

FORUM ON TAX ADMINISTRATION

Scoping document :

Working Smarter in Tax Debt Management

September 2013



FTA PRIORITY PROJECT: WORKING SMARTER IN TAX DEBT MANAGEMENT

Sponsoring Commissioner: Peter Veld, the Netherlands

Background

An overview of best practice in tax debt management, with a particular emphasis on integration of payment issues in the compliance process.

Detail

Over the past years, the FTA has done much work in the area of compliance and compliance risk management. The “Working Smarter” report (2012) states: *‘Even the most sophisticated strategies for facilitating or enforcing compliance are worth little if the tax owed is not actually collected. Having appropriate strategies in place for debt management is particularly pressing in the present climate of financial crisis, where most revenue bodies face rising levels of tax debt with corresponding resource pressures and risks.’*¹

This is confirmed by the recently published “Tax Administration 2013”². Research into debt levels indicates that average debt levels for OECD countries were some 26% higher at end-2011, compared with the position at the end of 2007 (pre-GFC). Overall, it is estimated that total undisputed tax debt at end-2011 in OECD countries was in the region of USD 650-700 billion.

Consequently the tax debt collection function has probably never been more important than it is today but the FTA has conducted only one study of tax debt collection practices and this dates back to 2006.

The Working Smarter report and a preliminary study based on publicly available information undertaken by the Secretariat (covering trends in tax debt and strategies for managing debt in selected FTA countries; attached to this document) confirm the considerable development since 2006 in debt management strategies.

The objective of this project is to provide FTA members with an overview of best practices and experiences in debt management, with a focus on the following topics:

1. Organisation of debt management (for example: segmentation, centralization, digitalization, use of call centres, co-operation with other public sector creditors, outsourcing).
2. Integration of payment obligations in compliance processes (for example: synchronizing tax return and payment obligations, taking payment obligations into account in service and early in the compliance process, compliance risk management in collection, influencing payment behaviour, measuring effectiveness).
3. Information technology in debt management (for example: use of analytics, risk profiling). This will include the use of third party information that would assist the tax administration in making a decision about ability to pay and understanding the overall assets position of the debtor that could inform possible recovery action.

¹ Paragraph 127 of *Working smarter in structuring the administration, in compliance, and through legislation* (Forum on Tax Administration, January 2012)

² <http://www.oecd.org/ctp/administration/tax-administration-series.htm>

4. The suite of collection strategies and tools (for example: face to face collection, seizure of goods using modern techniques, choices based on risk profiles, tailor made collection measures related to the crisis and the identification and validation of uncollectible debts).
5. Tactics for dealing with debtors who have gone abroad (effective and practical steps to take).

Method

Participating Countries

The Netherlands will sponsor the project and work in close co-operation with the Secretariat in developing the project. A project team consisting of interested FTA members will be established.

Structure

The project will be structured as follows:

1. The Terms of Reference will be put before the FTA Bureau for approval. FTA members will then be asked to indicate interest in participating in the Project-team.
2. A call will be organised to discuss the project with a group of countries who already regularly engage on debt management (Australia, Canada, New Zealand, UK and US) to discuss the terms of reference and gather existing materials.
3. Participating FTA members will be asked to supply their existing materials.
4. The new FTA Advanced Analytics Network under sponsorship of Ireland will be involved on the topic of use of IT and analytics to improve debt management.
5. The Netherlands as sponsor will contact relevant regional organizations of tax administrations how best to take into account work on debt management done in ATAF, CIAT and IOTA. IOTAs area group on debt management has a current program (running until July 2014) making analyses on three areas in debt management. Currently, IOTA is analyzing response to their questionnaires on:
 - innovative approaches to promotion of voluntary tax debt payment – support and assistance to debtors
 - innovative approaches to promotion of voluntary tax debt payment – deterrence measures
 - use of risk analysis in tax debt management

The Project-team will work closely with IOTA and to make optimum use of each organisation's information and to prevent double work.

1. On the topic of cross border collection the Secretariat will co-ordinate with the Secretariat of WP10 which is currently looking at mutual assistance in debt collection.
2. Based on response from the call mentioned above, the existing materials gathered, the work of the analytics Network as well as the input from relevant regional organizations, a decision

will be made how to proceed with gathering information (survey, questionnaire, calls, targeted research).

