



Inland Revenue: Customer strategy and focus

a.k.a. "I'll be back"

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Introduction

Your speakers



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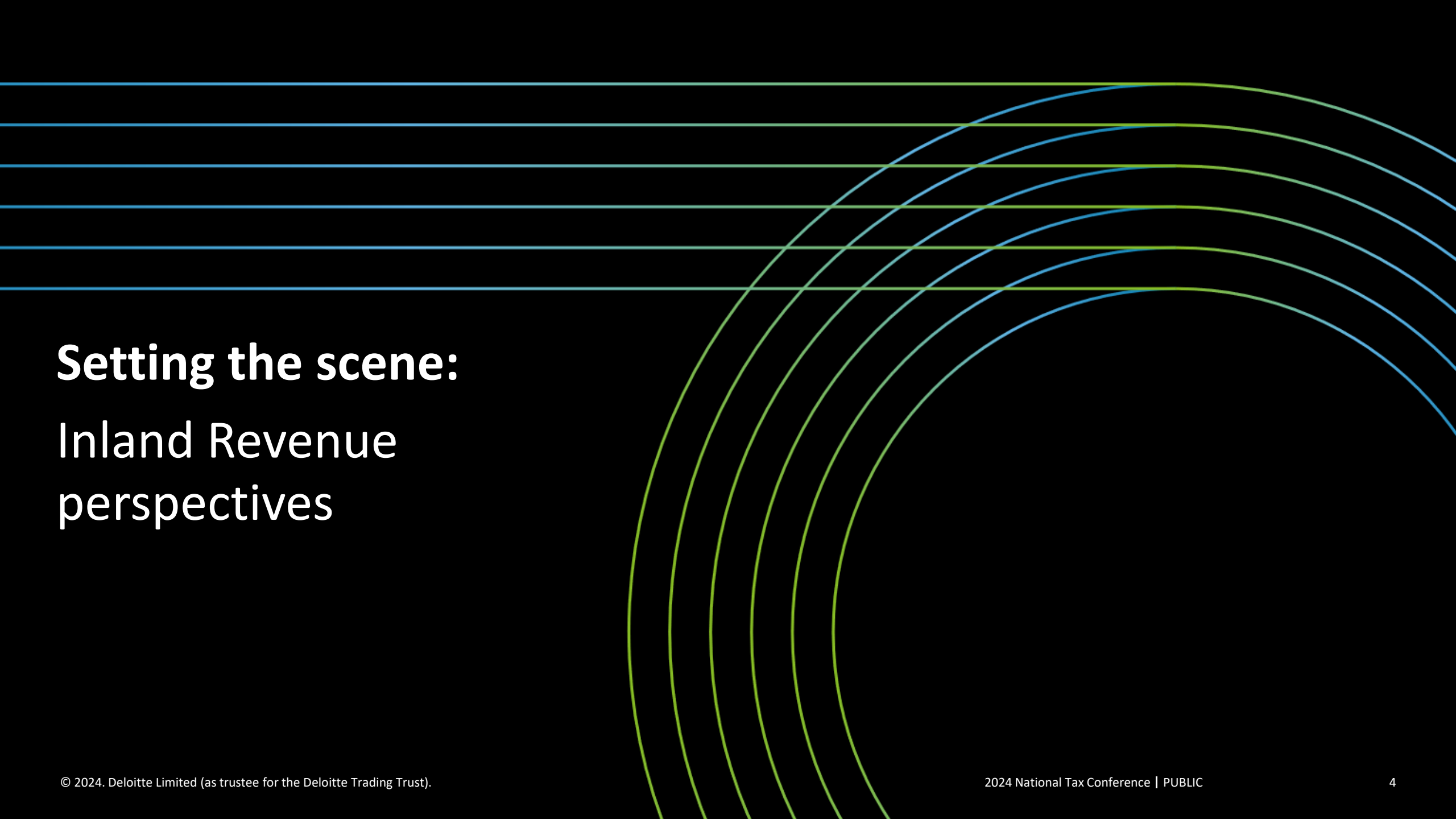


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Overview

- Setting the scene
- Pulse of the Nation
- IR focus areas
- Housekeeping best practice
- The disputes process journey



Setting the scene: Inland Revenue perspectives

Setting the scene: Inland Revenue's perspective

Quotes from Tony Morris: Customer Segment Lead, Significant Enterprises

You can expect to see a scaling up of the broad range of compliance activities from Inland Revenue to support our customers, and see us being more visible and proactive to ensure our business customers meet their obligations, with things like **auditing** and the enforcement end of compliance too

IR has been steadily rebalancing our work programme post-COVID, including increasing our **audit** activity and being more active with the tax agent community

