

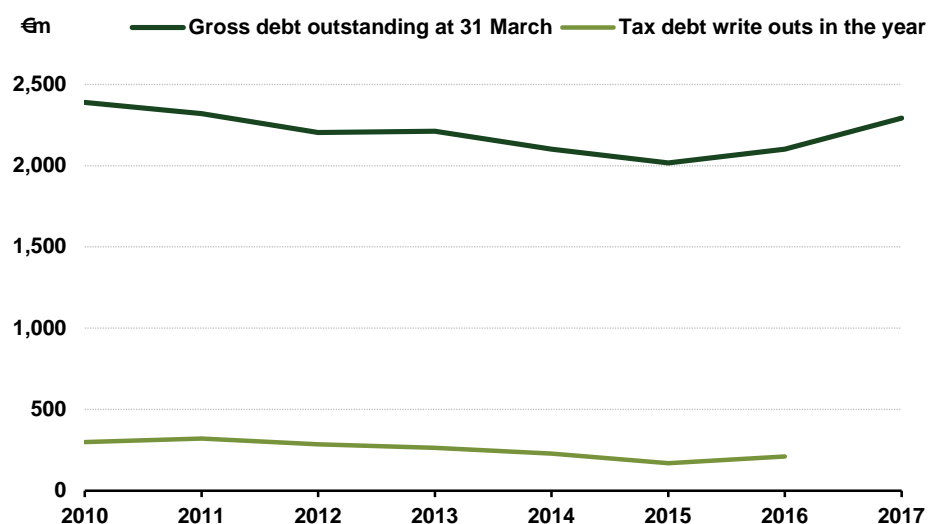
## 21 Tax Debt and Write Outs

- 21.1** The Revenue Commissioners (Revenue) are obliged under legislation to collect tax, pursue recovery of tax debt and ensure the tax system is administered in a fair and equitable manner.
- 21.2** Within Revenue, the Collector General's Office is charged with the responsibility for ensuring the timely collection of the majority of business and personal taxes. The timely collection of outstanding debt helps minimise the level of debt to the Exchequer.
- 21.3** This report sets out the broad principles underlying Revenue's approach to tax debt collection, including its approach to debt deemed uncollectable. It also reviews Revenue's processes for 'writing out' what is deemed to be uncollectable, the reasons underlying the write outs and the amounts of debt written out by category of tax.<sup>1</sup>

### Outstanding tax debt and write outs

- 21.4** The gross value of tax debt outstanding at 31 March 2017 stood at €2,293 million, an increase of just over 9% when compared to the value at March 2016 of €2,102 million. Figure 21.1 sets out the value of gross debt outstanding at the end of March each year, for the period 2010 to 2017, compared to the level of debt written out each year.<sup>2</sup>

**Figure 21.1 Gross debt outstanding at March, 2010 to 2017 and tax debt write outs, 2010 to 2016**



<sup>1</sup> Debt written out is debt that is removed from Revenue's accounts receivable records. Guidelines are in place for staff involved in the write out of debt.

<sup>2</sup> Revenue generally reports the net tax outstanding i.e. gross debt less current year VAT repayments due. At 31 March 2017, the net debt reported by Revenue was €1.9 billion.

Source: Revenue Commissioners

Note: Figures for write outs for 2017 will not be available until 2018.

**21.5** While the level of debt outstanding at 31 March had fallen between 2010 and 2015 by almost 16%, the most recent two years has seen a marked increase, taking the overall level close to 2010 figures. Revenue has stated that this is due to an increase in the value of cases under appeal. The level of write outs each year has remained reasonably constant at between 8% and 14% of gross debt outstanding. In the same period, net Revenue tax receipts have increased by around €14 billion (44%). The level of tax debt written out by Revenue between 2010 and 2016 amounted to €1.8 billion, with an average tax write out of €254 million per year.

**21.6** Figure 21.2 shows the gross debt outstanding by tax type and summarises the charges raised, the payments made and the amounts written out in the 12-month period ended March 2017.<sup>1</sup> The two largest categories of debt outstanding at that date, which accounted for over 50% of the total tax due, were income tax (€705 million excluding PAYE) and VAT (€455 million). The income tax debt is 22% of the charges raised in the year, whereas the VAT debt is 4%.

