



Compliance update

November 2024

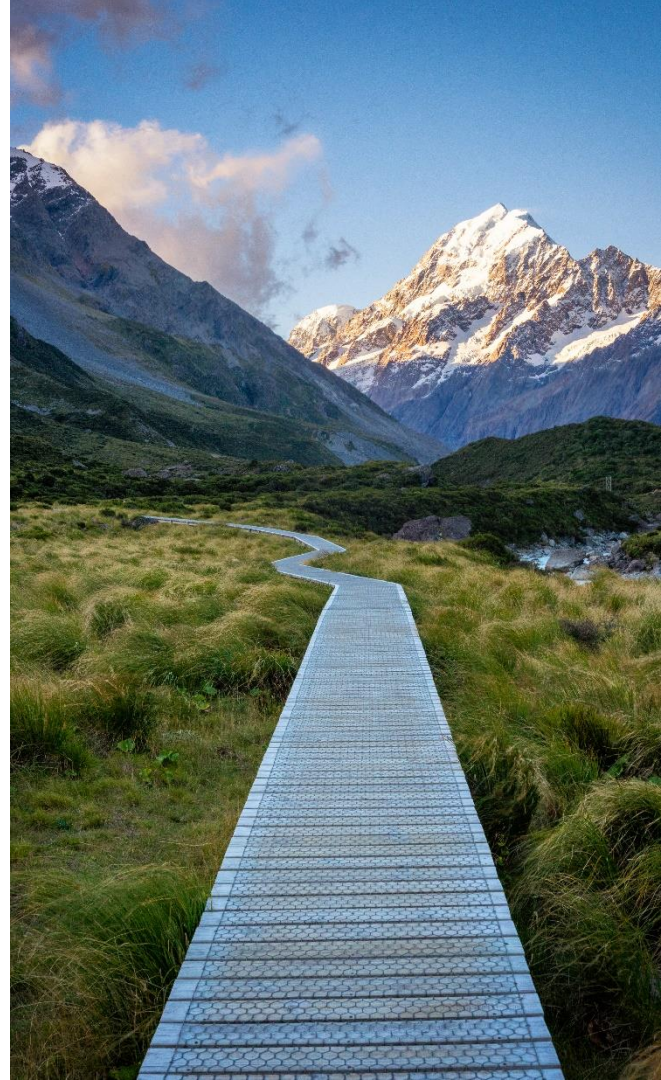


Inland Revenue's approach to compliance

- Make it easy to get right
- Make it hard to get wrong
- Make it costly for the few who deliberately try to avoid their obligations

Our focus in FY 24/25

- Increase our enforcement activity after a period of lower than usual activity
- Make new use of data and insight

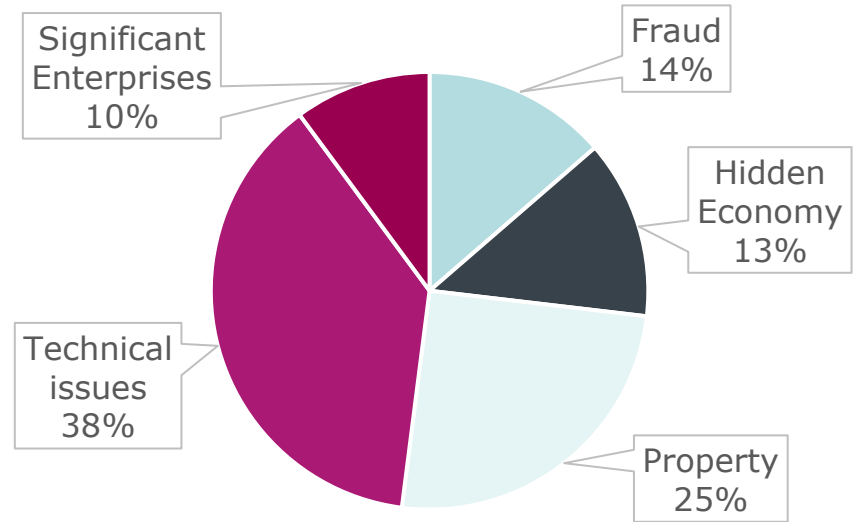


Audit activity Jul - Sep 24

1,908 audits opened

1,623 audits closed

Audits opened



Compliance areas of focus

Applying the full range of compliance interventions to high-risk sectors

- Hidden economy
- Property speculators and developers
- Multinationals

Reducing systemic risks

- Cryptocurrency
- Electronic sales suppression tools
- Organised crime
- Offshore income
- Corporate restructures

Audit interventions for

- The high-risk sectors and systemic risks on this slide
- Trusts
- Diverted personal income

Increasing collection of

- High-value outstanding returns
- High-risk debt in all products
- Small Business Cashflow Loans
- Student Loans

Property

First quarter highlights

- 472 audits opened with the focus being speculators and developers.
- We have started audits of around 200 people who have stopped returning rental income, yet we can see they still own investment properties.
- Positive feedback on our online Property tax decision tool which helps people understand their bright-line obligations.