Inland Revenue are increasingly using data and analytics to determine where and how to **target** our compliance efforts

Where Inland Revenue is in pre-audit discussions with customers, they'll be moving to a formal **audit** earlier to assist in finalising any areas of disagreement earlier

[Inland] Revenue are looking at **more audits** in the SE sector. These audits will largely be across the BCP population



History

Year	Funding for investigations (\$ 000)	Funding for investigations (2024 \$ 000)	Outcomes	Improved customer compliance post audit (%)	Audit customer satisfaction	Audit cases closed *	Shortfall penalties imposed (No / Value)
2015/16	164,249	\$212,967	ROI \$7.91	89.8%	78%	?	8,515/\$27.6m
2016/17	175,745	\$224,870 ↑	ROI \$8.31 ↑	87.6% ↓	74.6% ↓	?	9,029/\$30m ↑↑
2017/18	\$140,164	\$176,528 ↓	ROI \$7.86 ↓	80% ↓	70.5% ↓	2,754	7,848/\$37m ↓↑
2018/19	\$134,706	\$166,509 ↓	ROI \$6.89 ↓	87% ↑	67.4% ↓	12,294 ↑	6,360/\$68m ↓↑
2019/20	\$109,720	\$133,156 ↓	ROI \$8.75 ↑	74.2% ↓	69% ↑	16,669 ↑	4,041/\$14m ↓↓
2020/21	\$134,325	\$160,708 ↑	ROI \$7.17 ↓	78.8% ↑	75% ↑	16,140 ↓	3,431/\$13.9m ↓↓
2021/22	\$113,235	\$127,868 ↓	ROI \$9.88 ↑	69.6% ↓	69% ↓	3,080 ↓	1,887/\$22m ↓↑
2022/23	\$107,634	\$113,360 ↓	ROI \$8.92 ↓	74.5% ↑	64% ↓	3,608 ↓	1,938/\$14.7m ↑↓
2024 Budget	\$108,702 (reduced from initial budget \$133,783)	↓	TBC	TBC	TBC	TBC	TBC

*Inland Revenue Annual Reports state audit cases 'closed', but an OIA request shows actual audits 'completed' were 2018: 2,754; 2019: 5,809; 2020: 6,075; 2021: 8,112; 2022: 3,080

Show us the money

Budget 2024

Investment in Compliance Activities

This initiative provides funding for and shows an increase in tax revenue from Inland Revenue's increased compliance activities on tax and student loan overseas-based borrowers, including those returning to or visiting New Zealand. There are further flow on impacts on Student Loans that are managed outside allowances, in keeping with the standard approach.

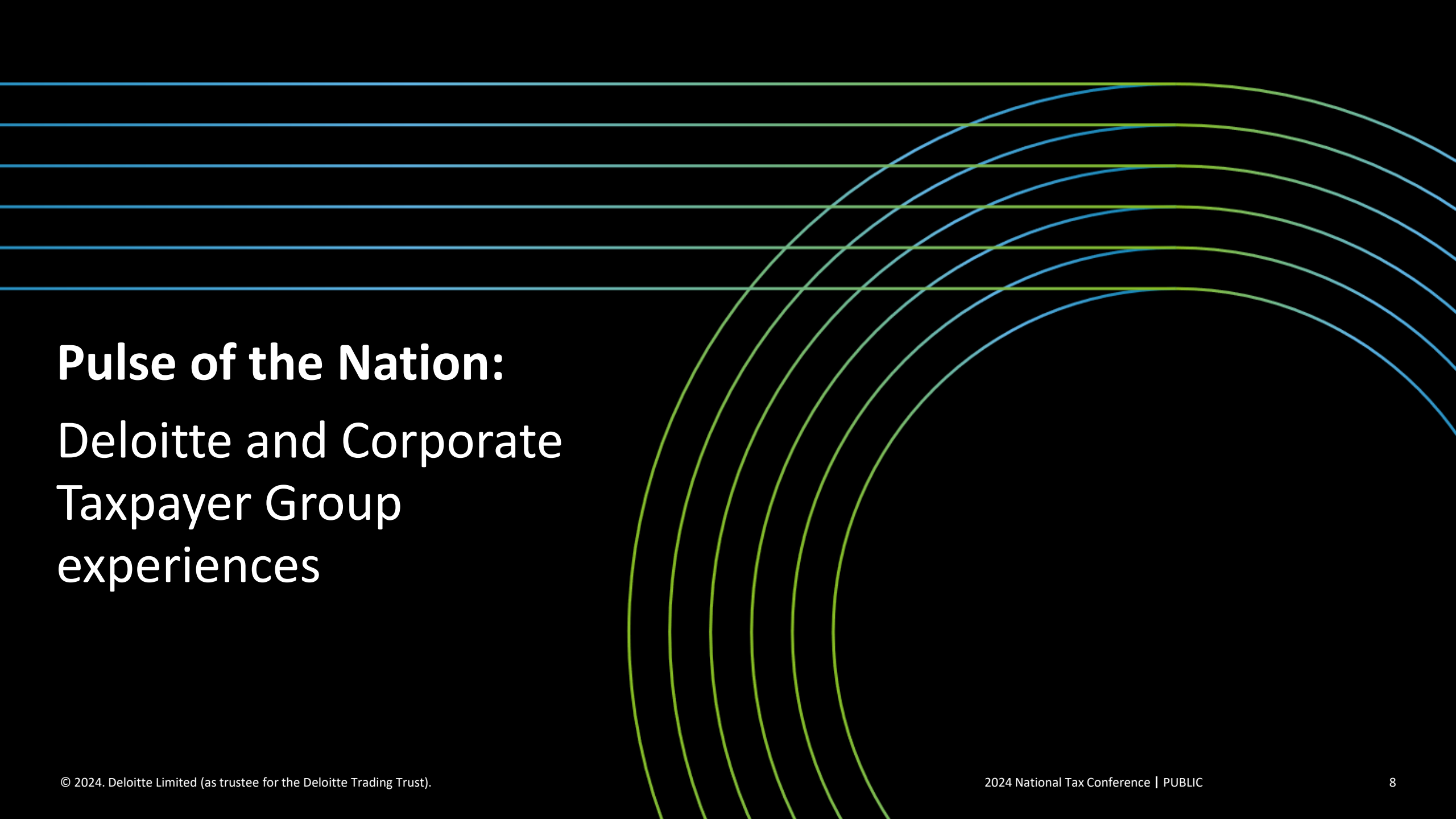
Vote	2023/24	2024/25	2025/26	2026/27	2027/28	Operating Total	Capital Total
Revenue	-	29.000	29.000	29.000	29.000	116.000	-
Revenue (IRD-Crown)	-	(99.000)	(201.000)	(201.000)	(201.000)	(702.000)	-