3. The Project-team and the Secretariat will develop an outline structure for the format of the report, for which we will be looking at innovative presentation of the results (for example a secure website or an App).
4. The Secretariat will draw up a detailed timeline for the project that ensures that the project is completed in time for it to be approved and available for discussion at the FTA meeting in 2014. The Sponsoring Commissioner will appoint a project team to work with the Secretariat and support the Sponsoring Commissioner.

Timetable (to be determined)

Final date for completion of actions indicated	Actions
2013	
July	Terms of reference to FTA Bureau for approval
September	Terms of reference made available to the full FTA and countries invited to participate in the project.
	Countries already engaged in international sharing of best practice in debt management contacted and call organized
	Relevant regional organisations contacted
	Countries and organisations invited to share any relevant papers/documentation/reports.
	Project team FTA (participating countries + secretariat) assembled and research methods determined.
October	IOTA area group meeting in Dublin.
	Detailed work-plan agreed and research and analysis commenced
	Input from Advanced Analytics Network discussed and agreed with Network sponsor.
December	Outline structure of and format of final product developed.
2014	
January-April	Substantive research and analysis completed and final product developed in draft.
May -June	Final product completed and finalised.
July	Final product submitted for approval.
fall	FTA Meeting and presentation of project

Attachment to: Terms of Reference Working Smarter in Debt Management

TRENDS and STRATEGIES

DEBT COLLECTION

April 2013

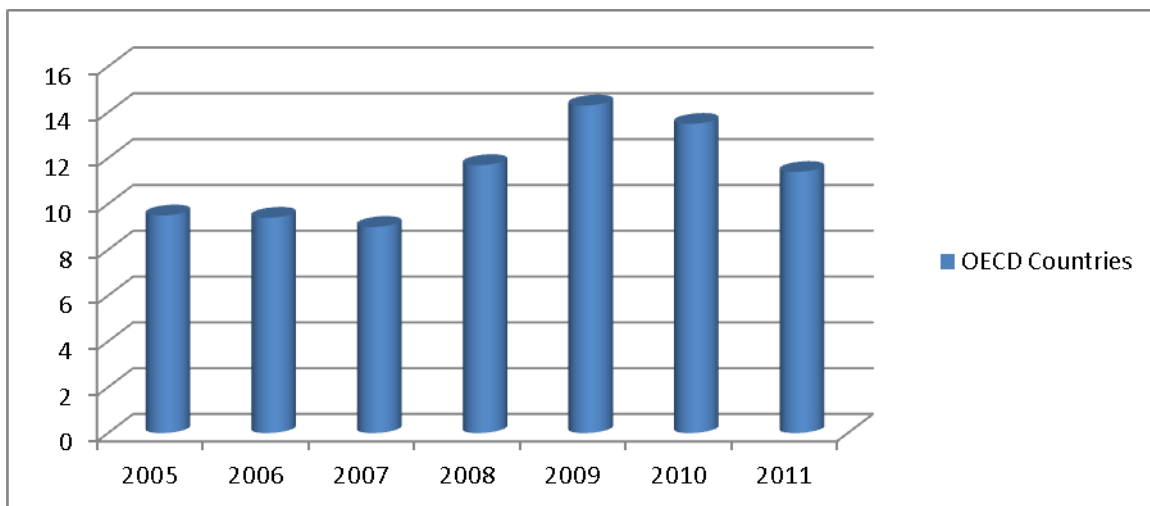
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TREND IN TAX DEBT

1. In order to get a sense of scale of the tax debt issue, it is necessary to understand the current trend in tax debt in OECD member countries.
2. The OECD provides comparison data against a range of indicators of tax compliance – outstanding tax debt is one of those indicators. In this report, outstanding tax debt is defined as the total amount of tax (including any interest and penalties) that is overdue for payment at year-end and which is not disputed by the taxpayer (even where enforcement action may not have commenced) for all taxes administered by the revenue body.
3. For comparative purposes, the OECD uses a benchmark ratio which is the ratio of aggregate end-year tax arrears (*i.e.* all unpaid taxes, excluding those where a dispute is involved, for all years recorded on taxpayers' accounts) to the denominator of annual net revenue collections of all taxes for the years indicated, reported by surveyed countries³. The data included below covers a period of seven years to highlight trends.
4. The OECD noted that using the above-mentioned benchmark ratio, average debt levels in OECD countries continued to ease in 2011 following their peak in 2009 (*i.e.* the year following the global financial crisis) but remain in excess of 20% of the average level indicated for 2007. See figure 1 below.

