OECD FTA Tax Debt Management Network Workshop
Paris, 4th and 5th of March 2020

Summary of the presentations made at the workshop
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1. Introduction

The OECD Forum on Tax Administration’s Tax Debt Management Network (TDMN) was created with the aim of sharing successful practices in tax debt management, including the use of innovative tools and behavioural insights, and to undertake collective work where appropriate to address collective challenges. The Belgian Taxation Office’s Commissioner for Debt Collection, Tom Boelaert, currently Chairs the TDMN.

1.1. Introduction by the TDMN Chair: Tom Boelaert, Belgium

The ISORA survey, which is the most comprehensive global database on measuring tax administrations’ performance, reports that the sum of outstanding tax debt of the administrations participating in this meeting of the Network amounts to around EUR 1.85 trillion in total, with around EUR 770 billion being reported as collectible. The scale of tax debt, which looks set to rise considerably as a result of the impacts on households and businesses of the COVID-19 crisis, reinforces the importance of this network and the exchange of information, analysis and ideas.

Since the Madrid TDMN workshop in October 2018, the Network has held regular conference calls and provided the input for the published OECD report on “Successful tax debt management: Measuring Maturity and Supporting Change” and for the publication of the Tax Debt Management Maturity Model (which can be found on the OECD FTA website. The Network has also collaborated on the interim report presented to the FTA Plenary in March 2019 on “Challenges for Better International Tax Debt Management”. This report is currently being finalised, together with supporting tools, and the intention is to publish it before the end of 2020. The Network will continue with its regular meetings through 2020 and expects to be heavily involved in cross-FTA discussions on COVID-19, including the measures taken by administrations and recovery period considerations for restarting suspended tax debt management processes.
2. International Tax Debt Collection

2.1. Update on the draft report “Challenges for Better International Tax Debt Management”: Michael Roekaerts, Belgium, and Ana Bravo Dias, Spain

The last survey on International Tax Debt Recovery Project had provided important information for the advancement of the report “Challenges for better Tax Management”. From the survey, it emerged that very few jurisdictions assess their amount of international tax debt, and there is not a common methodology to calculate it. Many survey responses stressed the importance of actions to prevent international / cross-border debt from arising and the success of voluntary disclosure programmes in this regard. Countries indicated that the main sources to obtain information to allow domestic remedies to be pursued successfully are domestic asset registries, databases providing the address and contact details of taxpayers, taxpayer-provided data, internet searches and results of EoI, both automatic and on request. Additionally, a number of administrations stressed the importance of domestic remedies to prevent debtors from leaving the territory of the debt, such as the ability to seize passports or to suspend their issuance. Many administrations expressed concern about the number of reservations in regards to the provision of recovery assistance in the Multilateral Convention on Mutual Administrative Assistance (“the Convention”) and hoped that this could be taken up at appropriate levels, in particular given the new visibility of financial assets held abroad under the OECD/G20 Common Reporting Standard (CRS). Finally, countries noted a number of additional issues, including resource constraints and lack of standardised forms, and there was considerable support for more guidance and the development of new tools that might help tax administrations both in their domestic recovery efforts but also as regards requests for assistance from other jurisdictions.

2.2. Toward Making Tax Recovery Assistance Global: Yuko Maekawa, Japan

The National Tax Administration of Japan noted that debt management performance had been improving over time, with a decrease of outstanding tax debt and an overall increase in tax collected in the last 20 years. The NTA noted that difficulties nevertheless remained in the area of international recovery assistance. At present, the number of jurisdictions participating in recovery assistance under the Convention is around 60 - under half of the total number of signatories of the Convention - while the number of jurisdictions which have committed to CRS is 157. The NTA showed the gap
between CRS partners and recovery assistance partners by region. In overall terms, around 86% of financial account balances reported under the CRS to Japan as relating to Japanese tax residents were reported by jurisdictions that had entered reservations under the Convention as regards recovery assistance. The practical impact was that if a taxpayer transferred his or her financial assets to one of these jurisdictions and subsequently emigrated with tax debt still owing in Japan, the NTA might be able to find out information about the transfer under the CRS but would have a greatly reduced ability to recover the debt if insufficient assets remained in Japan.