“An Inland Revenue spokesperson said it had been funded for **just over 200 permanent staff** to undertake “additional compliance activity”.

“In addition to enforcement, that includes work designed to make it harder for people to get their tax obligations wrong. The staff would be a **mix of existing employees** who would be redeployed to tax compliance and **new recruits**, she said.”

The Post, 4 June 2024

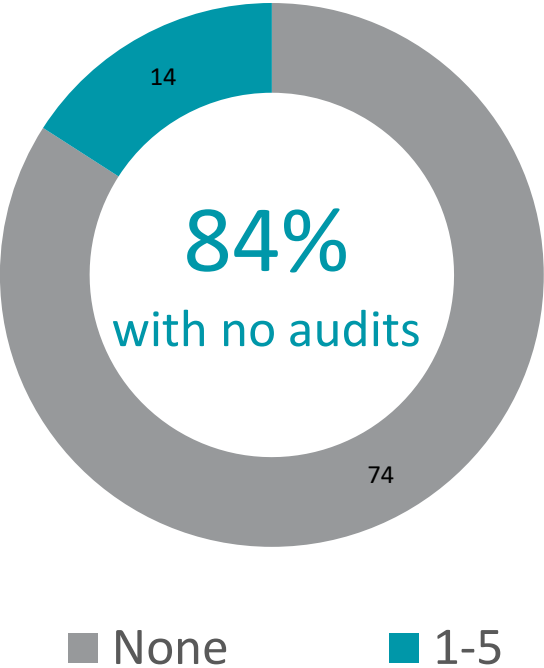




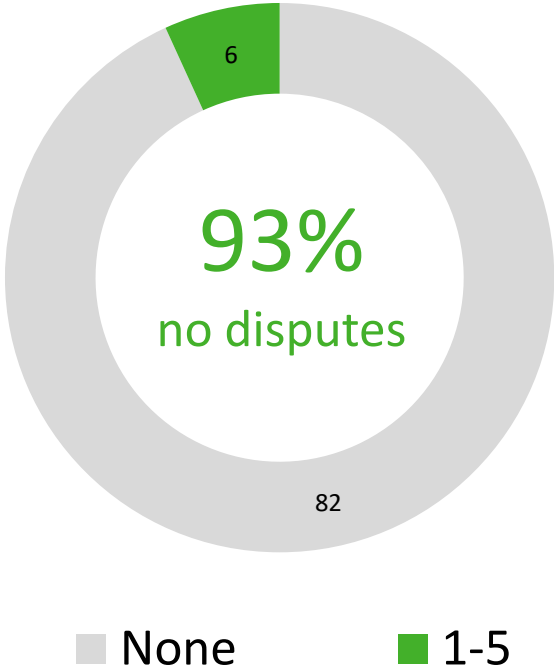
Pulse of the Nation: Deloitte and Corporate Taxpayer Group experiences

Deloitte experience in last 12 months
We polled our people...