**Figure 21.2 Movement in outstanding taxes and PRSI, 2016/17**

Tax or levy <sup>a</sup>	Balance at 31 March 2016	Charges raised <sup>b</sup>	Tax paid <sup>c</sup>	Tax written out	Balance at 31 March 2017	Balance as % of charges raised
	€m	€m	€m	€m	€m	
PAYE	226	12,939	(12,889)	(10)	266	2%
Value Added Tax	475	10,732	(10,696)	(56)	455	4%
PRSI	173	9,082	(9,062)	(13)	180	2%
USC	38	3,243	(3,235)	(3)	43	1%
Income Tax	713	3,195	(3,162)	(41)	705	22%
Corporation Tax	174	5,462	(5,332)	(1)	303	6%
Capital Gains Tax	183	671	(662)	(8)	184	27%
Capital Acquisitions Tax	61	436	(396)	—	102	23%
Relevant Contracts Tax	20	262	(262)	(3)	18	7%
Environmental Levy	37	9	(9)	—	37	411%
<b>Total</b>	<b>2,102</b>	<b>46,030</b>	<b>(45,705)</b>	<b>(134)</b>	<b>2,293</b>	<b>5%</b>

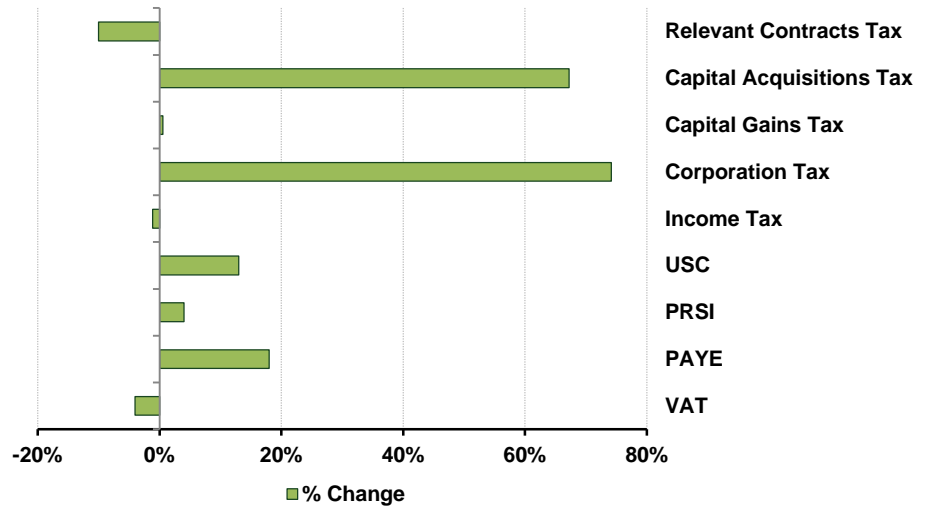
Source: Revenue Commissioners. Figures may not add due to rounding.

- Notes:
- a Tax is regarded as outstanding from the date the liability is placed on the taxpayer's record — usually as a result of the receipt of a return or the raising of an estimate.
  - b Charges raised include estimates in cases of non-filing.
  - c Tax paid includes cases where estimates are subsequently reduced by the caseworker.
  - d DIRT is excluded as all charges raised were paid in the year.

<sup>1</sup> The outstanding debt and charges exclude those taxes which are not the subject of deferred collection including Customs, Excise, Stamp Duty and that element of VAT associated with Customs and Excise. Local Property Tax is managed by the Local Property Tax branch through a separate compliance programme outside of the normal debt management units.

**21.7** Figure 21.3 shows the percentage changes in the level of outstanding debt during 2016. The largest increase related to corporation tax, which increased by €129 million or over 74% in the year. Income tax and VAT, the two largest categories of tax debt, have seen reductions in outstanding debt over the period 31 March 2016 to 31 March 2017. Revenue attributes this to more prompt contact and case escalation for smaller value debts.

