

24 Management of Revenue Debt

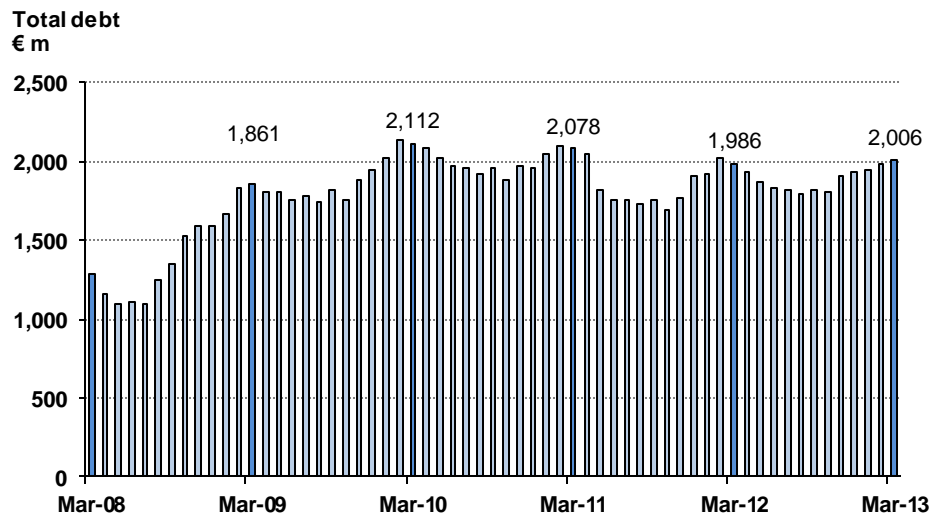
- 24.1** Within Revenue, primary responsibility for debt management rests with the Collector General's Office which has responsibility for the collection of taxes and duties and their allocation to the appropriate taxpayer account. The purpose of its debt management function is to ensure the timely collection of most of the business and personal taxes for which Revenue has responsibility.
- 24.2** In 2012, debt collection work was conducted in 24 debt management units that managed case loads categorised into five tiers to take account of the average size of the cases being managed.¹ Four of these were additional units established in 2012.
- 24.3** About 700 Revenue staff were employed in debt collection and compliance activities in 2012 of whom around 63% were engaged in debt collection activity and the remainder were involved in compliance work. Staff were allocated to the various debt management units based on the value of the tax at risk. Large cases (i.e. those with the highest value payments) have the highest ratio of staff to taxpayers. In addition, five specialist units manage particular higher-risk categories of cases.
- The Commonality Unit manages cases linked by common company directors where the debt exceeds €250,000.
 - The Phoenix Unit manages cases involving businesses linked through principals involved in previously-failed businesses where limited liability protection resulted in non-payment of fiduciary taxes.
 - The Dedicated Enforcement Unit undertakes collection enforcement action of a more complex nature.
 - Two insolvency units have overall responsibility for managing Revenue's response to insolvent cases i.e. liquidation, receivership, examinership and bankruptcy cases.
- 24.4** This report reviews Revenue's debt collection function and, in particular, trends in the value of tax debt outstanding, the collection status and age of the debt, and tax debts written off.

¹ Case size is computed for each tax head that a taxpayer is registered for. It is based on the average tax liability and/or collection posted in a 24 month period prior to the current period for that tax.

Outstanding Tax Debt

- 24.5** The estimated value of tax outstanding increased by 64% from March 2008 to March 2010, since when it has remained relatively stable. Debt comprises outstanding liabilities less the total value of repayment claims made by taxpayers. Details are set out in Figure 24.1.

