)</b>	400,000	200,000	-
This appropriation is limited to providing payments to eligible firms to manage the economic impacts of COVID-19 following a shift to higher Alert Levels.			
<b>Impairment of Debt and Debt Write-Offs Relating to Child Support (M57) (A10)</b>	20,000	-	-
This appropriation is limited to write-offs for child support debt and to the impairment of this debt.			
<b>Impairment of Debt Relating to Student Loans (M57) (A10)</b>	86,000	-	-
This appropriation is limited to the impairment of student loan debt.			
<b>KiwiSaver ex gratia payments (M57) (A10)</b>	10,000	7,000	-
This appropriation is limited to making ex gratia payments to customers arising from delays in transferring KiwiSaver contributions held by Inland Revenue to scheme providers.			
<b>Total Non-Departmental Other Expenses</b>	9,446,000	8,917,000	9,433,500
<b>Non-Departmental Capital Expenditure</b>			
<b>Small Business Cashflow Scheme COVID-19 (M57) (A10)</b>	374,000	374,000	<b>175,000</b>
This appropriation is limited to providing a loan to eligible businesses to manage the economic impacts of COVID-19.			
<b>Total Non-Departmental Capital Expenditure</b>	374,000	374,000	175,000

Titles and Scopes of Appropriations by Appropriation Type	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Multi-Category Expenses and Capital Expenditure</b>			
<b>Services for Customers MCA (M57) (A10)</b> The single overarching purpose of this appropriation is to deliver a customer-centric, integrated tax and entitlement service experience for New Zealanders that is agile and intelligence-led.	586,375	581,375	<b>569,785</b>
<b>Departmental Output Expenses</b>			
<b>Investigations</b> This category is limited to Inland Revenue undertaking investigation, audit and litigation activities.	124,090	124,090	114,238
<b>Management of Debt and Unfiled Returns</b> This category is limited to activities to prevent returns and debt becoming overdue, and to collect unfiled returns and overdue payments, whether for the Crown, other agencies or external parties.	91,163	89,663	83,634
<b>Services to Ministers and to inform the public about entitlements and meeting obligations</b> This category is limited to the provision of services to help Ministers fulfil their responsibilities to Parliament and the New Zealand public, other than policy decision-making responsibilities, and to provide information and assistance to the public to make them aware of their obligations and entitlements.	242,209	239,584	233,419
<b>Services to Process Obligations and Entitlements</b> This category is limited to the registration, assessment and processing of tax obligations and other entitlements, including associated review and Crown accounting activities, and the collection and sharing of related information with other agencies.	128,913	128,038	138,494
<b>Total Multi-Category Expenses and Capital Expenditure</b>	586,375	581,375	569,785
<b>Total Annual Appropriations and Forecast Permanent Appropriations</b>	15,550,876	15,001,876	15,280,919

## Multi-Year Appropriations

Type, Title, Scope and Period of Appropriations	Appropriations, Adjustments and Use	\$000
<b>Departmental Other Expenses</b>		
<b>Transformation (M57) (A10)</b> This appropriation is limited to the design and implementation of a modern system for tax revenue and social policy administered by Inland Revenue.  Commences: 01 July 2017  Expires: 30 June 2022	Original Appropriation Adjustments to 2019/20 Adjustments for 2020/21 Adjusted Appropriation Actual to 2019/20 Year End Estimated Actual for 2020/21 Estimate for 2021/22 Estimated Appropriation Remaining	1,112,607 (36,792) (62,167) 1,013,648 566,896 130,000 316,752 -

## Total Annual Appropriations and Forecast Permanent Appropriations and Multi-Year Appropriations

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Annual Appropriations and Forecast Permanent Appropriations	15,550,876	15,001,876	15,280,919
Total Forecast MYA Departmental Other Expenses	130,000	130,000	316,752
<b>Total Annual Appropriations and Forecast Permanent Appropriations and Multi-Year Appropriations</b>	<b>15,680,876</b>	<b>15,131,876</b>	<b>15,597,671</b>

## Capital Injection Authorisations

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Inland Revenue Department - Capital Injection (M57) (A10)	32,623	32,623	122,560

# Supporting Information

## Part 1 - Vote as a Whole

### 1.1 - New Policy Initiatives

Policy Initiative	Appropriation	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Activating the COVID-19 Resurgence Support Payment Scheme February 2021	<b>COVID-19 Resurgence Support Payment</b>	300,000	-	-	-	-
Activating the COVID-19 Resurgence Support Payments Scheme March 2021	<b>COVID-19 Resurgence Support Payment</b>	100,000	-	-	-	-
Economic response to future resurgences of COVID-19	<b>Services for Customers MCA</b> Departmental Output Expense Services to Ministers and to inform the public about entitlements and meeting obligations	-	3,000	3,000	1,500	1,500
Ensuring the tax system is operating fairly	<b>Services for Customers MCA</b> Departmental Output Expense Services to Ministers and to inform the public about entitlements and meeting obligations	-	2,170	2,230	-	-
	<b>Policy Advice</b> Departmental Output Expense	-	300	300	-	-
Ex Gratia Payments to KiwiSaver Members	<b>KiwiSaver Ex Gratia Payments</b>	10,000	-	-	-	-
Main Benefit Rate Increase and Complementary Changes for New Zealanders Receiving a Main Benefit	<b>Minimum Family Tax Credit</b>	-	2,000	-	-	-
Main Benefit Rate Increase and Complementary Changes to Student Support (1 April 2022)	<b>Minimum Family Tax Credit</b>	-	-	5,000	4,000	3,000
Main Benefit Rate Increase and Complementary Changes to Student Support (1 April 2022)	<b>Initial Fair Value Write-Down Relating to Student Loans</b>	-	-	7,390	24,773	27,141
Providing Transitional Support to R&D Performing Businesses	<b>Research and Development Tax Incentive</b>	-	(9,500)	(28,500)	(57,000)	-
Reinstating the Training Incentive Allowance for Levels 4 to 7 on the New Zealand Qualifications Framework	<b>Initial Fair Value Write-Down Relating to Student Loans</b>	-	9,109	4,507	1,715	351

Policy Initiative	Appropriation	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Retaining capability to support the Government's response to COVID-19	<b>Services for Customers MCA</b> Departmental Output Expense Investigations	7,380	-	-	-	-
	<b>Services for Customers MCA</b> Departmental Output Expense Management of Debt and Unfiled Returns	5,535	-	-	-	-
	<b>Services for Customers MCA</b> Departmental Output Expense Services to Ministers and to inform the public about entitlements and meeting obligations	14,760	4,920	-	-	-
	<b>Services for Customers MCA</b> Departmental Output Expense Services to process obligations and entitlements	9,225	3,280	-	-	-
Small Business Cashflow (Loan) Scheme	<b>Services for Customers MCA</b> Departmental Output Expense Investigations	-	-	-	-	1,000
	<b>Services for Customers MCA</b> Departmental Output Expense Management of Debt and Unfiled Returns	250	250	250	250	2,200
	<b>Services for Customers MCA</b> Departmental Output Expense Services to Ministers and to inform the public about entitlements and meeting obligations	1,700	2,500	2,750	2,500	-
	<b>Services for Customers MCA</b> Departmental Output Expense Services to process obligations and entitlements	2,000	-	-	-	-
Small Business Cashflow (Loan) Scheme: Further Legislation and Other Decisions	<b>Non-Departmental Capital Expenditure</b> Small Business Cashflow Scheme COVID-19	3,771,974	-	-	-	-
	<b>Other Expenses</b> Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19	2,744,000	-	-	-	-
State sector decarbonisation - electric vehicles	<b>Capital Expenditure</b> Departmental Capital Injection	1,015	-	-	-	-
<b>Total Initiatives</b>		<b>6,967,839</b>	<b>18,029</b>	<b>(3,073)</b>	<b>(22,262)</b>	<b>35,192</b>