**Figure 21.3 Change in outstanding taxes, March 2016 to March 2017**



Source: Revenue Commissioners. Analysis by Office of the Comptroller and Auditor General.  
 Note: Environmental Levy showed no change in the period.

**Debt management**

**21.8** Revenue’s debt collection is managed within the Collector General’s Division, by 26 ‘standard’ debt management units and five specialist units, which manage cases involving outstanding debt of the main business taxes. In addition, the Services and Transactions Taxes Unit and Dividend Withholding Tax Units manage debt related to a number of other taxes.<sup>1</sup> Local Property Tax is managed by the Local Property Tax Branch through a separate compliance programme outside of the normal debt management units.

**21.9** The primary objective of the debt management units is to ensure that tax returns and payments are submitted on time. Cases for debt management intervention are predominately identified by the Collector General’s Office using various in-house analytical and compliance systems. Also, some cases are referred from the Revenue Districts to the debt management units where additional debt has been identified through audit or compliance interventions and where payment is not forthcoming from the taxpayer. Interest is charged on overdue payments. This compensates the Exchequer for the late payment and also ensures equity for the majority of taxpayers who pay their taxes on time.

<sup>1</sup> Service and Transactions Taxes Unit and Dividend Withholding Tax Unit manage debt related to Dividend Withholding Tax, Professional Services (Withholding) Tax, Life Assurance Exit Tax, Investment Undertaking Tax, Deposit Interest Retention Tax, Environmental Levy and Air Travel Tax. These units have dual customer service and compliance roles.

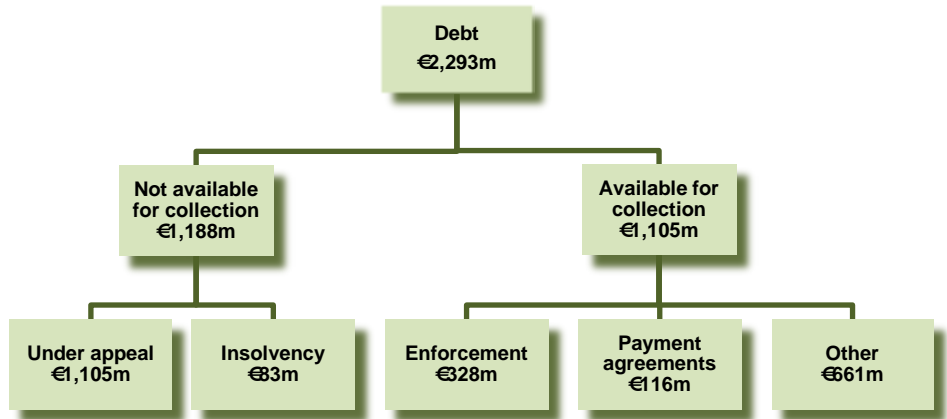
- 21.10** The relevant debt management unit moves to apply the necessary measures to address any lack of engagement. These measures vary from the application of interest charges to the commencement of enforcement action to recover outstanding debt.<sup>1</sup> Enforcement actions will normally be used only after other recovery actions have been taken and proven unsuccessful. Revenue states that each debt case is considered on its merits with a view to selecting the most effective collection, recovery or enforcement strategy to bring a case to compliance in the shortest timeframe possible.
- 21.11** In some cases where a new company is started by individuals connected to a previous company that went into liquidation or ceased to trade, Revenue may monitor these cases as phoenix cases. In these cases, the new entity normally purchases the assets but not the liabilities of the ceased entity and as a consequence creditors, including Revenue, are often left with substantial unpaid debts. In many such instances the new entity continues to trade from the same premises with the same management team and employees in place. Revenue states that it applies a 'zero tolerance' approach to phoenix companies and intervenes as soon as the new entity falls behind in its payment/filing obligations.