Number of audits in last year



Number of formal disputes in last year



Deloitte clients' experience: tax issues focussed on by IR

Penny & Hooper

LAND
RULES

financial
ARRANGEMENTS

EMPLOYMENT
TAXES

FATCA
& CRS

Capital
Revenue

SOFTWARE
SALE

Return of
CAPITAL

TRANSFER
Pricing

DIVIDEND
STRIPPING

Overseas
INVESTMENTS

PE'S and
MAP

Purchase
Price
ALLOCATION

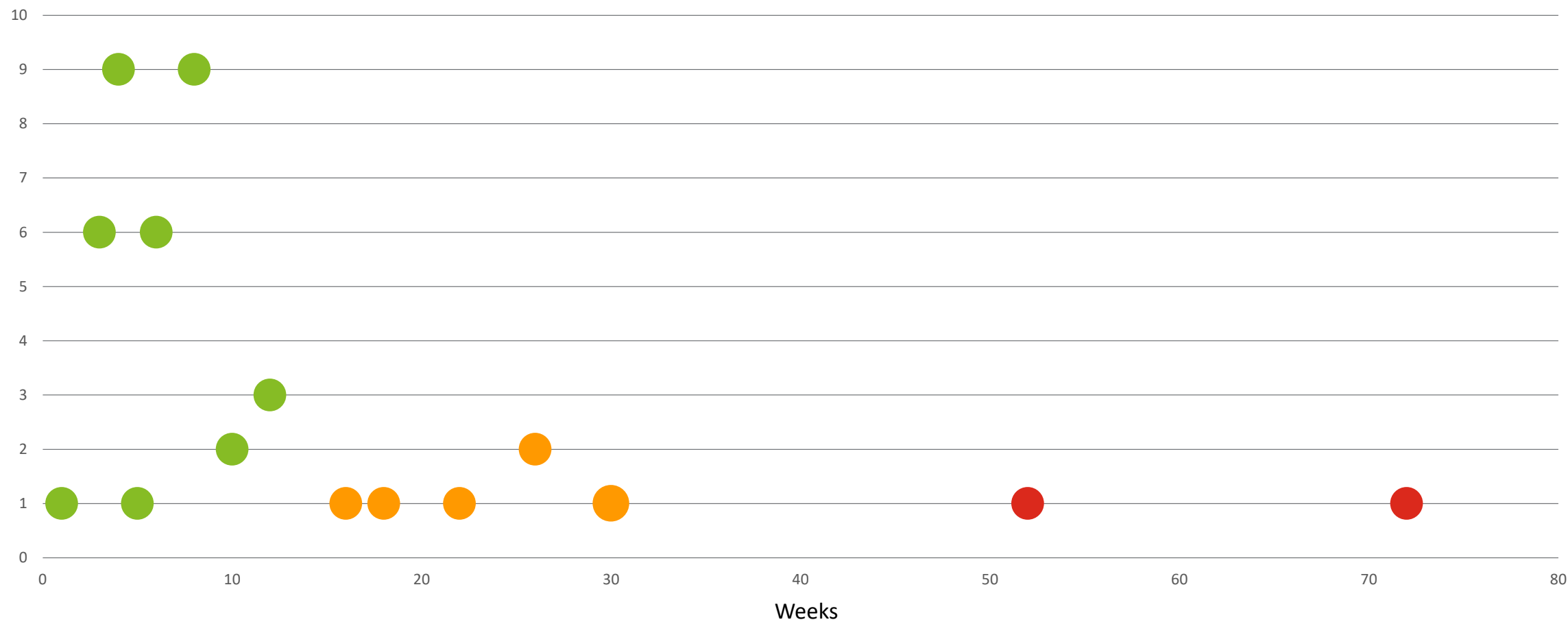
DONATIONS

GST
REFUNDS!

Depreciation
Available for use

Correcting Errors

Deloitte experience - section 113 request processing times



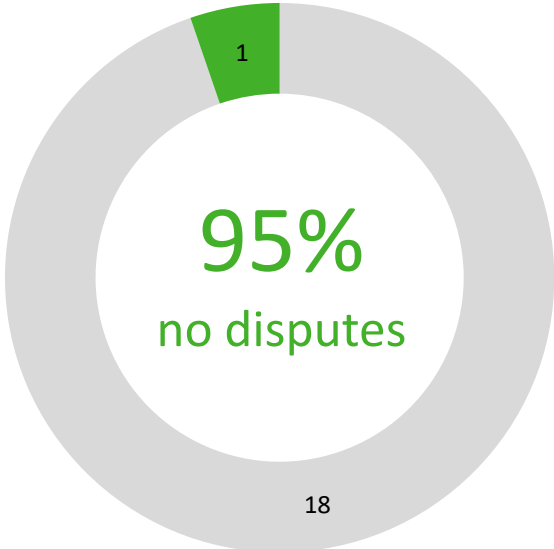
Corporate Taxpayers Group experience in last 12-24 months
We polled the members...