The NTA noted that recovery assistance is the most effective tool for tax administrations to fight against non-compliant taxpayers whose primary financial assets were located in another country. Were taxpayers to understand that recovery assistance was possible in these cases, it would be an important deterrent to non-payment of tax debt. The NTA supported the development of a global standard for recovery assistance to address this issue and to remove loopholes for those seeking to evade payment of tax debt.

2.3. Thoughts on the Recommendations in Chapter 4: Paul R. Van Der Smitte, Netherlands

The National Tax and Custom Authority of Netherlands (NTCA) supported improvements in the management of international tax debt recovery, noting that inefficient or ineffective tax debt management places an excessive burden on honest taxpayers who correctly fulfil their tax obligations. There were a number of improvements that could be made:

- First, the making of certain requests to other administrations, concerning, for example, precautionary measures or information on how the statute of limitation works, requires knowledge of the internal rules of the requested State as there are disparities between national laws, regulations and administrative procedures. Having some country fiches could be helpful here.
- Second, among the 127 states who signed the multilateral convention, 69 of them have entered a reservation on the recovery assistance (i.e. 54%), 33 have a reservation on assistance in the service of documents (i.e. 26%) and 30 have a reservation on the service of documents though post. This is a serious block to effective international tax debt management.
- Third, administrations have to keep in mind that domestic powers have different levels of effectiveness in different countries regarding the ability to enforce and to obtain information and there is no one set of powers that would remove the need to recovery assistance.
3. Country Innovations

3.1. Successful Tax Debt Management Compendium Update: Guy Lafrance, Canada

The Canada Revenue Agency introduced the update of the Tax Debt Management Compendium that had been published as a “living document” at the 2019 Plenary. The Compendium sets out innovative practices undertaken by FTA members, grouped under a number of different categories: technology – new systems and improvements to existing digital tools; organizational changes and outsourcing; the use of data analytics; e-services and contemporary digital channels; payment and debt strategies; collection enforcement tools; and the use of behavioural insights in communication and nudging.

The number of administrations contributing to the Compendium had increased in the latest iteration from 10 to 17. Of the 35 survey responses submitted for this update, 8 related to further developments in previously reported practices while 27 set out new practices that had been recently introduced.

3.2. Automation of Debt Enforcement: Andrius Rudokas, Lithuania

The State Tax Inspectorate of Lithuania has put significant efforts into the automation of tax debt management processes in order to increase the efficiency and effectiveness of tax debt recovery. Before the upgrade, only nudging and recovery from bank accounts were automated, while applying precautionary measures and recovery from assets were manual. Before automation, the tax debt recovery process consisted in notifying the taxpayer and then taking a series of steps towards the attachment of bank accounts and assets. However, in the most cases, this last step was uneconomic to pursue, thus leading to the write-off of the debt.

The full automation of the notification process allowed for the sending of 620,000 notifications per year with a consequent 33% increase in voluntary payments after the due date. The operations concerning the recovery from bank accounts has also been automated, from the decision to recover a tax debt from taxpayers’ accounts to decisions to withdraw the recovery process and return money where appropriate. The automation of the recovery from bank accounts has decreased the average time taken each year from 3000 days to 667 and led to an overall increase of 11% in the total amount recovered. Before the automation upgrade, the administration had faced a number of difficulties including reductions in staff, the shortage of time to follow difficult cases, and the presence of numerous errors in manually inputted data. Concerning the process to seize a debtor’s property, it has now been partly automated (although decision-making remains manual) with the effect of reducing the number of days spent on processing each year from 3241 to 2221. The automation of the recovery from assets also led to a decrease in
the number of days spent on this from 3040 to 315 days. The costs of recovery per 1000 EUR of debt enforced was also down by 22%.

3.3. Debtor Adjusted VAT collection: Cecilie Foss and John Alfred Brandt Sætre, Norway

In the framework of the reorganization of the VAT-collection department, the Norwegian Tax Administration is automatizing part of the VAT debt collection process. For the NTA, the reorganization poses important challenges such as the transformation of different regional processes into national ones, the presence of fewer case workers and a large geographical dispersion of cases. Additionally, while the current VAT-collection IT-system is robust it is not easy to make changes.