Figure 24.1 Estimated debt outstanding at month end, March 2008 to March 2013



Source: Estimates by Office of the Revenue Commissioners

- 24.6** The value of tax outstanding varies on a yearly cyclical basis. Peak debt outstanding occurs in February/March each year, largely reflecting the impact of filing deadlines in respect of employer's fiduciary taxes (PAYE and PRSI). The lowest debt in the period from March 2012 to March 2013 was in August 2012 when debt stood at just under €1.8 billion.
- 24.7** Figure 24.2 shows the estimated tax outstanding by tax type and summarises the charges raised, the payments made and the amounts written off in the twelve-month period ended on 31 March 2013. The two largest categories of debt outstanding at that date were Income Tax (estimated at €647 million excluding PAYE) and VAT (an estimated €434 million). Direct taxes outstanding — mainly Income Tax, Capital Gains Tax and Corporation Tax — account for 59% of the total debt (March 2012: 56%), while fiduciary taxes — mainly VAT, PAYE and PRSI account for 41% of the total (March 2012: 44%).
- 24.8** The estimated total debt outstanding at end March 2013 was equivalent to 5.6% of the net charges raised in the year 2012/2013.¹ This represented a small increase from the level of around 5.3% of net charges raised in 2011/2012. In 2007, debt outstanding was 2.7% of the net charges raised.
- 24.9** Two taxes, Income Tax and Capital Gains Tax, accounted for 6.3% of the net charges raised in 2012 but accounted for 45% of the debt outstanding at March 2013.

¹ The debt outstanding and net 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.

Figure 24.2 Movement in estimated outstanding taxes and PRSI, 2012/2013^a

Tax or Levy	Balance at 31 March 2012	Net charges raised ^p	Paid	Written off	Adjustment ^c	Balance at 31 March 2013	Balance as % of charges raised
	€m	€m	€m	€m	€m	€m	
VAT	514	8,535	(8,494)	(130)	9	434	5%
PAYE	164	13,767	(13,748)	(32)	15	166	1%
PRSI	178	7,041	(7,033)	(37)	10	159	2%
Income Tax	627	2,069	(2,018)	(30)	(1)	647	31%
DIRT	—	488	(488)	—	—	—	—
Corporation Tax	177	3,326	(3,251)	(12)	1	241	7%
Capital Gains Tax	297	187	(205)	(19)	—	260	139%
Capital Acquisitions Tax	3	281	(274)	—	20	30	11%
Relevant Contracts Tax	26	81	(82)	(11)	13	27	33%
Environmental Levy	—	50	(14)	—	5	41	82%
Air Travel Tax	—	35	(34)	—	—	1	3%
Total	1,986	35,860	(35,641)	(271)	72	2,006	6%

Source: Estimates by Office of the Revenue Commissioners

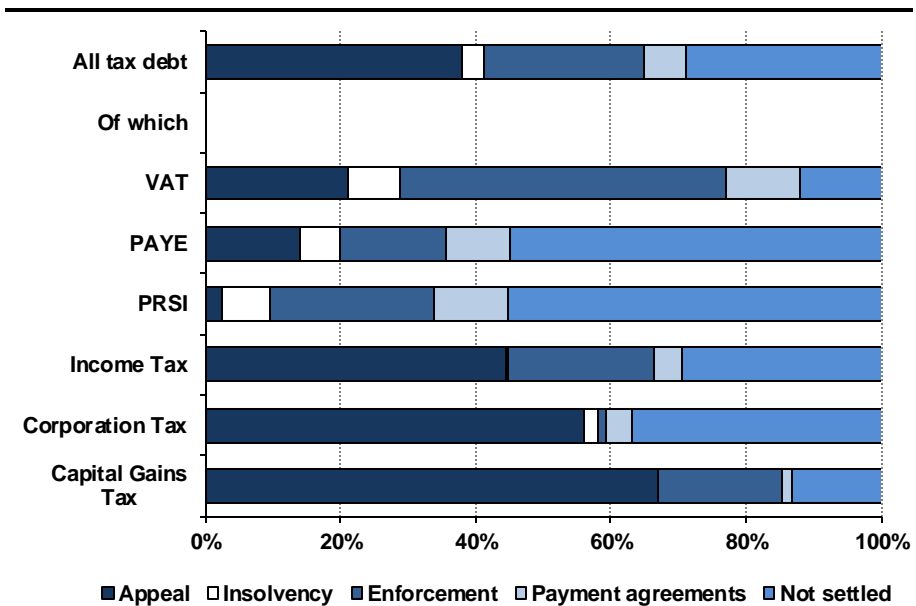
- Notes:
- Tax is regarded as outstanding from the date the liability is placed on the taxpayer's record – usually, as a result of the receipt of a return or the raising of an estimate.
 - Net charges raised include estimates in cases of non-filing. The corresponding charges in the year to March 2012 were reported by Revenue at €37.2 billion.
 - Outstanding debt at the end of March 2013 was calculated using a new Revenue computer system. The balances at end March 2012 were calculated using the previous system. The adjustment reflects the unreconciled difference between the opening and closing balances.