Have you had a formal audit?



■ No ■ Yes

Have you experienced the disputes process?



■ No ■ Yes - TP NOPA

CTG members' experience: tax issues focussed on by Inland Revenue

**ALL
CORRECTIONS**

FBT

Timing

Issues!

AVOIDANCE!

Loss on Sale

REVENUE ACCOUNT PROPERTY

ZERO-RATING

LAND

Thoughts on timeliness

Questions, correspondence and meetings have been ongoing for nearly 2 years. I don't want to force the issue but **it's been very protracted**

We typically aim to resolve matters outside of the formal disputes process however that can mean that **issues take a significantly long time to resolve**

We did not have a formal dispute with IR but agreed a settlement on an issue. After 18 months of protracted discussions and correspondence **IR threatened to move the issue to dispute and we agreed to a settlement** for a portion of the tax

We disclosed errors and the IRD accepted these. They were **resolved relatively quickly** and IRD contacted us if there was any complexity with processing

Our audit took longer to resolve than was probably necessary due to the [lack of] experience of the IR staff involved. Due to the technical nature of the issue being reviewed **specialists should have been involved earlier**

[Our dispute ran] Nov-2021 through to Mar-2024

Tends to be a **longer delay if asking IRD for an interpretation** eg took a couple of months on a straightforward Unclaimed Money query



Other comments

Things have certainly **got a lot tougher** to get concessional treatment for practical issues compared to Covid period

Still some "sheriff's-badge-wearing" **investigators** at IR - need clearer avenue for escalation/discussion

It does seem IR has a higher "tolerance level" when **voluntary disclosures** are made without prior intervention

IR is starting to **dig in their heels** a bit on things that would have been accepted in the past

The audit experience itself can vary largely depending on "who you get" on IR's side

We have noticed an **increase in the level of detail** that Inland Revenue wants to go into on risk review matters. Items where the amount of tax at stake is relatively immaterial are now being queried

While not getting to audit stage, they seem to be **asking more questions** and **requiring more detail** when communicating with them

We have had a couple of unsuccessful attempts at seeking an Indicative View where we have then had to proceed down the Rulings path when we shouldn't have to

take a deep breath

An abstract graphic featuring several horizontal lines in a light blue and green color palette. Three yellow dots are positioned on the left side, aligned with the lines. On the right side, there are several concentric, curved lines in the same color palette, creating a sense of depth and movement.

IR Focus Areas

Areas of Focus

- GST, FBT and Governance questionnaires
- New BCP questionnaire
- Cash economy / income suppression
- Personal services companies
- Trustee tax rate change
- Dividend integrity / holding companies
- Construction / real estate
- Software-as-a-Service (SaaS)
- Back to basics
 - General permission
 - Capital revenue issues



Other experiences

- IR's "technical specialist" network
- Rulings ↔ Policy ↔ CCS interaction
- GST refunds
 - Surge in section 46 refund "halts"
- Unconventional approaches / sub-optimal CCS behaviour



Disputes Review Unit – Technical Decision Summaries

Issues considered

- **Income Tax**

- Private expenditure
- CFC/DTA
- Suppressed income
- Double taxation
- Family / rental property expenses
- Share scheme taxing date
- Section 123 payments
- Debt forgiveness income
- Settlement payment deductibility
- Renovation expenditure
- Sale of bare land intended for subdivision
- Loan vs remuneration

- **GST**

- Taxable activity
- Insurance and similar proceeds
- Private expenditure
- Compulsory zero-rating
- Accommodation
- Section 54B registration