### Status of outstanding tax debt

- 21.12** Revenue categorises its outstanding debt in terms of its current status, using the following method:
- Debt under appeal and unavailable for collection — where a taxpayer has appealed the value of the tax assessment and Revenue is precluded from collecting the debt.
  - Debt not available for collection — the debt of taxpayers who are in liquidation, examinership or certain receiverships is regarded by Revenue as being effectively not available for collection.
  - Debt available for collection — further categorised between amounts which are subject to ongoing collection activities, are the subject of payment agreements with the taxpayer or are under enforcement with either the Sheriff or Revenue's Solicitors.
- 21.13** Figure 21.4 presents an analysis of tax debt using Revenue's categorisation scheme. Taxes under appeal represent the largest category of tax debt at €1,105 million or just over 48% of the total debt outstanding at 31 March 2017. €328 million of the tax debt was classified as debt under enforcement at the same date.

<sup>1</sup> Revenue enforcement options include engagement of Sheriff or Solicitor, attachment orders and various insolvency options including bankruptcy and liquidation.

**Figure 21.4** Categorisation of tax debt as at 31 March 2017



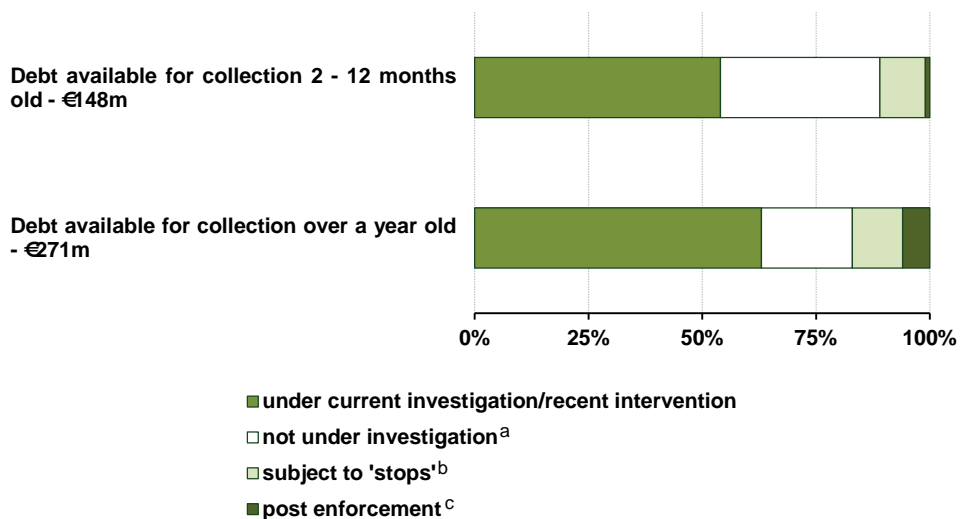
Source: Revenue Commissioners

**Debt available for collection – ‘Other’**

**21.14** As noted by the Organisation for Economic Cooperation and Development (OECD), the older tax debt is, the higher the risk of non-payment of that debt.<sup>1</sup>

**21.15** At the end of March 2017, €661 million of the tax debt was classified as available for collection but was not subject to either payment agreements or enforcement proceedings. €42 million of this was less than two months old. Figure 21.5 provides an analysis of debt between two and twelve months old, and debt over a year old.

**Figure 21.5** Debt available for collection — 2-12 months old and over a year old



Source: Revenue Commissioners

- Notes:
- a Per Revenue, debt not under investigation is made up of a combination of smaller debts of less than €5,000, debts delayed from the collection cycle due to issues such as amended returns, audits etc. and debt that required slower manual intervention.
  - b 'Stops' are put in place where there is reason to defer the debt's collection, e.g. case is under audit or amended returns being submitted.
  - c Debt is classified as post enforcement where initial enforcement actions have failed and Revenue is considering what alternative actions need to be taken.