At the moment, in case of missing VAT payments, only the first notification letter is automatized, while the sending of distress warnings, the sending of the booking notification of the distraint and its execution are done manually. The NTA is envisaging automating the process of sending of distress warnings and the booking of the distraint. The automation is determined on effective predictive models in order to understand which taxpayers should be prioritized. The model will be based on considerations such as the prioritisation of sending the distress warning to taxpayers with more funds or to those who make a claim right after the distraint (hence with higher willingness to pay). The objectives are to stabilize the workload and to have fewer claims lost.

3.4. Data Driven Innovations: James McNabb, New Zealand

The Inland Revenue agency of New Zealand is striving to change its business model with the objective of being 'intelligence led' and making timely interventions based on trusted information. The first step is to phase out the use of unmodelled data straight from source and of systems with limited storage and processing power. The administrations envisages adopting Cloud based platforms, data lakes, modelled data, parallel processing and a standardized suite of tools.

In this framework, Inland Revenue has developed a set of platforms like the Cloudera, the SAS and the SAS Viya, which
together provide data storage tools, data management and analytics platforms for visual exploration and discovery, self-service analytics and interactive reporting using visual digital interfaces. These tools have proven to be very useful in many contexts. First, using text analytics over inbound call notes and web messages has driven improvements in customer experiences and has been helpful in uncovering previously unseen patterns. The expected outcomes include an easier identification of high-risk cases (e.g. self harm, threats, adverse events), the possibility to engage with those unable to pay to incentivize compliance and an early management of the impacts of global events on industry.

The utilization of new technology helps to calculate compliance risk in different cases such as ensuring that customers comply with property sales regulations using third party sales data, quickly reviewing GST refunds that have been bulk-released or using third party data to inform risks of cash sales suppression.

3.5. Payment and Data Receivables Management: Vivek Chaudhary, Australia

A core element of the Australian Taxation Office (ATO) strategy on payment and data receivables is better knowing its clients. One of the measures being taken is the provision of preventative service that are able to assist the community to keep track of their tax and super payment obligations. The administration looks for an early engagement with the taxpayer, encouraging early payment by contacting clients who miss their payment obligations. Additionally, these measures raise clients’ awareness of their total payment obligations and the consequences of not paying, as well as supporting staff decisions through additional analytical insights.

ATO’s payment and receivables management strategy makes the most of every engagement opportunity. In a first series of measures implemented in the last January 2020, ATO developed its risk assessment of debt prediction through engaging digitally with clients ahead of payment obligations through tailored messages according to clients’ behaviors. Once a new liability emerges, ATO engages with the client to raise awareness of missed payment obligations, including though providing total balance due information. Moreover, the administrations uses analytics to recommend the most effective actions to its clients and staff.

Additional measures are expected to be implemented by July 2020. First, the differentiated payment plan service, aimed at both supporting clients to make plans online and staff to make the most effective decision when negotiating payment plan. Second, entity health and behavioural analytics, in order to help identify client behavioural patterns to inform which actions should be taken and in which order.

The framework to deliver Payment and Receivables Management is the “Next Best Action”. Its three key components are situation recognition; situation assessment, identifying the best action from available data sources; and a tailored a response to individual clients.
3.6. Innovation in Enforcement Procedures: Jacek Wisniewski, Poland

The National Revenue Administration of Poland is automatizing a numbers of processes to reduce time with the introduction of a new IT tool, EGAPOLTAX. These are: the use of an electronic enforcement title – as currently creditors use various methods to respond to the NRA; automated acquisition of information on the debtor's assets, currently a time-consuming procedure; automated attachment of bank accounts (almost 50% of recovered debts come from bank account attachments). The new tools are expected to lead to a significant reduction in costs, including opportunity costs as enforcement officers will be able to focus their efforts on more complex cases, for example the seizure of immovable assets.

The next steps in the automation of administration processes will involve the building of a new IT system to support enforcement processes, the creation of a dedicated module built into the system which can generate and send receivables recovery requests and the full automation of information exchange between the creditor and the NRA.