Figure 1: Undisputed tax debt as a share of net revenue collections – OECD countries 2005-2011



Data sourced from: *Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013, OECD*

5. Applying the OECD benchmark ratio, movements between 2007 and 2011 provide a broad indicator of payment compliance/collection effectiveness. Generally, an increasing ratio indicates

³ *Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013, OECD, p220*

growth in non-payment and/or debt workloads, while a declining ratio indicates improved payment compliance and/or debt collection effectiveness. For the period 2007-2011 OECD data shows:

- 25 revenue bodies with an **increasing** ratio;
- seven revenue bodies with a **declining** ratio; and
- for 20 revenue bodies there were insufficient data to ascertain the movement.⁴

6. In the aftermath of the global financial crisis there has been upwards growth in the overall incidence of tax debts written off as uncollectible. OECD data comparisons applying the ratio 'tax debts written off/value of year-beginning tax debt outstanding', show the average ratio for tax debt written off across OECD countries rose from around 19% in 2007 to just over 25% in 2009, and eased only marginally in 2010 and 2011.⁵

7. The incidence of unpaid taxes, as reflected in the relative value of debt inventories, varies enormously across surveyed revenue bodies, suggesting significant variations in the levels of payment compliance. OECD data shows a greater portion of countries have experienced a growth in debt since 2007.

8. As the level of compliance with payment of debt varies across OECD countries, it is also worth considering at a strategic level, the debt management strategies various countries have in place for information sharing purposes. However, evaluation of those strategies would be necessary to identify best practice. Strategy evaluation is outside the scope of this report, but could be included in further work undertaken by the FTA on the debt management issue.

Trends in tax debt by country

9. The following section provides additional detail on the tax debt issue for selected countries. As the objective of this report is to provide a sense of the issues involved with tax debt management as an entree into more indepth analysis, a sample of countries is provided here where information was publicly available.

Australia

10. The amount of collectable tax debt in Australia at the 30 June 2012 was AU\$16.6 billion (€13.9 billion), an increase of 18.1% from the previous year. Total debt holdings at that time were AU\$31.7b (€25.6 billion), a 15.5% increase from 30 June 2011. In addition, the ratio of collectable debt on hand to total collections at 30 June 2012 was 5.5%, up from 5.2% at 30 June 2011. Debt that is two years or more old makes up 15.8% of total collectable debt at 30 June 2012.⁶

11. The majority of tax debt in Australia (around two-thirds) is attributed to small businesses. Consequently, this sector of the community is a key priority for the Australian Tax Office in terms of targeted debt management strategies.

12. In the 2012 year, \$2.6 billion (€2 billion) in tax debt was written off, compared with \$3.8 billion (€3.1 billion) written off in the previous year. Tax debt is written off where the debt is irrecoverable at law (*i.e.* bankruptcy or wind-up) or uneconomical to pursue where the cost of

Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013, OECD, p220
Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2012, OECD, pp219-225

⁶ Commissioner of Taxation, *Annual Report 2011-12*, Australian Tax Office

recovery exceeds the likely collections due to the taxpayer having no assets or funds and there is little chance of their situation improving.⁷

13. Although Australia reported an increasing amount of debt, its debt collection strategies resulted in an increase in the value of collections during the 2011-12 year. This was due to implementing strategies that take a more risk-based approach to prioritizing cases and differentiating treatment based on the taxpayer's individual circumstances.

United Kingdom (UK)

14. The United Kingdom reported a reduction in the amount of tax and duties debt at 31 March 2012. At that date, debt was £ 13.3 billion (€15.6 billion) compared with £ 15.0 billion (€17.6 billion) at the end of 2010-11.

15. The amount of debt collected during the year increased by 14% on the previous year. The UK had put in place debt collection strategies that appear to be providing effective outcomes. The main pillar of the suite of strategies was to effectively match strategies to suit the circumstances of the taxpayer.⁸

Canada

16. Canada reported in 2012 that tax debt had grown at a faster rate than total taxes paid. This is despite an increasing trend in the amount of cash collected by collectors working at Tax Services Offices.