24.10 The closing debt is debt of €2 billion comprising outstanding taxpayer liabilities of €2.2 billion less repayment claims of €206 million that had been submitted by taxpayers.

Status of Outstanding Debt

24.11 Outstanding debt is classified as

- Debt under appeal and unavailable for collection — where a taxpayer has appealed the value of the tax assessment, Revenue is precluded from collecting the debt.
- Debt that is effectively 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 which is available for collection is 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.

Figure 24.3 Collection status of tax debt, by tax type, March 2013^a

Source: Office of the Revenue Commissioners

Note: a The taxes shown account for 95% of all tax debt. Capital Acquisitions Tax, Relevant Contracts Tax, the Environmental Levy and Air Travel Tax have been excluded.

24.12 Overall, 38% of the debt at March 2013 was under appeal and a further 3% was involved in insolvency proceedings (see Figure 24.3). Therefore, €826 million was regarded as unavailable for collection at the end of March 2013. Most of the debt under appeal (around 80%) relates to direct taxes. Over 93% of the value of debt in appeal related to 2009 or earlier years of assessment while almost half related to 2005 or earlier.

24.13 Just under €1.2 billion or 59% of the debt at end March 2013 was classified as available for collection.

- About 24% of the outstanding debt was subject to enforcement action (2012: 20%), mainly in relation to VAT and Income Tax debts.
- Payment agreements were in place in respect of only 6%.
- About 29% of the outstanding debt (around €580 million) was deemed to be collectible, but at end March 2013 was neither subject to payment agreement nor to any enforcement proceedings.

24.14 When debt is under appeal, interest where due continues to accumulate from the date when the tax liability fell due. During an appeal period, Revenue continues to engage with taxpayers and settlements may be reached prior to an appeal being determined by the Appeal Commissioners or the courts.

Debt Collection Targets

Targets for 2012 and 2013

- 24.15** Revenue set itself a 'stretch' target, to reduce the level of its outstanding collectible debt (i.e. excluding debt under appeal and debt at insolvency) from just under €1.3 billion at end November 2011 to €1 billion by end November 2012 — a target decrease of around 22%. At the end of November 2012, the level of collectible debt outstanding had reduced by €24 million - a reduction of just under 2% from November 2011.
- 24.16** Revenue pointed out that the ongoing extremely challenging economic and financial environment in which it is operating impacted negatively on its debt recovery programmes and resulted in the target not being achieved.
- 24.17** The target for November 2013 is to reduce the debt available for collection to €1.2 billion, which represents a target reduction of 4% from the collectible debt at November 2012.

Measures of Debt Collection Performance

- 24.18** In my 2011 Report on the Accounts of the Public Service, I recommended that Revenue should develop more specific performance measures in relation to its debt management function, reflecting the complexity of the underlying factors. For example, it could consider setting separate outstanding debt targets for fiduciary and direct taxes; and differentiating in setting debt age profile targets between collectible debt and debt under appeal. The Accounting Officer agreed with the recommendation and stated that in relation to collectible debt, Revenue was developing additional performance measures. She also noted that an IT development then being tested would facilitate enhanced reporting on debt management performance.
- 24.19** In response to my enquires about progress made in respect of this recommendation, Revenue stated that targets have been set at individual debt management unit level, and by tax type, for the first time. Revenue also pointed out that it has introduced a new debt analysis tool — an Arrears Case Analysis Tool (ACAT) — to provide detailed analysis of debt and to facilitate progression towards the achievement of the targets.
- 24.20** Since October 2012, the ACAT system has been fully operational across all debt management units operating in the Collector General's Division. Revenue stated that the system allows for more focused risk-based assessment of cases and that there is a management focus on evaluating the impact of interventions taken. Revenue noted that it is too early yet to evaluate the impact of the ACAT system but stated that the results from testing of the tool in 2012 were positive. Revenue pointed out that two newly commissioned debt management units had collected €75 million in tax yield by using the ACAT system as the primary driver in the selection of over 12,000 cases for intervention and that accurate case coverage and yield of this scale would not have been possible without the analysis using the ACAT system.