Funding for the Small Business Cashflow Scheme lending and Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme were appropriated in the Addition to the Supplementary Estimates of Appropriations 2019/20 for the 2019/20 financial year. The amounts noted above represent a fiscally neutral adjustment of the unspent appropriation from 2019/20 to 2020/21.

## 1.2 - Trends in the Vote

### Summary of Financial Activity

	2016/17	2017/18	2018/19	2019/20	2020/21		2021/22			2022/23	2023/24	2024/25
	Actual \$000	Actual \$000	Actual \$000	Actual \$000	Final Budgeted \$000	Estimated Actual \$000	Departmental Transactions Budget \$000	Non- Departmental Transactions Budget \$000	Total Budget \$000	Estimated \$000	Estimated \$000	Estimated \$000
<b>Appropriations</b>												
Output Expenses	11,386	13,055	15,080	15,806	16,847	16,847	12,674	-	12,674	12,024	11,724	11,724
Benefits or Related Expenses	3,621,139	3,584,823	4,386,025	4,819,697	5,030,000	5,015,000	N/A	4,916,000	4,916,000	5,208,000	5,231,000	5,324,000
Borrowing Expenses	6,783	6,202	6,524	7,891	8,400	8,400	-	11,400	11,400	11,400	11,400	11,400
Other Expenses	1,288,208	1,407,309	1,595,376	4,863,243	9,576,000	9,047,000	316,752	9,433,500	9,750,252	10,139,446	10,728,446	11,453,446
Capital Expenditure	100,661	103,682	107,850	103,813	463,254	463,254	162,560	175,000	337,560	212,000	130,000	40,000
Intelligence and Security Department Expenses and Capital Expenditure	-	-	-	-	-	-	-	N/A	-	-	-	-
Multi-Category Expenses and Capital Expenditure (MCA)												
<i>Output Expenses</i>	635,477	591,586	610,097	640,765	586,375	581,375	569,785	-	569,785	566,718	562,238	562,688
<i>Other Expenses</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Capital Expenditure</i>	-	-	-	-	-	-	N/A	-	-	-	-	-
<b>Total Appropriations</b>	5,663,654	5,706,657	6,720,952	10,451,215	15,680,876	15,131,876	1,061,771	14,535,900	15,597,671	16,149,588	16,674,808	17,403,258
<b>Crown Revenue and Capital Receipts</b>												
Tax Revenue	69,222,866	72,142,690	77,879,653	77,656,484	87,643,000	87,643,000	N/A	86,968,000	86,968,000	94,733,000	99,520,000	105,482,000
Non-Tax Revenue	1,143,664	1,122,586	945,199	917,153	905,500	905,500	N/A	868,300	868,300	934,500	1,074,500	1,211,500
Capital Receipts	1,331,379	1,436,304	1,474,024	1,515,804	1,677,000	1,677,000	N/A	1,850,000	1,850,000	1,960,000	2,040,000	2,110,000
<b>Total Crown Revenue and Capital Receipts</b>	71,697,909	74,701,580	80,298,876	80,089,441	90,225,500	90,225,500	N/A	89,686,300	89,686,300	97,627,500	102,634,500	108,803,500

Note - where restructuring of the vote has occurred then, to the extent practicable, prior years information has been restated as if the restructuring had occurred before the beginning of the period covered. In this instance Total Appropriations for the Budgeted and Estimated Actual year may not equal Total Annual Appropriations and Forecast Permanent Appropriations and Multi-Year Appropriations in the Details of Appropriations and Capital Injections.

## Adjustments to the Summary of Financial Activity Table Due to Vote Restructuring

There have been no restructuring adjustments to prior year information in the Summary of Financial Activity table.

### 1.3 - Analysis of Significant Trends

#### *Departmental Output Expenses*

Inland Revenue's departmental output expenses have increased from \$11.386 million in 2016/17 to an estimated \$16.847 million in 2020/21. This is mainly due to increased services provided to other agencies, such as staff on external secondments and accommodation rental recoveries. These increases have been mainly funded from other revenue. Departmental output expenses decrease to \$12.674 million in 2021/22 due to a reduction in staff on external secondments and the cessation of shared finance system and transactional accounting services provided to the Department of Internal Affairs from 1 July 2021.

#### *Benefits or Related Expenses*

Non-departmental benefits or related expenses include appropriations for KiwiSaver, Working for Families Tax Credits, Best Start tax credit, paid parental leave payments and child support payments to custodial persons. It also included payroll subsidy, which ceased in 2019/20, and the Research and Development Tax Incentive up to April 2021.

The Research and Development Tax Incentive was introduced from 1 April 2019 and sat under the benefits or related expenses category. This appropriation moved to the non-departmental other expenses category from May 2021.

Expenditure has increased from \$3,621 million in 2016/17 to an estimated \$5,324 million in 2024/25 due to growth, indexation changes and policy changes.

Working for Families Tax Credits were substantially increased from 1 July 2018, and indexation adjustments are expected in April 2022 and April 2025. The Best Start tax credit commenced from 1 July 2018 and phases in over three years.

Paid parental leave entitlements were extended to cover a longer period of entitlement from July 2018 and July 2020. The main drivers for increased entitlements for paid parental leave and KiwiSaver tax credit were increased employment and employee compensation from economic growth.

#### *Non-Departmental Borrowing Expenses*

Non-departmental borrowing expenses include interest payments for the income equalisation and environmental restoration account schemes. The adverse event scheme was previously included but it ceased in 2019/20.

Expenditure has increased from \$6.783 million in 2016/17 to an estimated \$11.400 million in 2024/25. The interest payable varies with the size of the deposits in these schemes, with deposits forecast to grow over time.

### *Non-Departmental Other Expenses*

Non-departmental other expenses include the Research and Development Tax Incentive, bad debt write-offs, the initial fair value write-down on student loans, the initial fair value write-down on Small Business Cashflow Scheme lending, impairments relating to student loans, child support, general tax, KiwiSaver and Working for Families Tax Credits debt.

Expenditure has increased from \$1,288 million in 2016/17 to an estimated \$11,453 million in 2024/25.