- 21.16** In November 2015, Revenue doubled its full time debt collection capacity in relation to its lower value cases, which are managed by debt management units operating in the Collector General's office. The outcome was that timely compliance in the lower value cases increased by 3% in 2016. Revenue has amended its monthly and annual debt collection targets to take account of its increased resources.
- 21.17** In January 2017, the Collector General's office started a three year development programme to replace the core Active Intervention System.<sup>1</sup> This has resulted in a complete restructuring of the debt management operation. Revenue reports that a number of enhancements to its case management and compliance system have since been delivered. Revenue's arrears case analysis tool (ACAT) was redeveloped in 2016 to increase its analytical capacity for debt management staff.<sup>2</sup>

### Tax debt write outs

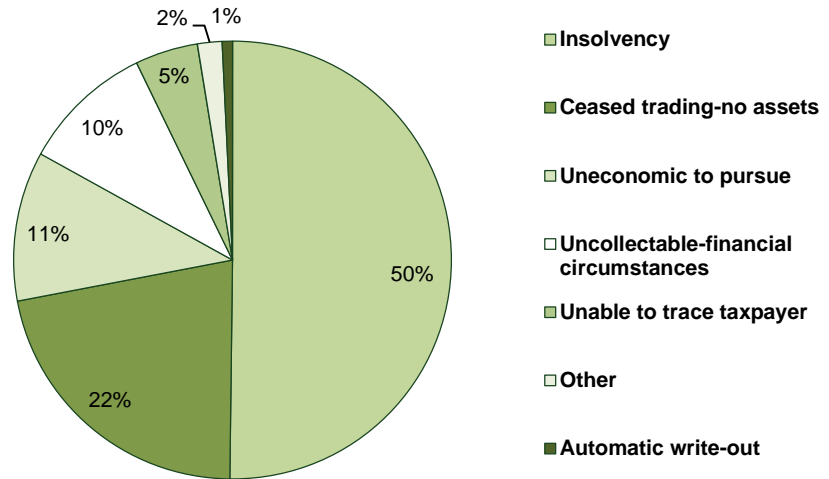
- 21.18** In certain situations, Revenue may take a decision not to pursue a debt in light of the specific circumstances of the particular case and having regard to its own guidelines for tax write out. The effect of writing out a debt is that all activity to pursue the debt will cease. This may be the case for a particular tax liability, or all outstanding tax liabilities in a particular case.
- 21.19** Where a decision not to pursue a debt is made, the debt effectively becomes dormant. Writing out of debt allows Revenue to distinguish the uncollectable tax on its official records and focus on the pursuit and collection of outstanding tax liabilities that remain collectable. Tax write out only reflects a decision not to pursue the debt for a period of time and in certain cases, the write out can be reversed if and when Revenue considers that the taxpayer's circumstances have changed. However, debts which have been written out because they are not legally recoverable, cannot be re-instated.
- 21.20** Additional procedures are applied where the amount of tax being written out exceeds €50,000. Commonality checking is conducted in respect of these cases, to establish whether the taxpayer is or was involved in other trading entities with payment issues. The process involves a review of associated entities (e.g. through common directors) to get a better understanding of their tax affairs.
- 21.21** All write outs are approved at the appropriate management level in accordance with Revenue's guidelines and are signed off on a monthly basis by the Chairman of Revenue. Each year, Revenue's internal audit unit reviews a sample of the write-out cases to ensure that they are in accordance with Revenue's procedures. The most recent internal audit report recommended some improvements to the recording of reasons for write-out decisions. The report also noted that management checks were not completed on a timely basis or dated in the majority of the sample reviewed and recommended a review of the frequency of such checks.

<sup>1</sup> The Active Intervention System (AIM) is used by Revenue to select cases based on either returns or debt outstanding (or a combination of both).

<sup>2</sup> The ACAT is a real-time analytical tool used to examine and prioritise debt available for collection, by reference to size of debt, within five main tiers.

**21.22** €211.2 million of uncollectable tax debt, relating to 526,000 cases, was written out by Revenue during 2016. The figure is equivalent to 9.2% of the total outstanding debt at 31 March 2017. Figure 21.6 summarises the reasons for debt write outs in 2016.

**Figure 21.6 Reasons for tax debt write out 2016**



Source: Revenue Commissioners

**21.23** In 2016, just over €106 million or 50% of the total debt written out related to insolvency cases (liquidation, receivership, bankruptcy, examinership and personal insolvency). A further €46 million, representing 22% of the debt written out occurred in circumstances where a taxpayer/business ceased trading with no assets available to offset against the debts.