3.7. IRS Civil Enforcement: Darren John Guillot, USA

The United States Internal Revenue Service (IRS) has explored how to enhance compliance through the more effective communications. The IRS have used behavioural insights to enhance collection, including to improve the taxpayer experience by promoting use of self-service channels. In terms of services, the IRS has been providing a text chat since November 2017, which has been upgraded numerous times. Its new features include a proactive chat with targeted content based on common errors, which has been successful in resolving some issues before live assistance is even required. Authenticated chat has also been introduced which allows staff to securely provide detailed assistance specific to the taxpayer's unique circumstances. Moreover, early soft contacts with taxpayers at risk of late filing have been effective in raising filing compliance.

The IRS has found that field contact with tax debtors by local field officers is highly effective, generating a strong and lasting deterrence effect. The field contact program, known as the Federal Tax Deposit Alert, uses early interaction with taxpayers to help build compliance, including education taxpayers about their tax obligations. This has been shown to help prevent some taxpayers from falling behind on taxes and has a positive and lasting effect on taxpayer behaviour. The program has raised the probability of remitting at least some of the tax due by 12.9%
in the quarter following a visit and has led to reduced penalties and interest by up to 3.2% during three quarters following a visit.

In areas where there is limited field presence, visits are now being done through occasional “sweeps” by groups of officers with target areas identified based on the use of data analytics. The first issue-driven sweeps were focused on high-income delinquent filers, who are generally those with annual income substantially over $100,000. These sweeps consist of two types, unannounced field visits, and scheduled visits preceded by appointment letters.

3.8. Digitalisation of Debt Management: Vadim Soldatenkov Russia

The Russian Tax administration is undertaking digitalization of debt management processes. The main principle of the Russian taxation system is that it must be easy to pay taxes and hard to not comply. For example, the administration now provides an online payment system for all taxes in addition to payment options by post or through online banking.

From January 1 2019, the Federal Tax Service introduced a single tax payment (STP) for Individuals taxpayers. Owners of real estate, land plots and vehicles can transfer funds to the budget system of the Russian Federation for the payment of property taxes using one payment order.

The tax authorities of the Russian Federation will independently set off the advance payment received against property taxes. Within five days the taxpayer will receive a corresponding message on the offset of funds.

The main priorities of the different digitalisation projects are the development of “non-invasive” preventive measures for debtors, including automated risk management, and the facilitation of deferred payments where appropriate.

Currently, the project is focusing on the remaining 2% of the debt management processes which are not fully digitalised and involve around the 50% of the workforce. The other 50% of staff deal with areas that are already digitalised, such as tax claims, tax orders, enforcement through bailiffs and the collection of taxes from individuals. By way of example, all tax debt documents were previously examined by inspectors, whereas currently almost 97% of debt documents are dealt with automatically. Now around 3% of documents are reviewing with inspectors because these data require further investigation.
The administration is also responding to the digitalization of the markets, redirecting staff to project-oriented measures based on the assessments of incomes produced in the digital economy. The debt management system is used to identify the debtor’s connections and possible risks such as the possibility of profit and property shifting.

4. Enforcement and protecting regulation – getting the balance right

4.1. Getting the balance right: Steve Taccagni, United Kingdom

HMRC ran through recent developments in enforcement policy in the UK, in particular around getting the balance right between enforcement where taxpayers were non-compliant and protecting the vulnerable. The Direct Recovery of Debt (DRD) program has now been introduced to recover established debts directly from debtors’ bank and building society accounts. The program targets those who can and should pay but have repeatedly refused to do so. In order to protect vulnerable groups, HMRC guarantees that every debtor will receive a face-to-face visit from an HMRC officer before DRD action is commenced. Debtors deemed as vulnerable or in need of extra support are taken out of the DRD program. Additionally, as part of reassuring taxpayers and the wider public on the appropriate use of this tool, HMRC committed to provide and early report to Parliament on its operation. The aim of this measure is to ensure a fair and level playing field for the vast majority of UK taxpayers who pay their taxes in full and on time.

HMRC has also introduced their Loan Charge (LC) program, which targets schemes that treat salaries as loans in order to evade tax. Under the LC program, all outstanding loans received between the 1999 and the 5 April 2019 were consolidated and taxed as income in the 2018/19 tax year. Taxpayers who repaid the loans before April 2019 could avoid being tax on this basis, but very few took this option. In order to safeguard HMRC’s reputation given that for some taxpayers this could result in a large tax bill, a dedicated team was set up to handle LC cases. Team members were trained in handling interactions with taxpayers in a sympathetic manner and were trained to recognise vulnerability. In appropriate cases extended instalment arrangements were put in place to help those who could not pay on time. HRMC also made a public commitment not to force anyone to sell their family home to pay the LC debt. Last resort enforcement actions, such as initiating insolvency proceedings, were only pursued where a customer refused to pay despite having means to do so.