A new appropriation was included from April 2019 to enable the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver providers. This appropriation represents the on-payment of amounts collected and has no impact on the operating balance. It is a large appropriation and a dominant factor in the growth trend from 2019/20 reflects the growth in employee compensation and consequentially in KiwiSaver contributions.

Expenditure in 2019/20 includes an increase in impairment of debt and debt write-offs due to an increase in the level of overdue debt and the changes in the impairment of this debt due to COVID-19. Expenditure in 2020/21 also includes an estimate of the continued impact of COVID-19.

The Research and Development Tax Incentive was transferred to the non-departmental other expenses category (previously benefits or related expenses category) from May 2021. This appropriation began on 1 April 2019 and phases in over time.

### *Departmental Other Expenses*

Departmental other expenses include Inland Revenue's Transformation multi-year appropriation (MYA) covering 2017/18 to 2021/22. The funding to complete the transformation programme is held in 2021/22 along with the majority of the remaining contingency.

As Inland Revenue implements Stage 4, the last and final stage of the transformation programme, the funding for enduring costs will be transferred to the relevant Vote Revenue Departmental appropriations.

### *Departmental Capital Expenditure*

Inland Revenue's capital expenditure has decreased from \$100.661 million in 2016/17 to an estimated \$89.254 million in 2020/21 and increases to an estimated \$162.560 million in 2021/22 to reflect the level of technology investment and the remaining capital contingency of Inland Revenue's transformation programme.

### *Multi-Category Expenses and Capital Expenditure (MCA)*

Inland Revenue's multi-category expenses and capital expenditure (MCA) have decreased from \$635.477 million in 2016/17 to an estimated \$581.375 million in 2020/21 and \$569.785 million in 2021/22. The decrease is mainly due to the expected realisation of benefits from Inland Revenue's transformation programme and the expiry of time limited funding of \$2.624 million relating to the Budget 2015 Child Support Scheme reform programme.

This is offset by an additional funding of \$2.170 million in 2021/22 for a policy initiative to ensure the tax system is operating fairly. This initiative will collect information which will be used to develop basic research to understand how the tax system redistributes economic income and the overall distribution of income and wealth.

## *Tax Revenue*

Non-departmental tax revenue incorporates unconsolidated source deductions (PAYE), other persons' tax, fringe benefit tax, corporate tax including company tax, other direct income tax, GST and other indirect tax administered by Inland Revenue. Tax revenue has increased from \$69,223 million in 2016/17 to an estimated \$105,482 million in 2024/25. Total tax revenue is forecast to bounce back strongly (growth of 12.8%) in 2020/21, following the COVID-19 affected 2019/20, but is forecasted to decline by 0.8% in 2021/22 once COVID-19 relief measures take full effect.

Over the remaining 3 years of the forecast period, total tax revenue is forecast to grow at an annual average rate of 6.6%, as forecast annual growth in the nominal economy is expected to average 5.8%.

Source deduction revenue is forecast to increase by 5.8% in 2020/21, mainly due to growth in wages and the associated fiscal drag. Annual growth in source deductions is expected to remain above 5% in each of the following four years. This is due to the forecast for wage growth remaining above 2% per annum and employment growth of 1% to 2% per annum, with the expectation that New Zealand's borders will fully reopen, which is assumed to occur early in 2022.

Net other persons tax revenue for the 2020/21 year is expected to bounce back strongly from the comparatively-weak COVID-19 affected 2019/20 year, and is forecast to finish 11.4% above the previous year. However, COVID-19 tax relief measures and the introduction of the 39% marginal tax rate for individuals earning above \$180,000 per annum are the main factors behind a forecast 13.3% drop in net other persons tax in 2021/22. Forecast growth in taxable profits averaging over 7% per annum through the remainder of the forecast period has led to expected growth in net other persons tax of close to 10% per annum through those years.

Corporate tax revenue is expected to recover through the 2020/21 year. It is now forecast to grow by nearly 25% in the current year, aided by a recovery in investment markets boosting taxable investment income. However, COVID-19 tax relief measures also affect corporate tax, leading to a forecast decline of just over 10% in 2021/22. Forecast growth reaches 25% again in 2022/23, once the tax relief measures start to run down, the 39% tax rate increases corporate tax, and taxable profit growth recovers to nearly 10%. Further growth in taxable profits is expected to contribute to continued growth in corporate tax over the remainder of the forecast period.

GST revenue is forecast to rise by 20.9% in 2020/21, mainly due to strong growth in nominal private consumption and residential investment, 6.2% and 22% respectively, and an expected decline in imported goods. In 2021/22, GST is expected to decline by 1.1% as the continued absence of overseas tourists in New Zealand and a forecast recovery in imported goods are both expected to affect GST growth. Over the remainder of the forecast period, private consumption growth of around 5% per annum, strong residential investment growth and the return of international tourists are all expected to contribute to GST growth averaging 4.3% each year.

Deposit interest rates continued their downward trend and is expected to reduce resident withholding tax (RWT) by 27% for 2020/21. With interest rates remaining low, RWT is expected to decline by a further 8.5% in 2021/22. Over the remainder of the forecast period, RWT growth is forecast to average 10% per annum, due to growth in the deposit base and a rise in the interest rate forecast for 2024/25.

### *Non-Tax Revenue*

Non-departmental non-tax revenue incorporates child support collections from non-custodial parents, student loan interest unwind (interest income due to reversing the initial fair value write-down over the life of the loan), unclaimed monies, and interest and penalties on Working for Families Tax Credits debt.

Non-tax revenue has decreased from \$1,143 million in 2016/17 to an estimated \$868 million in 2021/22 and increased to an estimated \$1,212 million in 2024/25. The decrease from 2016/17 to 2021/22 is mainly due to a change in accounting standards in 2018/19 affecting the way we calculate the interest unwind of the initial discount on student loans. The increase from 2021/22 to 2024/25 is mainly due to our calculation of the interest unwind of the initial discount on small business cashflow loans.

### *Capital Receipts*

Non-departmental capital receipts include student loan capital repayments and deposits into the adverse event income equalisation, income equalisation, and environmental restoration account schemes. 2019/20 was the final year for the adverse event income equalisation scheme.

Capital receipts have increased from \$1,331 million in 2016/17 to an estimated \$2,110 million by 2024/25. Growth over time is due to forecast student loan capital repayments.

## Part 2 - Details of Departmental Appropriations

### 2.1 - Departmental Output Expenses

#### Policy Advice (M57) (A10)

##### *Scope of Appropriation*

This appropriation is limited to the provision of advice, including second opinion advice and contributions to policy advice led by other agencies, to support decision-making by Ministers on government policy matters.

##### *Expenses and Revenue*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	11,506	11,506	11,500
Revenue from the Crown	11,498	11,498	11,499
Revenue from Others	8	8	1

##### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to provide policy advice to support decision-making by Ministers on tax and social policy matters, to protect and maintain the integrity of the tax system while ensuring that our tax system is as simple as possible and is internationally competitive.