**Automatic write outs**

**21.24** Write outs on a case-by-case basis accounted for over 99% of the total value of write outs in 2016.

**21.25** 512,000 cases with a combined value of €1.6 million were written out automatically in 2016, as they were considered uneconomic to pursue. This refers to debt for which the anticipated cost of the recovery is likely to exceed the amount of the debt. Debt that has been determined to be uneconomical to pursue is not waived or legally extinguished, but ‘parked’ by Revenue indefinitely. In some cases, Revenue may decide to pursue a debt even though it may not be economical to do so, for example if a taxpayer has a significant history of non-compliance. Prior to the write out of such debts, Revenue considers the age of the debt, the asset position and the location of the taxpayer, and whether a company has ceased trading. Figure 21.7 outlines the number of automatic write outs by tax head in 2016.

**Figure 21.7 Automatic write-outs by tax head, 2016**

<b>Tax Type</b>	<b>Number of cases 000</b>	<b>Value €000</b>	<b>Average value per case</b>
Pay related taxes	69	355	€5.18
Value Added Tax	22	355	€16.16
Income Tax	380	802	€2.11
Corporation Tax	39	58	€1.46
Capital Gains Tax	2	17	€8.12
Dividend Withholding Tax	*	*	€1.24
Environmental Levy	*	12	€114.84
<b>Total</b>	<b>512</b>	<b>1,599</b>	<b>€3.12</b>

Source: Revenue Commissioners

Note: \* indicates a value under 200.

## Conclusions and recommendation

- 21.26** Revenue has an extensive debt management process in place in order to ensure the effective recovery of tax debt. Procedures are in place to charge interest on overdue payments. When taxpayers, by their actions or inaction, do not deal with the outstanding liability, enforcement may be required.
- 21.27** The two-year period to 31 March 2017 saw an increase in gross debt, reversing the downward trend of the previous five years. Income tax and VAT, the two largest categories of tax debt, have seen reductions in outstanding debt over the period 31 March 2016 to 31 March 2017. Revenue attributes this to more prompt contact and case escalation for smaller value debts.
- 21.28** Over one-quarter of debt was classified as collectable but was subject to neither payment agreements nor enforcement proceedings. €271 million (41%) of this debt was over one year old.

### Recommendation 21.1

At least once a year, Revenue should review debt which is classified as collectable and which is more than one year old but on which no agreement has been reached with the taxpayer for its payment. Where Revenue has not initiated enforcement action, it should determine what actions might be taken to collect the debt.

#### Accounting Officer Response

Agreed. Revenue is very aware that early intervention is the best way to secure payment of outstanding debts and that aged debt can become entrenched and more difficult to collect. This is why Revenue's debt collection processes are geared towards engaging with defaulting taxpayers either in the due month or the following month.

Revenue's debt management units hold regular monthly team level arrears meetings (and bi-monthly with Principal Officer) to discuss progress on the more entrenched cases and to consider next steps having regard to previous actions taken and the circumstances of the taxpayer/business involved.

- 21.29** €1.8 billion of tax debt has been written out since 2010 with an average annual tax write out of €254 million. In 2016, the value of debt written out as uncollectable was €211.2 million. Of this amount, €209 million was written out on a case-by-case basis. The most frequent reasons for debt write outs are liquidations and businesses ceasing to trade.
- 21.30** A recent internal audit report has recommended some improvements to the recording of reasons for write out decisions. The report also noted that management checks of write outs decisions were not completed on a timely basis and recommended a review of the frequency of such checks.
- 21.31** Revenue has yet to fully implement a number of recommendations made by the Comptroller and Auditor General in 2015 in relation to the recording of appeals in its record systems and the development of more comprehensive debt management performance indicators. Revenue has stated that it is in the process of implementing the recommendation in relation to the recording of appeals in its record systems and intends that a new case management system, incorporating appeal activities, will be in operation by the end of 2017. Revenue has also stated that it is in the process of developing a more comprehensive range of performance indicators and expects that additional performance indicators will be in place by the end of 2019, which will supplement those currently in operation.