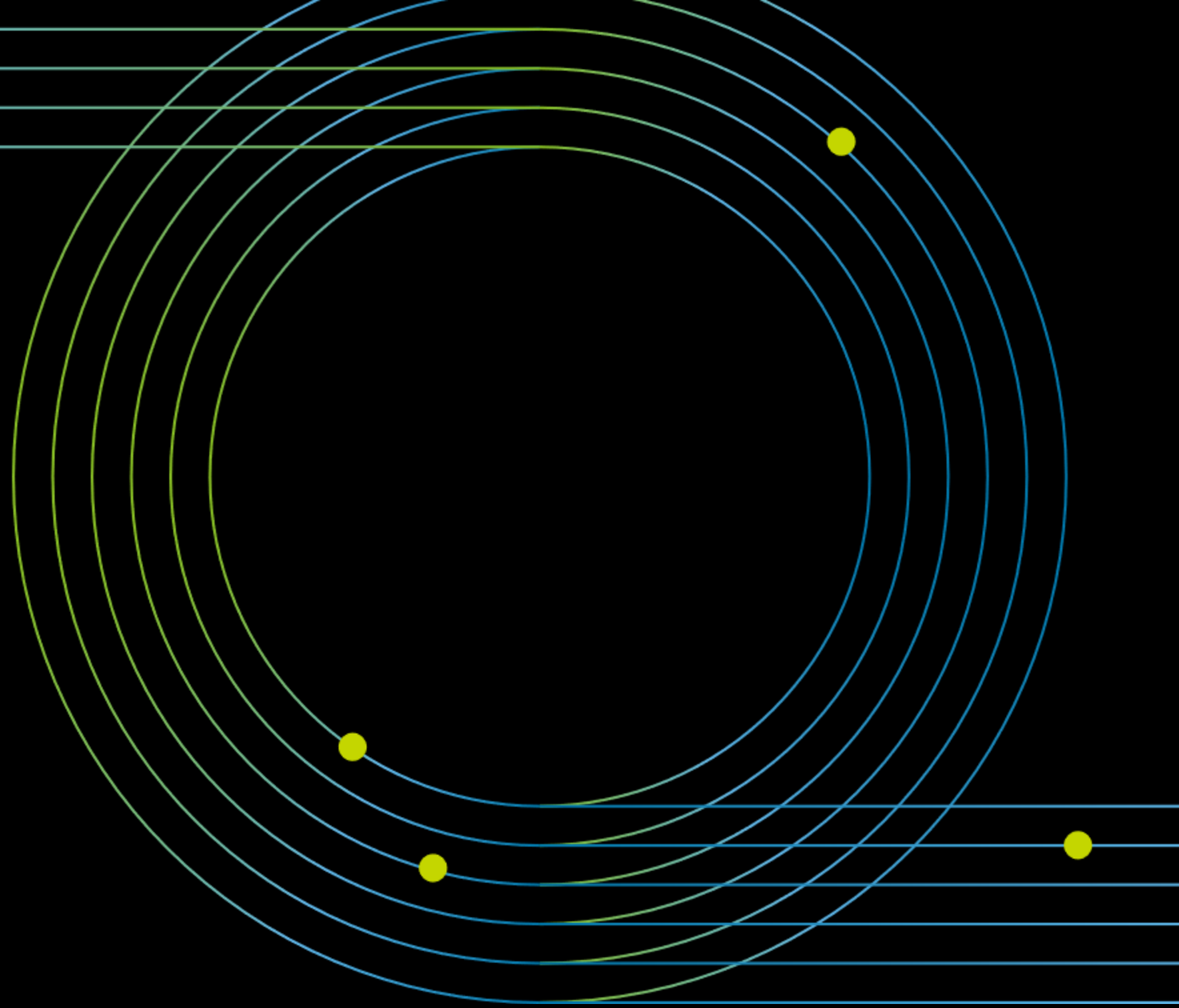
The Courts

- Only 10 reported substantive judgments from 2020 until now
- 2 were *Frucor* (CA and SC)
- Issues considered:
 - MCN funding (interest deduction)
 - Meaning of “gift” (donee tax credit)
 - Deductibility of building repair / refurbishment and remediation costs
 - Timing of derivation of backdated lump sum ACC payments
 - Income tax treatment of stolen funds
 - GST input credit – property acquisition



Housekeeping

Best practice



Being audit-ready

- Governance
- Taking Inland Revenue on the journey
 - Binding rulings / other products
- Transaction / compliance manuals
 - Don't "set and forget"
- Participating advisor reviews
- Other
 - IR282
 - APAs
 - Tax pooling
 - Taxpayer NOPA
 - Defence file