##### *How Performance will be Assessed and End of Year Reporting Requirements*

	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
Assessment of Performance			
<b>Primary measures</b>			
Percentage of sampled reports that meet quality standards	80%	Not available	Retire measure
Percentage of ministerial satisfaction for policy advice	90%	Not available	Retire measure
The average quality score of papers assessed using the Policy Quality Framework (see Note 1)	N/A	N/A	3.5 or more out of 5
The Minister's satisfaction with the policy advice services received (see Note 2)	N/A	N/A	4 or more out of 5

Note 1 - The Department of the Prime Minister and Cabinet-led Policy Project launched a refreshed Policy Quality Framework in July 2019. Inland Revenue is using the refreshed framework as the basis for assessing the quality of its policy advice papers.

Note 2 - The Department of the Prime Minister and Cabinet-led Policy Project launched a revised survey for agencies to use to assess ministers' satisfaction with the policy service. Inland Revenue implemented the revised survey for its annual report for 2018/19.

### *End of Year Performance Reporting*

Performance information for this appropriation will be reported by Inland Revenue in the department's Annual Report 2022.

### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Ensuring the tax system is operating fairly	2021/22	-	300	300	-	-
Budget 2018 Tax Compliance Activity - Funding to Collect Additional Revenue	2018/19	700	400	-	-	-

## **Services to Other Agencies RDA (M57) (A10)**

### *Scope of Appropriation*

This appropriation is limited to the provision of services by Inland Revenue to other agencies, where those services are not within the scope of another departmental output expense appropriation in Vote Revenue.

### *Expenses and Revenue*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	5,341	5,341	1,174
Revenue from the Crown	-	-	-
Revenue from Others	5,341	5,341	1,174

### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to provide support services to other government agencies, such as the provision of a hosted financial management information system and shared financial transactional services.

### *How Performance will be Assessed and End of Year Reporting Requirements*

	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
Assessment of Performance			
<b>Primary measures</b>			
Percentage of satisfaction of the Department of Internal Affairs for services provided.	75%	On track	Service ended
Percentage of satisfaction of the New Zealand Productivity Commission for services provided.	90%	On track	90%

### *End of Year Performance Reporting*

Performance information for this appropriation will be reported by Inland Revenue in the department's Annual Report 2022.

### *Reasons for Change in Appropriation*

This appropriation decreased by \$4.167 million to \$1.174 million for 2021/22 due to a fiscally neutral adjustment of \$2 million in 2020/21 for revenue from third parties where Inland Revenue staff are on external secondments, and the cessation of shared finance system and transactional accounting services provided to the Department of Internal Affairs from 1 July 2021.

## 2.2 - Departmental Other Expenses

### Transformation (M57) (A10)

#### *Scope of Appropriation and Expenses*

Type, Title, Scope and Period of Appropriations	Appropriations, Adjustments and Use	\$000
<b>Transformation (M57) (A10)</b> This appropriation is limited to the design and implementation of a modern system for tax revenue and social policy administered by Inland Revenue.  Commences: 01 July 2017  Expires: 30 June 2022	Original Appropriation	1,112,607
	Adjustments to 2019/20	(36,792)
	Adjustments for 2020/21	(62,167)
	Adjusted Appropriation	1,013,648
	Actual to 2019/20 Year End	566,896
	Estimated Actual for 2020/21	130,000
	Estimate for 2021/22	316,752
	Estimated Appropriation Remaining	-

#### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to design and implement a modern system for tax revenue and social policy administered by Inland Revenue that meets government priorities and responds to customers' changing expectations. This will lead to the more efficient collection of taxes and distribution of entitlements. It will also have wider benefits for New Zealand, including reduced compliance and operating costs, as well as the more agile delivery of policy changes in the future.

#### *How Performance will be Assessed and End of Year Reporting Requirements*

Assessment of Performance	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
<b>Primary measures</b>			
Child support is administered in START.	N/A	N/A	By 30 June 2022
Paid parental leave is administered in START.	By 30 June 2021	Achieved	N/A

#### *End of Year Performance Reporting*

Performance information for this appropriation will be reported by Inland Revenue in the department's Annual Report 2022.

## 2.3 - Departmental Capital Expenditure and Capital Injections

### Inland Revenue Department - Capital Expenditure PLA (M57) (A10)

#### *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*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Forests/Agricultural	-	-	-
Land	-	-	-
Property, Plant and Equipment	6,659	6,659	13,000
Intangibles	82,595	82,595	149,560
Other	-	-	-
<b>Total Appropriation</b>	<b>89,254</b>	<b>89,254</b>	<b>162,560</b>

#### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to invest in the renewal, upgrade and redesign of assets that support the delivery of the department's services. This includes the capital investment required for the implementation of Inland Revenue's business transformation programme.

#### *How Performance will be Assessed and End of Year Reporting Requirements*

Expenditure supports the delivery of the department's performance measures in accordance with the department's capital asset management priorities for 2021/22 which are:

- implementation of business transformation (approximately 76%), and
- maintenance and improvement of business infrastructure including technology replacements and accommodation fit-outs (approximately 24%).

Transformation spending will be assessed against the performance measures agreed for the Transformation appropriation.

#### *End of Year Performance Reporting*

Performance information for this appropriation will be reported by Inland Revenue in the department's Annual Report 2022.

#### *Reasons for Change in Appropriation*

This appropriation increased by \$73.306 million to \$162.560 million for 2021/22 to reflect the phasing and delivery of Inland Revenue's transformation programme as well as the programme's remaining capital contingency maintained in 2021/22.

*Capital Injections and Movements in Departmental Net Assets***Inland Revenue Department**

Details of Net Asset Schedule	2020/21 Estimated Actual \$000	2021/22 Projected \$000	Explanation of Projected Movements in 2021/22
Opening Balance	452,196	484,819	
Capital Injections	32,623	122,560	The capital injection of \$122.560 million for 2021/22 is for Inland Revenue's transformation programme. This capital injection is for the final release of the programme and contains the remaining capital contingency.
Capital Withdrawals	-	-	
Surplus to be Retained (Deficit Incurred)	-	-	
Other Movements	-	-	
<b>Closing Balance</b>	<b>484,819</b>	<b>607,379</b>	

## Part 3 - Details of Non-Departmental Appropriations

### 3.2 - Non-Departmental Benefits or Related Expenses

#### Best Start Tax Credit PLA (M57) (A10)

##### *Scope of Appropriation*

This appropriation is limited to Best Start Tax Credits made to eligible recipients in accordance with section 185 of the Tax Administration Act 1994.

##### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	276,000	276,000	405,000

##### *What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for payments to all families with a dependent child in the first year of the child's life to help with day-to-day living costs. Payments continue for low and middle income families until the dependent child turns three years old.

##### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for Best Start tax credit payments under the Income Tax Act 2007. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

##### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Families Package	2018/19	373,000	451,000	451,000	451,000	451,000

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

This appropriation increased by \$129 million to \$405 million for 2021/22 because the Best Start tax credit commenced in July 2018 and will continue to grow for the first three years as the policy phases in. Thereafter, growth will reflect demographic changes, but will be tempered by the abatement mechanism as incomes grow.