17. Data reported by Canada indicates that individuals and businesses in their country increasingly pay their taxes on time. At the end of the 2011-12 reporting period, there was \$7.5 billion (€5.7 billion) in tax debt that was less than one year old. This makes up 1.8% of gross receipts. This is a reduction from 2.8% in the previous financial year.⁹

New Zealand

18. In New Zealand, total overdue debt increased in 2011-12 by 7% to \$5.9 billion (€3.9 billion) This included a 1% decrease in collectable debt and a 26% increase in non-collectable debt.¹⁰

Ireland

19. In Ireland, collectable debt decreased in 2011 being €1,317 million, a 5.2% reduction from the previous year. Outstanding collectable debt represented 2.72% of the gross receipts in 2011.

20. Despite the challenging economic and financial environment the level of outstanding debt stabilized in Ireland in 2011 and is beginning to decrease. The overall debt reduced from €2,078 million in 2010 to €1,986 million in 2011. When amounts under appeal are excluded, the debt available for collection decreased from €1,389 million in 2010 to €1,317 million in 2011. €321 million of debt was deemed to be uncollectible and was written off in accordance with established guidelines in 2011. This represents a 7% increase from the previous year. The amount written off in the liquidation category has decreased from €158 million in 2010 to €138 million in 2011.¹¹

⁷ Commissioner of Taxation, Annual Report 2011-12, ATO, <http://annualreport.ato.gov.au/Our-performance/Revenue-debt-and-administered-programs/Collecting-debt/>

⁸ Report by the Comptroller and Auditor-General, 'HM Revenue & Customs 2011-12 Accounts', 28 June 2012,

pR29

⁹ Annual report to Parliament 2011-12, Canada Revenue Agency

¹⁰ 2012 Annual Report, New Zealand Inland Revenue

¹¹ 2011 Annual Report, Ireland Revenue

Finland

21. The total amount of unpaid taxes (tax arrears) was €3.9 billion at the end of 2011. Tax arrears increased by €271 million (7.5%) from the previous year. One factor contributing to the growth was the increase in the number of bankruptcies. The growth is also reflected in the number of bankruptcy applications filed by the Tax Administration, totaling 1,402 (an increase of 10.7%).

22. The growth in tax arrears (€271 million) accounts for about 0.5 per cent of all tax revenue remitted during the year. More than two-thirds (€2 billion) of the €2.7 billion owed by corporate and business taxpayers comprised value added taxes and employers' contributions¹².

Germany

23. In Germany, the reported outstanding tax debt for 2011 was €17.3 billion. This is a decrease of 11.7% from the previous year. The ratio of collectable debt on hand to total collections consequently decreased from 4.6% in 2010 to 3.88% in 2011.¹³

Japan

24. Reported tax debt outstanding at the end of the 2010 financial year in Japan was ¥1.420.1 billion (€11.8b) which is a reduction compared with the previous year when outstanding debt was approximately ¥1.495 billion (€12.5b).¹⁴

Comment on tax debt trends

25. Of the eight countries discussed above, half had an increase in tax debt compared with the previous year, and half had decreasing tax debt. In addition, the amount that countries have written off in 2012 is generally more than in previous years. One of the reasons cited for this trend in some countries is the increase in bankruptcies over recent years, making tax debt irrecoverable. This is likely to be the result of the continued slowing of the global economy.

26. The state of the global economy makes it increasingly more important to identify best practice in debt management strategies, to first, assist in the prevention of debt being incurred by taxpayers and second, when debt has been incurred, to increase the likelihood of collection.

¹² Finnish Tax Administration, Annual Report 2011

¹³ 'Stand und Entwicklung der Steuerrückstände' 2011; www.bundesfinanzministerium.de

¹⁴ Japan National Tax Agency Report 2012

STRATEGIES FOR MANAGING DEBT

27. The analysis below indicates that the countries included in this report have similar strategies for debt management. The main theme emerging is that debt management strategies are increasingly being tailored to the individual circumstances of the taxpayer. Linked to this is the need for tax authorities risk profile taxpayers so that appropriate strategies can be used to fit their circumstances.