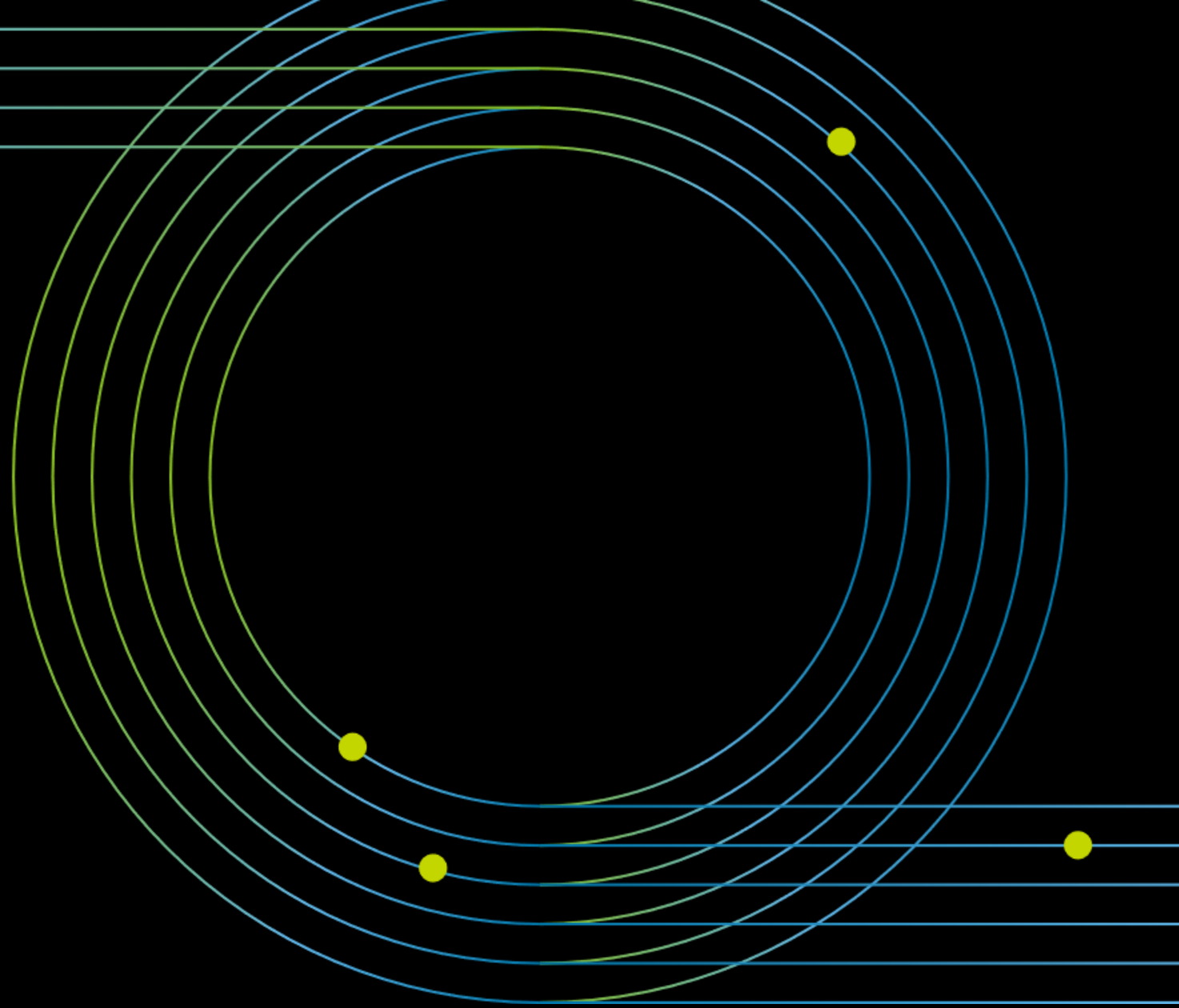
Protocols

- Emails
- Board papers
- Other contemporaneous correspondence
- Privilege / non-disclosure rules
- Beware
 - Document footers
 - Reply-all
 - Smartphones
 - Mixing TADs with other documents
- Document destruction policy



Disputes Process

A refresher



A close-up photograph of a person's hands opening a red envelope on a light-colored desk. The envelope is open, revealing a white card with the text "YOU ARE GETTING AUDITED". The person is wearing a light-colored shirt. In the background, a white computer keyboard and a blue mousepad are visible. The scene is brightly lit, casting shadows on the desk.