*Conditions on Use of Appropriation*

Reference	Conditions
Subpart MG of the Income Tax Act 2007	Sets out the entitlement and calculation of the Best Start tax credit.

**Child Support Payments PLA (M57) (A10)***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*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	284,000	284,000	286,000

*What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for the transfer of child support payments from non-custodial parents to custodial persons.

*How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for child support payments to custodial persons under the Child Support Act 1991. Performance information is provided under the Services for Customers Multi-Category Appropriation relating to the administration of the payment is provided under the Services to Process Obligations and Entitlements category.

*Reasons for Change in Appropriation*

This appropriation increased by \$2 million to \$286 million for 2021/22 due to the improvement in the labour market. The increase in appropriation from an improving labour market is relatively small as there are offsetting factors which dampen growth. These factors include the way the child support formula takes both parents incomes into account, and the interaction of child support with the welfare benefit system.

*Conditions on Use of Appropriation*

Reference	Conditions
Section 141 of the Child Support Act 1991	On payment of money received by the Commissioner by way of child support to qualifying custodians, if the qualifying custodian of the child is not a recipient of a social security benefit.

## Family Tax Credit PLA (M57) (A10)

### *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*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	2,130,000	2,130,000	2,064,000

### *What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for payments to low to middle income families with dependent children aged 18 or younger to help with day-to-day living costs.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for family tax credit payments under the Income Tax Act 2007. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
<b>Current Government</b>						
Families Package	2018/19	520,000	510,000	510,000	510,000	510,000
<b>Previous National-led Government</b>						
Budget 2017 Family Incomes Package	2017/18	308,000	308,000	308,000	308,000	308,000

### *Reasons for Change in Appropriation*

This appropriation decreased by \$66 million to \$2,064 million for 2021/22 due to an improving labour market which will gradually reduce entitlements as family incomes grow. This is offset by indexation of payments. The Family tax credit is the first of the Working for Families credits to abate. Entitlements are sensitive to income growth once family incomes exceed the abatement threshold. The next indexation of entitlements of 5.92% is expected to occur on 1 April 2022 and this will boost the final three months of the fiscal year. Until then an improving labour market will gradually reduce entitlements for those families in abatement.

*Conditions on Use of Appropriation*

Reference	Conditions
Subpart MD 3 of the income Tax Act 2007	Sets out entitlement for and calculation of the family tax credit.

**In-Work Tax Credit PLA (M57) (A10)***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*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	602,000	602,000	620,000

*What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for payments to families who work the required hours each week and have dependent children aged 18 or younger to help with day-to-day living costs.

*How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for in-work tax credit payments under the Income Tax Act 2007. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

*Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
<b>Current Government</b>						
In-Work Tax Credit removing the hours test	2020/21	32,000	32,000	32,000	32,000	32,000
<b>Previous National-led Government</b>						
Budget 2017 Family Incomes Package	2017/18	2,000	2,000	2,000	2,000	2,000

### *Reasons for Change in Appropriation*

This appropriation increased by \$18 million to \$620 million for 2021/22 due to increased eligibility as the labour market recovers. The appropriation was smaller than usual in 2020/21 due to the shock to the labour market from COVID-19 reducing eligibility. A further boost in the final three months of the fiscal year is a flow-on consequence of the next expected indexation of the Family tax credit. This is because the Working for Families credits are abated using an ordering rule and more Family tax credit reduces the likelihood that In-Work tax credit is abated.

### *Conditions on Use of Appropriation*

Reference	Conditions
Sections MD 4-10 of the Income Tax Act 2007	Sets out the entitlement for and calculation of the in-work tax credit

## **KiwiSaver: Interest (M57) (A10)**

### *Scope of Appropriation*

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

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	1,000	1,000	1,000

### *What is Intended to be Achieved with this Appropriation*

This appropriation provides for interest payments to members on KiwiSaver contributions while they are held with Inland Revenue. Inland Revenue is required to hold members' contributions for three months from the date of the first contribution before transferring it to their KiwiSaver providers.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for KiwiSaver interest payments under the KiwiSaver Act 2006. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Conditions on Use of Appropriation*

Reference	Conditions
Section 84-91 of the KiwiSaver Act 2006	Interest payable by Inland Revenue on KiwiSaver member contributions while they are being held by Inland revenue prior to being forwarded to KiwiSaver scheme providers.

## KiwiSaver: Tax Credit (M57) (A10)

### *Scope of Appropriation*

This appropriation is limited to tax credits and residual KiwiSaver entitlements paid to KiwiSaver members in accordance with the Income Tax Act 2007 and KiwiSaver Act 2006.

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	938,000	928,000	973,000

### *What is Intended to be Achieved with this Appropriation*

This appropriation encourages participation in the KiwiSaver scheme by providing for an annual payment to contributing members aged 18 or over who meet the eligibility criteria.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for KiwiSaver tax credit payments under the KiwiSaver Act 2006. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Reasons for Change in Appropriation*

This appropriation increased by \$35 million to \$973 million for 2021/22 due to an increase in the total number of contributing members. It also reflects income growth, which increases contributions from members who were previously contributing less than the threshold for the maximum KiwiSaver tax credit entitlement.

### *Conditions on Use of Appropriation*

Reference	Conditions
Part MK 1-8 of the Income Tax Act 2007	Provides a tax credit for members up to a cap of \$10 per week.

## Minimum Family Tax Credit PLA (M57) (A10)

### *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*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	21,000	21,000	27,000

### *What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for payments to families with dependent children aged 18 or younger to ensure that the annual income after tax of a family does not fall below \$26,000 where at least one parent is working.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for minimum family tax credit payments under the Income Tax Act 2007. Performance information relating to the administration of the payment is provided under the Services to Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Main Benefit Rate Increase and Complementary Changes for New Zealanders Receiving a Main Benefit	2020/21	-	2,000	-	-	-
Main Benefit Rate Increase and Complementary Changes to Student Support (1 April 2022)	2020/21	-	-	5,000	4,000	3,000
Incomes for people receiving benefits	2019/20	2,500	2,500	2,500	2,500	2,500
Families Package	2018/19	1,300	1,300	1,300	1,300	1,300

### *Reasons for Change in Appropriation*

This appropriation increased by \$6 million to \$27 million for 2021/22 due to increased entitlements as result of changes to welfare benefits. The Minimum Family tax credit entitlement is adjusted each year with reference to welfare benefit indexation. Minimum Family Tax Credit Entitlements increased in April 2021, and further increases are expected in 2021/22.

### *Conditions on Use of Appropriation*

Reference	Conditions
Subpart ME of the Income Tax Act 2007	Sets out the entitlement for and calculation of the minimum family tax credit.

## Paid Parental Leave Payments (M57) (A10)

### *Scope of Appropriation*

This appropriation is limited to Paid Parental Leave Payments made to parents in accordance with the Parental Leave and Employment Protection Act 1987.