Story from our contact centre

I called someone who was applying for tax relief due to financial hardship. When I told them we weren't going to be granting tax relief, they exclaimed 'Well what do you want me to do, sell my home?' To which I responded, 'Well, I can see you own a number of investment properties, so perhaps there's something to consider there.'

The person seemed quite shocked that we knew about the properties, and quickly finished the conversation.

Trust non-compliance and diverted personal income

First quarter highlights

- We have identified 800 people we suspect of diverting personal income in the accounting, legal, medical, and architect sectors.
- Using information from Trusts Disclosures, we've identified 3,500 people who have received very large distributions but not updated their income for Working For Families entitlements
- Audits and tax agent engagements are underway.

Story from a specialist

We've been reviewing a professional whose personal service income exceeds \$1m per year. Since the 39% rate came in, their company income stayed the same, but the amount declared as personal salary fell to around one third of its prior amount.

Personal income needs to be taxed in the hands of the person who earned it. The income has been reallocated to them, creating an additional tax liability and a penalty of taking an abusive tax position, at 100% of the additional tax less various reductions.

Hidden economy

First quarter highlights

- 248 audits related to the hidden economy have started.
- We are visiting hundreds of liquor stores and vape stores across the country, to check on their compliance.
- Campaign focused on personal services businesses such as hairdressers and nail salons to start in the New Year.
- We have started using data from payment service providers to target people with sales that aren't reflected in their GST returns.

Stories from unannounced visits

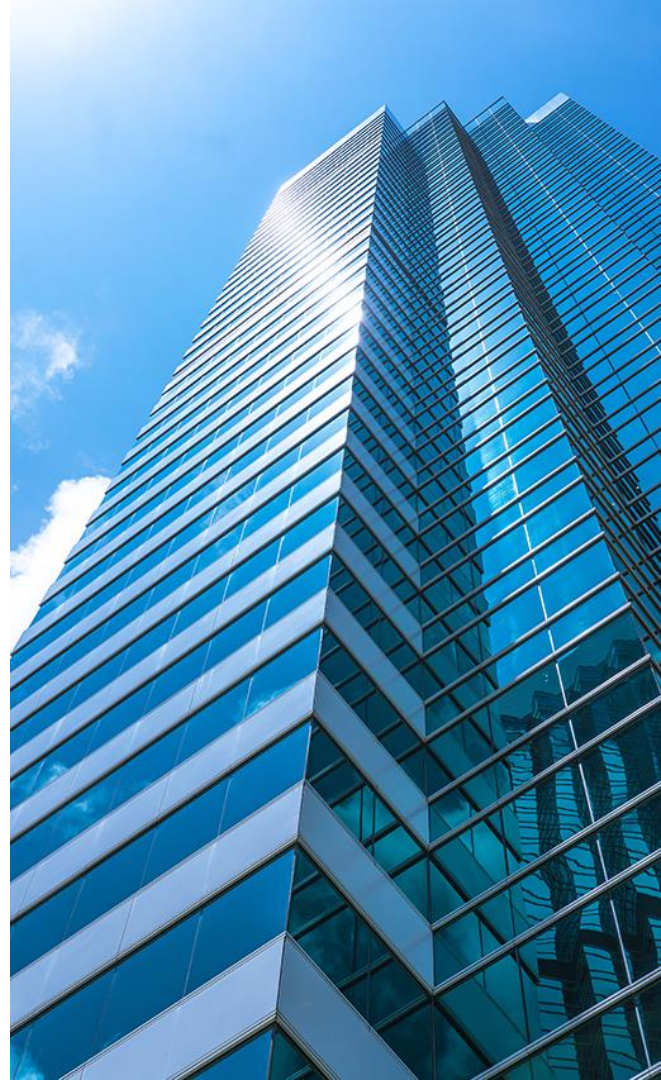
We visited two stores and the director for both said that following the previous liquor stores visits they were already advised by the head office that IRD may be visiting again so to keep their records up to date.

One of the stores we visited had July GST and August Small Business Cashflow Loan instalment payments outstanding. He made payment within an hour of our visit.

Corporates / Multinationals

First quarter highlights

- Base Erosion and Profit Shifting cases were opened in July and August.
- We have added expertise on Transfer Pricing and started a documentation compliance campaign.
- Increased focus on Annual Risk Reviews, Basic Compliance Packages and tax governance.
- Started audits of Multi-Rate Portfolio Investment Entity returns.



Cryptocurrency

First quarter highlights

- We have analysed data from NZ crypto exchanges to identify their largest crypto traders in NZ.
- We have been in touch with many of them, asking why we don't see their crypto income on their returns.
- Many have consequently made Voluntary Disclosures.
- Where they don't, or where their disclosures don't match the data we have on their trades, we will start audits.

Story from our crypto team

I sent a letter to a taxpayer's agent, saying we were aware of crypto trades that didn't seem to be in the tax returns. The tax agent said they weren't aware of any crypto trades, and would discuss it with their client.