Strategies by country

Australia

28. The Australian Tax Office (ATO) has in place a debt management framework that is based on three elements which are: early collections, firmer action and strategic recovery. Early collections recognises that the more aged a debt becomes, the more difficult and expensive it is to collect. Firm action provides a differentiated approach to taxpayer behaviour where firmer action is taken against taxpayers who make no effort to manage their debt or who deliberately and consistently engage in behaviour to avoid their tax obligations. Where the ATO considers there is a greater risk of debt not being recovered, it may take strategic recovery action including initiating bankruptcy or business wind up proceedings.¹⁵

29. Evidence of tailored strategies to meet taxpayer needs is evidenced by the support and assistance provided to viable small businesses and individuals who are experiencing short-term financial difficulties and who are willing to work with the ATO to address their tax and superannuation debts. Targeted support includes tailored payment arrangements, remission of interest and penalties, and full or partial release from payment of certain debts. At 30 June 2012 there were around 280,000 payment arrangements in place worth \$3.8 billion (€3.1 billion). Of these, 35,900 were interest-free arrangements worth \$688 million (€588 million), in place for small businesses.¹⁶

30. The ATO recognizes that a large portion of debt is incurred by small business, and engages with that sector directly to manage debt before it arises. This is achieved through one-on-one assistance visits, which resulted in improved average time to lodge activity statements, more electronic lodgments, lower taxation debt on average than the broader population and reduced likelihood of future compliance action.¹⁷

31. During 2011-12, the ATO improved its risk-based approach to debt management, which takes into account a taxpayer's lodgment and payment history to determine the most appropriate treatment strategy. An examination was made of cases where the taxpayer had defaulted on a number of payment arrangements to assess their ongoing viability. This led to an increase in the number of bankruptcy and wind-up applications.¹⁸

¹⁵ 'The engagement of external debt collection agencies', Australian National Audit Office, Audit Report No. 54, 2011-12, pp13-14

¹⁶ Commissioner of Taxation, Annual Report 2011-12, ATO

¹⁷ 'Promoting tax excellence – an essential ingredient for a prosperous community', Michael D'Ascenzo, speech at The Curtin University Taxation Seminar, 30 October 2012; www.ato.gov.au

¹⁸ Commissioner of Taxation, Annual Report 2011-12, ATO

32. In terms of debt collection process, Australia has a dedicated business line that deals with tax debt. Within that business line, there is a dedicated outbound call centre that uses advanced dialer technology to more efficiently engage with a great number of taxpayers. The ATO may also call taxpayers after hours where previous contact had been unsuccessful.

33. The ATO also engages external debt collection agencies to collect low value, non-complex tax debt related to income tax, activity statement and superannuation guarantee charge debts.¹⁹ This strategy has been in place since 2006 and continues in 2012. A debt case is only transferred to an agency if the taxpayer has failed to engage with the ATO to address their debt. If the external collection agency cannot collect the debt within a stipulated timeframe, the cases are returned to the ATO. In 2012, there were 300,020 cases worth \$1.6 billion (€1.3 billion) referred to external debt collection agencies which resulted in collections of \$1.3 billion (€1 billion).²⁰

34. Evaluation of the outsourcing strategy had not occurred at the date of the 2011-12 report from the Australian National Audit Office (ANAO). However, there was a reported drop in the level of Australia's collectable debt by 4% from 2010-11, the first decrease in 10 years. This may be the result of the successful implementation of a range of debt management strategies, including an increased write off of outstanding debt for the year.²¹

United Kingdom (UK)

35. During 2009-10, the UK began to implement a revised debt management strategy which was aimed at increasing the likelihood of debt recovery, improving the speed of collection and reducing costs. The strategy also focused on preventing taxpayers incurring debt, by supporting them better before their tax liabilities became overdue. Aspects of the strategy included:

- a campaigns-based approach;
- better understanding of taxpayer behaviour;
- developing channels of customer contact, particularly by telephone
- improving information systems, and
- improving the quality of information on debt balances.²²

36. The UK strategy is based on a differentiated approach to treatment of taxpayers depending on their circumstances. Previously a standard collection process for all debts was used regardless of the type of debt, with limited differentiation by value and risk of non-payment. In contrast, a campaigns-based approach is an individually designed, time-limited set of actions taken for a particular tax stream's debt. It involves segmenting debts into groups, for example, by value and behaviour of groups of taxpayers, and tailoring collection activities to each group. This approach allows a better understanding of individual taxpayer behaviour to which risk-based targeting of interventions is applied.

¹⁹ 'The engagement of external debt collection agencies', Australian National Audit Office, Audit Report No. 54, 2011-12, p12

²⁰ Commissioner of Taxation, Annual Report 2011-12, Australian Tax Office

²¹ 'The engagement of external debt collection agencies', Australian National Audit Office, Audit Report No. 54, 2011-12, p18

²² HMRC Accounts 2011-12, Report by the Comptroller and Auditor General, 28 June 2012.