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	528,000	523,000	540,000

### *What is Intended to be Achieved with this Appropriation*

This appropriation provides for payments to eligible parents and adoptive parents when they take parental leave from their employment to care for their new-born or adopted child (under the age of six). These payments provide employment protected leave and compensate for the loss of income.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for paid parental leave payments under the Income Tax Act 2007. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Current and Past Policy Initiatives*

	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Policy Initiative						
Extending paid parental leave to 26 weeks	2018/19	142,700	148,400	148,400	148,400	148,400

### *Reasons for Change in Appropriation*

This appropriation increased by \$12 million to \$540 million for 2021/22 due to indexation and a forecast increase in eligible recipients as employment tenure improves with the labour market. Paid parental leave entitlements are increased each July with reference to wage growth.

### *Conditions on Use of Appropriation*

Reference	Conditions
Part 7A of the Parental Leave and Employment Protection Act 1987	Establishes the calculation for the payment of paid parental leave payments.

### 3.3 - Non-Departmental Borrowing Expenses

#### Environmental Restoration Account Interest PLA (M57) (A10)

##### *Scope of Appropriation*

This appropriation is limited to interest on Environmental Restoration accounts, authorised by section 65ZH(1) of the Public Finance Act 1989.

##### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	1,400	1,400	1,400

##### *What is Intended to be Achieved with this Appropriation*

This appropriation provides interest payments on deposits held in an environmental restoration account. The environmental restoration account allows businesses to set aside money to cover restoration costs for monitoring, avoiding, remedying or mitigating the detrimental environmental effects which may occur in later years.

#### Income Equalisation Interest PLA (M57) (A10)

##### *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, authorised by section 65ZH(1) of the Public Finance Act 1989.

##### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	7,000	7,000	10,000

##### *What is Intended to be Achieved with this Appropriation*

This appropriation increased by \$3 million to \$10 million for 2021/22 due to deposits being higher than expected. This appropriation provides interest payments on deposits held in the income equalisation scheme. This scheme allows taxpayers in the farming, fishing, and forestry industries to make payments during the year to equalise income between different income years.

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

The scheme is demand-driven and the interest payable reflects scheme usage. The increase in this appropriation for 2021/22 allows for potential increased usage of the scheme.

## 3.4 - Non-Departmental Other Expenses

### Impairment of Debt and Debt Write-Offs (M57) (A10)

#### *Scope of Appropriation*

This appropriation is limited to write-offs and remissions for Crown debt administered by Inland Revenue, excluding child support and student loans, and to the impairment of this debt.

#### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	1,241,000	1,041,000	841,000

#### *What is Intended to be Achieved with this Appropriation*

This appropriation provides for the write-off of the Crown debt and for recognising an impairment to reflect the recoverable value of the Crown debt as at the end of a financial year, relating to general tax, KiwiSaver and Working for Families Tax Credits.

#### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for the impairment of debt and debt write-offs. Performance information relating to this expenditure is provided under the Services for Customers Multi-Category Appropriation under the Management of Debt and Outstanding Returns category.

#### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Increasing the threshold for provisional tax	2020/21	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Tax compliance activity - additional revenue	2018/19	15,000	15,000	-	-	-

#### *Reasons for Change in Appropriation*

The final 2020/21 forecast includes a contingency to cover COVID-19 related impacts on debt and debt collectability and to prevent any unauthorised expenditure as this appropriation does not have a permanent legislative authority. This appropriation decreased by \$400 million to \$841 million for 2021/22 due to forecast changes in the level of overdue debt, impairment and write-offs. The forecast for outyears does not include an assessment for COVID-19 as it is too early to assess the impacts for outyears.

## Initial Fair Value Write-Down Relating to Student Loans (M57) (A10)

### Scope of Appropriation

This appropriation is limited to the initial fair value write-down of student loans.

### Expenses

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	496,000	476,000	515,000

### What is Intended to be Achieved with this Appropriation

This appropriation provides for incurring the expense relating to reductions in the nominal value of new student loan lending to reflect the present value of that lending.

### How Performance will be Assessed and End of Year Reporting Requirements

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for the initial fair value write-down of student loans. Performance information relating to this expenditure is available to the House of Representatives in the Student Loan Scheme Annual Report 2018.

### Current and Past Policy Initiatives

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Main Benefit Rate Increase and Complementary Changes to Student Support (1 April 2022)	2020/21	-	-	7,390	24,773	27,141
Reinstating the Training Incentive Allowance for Levels 4 to 7 on the New Zealand Qualifications Framework	2020/21	-	9,109	4,507	1,715	351
Temporarily increasing student loan course-related costs	2019/20	8,133	-	-	-	-
Disregarding EFTS for students receiving partial tuition fee refunds as a result of COVID-19	2019/20	190	269	274	279	284
Extending eligibility to Student Support to People Affected by the Christchurch Mosque Terror Attack	2019/20	34	41	21	-	-
Home-based early childhood education review	2018/19	197	231	88	88	88
First year fees-free in 2018	2017/18	(68,526)	(72,383)	(72,383)	(72,383)	(72,383)
Increase student allowance and living costs loans by \$50	2017/18	61,271	63,302	63,302	63,302	63,302
Tertiary Education Annual Maximum Fee Movement	2017/18	2,270	2,329	2,329	2,329	2,329

### Reasons for Change in Appropriation

This appropriation increased by \$19 million to \$515 million for 2021/22 due to increases in forecast lending to students.

## Initial Fair Value Write-Down Relating to the Small Business Cashflow Scheme COVID-19 (M57) (A10)

### *Scope of Appropriation*

This appropriation is limited to the to the initial fair value write-down of small business cashflow scheme COVID-19.

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	180,000	180,000	84,000

### *What is Intended to be Achieved with this Appropriation*

This appropriation provides for incurring the expense relating to reductions in the nominal value of the Small Business Cashflow (Loan) Scheme lending to reflect the present value of that lending.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for expenses relating to reductions in the nominal value of small business cash flow scheme lending. Performance information relating to the administration of the scheme is provided under the Services for Customers Multi-Category Appropriation.

### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Small Business Cashflow (Loan) Scheme: Further Legislation and Other Decisions	2019/20	2,744,000	-	-	-	-

### *Reasons for Change in Appropriation*

This appropriation decreased by \$96 million to \$84 million for 2021/22 due to a decrease in the forecast for lending by businesses impacted by COVID-19.

## KiwiSaver: Employee and Employer Contributions PLA (M57) (A10)

### *Scope of Appropriation*

To enable the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver Scheme providers in accordance with section 73 of the KiwiSaver Act 2006.

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	6,950,000	6,950,000	7,540,000

### *What is Intended to be Achieved with this Appropriation*

This permanent appropriation provides for the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver Scheme providers.

### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption is being sought under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for the on-payment of employee and employer KiwiSaver contributions collected by Inland Revenue to KiwiSaver Scheme providers. Performance information relating to the administration of the payment is provided under the Services for Customers Multi-Category Appropriation under the Services to Process Obligations and Entitlements category.

### *Reasons for Change in Appropriation*

This appropriation increased by \$590 million to \$7,540 million for 2021/22 due to growth in the number of contributing members and income growth of those members.

