

9 Revenue Debt Collection

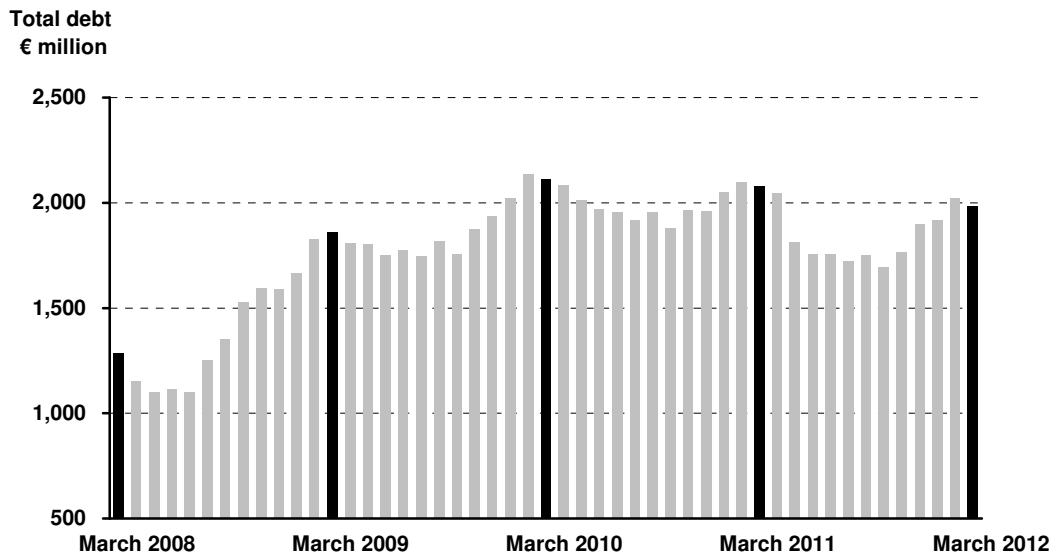
- 9.1** Within Revenue, primary responsibility for debt management rests with the Collector General's Division. That Office is responsible for the collection of taxes and duties and their allocation to the appropriate taxpayer account. The purpose of its debt management function is to ensure the timely collection of the business and personal taxes for which Revenue has responsibility.
- 9.2** About 700 Revenue staff are employed in debt collection and compliance activities. In 2011, about 450 staff were deployed to debt collection activity and the remainder were involved in compliance work.
- 9.3** Most debt collection work is conducted in 20 debt management units that manage case loads categorised into five tiers according to the average size of the cases.¹ Staff are allocated to the various debt management units based on the value of the tax at risk. Large cases, with the highest value payments have the highest ratio of staff to taxpayers. In addition, five specialist units manage particular 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 the 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 insolvencies i.e. liquidation, receivership, examinership and bankruptcy cases.
- 9.4** This chapter 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.
- 9.5** In February 2012, Revenue introduced a new debt analysis tool on a pilot basis. The objectives of the new debt analysis tool are to allow case workers to prioritise the recovery of debt by reference to the age of debt and also to determine the type and timing of interventions required in order to maximise the rate of recovery of those debts.

¹ Case size is a factor of the average annual tax liability based on a weighted mixture of fiduciary taxes (VAT, Employer PAYE/PRSI, Relevant Contracts Tax), Corporation Tax and Personal Income Tax. Fiduciary taxes are collected by businesses on behalf of Revenue and held in trust until paid to Revenue.

Outstanding Tax Debt

- 9.6 Over the four years to March 2012, the estimated value of tax outstanding increased by 54%. Total tax outstanding at the end of March 2012 was just under €2 billion.
- 9.7 The value of tax outstanding varies on a yearly cyclical basis (as depicted in Figure 9.1), largely reflecting the impact of annual filing deadlines in respect of certain taxes, such as Corporation Tax and Income Tax. Peak debt outstanding occurs in February/March each year. The cycle in 2011 was more pronounced than in other years.

Figure 9.1 Debt Outstanding at Month end, March 2008 to March 2012



Source: Office of the Revenue Commissioners

- 9.8 Figure 9.2 shows the 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 2012. The two largest categories of debt outstanding are Income Tax and VAT. Direct taxes outstanding — mainly Income Tax, Capital Gains Tax and Corporation Tax — account for 56% of the total debt, while fiduciary taxes — mainly VAT, PAYE and PRSI — account for 44% of the total.
- 9.9 The total debt outstanding at end March 2012 was equivalent to 5.3% of the net charges raised in the year 2011/2012. This is an increase from the level of around 3% of net charges raised in 2007, reflecting a deterioration in the timeliness of payment of taxes.

Figure 9.2 Movement in Outstanding Taxes and PRSI, 2011/2012^a

Tax or Levy	Outstanding at 31 March 2011	Net tax charges raised ^b	Tax paid	Tax written off	Outstanding at 31 March 2012
	€m	€m	€m	€m	€m
VAT	588	8,891	8,825	140	514
PAYE	139	13,677	13,622	30	164
PRSI	221	7,217	7,216	44	178
Income Tax	468	2,732	2,546	27	627
DIRT	—	499	499	—	—
Corporation Tax	331	3,420	3,570	4	177
Capital Gains Tax	269	533	497	8	297
Capital Acquisitions Tax	3	256	256	—	3
Relevant Contracts Tax	59	(14) ^c	1	18	26
Total	2,078	37,211	37,032	271	1,986

Source: Office of the Revenue Commissioners

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.