37. The UK has dedicated debt telephone call centres to support their campaigns-based approach. They have also trained staff on other debt collection activities to increase their effectiveness in progressing cases.

38. Other debt management strategies include a new penalty regime, more flexible payment arrangements, tailored letters to taxpayers, and extending contact hours for telephony and face-to-face taxpayer contact. These strategies are in line with the UK's focus on tailoring debt management strategies to taxpayer circumstances.

39. The UK also outsources a component of its debt collection activity. Similar to the Australian strategy, the UK outsources tax debt cases that are low value, where taxpayers have not responded to initial follow-up letters issued by the Department. The UK initially engaged four tax collection agencies for this work in 2010, but increased that number to ten during 2012.

40. The UK has completed limited evaluation of the effectiveness of using agencies to collect different types of debt compared with the Department collecting the debt itself. It has been reported that an additional 77% more cash was collected by agencies in 2011-12 than would have been collected by the Department had agencies not been used to deliver additional capacity. The analysis showed that there were differences in successful collection depending on the tax stream and age of the debt case, the value of debt outstanding, or both.

41. The evaluation of tax collected through agencies will be used to better identify the types of debt cases that may be more efficiently collected through an agency. The UK is working on ways to improve its information on internal costs and performance to manage debt more effectively. An analysis comparing the costs of outsourcing a component of debt collection with costs of other collection activities would need to be undertaken to assess value for money of the different collection approaches.²³

Canada

42. The Canada Revenue Agency made changes to its collection systems and practices to improve management of tax debt. Changes include updating its automated system that manages low risk tax debts, opening a national call centre and establishing national debt pools to better manage workload. In addition, it has also improved procedures to collect large tax debts.

43. As in other jurisdictions, debt management strategies are differentiated based on taxpayer behaviour and circumstances. There is a reliance on approaches that result in quick outcomes in recognition of the fact that the longer a debt exists, the more difficult and more expensive it is to collect.

44. Canada uses debt management call centres that address high-volume, low-risk tax debt at low cost, with more expensive interventions using collection agents in tax services offices across Canada to focus on more complex and higher-risk cases.²⁴

New Zealand

45. Similarly, New Zealand Inland Revenue reports significant success in managing debt using a customer-centred approach focusing on preventing taxpayers incurring debt, early intervention and focusing efforts on cases that have the greatest likelihood of cash collection.

²³ HMRC Accounts 2011-12, Report by the Comptroller and Auditor General, 28 June 2012.

²⁴ Canada Revenue Agency, Annual Report to Parliament 2011-12

46. There are a variety of approaches to debt management used in New Zealand, including reminder letters, text messages and online advertising (including social media site 'Facebook') to remind taxpayers about their impending due dates. Outbound calls using automatic dialer technology are also used when taxpayers do not pay on time. These strategies in conjunction with the recruitment of additional specialist staff have improved the effectiveness of outbound calling campaigns.

47. There is also overt recognition by New Zealand that as debt ages it becomes increasingly difficult and expensive to collect, providing the basis for an emphasis on early intervention strategies. A key part of the early intervention strategy is setting up repayment arrangements with taxpayers. In 2012 there was debt of \$1.2 billion (€775 million) under arrangement, \$30 million (€19 million) more than in the previous year.²⁵

Ireland

48. The debt management strategy for Ireland Revenue (Revenue) is based on balancing enforcement with limited debt rescheduling for viable businesses, compliance with effective deployment of enforcement powers, and increasing the proportion of available resources assigned to frontline debt collection and recovery work.

49. Similar to other revenue agencies, the debt management strategy focuses on timely and effective responses to late or non-compliance. To assist businesses and individuals experiencing tax payment difficulties, Revenue has published material on their website providing options for payment. An increase in the number of debt cases with a phased payment plan in place reflects positive engagement by businesses that have experienced tax payment difficulties and Revenue's willingness to work with viable businesses to overcome those difficulties.²⁶

Finland

50. In Finland, as in other revenue agencies, there are a variety debt collection strategies, however, it is reported that payment reminders were the most effective instrument used by the Tax Administration. They helped the agency to recover a total of €316 million. Enforcement authorities recovered a further €336 million.

51. A total of 15,919 tax payment arrangements were drawn up during the year, which was about 3 per cent less than in the previous year. The total sum involved in the payment arrangements was €197 million. A total of €144 million was collected through payment arrangements, which was €6 million less than in the previous year.