## Research, Science and Innovation: R&D Tax Incentive (M84) (A10)

### *Scope of Appropriation*

This appropriation is limited to providing an R&D tax credit to eligible R&D performing businesses.

### *Expenses*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	63,000	63,000	453,500

### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to incentivise businesses to increase their spending on R&D through the provision of a tax credit.

### *How Performance will be Assessed and End of Year Reporting Requirements*

	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
Assessment of Performance			
Positive progress is being made on the criteria for evaluation specified in section LY 10 of the Taxation (Research and Development Tax Credit) Act 2019	Achieved	Achieved	Achieved

Performance information for this appropriation will be reported in Inland Revenue's Annual Report 2022.

### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Providing Transitional Support to R&D Performing Businesses	2020/21	63,000	463,000	513,000	565,000	611,000
Research and Development Tax Incentive	2018/19	255,000	454,000	454,000	454,000	454,000

### *Reasons for Change in Appropriation*

This appropriation increased by \$390.500 million to \$453.500 million for 2021/22 largely due to the transfer of this appropriation from the benefits or related expenses category to non-departmental other expenses from May 2021. The combined total appropriation for both categories in 2020/21 is \$313,000, this increases to \$453,500 in 2021/22 as there is a forecast of stronger economic recovery, resulting in higher expected tax claims.

### *Conditions on Use of Appropriation*

Reference	Conditions
Subpart LY of the Income Tax Act 2007	Sets out the entitlement for and calculation of the research and development tax credit.

## 3.5 - Non-Departmental Capital Expenditure

### Small Business Cashflow Scheme COVID-19 (M57) (A10)

#### *Scope of Appropriation*

This appropriation is limited to providing a loan to eligible businesses to manage the economic impacts of COVID-19.

#### *Capital Expenditure*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
Total Appropriation	374,000	374,000	175,000

#### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to achieve cashflow support to viable small to medium businesses impacted by COVID-19.

#### *How Performance will be Assessed and End of Year Reporting Requirements*

An exemption was granted under section 15D(2)(b)(ii) of the Public Finance Act 1989, as additional performance information is unlikely to be informative because this appropriation is solely for cashflow support to viable small to medium businesses impacted by COVID-19. Performance information relating to the administration of the scheme is provided under the Services for Customers Multi-Category Appropriation.

#### *Current and Past Policy Initiatives*

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
Small Business Cashflow (Loan) scheme: Further Legislation and Other Decisions	2019/20	3,771,974	-	-	-	-

#### *Reasons for Change in Appropriation*

This appropriation decreased by \$199 million to \$175 million for 2021/22 due to a decrease in the forecast for lending by businesses impacted by COVID-19.

# Part 4 - Details of Multi-Category Expenses and Capital Expenditure

## 4 - Multi-Category Expenses and Capital Expenditure

### Services for Customers (M57) (A10)

#### *Overarching Purpose Statement*

The single overarching purpose of this appropriation is to deliver a customer-centric, integrated tax and entitlement service experience for New Zealanders that is agile and intelligence-led.

#### *Scope of Appropriation*

##### **Departmental Output Expenses**

###### *Investigations*

This category is limited to Inland Revenue undertaking investigation, audit and litigation activities.

###### *Management of Debt and Unfiled Returns*

This category is limited to activities to prevent returns and debt becoming overdue, and to collect unfiled returns and overdue payments, whether for the Crown, other agencies or external parties.

###### *Services to Ministers and to inform the public about entitlements and meeting obligations*

This category is limited to the provision of services to help Ministers fulfil their responsibilities to Parliament and the New Zealand public, other than policy decision-making responsibilities, and to provide information and assistance to the public to make them aware of their obligations and entitlements.

###### *Services to Process Obligations and Entitlements*

This category is limited to the registration, assessment and processing of tax obligations and other entitlements, including associated review and Crown accounting activities, and the collection and sharing of related information with other agencies.

#### *Expenses, Revenue and Capital Expenditure*

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Total Appropriation</b>	<b>586,375</b>	<b>581,375</b>	<b>569,785</b>
<b>Departmental Output Expenses</b>			
Investigations	124,090	124,090	114,238
Management of Debt and Unfiled Returns	91,163	89,663	83,634
Services to Ministers and to inform the public about entitlements and meeting obligations	242,209	239,584	233,419
Services to Process Obligations and Entitlements	128,913	128,038	138,494

	2020/21		2021/22
	Final Budgeted \$000	Estimated Actual \$000	Budget \$000
<b>Funding for Departmental Output Expenses</b>			
<b>Revenue from the Crown</b>	<b>569,309</b>	<b>569,309</b>	<b>553,085</b>
Investigations	123,854	123,854	114,089
Management of Debt and Unfiled Returns	89,804	89,804	82,362
Services to Ministers and to inform the public about entitlements and meeting obligations	241,023	241,023	232,374
Services to Process Obligations and Entitlements	114,628	114,628	124,260
<b>Revenue from Others</b>	<b>17,066</b>	<b>17,066</b>	<b>16,700</b>
Investigations	236	236	149
Management of Debt and Unfiled Returns	1,359	1,359	1,272
Services to Ministers and to inform the public about entitlements and meeting obligations	1,186	1,186	1,045
Services to Process Obligations and Entitlements	14,285	14,285	14,234

### *What is Intended to be Achieved with this Appropriation*

This appropriation is intended to ensure customers find it easy to meet their tax and social policy obligations and receive the payments they are entitled to.

### *How Performance will be Assessed for this Appropriation*

	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
Assessment of Performance			
<b>Primary measures</b>			
Percentage of customers satisfied with the overall quality of service delivery from Inland Revenue (see Note 1)	90%	90%	90%
Percentage of customers who feel Inland Revenue makes it easy for people to get it right (see Note 1)	80%	80%	80%

*What is Intended to be Achieved with each Category and How Performance will be Assessed*

Assessment of Performance	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
<b>Departmental Output Expenses</b>			
<b>Investigations</b>			
This category is intended to protect the integrity of the tax system through early interventions, investigation, audit and litigation activities.			
<i>Primary measures</i>			
Percentage of customers whose compliance behaviour improves after receiving an audit intervention (see Note 1)	85%	Not available	85%
Discrepancy identified for every output dollar spent	\$7.00	\$7.00	\$7.00
Percentage of litigation judgments found in favour of the Commissioner	75%	82%	75%
<i>Supporting measures</i>			
Percentage of audited customers who are satisfied with their experience (see Note 2)	75%	Not available	75%
<b>Management of Debt and Unfiled Returns</b>			
This category is intended to achieve the timely and efficient collection of revenue owed.			
<i>Primary measures</i>			
Percentage of returns filed by customers on time	85%	93%	85%
Value of assessed revenue for every unfiled return dollar spent (see Note 3)	\$40.00	\$48.00	\$45.00
Percentage of tax payments made by customers on time	85%	93%	85%
Cash collected for every debt dollar spent	\$40.00	\$58.00	\$40.00
Percentage of child support assessments paid on time	70%	70%	70%
Percentage of student loan customers that meet their obligations	N/A	N/A	Baseline year
<i>Supporting measures</i>			
Average cost of finalising an unfiled return	\$30.00 or less	\$42.00	Retire measure
Percentage of unfiled returns that are finalised within six months.	60%	48%	60%
Percentage of collectable debt value over two years old (see Note 4)	50% or less	50%	40% or less
Percentage of new customer debt resolved within six months (see Note 4)	80%	39%	50%
Percentage of New Zealand liable parent child support debt cases resolved within 12 months	75%	79%	75%