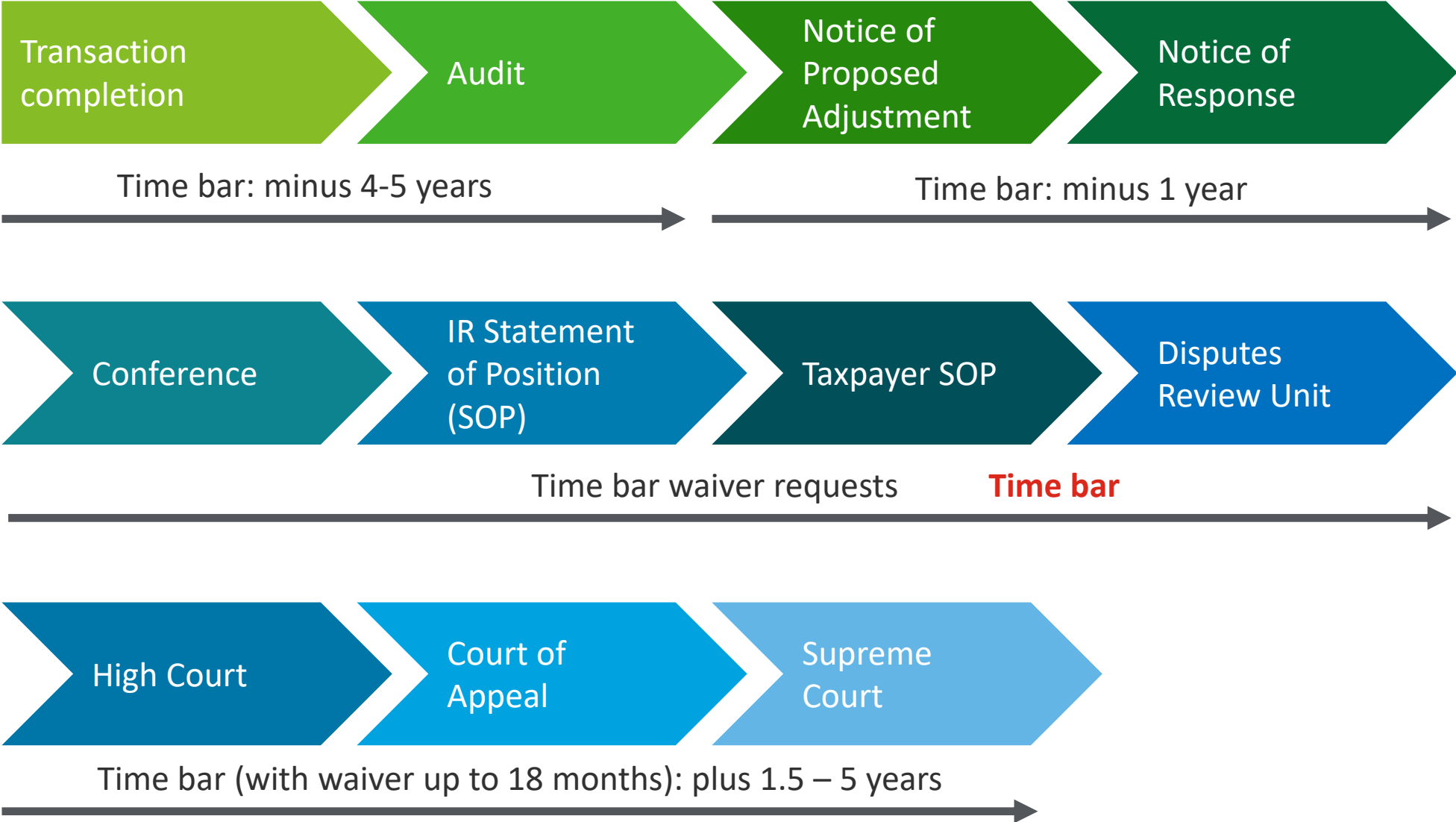
**YOU ARE GETTING
AUDITED**

A sobering reminder...

- Time: the long-haul – with exposure to goal-post shifting risk
- Cost (process and UOMI): even if not an avoidance dispute
- Opportunity cost
 - Reputation / brand
 - Staff / management disruption and general distraction
 - Financial reporting disclosures



Inherent risks – time and cost



Estimated costs of taking a case to court (litigation costs as at 2012, not inflation adjusted)

Stage	Estimated cost range
Review IR's NOPA, prepare taxpayer NOR	\$50k - \$185k
Conference (say 1-4 days, with ½ day prep)	\$35k - \$100k
Review IR's SOP, prepare taxpayer SOP	\$75k - \$285k
Review DRU report, prepare / file challenge proceedings	\$30k - \$80k
Discovery	\$100k - \$1.5m
Review IR's defence / pre-trial interlocutories / Court conferences / Trial prep	\$200k - \$1m
Briefing evidence	\$100k - \$1m +
High Court trial	\$100k - \$1.5m (\$25k per day)
Court of Appeal preparation / hearing	\$200k - \$400k
Supreme Court preparation / hearing	\$200k - \$400k
Ballpark total costs	\$1.3m - \$9.25m

Disputes process journey observations

- Accelerated disputes timelines (looming time bar)
- “Tick the box” v full-form NORs
- Facilitated conferences
- Value of IR relationships
- Settlement
- Time bar
 - Activating
 - When not applicable
 - Waivers



Concluding remarks

Managing downside and contingency planning

Be the author of your own destiny – preparation and health checks are key

Take Inland Revenue on the journey – making informed risk management decisions

Time bar – the taxpayer's best friend



QUESTIONS?





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