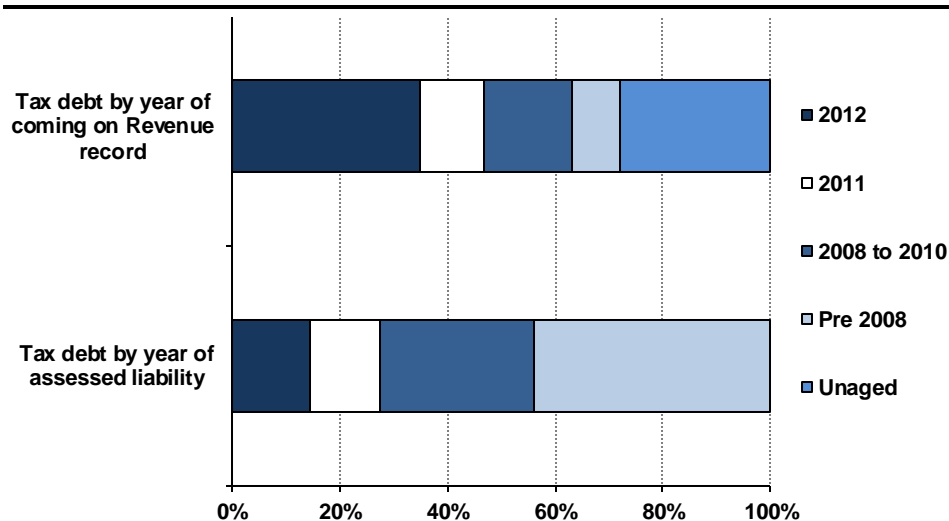
Age of Debt

- 24.21** For age analysis purposes, Revenue defines the debt start date as the latest of one of the following: (a) the date the charge giving rise to the debt came on the taxpayer's record (b) the due date for the tax or (c) the release date of an appeal stop. At the end of March 2013, using this basis, 35% of debt was less than one year old while 9% was more than five years old. Details are set out in Figure 24.4.

24.22 28% of the debt is classified as unaged.¹ When the unaged debt is excluded, almost half of the debt is less than one year old.

24.23 By way of comparison, Figure 24.4 also shows Revenue's aged analyses of tax balances outstanding at March 2013 based on the debt start date with an analysis based on the year of the assessed liability of the tax debt.

Figure 24.4 Tax debt outstanding, March 2013



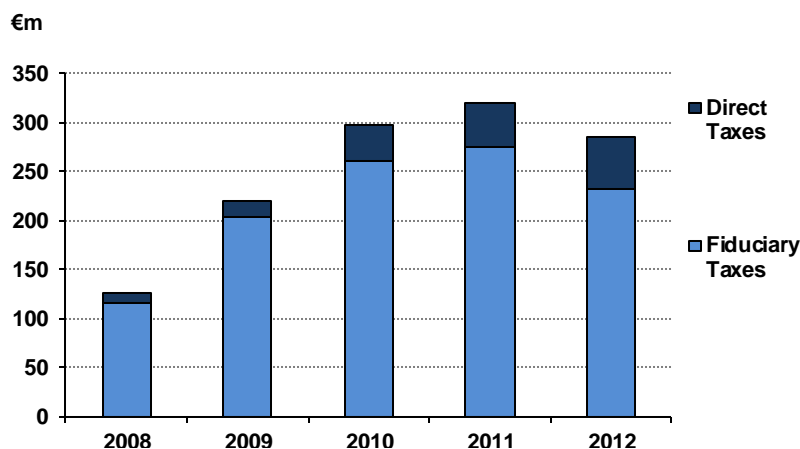
Source: Estimates by Office of the Revenue Commissioners

24.24 When tax debt is aged by the year of assessed liability, almost three-quarters of the debt is three years or more old. Debt aged by the date it came on the Revenue record shows that a quarter of the debt is regarded as three or more years old.