HMRC has a wide program of extra support to those taxpayers who are in vulnerable situations and cannot pay their debt. For examples, it provide more than £1.5 million of funding to voluntary and community sector organisations to support taxpayers who need extra help understanding and complying with their tax obligations. Vulnerable taxpayers can also ask the HRMC about affordable monthly payment options, which will be shaped according to the taxpayer’s income and expenditure. In order to conclude any agreement to pay, HRMC always attempts to hold a face-to-face meeting with the taxpayer before taking further action.
4.2. Innovations in Communications and Nudges: Bahvani Sivarajoo, Singapore

The vision of the Inland Revenue Authority of Singapore is to be the leading administration in the world, to ensure inclusive growth and to dispose of a dynamic team of competent and committed people. In order to ensure tax compliance, the IRAS service strategy consist in “making tax just happen”, as “no need for the service is the best service”. When this is not possible, the administration seeks to build up digital self-services, supported as necessary by one-to-many or one-to-one approaches.

IRAS communication strategy is making increasing use of nudges to influence taxpayer behaviour and experimenting with the most effective means to do this. For example, one pilot involved sending digital notices (SMS) such as a digital demand note to inform taxpayers regarding a penalty for overdue tax for individual income tax and property tax instead of letters, given that they were quicker and more direct. However, the results of the pilot project showed that compliance for the SMS group was between 7 and 18 percentage point lower than the paper notice group. In order to enhance the effectiveness, the SMSs have been refined though sending SMS nudge messages of increasing intensity.

As part of IRAS’ nudge strategy; reminders have been sent to all taxpayers, rather than only to compliant ones; outbound calls made to higher risk taxpayers and only reminders to lower risk taxpayers; customised messages sent to different taxpayer risk groups; the channelling taxpayers to self-help options; and programming the synchronisation of the reminder inside the taxpayers’ calendar. The results of these different actions were a 1.8 point of improvement in the treatment group, coupled with positive feedback from customers.

IRAS has also been changing the characteristics of its enforcing operations with proactive measures, identifying taxpayers’ needs upfront and designing appropriate proactive interventions instead of enforcement actions. Work is also continuing on enhanced service delivery, with a continuous effort on ensuring transparency and injecting empathy in the areas of training, website, e-services and communication.

5. Capacity Building Initiatives – Lessons learned

5.1. Peer-to-Peer Pilot Projects: Michael Roekaerts, Belgium

A pilot project on peer-to-peer advice (P2P), i.e. advice from one FTA member to another, in the area of tax debt management. Two FTA administrations expressed interest in receiving advice under the pilot from the Belgian Debt Management Agency. There were Georgia and Malaysia.

Concerning Georgia, the preliminary discussions have been conducted by mail with in-person discussions carried out through a field visit in August 2018. As a result of these discussions the scope of the P2P was agreed to cover the use of behavioural insights to increase payment compliance. Following a series of conference calls with Belgium, the Georgian tax administration recently launched a new project related to nudging.

In the case of Malaysia, the in-person discussions have taken place at the tax debt management workshop in Madrid, October 2018, followed by multiple conference calls. This process led to the selection of three topics: the write-off process, the use of behavioural insights and recovery of offshore debts.
The P2PA needs a long-term engagement in order to improve the overall tax debt management process through the sharing of good practices. The value of this exchange lies in countries providing advice from their own perspective in a non-judgemental way.

CONCLUSIONS

- A long-term engagement
- Working together to improve the tax debt management process
- Non-judgemental
- Sharing of good practices through regular contacts
- Two way communication
- Relatively low cost

5.2. Knowledge Sharing – Inland Board of Malaysia

The Inland Board of Malaysia (LHDN) is the government body in charge of the administration, assessment, collection and enforcement of the direct taxes and other kinds of taxes agreed between the government and the board. In Malaysia, the general process for tax debt collection starts with weekly reminders via letters that tax debt is payable as well as through email and notification on the personal account of the taxpayer (My Tax). For those who pay tax after the due date the amount is increased by a penalty of 10%. This also applies where there is a significant revision of tax payable after assessment (over 30%).