Japan

52. Japan National Tax Agency (NTA) provides a range of support options to assist taxpayers make payment on time. These include publicity so taxpayers remember the dates on which payment is due, as well as diverse methods of payment such as online payment using internet banking, payment at convenience stores at any time including at night or during holidays when financial institutions and tax offices are closed, and direct payment. Direct payment enables taxpayers to pay tax assessed directly from their bank account after their tax return has been filed. Taxpayers can also use transfer tax payments from a deposit account for self-assessed income tax and sole proprietors' consumption tax.

53. Other strategies involved direct contact with taxpayers who had paid their tax late previously. Those taxpayers are sent a written notice in advance, and after the due date has passed

²⁵ Annual Report, New Zealand Inland Revenue, 2012

²⁶ Annual Report, Ireland Revenue, 2011

if they haven't made payment, the taxpayer is telephoned before the payment demand letter is issued. This allows the taxpayer the opportunity to make payment prior to the demand letter issuing.

54. NTA has debt management strategies in place that take into account the taxpayer's individual circumstances. Their response to unpaid debt may range from tax payment relief measures such as postponement of tax payment, to seizure or auction of assets for more disengaged non-compliance taxpayers. The type of intervention taken is based on the NTA's understanding of the taxpayers circumstances including historical compliance behaviour.

55. Similar to other revenue agencies, the NTA has a tax collections call centre. This is an outbound call centre that provides phone notification reminders using a centralized phone notice system. The computer system in the call centre automatically phones delinquent taxpayers and staff refer to delinquent taxpayer information shown on a terminal screen, to provide payment reminders.²⁷

Comment on debt management strategies

56. The OECD has completed high level analysis of the level of tax debt and tax payment compliance at the individual country level.²⁸ That report identified some common characteristics of tax administration arrangements in place to aid tax collection. These are:

- extensive withholding in terms of dividend and interest income paid to resident taxpayers;
- effective advance payment regimes that are designed to collect the bulk of taxes due in the fiscal year in which they were derived;
- extensive tax debt collection powers including powers to collect taxes from third parties, close businesses/cancel licenses, obtain liens over assets, require tax clearance for the granting of government contracts, withhold government payments to debtors, and impose tax debts on company directors;
- a well-staffed debt collection function – in many countries as much as 10% of the tax revenue bodies' resources are dedicated to debt collection activities, and those are organised within a dedicated unit;
- extensive use of electronic payment methods including the use of direct debiting; and
- extensive investment in information technology for tax administration.²⁹

57. Discussion earlier in this report confirms the above characteristics are common in many revenue agencies and more broadly, identifies common debt management themes across many countries. One such theme is the importance of development of a suite of debt management strategies that can be tailored to individual taxpayer circumstances. Matching the strategy to the taxpayer involves understanding the risk profile of the taxpayer and taking the appropriate action. In some countries this is termed 'taking a risk-based approach to debt management', the basis of which is to apply more intense and expensive debt collection strategies to those taxpayers who present a higher risk of non-payment.

²⁷ Japan National Tax Agency Report 2012

²⁸ 'Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013', OECD

²⁹ 'Tax Administration in Advanced and Emerging Economies: Comparative Information Series 2013', OECD

58. Some countries have analyzed participants to tax debt in their jurisdiction and have identified that small business holds the majority of tax debt. Debt management strategies aimed specifically at reducing tax debt for that sector are in place in some countries. An evaluation of those strategies does not appear to be available publicly but it is reasonable to expect targeted strategies would be beneficial to this group of taxpayers, taking into account their specific circumstances. This is particularly useful if reasons for late payment include overlooking due dates or business cash flow problems either short-term or on-going. Some revenue agencies have strategies in place to specifically address those issues to help business meet their tax payment obligations.

59. Another theme evident in this report is one of early intervention. In some countries, this includes implementing strategies that are designed to prevent debt from occurring. This involves education and outreach type activities, as well as tailored individual contact to taxpayers with reminders of due dates. After a tax debt is incurred, many countries act quickly to implement strategies soon after the due date has passed with the knowledge that the older a debt becomes, the more difficult and more expensive it is to collect.

60. In some countries, debt management strategies include the outsourcing of low value, non-complex debt to external collection agencies. In all countries this strategy has resulted in debt being collected that would possibly not have been collected by the revenue agency. However it appears that no significant evaluation of the outsource strategy has been undertaken to determine whether this is the most cost-effective use of resources for tax administrations.