They subsequently submitted amended returns for 2021 and 2022 with more than half a million dollars of additional revenue each year, which matched the information we have. Alongside the tax to pay, they now have a Use of Money Interest component of nearly \$100k.

I know the customer has enough equity in bitcoin to pay this, though of course selling those will also trigger a tax liability, which I'll be looking for.

High-risk outstanding returns

First quarter highlights

- We have a team focused on employers with significant transactions but little interest in filing their Income tax, GST and Employer returns.
- These are large cases. For example, in August just three cases resulted in over 200 outstanding returns being filed, and more than one million dollars assessed.
- This team currently has 30 criminal investigations underway and in various stages before the Courts.

Story from a specialist

I ran a criminal investigation into a company that had not filed employer returns for over 4 years.

After evidential interviews the director filed the missing returns which resulted in almost \$5 million being attributed to nearly 100 employee tax accounts.

This was a fantastic result for the employees who were missing several years deductions owed to their KiwiSaver and student loan accounts.

High-risk debt

First quarter highlights

- 53% response rate to SMS noting possible legal action.
- More than \$4m per week being collected from our most reluctant debtors – plus the amount being paid under instalment arrangements.
- Focus on those who own multiple properties resulted in 70% of debt being resolved within a month.

Story from a specialist

One of the people I contacted was adamant they did not purchase or own the property we listed, as it was owned by a Trust which was a separate legal entity.

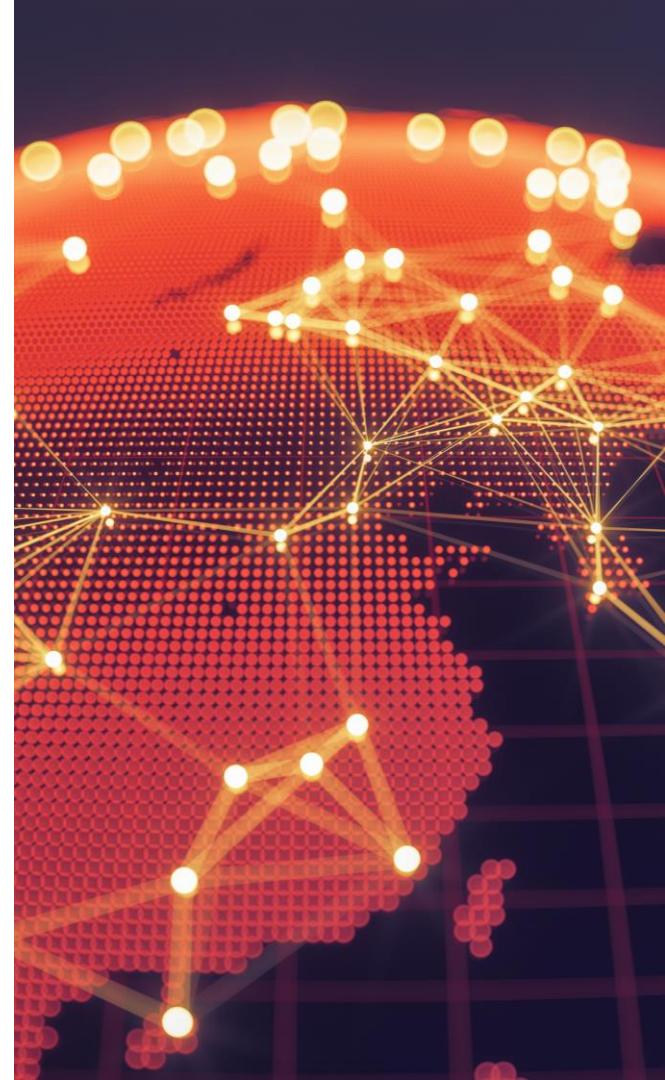
I noted they were both a Trustee and Beneficiary of this entity.

After consulting with their lawyer they began negotiating with me regarding their debt, which resulted in full payment being made.

Offshore income

First quarter highlights

- Successfully received information from all financial institutions to exchange with our treaty partners before 30 September.
- 219 cases closed in latest offshore campaign, 67 with voluntary disclosures and 152 with no discrepancy (either their positions were satisfactory, or education was provided to assist compliance)



Electronic Sales Suppression Tools

First quarter highlights

- Electronic Sales Suppression Tools is functionality embedded within or alongside some point-of-sale systems to alter the value of or remove transactions.
- We have launched 50 investigations of businesses we suspect are using Electronic Sales Suppression Tools.



Small Business Cashflow Loans

First quarter highlights

- Around twenty cases before the Courts
- Starting to take funds from the bank accounts of those businesses that are in serious default.
- Dedicated phone line set up which has helped customers get back on track with repayments



Avoiding penalties and liquidations

- To avoid late payment penalties, contact us or put an instalment arrangement in place as soon as possible.
- Through myIR if you can pay it off inside three years with payments of \$20 per week or more.
- By calling Inland Revenue for other arrangements.
- Communication with us is the key to avoiding insolvency proceedings.





Inland Revenue
Te Tari Taake

Thank you