Assessment of Performance	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
<b>Services to Ministers and to inform the public about entitlements and meeting obligations</b>			
This category is intended to provide services and information to help taxpayers and other customers meet their payment obligations and receive payments they are entitled to, and help Ministers fulfil their responsibilities to Parliament and the New Zealand public.			
<i>Primary measures</i>			
Percentage of customers who perceive that Inland Revenue does enough to inform them of their rights and obligations (see Note 1)	85%	85%	85%
Percentage of customers who perceive that resolving issues with Inland Revenue requires low effort (see Note 1)	80%	80%	80%
<i>Supporting measures</i>			
Average cost of a customer-initiated contact	\$35.00 or less	\$38.00	Retire measure
Average speed to answer telephone calls	4 minutes 30 seconds or less	2 minutes and 52 seconds	4 minutes 30 seconds or less
Percentage of rulings reports, adjudication reports and public items that meet the applicable purpose, logic, alternatives, consultation, and practicality standards (see Note 5)	100%	100%	100%
Number of published or finalised public items that give the Commissioner's interpretation of the law	25	27	25
Percentage of public items (including relevant public consultation), completed within 18 months of allocation	85%	100%	85%
Percentage of adjudication cases completed within 10 weeks of receipt	90%	100%	90%
Percentage of taxpayer ruling applications that have a draft ruling completed within 10 weeks of receipt	90%	93%	90%
Percentage of non-qualifying ruling applications that have a draft ruling completed within six months of receipt	90%	100%	90%
Percentage of submissions by the applicant on any draft ruling responded to within one month of receipt	90%	100%	90%
Percentage of short-process rulings that have a draft ruling completed within six weeks of receipt	90%	100%	90%
Percentage of returns filed digitally	N/A	N/A	97%
<b>Services to Process Obligations and Entitlements</b>			
This category is intended to deliver efficient and effective registration, assessment and processing of tax obligations and other entitlements. This contributes to the availability of revenue to fund government programmes as well as ensuring that taxpayers and other customers receive payments they are entitled to.			
<i>Primary measures</i>			
Percentage of social policy and tax registrations processed within five working days	85%	88%	85%
Percentage of income tax refund disbursements resulting from a return issued within five weeks	85%	85%	85%
Percentage of GST refund disbursements issued within four weeks (see Note 6)	95%	97%	95%

Assessment of Performance	2020/21		2021/22
	Final Budgeted Standard	Estimated Actual	Budget Standard
<i>Supporting measures</i>			
Percentage of income tax returns finalised within three weeks	95%	97%	95%
Percentage of GST returns finalised within three weeks	98%	100%	98%
Average cost of processing income tax returns, GST returns and employment information	\$3.50 or less	\$2.50	\$3.50 or less
Percentage of donation tax credit claims processed within three weeks	70%	78%	70%
Percentage of Working for Families Tax Credit (WfFTC) payments made on the first regular payment date following an application	95%	99%	95%
Percentage of paid parental leave payments issued to customers on the first pay day following the agreed date of entitlement	97%	99%	97%
Percentage of child support administrative review decisions issued within seven weeks	90%	90%	90%
Percentage of child support assessments issued within two weeks	80%	87%	80%

Note 1 - Actual performance measured using a sample of the customer population.

Note 2 - Actual performance measured using a sample of audit cases.

Note 3 - Change in the methodology to include payday filing returns.

Note 4 - Change in the methodology to exclude student loans and Small Business Cashflow (Loan) Scheme loans in 2021/22.

Note 5 - Performance will be measured using a sample of reports.

Note 6 - Section 46 of the Goods and Services Tax Act 1985 requires refunds to be issued within 15 working days unless selected for a screening or investigation. The four weeks measure includes additional time for screening or investigation.

### *End of Year Performance Reporting*

Performance information for this appropriation will be reported by Inland Revenue in the department's Annual Report 2022.

### Current and Past Policy Initiatives

Policy Initiative	Year of First Impact	2020/21 Final Budgeted \$000	2021/22 Budget \$000	2022/23 Estimated \$000	2023/24 Estimated \$000	2024/25 Estimated \$000
<b>Investigations</b>						
Small Business Cashflow (Loan) Scheme	2020/21	-	-	-	-	1,000
Retaining capability to support the Government's response to COVID-19	2020/21	7,380	-	-	-	-
Budget 2018 Research and Development Tax Credit Implementation	2018/19	80	80	80	80	80
<b>Management of Debt and Unfiled Returns</b>						
Small Business Cashflow (Loan) Scheme	2020/21	250	250	250	250	2,200
Retaining capability to support the Government's response to COVID-19	2020/21	5,535	-	-	-	-
Budget 2018 Tax Compliance Activity - Funding to Collect Additional Revenue	2018/19	5,900	5,900	-	-	-
<b>Services to Ministers and to inform the public about entitlements and meeting obligations</b>						
Economic response to future resurgences of COVID-19	2021/22	-	3,000	3,000	1,500	1,500
Ensuring the tax system is operating fairly	2021/22	-	2,170	2,230	-	-
Small Business Cashflow (Loan) Scheme	2020/21	1,700	2,500	2,750	2,500	-
Retaining capability to support the Government's response to COVID-19	2020/21	14,760	4,920	-	-	-
Research and Development (R&D) Tax Incentive	2019/20	3,142	-	-	-	-
Budget 2018 Research and Development Tax Credit Implementation	2018/19	320	320	320	320	320
Families Package Implementation	2018/19	350	350	350	350	350
<b>Services to Process Obligations and Entitlements</b>						
<b>Current Government</b>						
Small Business Cashflow (Loan) Scheme	2020/21	2,000	-	-	-	-
Retaining capability to support the Government's response to COVID-19	2020/21	9,225	3,280	-	-	-
Research and Development (R&D) Tax Incentive	2019/20	2,058	-	-	-	-
Budget 2018 Research and Development Tax Credit Implementation	2018/19	400	400	400	400	400
Families Package Implementation	2018/19	710	710	710	710	710

### Reasons for Change in Appropriation

This appropriation decreased by \$16.590 million to \$569.785 million for 2021/22 to reflect the realisation of expected benefits from Inland Revenue's transformation programme and the expiry of a time limited funding of \$2.624 million relating to the Budget 2015 Child Support Scheme reform programme.

This is offset by an additional funding of \$2.170 million in 2021/22 for a policy initiative to ensure the tax system is operating fairly. This initiative will collect information which will be used to develop basic research to understand how the tax system redistributes economic income and the overall distribution of income and wealth.