Write-Offs of Tax Debts

24.25 Tax debts are written off by Revenue in situations where the debts are found to be unenforceable e.g. where a business is liquidated. A total of €287 million of taxes and PRSI was written off during 2012 — a decrease of 11% compared to write offs in 2011. 81% of the taxes written off in 2012 were fiduciary taxes and the balance was in respect of direct taxes. Trends in fiduciary and direct taxes written off for the years 2008 to 2012 are set out in Figure 24.5 (see also Annex A).

1. The debt which Revenue classifies as unaged is debt at appeal (€762 million) less claims awaiting repayment (€206 million) and balances under €100.

Figure 24.5 Taxes written off, 2008 to 2012

Source: Office of the Revenue Commissioners

- 24.26** Almost all of the write-offs are assessed on a case-by-case basis. Small debts due from 115,119 taxpayers, totalling around €1.5 million (an average of €13 each), were considered uneconomic to pursue and were written off in 2012 on an automated basis.

Write-Offs by Sector

- 24.27** The most common causes of tax write-off were company liquidations and cessation of trade with insufficient liquid assets which together accounted for 65% of the debt written off, affecting mainly fiduciary taxes. Three economic sectors accounted for 56% of the total tax written off in 2012
- construction sector — €68 million (24%)
 - wholesale and retail trade sector — €55 million (19%)
 - accommodation and food services sector — €38 million (13%).

- 24.28** There were 51 cases in 2012 where the amount written off was greater than €0.5 million. These cases accounted for 16% of the total debt written off, or €44.8 million. The average write off was €878,400. The largest single amount written off in 2012 was €4.46 million in respect of VAT, PAYE, PRSI and Relevant Contracts Tax.

Conclusions and Recommendation

- 24.29** The estimated amount of debt owed to Revenue has remained stable at end March over the last four years, at around €2 billion.
- 24.30** Over 40% of debt was regarded by Revenue as currently being non-collectible, mainly due to the debt being under appeal. An estimated 93% of the value of debt in appeal related to 2009 or earlier years of assessment while almost half related to 2005 or earlier.
- 24.31** Revenue has improved its debt management system, which provides it with better information on the level and composition of tax debt. This should allow Revenue to refine its strategy, resulting in a more targeted approach. Revenue set itself an overly ambitious target for reducing the level of collectible debt by November 2012 by 22% year on year. The target reduction for the 12 months to November 2013 is 4%.

24.32 The definition of the debt start date used by Revenue is appropriate for performance management purposes. It should be noted that this approach results in much younger debt than if debt was aged by the assessed year of liabilities and the aged analysis is affected by the exclusion of debt under appeal.

Recommendation 24.1: Revenue should use its improved management information to inform its target setting for the reduction of collectible debt. Targets should be realistic but challenging and should not be distorted by factors outside Revenue's control e.g. the proportion of debt under appeal.

Accounting Officer's Response: Agreed. Revenue utilised the Arrears Case Analysis Tool to assist in formulating and reporting on the debt targets for 2013. Targets set relate to debt available for collection, which excludes debt under appeal and debt at insolvency. However, wider factors outside Revenue's control, such as available resources and the general economic environment continue to influence target setting.

Annex A**Taxes written off, 2008 to 2012**

	2008	2009	2010	2011	2012
	€m	€m	€m	€m	€m
Fiduciary taxes					
VAT	58	102	134	149	130
PAYE	20	37	44	46	39
PRSI	25	47	61	60	50
Relevant Contracts Tax	13	17	22	20	14
	116	203	261	275	233
Direct taxes written off					
Income Tax	5	10	25	27	32
Corporation tax	3	4	8	10	5
Capital Gains Tax	1	3	4	8	16
	9	17	37	45	53
Automatic write-offs	4	2	1	1	1
Total tax written off	129	222	299	321	287

Source: Office of the Revenue Commissioners