One of the quickest way of debt recovering employed by the LHDN is salary deduction, where the administration asks an employer to deduct an amount from the remuneration of an employee with outstanding tax debts. Where this is not possible, the administration schedules visits to negotiate payment or give notice of potential court actions. Furthermore, the Director General may issue a request to the Director of Immigration to prevent or restrict any person from leaving Malaysia without paying their taxes. The next steps of the debt management processes are the prohibition for taxpayers to sell their properties or garnishment of bank accounts followed in appropriate cases by court actions. It cases where the debt is no longer collectable, write-off has to be approved by a committee prior to submission to the Treasury for final agreement.
The LHDN is exploiting data analytics in order to upgrade the quality of debt management operations. The debt management analytics system is divided into two tools: the Tax Collection Optimizer Solution, which is based on the Next Best Action (NBA) and is determined by 6 main collection flow models; and the Statistical Package for Social Sciences which uses predictive models based on taxpayer data held by the LHDN. Tax debt data segmentation is also used to separate current debts (tax assessed in the current year), new debt (less than 2 years), and old debt. This allows LDHN to spend more resources on the collection of new debts, as collection possibilities in general decrease the older the debt is.

6. Write-off strategy – examples, issues and comparability

6.1. Overview of write-off challenges: Tom Boelear, Belgium

Concerning tax debt management, an important question to ask is how long the administrations should keep nominal debts in the active recovery process, that is how much time should pass between the debt assessment, the reminders, enforcement actions and final resolution. This question is important for three reasons.

First, in terms of public accounting, the “established right” of the administration is not the nominal value of the debt, as it does not reflect the reality and does not provide a true and fair view of the assets, but the real value. This latter is obtained through depreciating the nominal value or through the annulation of unrecoverable debt.

Second, there is an issue with the reporting process of the debt. For example, it is reported to Parliament in Belgium that there are around 17 million arrears cases with a monetary value around EUR17 billion. However, the arrears should be distinguished into:

- open cases which are immediately claimable and amount to 5% of the total;
- arrears in litigation, amounting to around 38% of the total;
- cases which need further examination which amount to the 4% of the total;
- arrears due to insolvency situations, which amounts to 36% of the total; and finally unrecoverable debt which amounts to 15% of the total.

Finally, there might be consequences for the public officers and the debtors. The former can be held liable for the non-collection or non-recovery before the Court of Audit. In this case, in order to discharge the collection officer from his liability of non-collection, the debts at stake should be declared non-recoverable. Additionally, an excessive nominal debt burden for the debtor may lead to the debtor applying for an unlimited deferral of collection or bankruptcy.
6.2. Write-off Process: Anders Öbrink, Sweden

Two authorities, the Swedish Tax Agency and the Swedish Enforcement Authority, handle the procedure to write-off a tax debt in Sweden. There are three ways through which a debt can be written-off: the statute of limitation, debt relief or by agreement with the taxpayer.

In the first case, the write-off of a debt happens in the fifth year after it has been submitted for recovery by the Tax Agency to the Enforcement Authority. This happens every time a debt is higher than a certain amount. The statute of limitations, thus the procedure to write-off a debt, can be extended though presenting an application to the administrative court. The purpose might be the recovery by the Enforcement Authority over a longer period of time, for example where the debtor disposes of assets to avoid payment, his residence is not known or he is permanently abroad.

7. EU developments and cooperation

7.1. The EU and cross-border tax recovery assistance

The Tax Enforcement sector of the DG Taxation and Custom Union of the European Union is in charge of maintaining the framework for international tax recovery assistance among member states. One of the ongoing activities of the sector is the Fiscalis Project Group 110, which is leads to a report aimed at giving recommendations for improving national recovery and international assistance, in addition to stimulating both technical and political discussion at the European level. The EU has undertaken a number of measures to support international recovery assistance, including through the establishment of agreements with third countries for administrative cooperation, the sharing of the EU experience and the sharing of the EU Electronic request forms for recovery assistance with third countries.