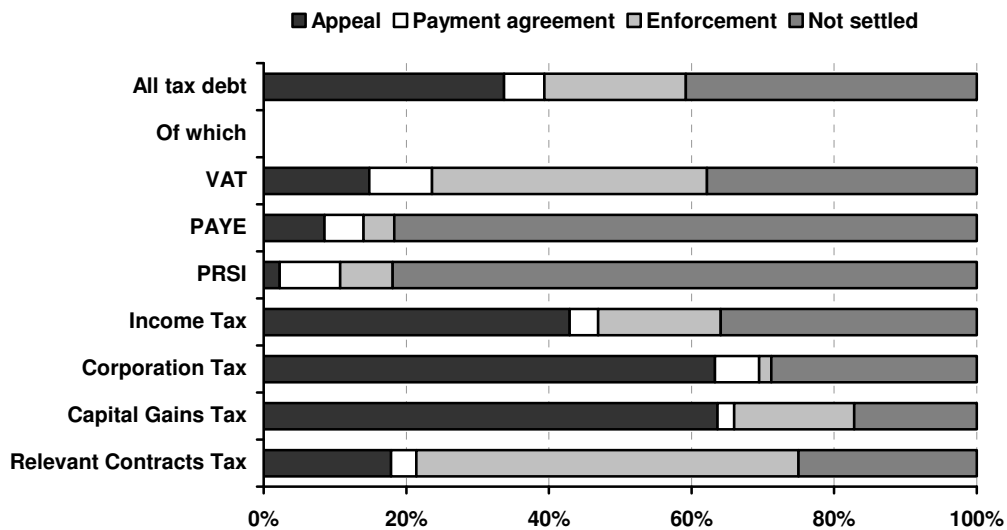
b Net charges raised include estimates in cases of non-filing. The corresponding charges in the year to March 2011 were reported by Revenue at €35.5 billion.

c Relevant Contracts Tax net charges raised comprises assessments and declarations relating to principal contractors of €226.63 million, less claims of €240.21 million from sub-contractors.

Status of Outstanding Debt

- 9.10** Where a taxpayer has appealed the value of the tax assessment, Revenue is precluded from collecting the debt. 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. The breakdown of the debt outstanding at 31 March 2012 by status is shown in Figure 9.3.
- 9.11** Agreement to pay was in place in respect of only 6% of the outstanding debt at end March 2012. About 20% was subject to enforcement action, mostly in relation to VAT and Income Tax debts. About 40% of the outstanding debt (around €800 million) was not settled i.e. deemed to be collectible but neither subject to payment agreement nor to enforcement proceedings.
- 9.12** Overall, about one third of the debt was under appeal and therefore was currently regarded as unavailable for collection. The highest proportions of debt under appeal relate to direct taxes. In most cases where a taxpayer lodges an appeal, the debt outstanding is under enforcement or a Revenue audit is ongoing. While the appeal is ongoing, a temporary stay is put on any enforcement activities. 85% of the value of debt under appeal related to 2008 or earlier years of assessment.

Figure 9.3 Collection status of tax debt, by tax type, March 2012

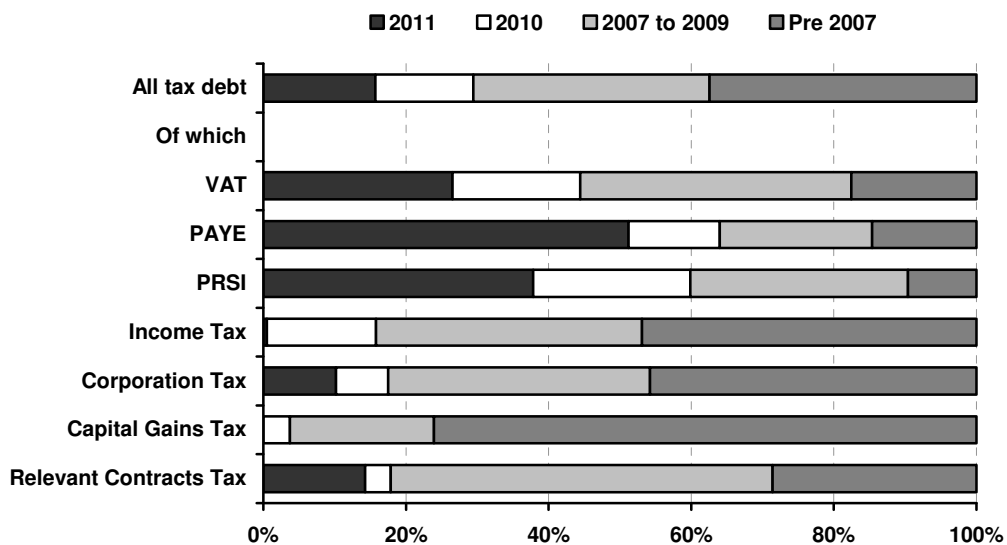


Source: Office of the Revenue Commissioners

Age of Debt

9.13 Figure 9.4 shows the year of assessed liability of the tax balances outstanding at March 2012. 16% of the amounts outstanding related to 2011 and a further 14% to 2010. The remaining 70% related to tax periods prior to 2010. Fiduciary taxes (mainly VAT, PAYE and PRSI) are, on average, much ‘younger’ than the direct tax debts. This reflects the greater likelihood of write-offs of fiduciary taxes (discussed in more detail below).

Figure 9.4 Year of assessed liability^a of tax debt, by tax type, March 2012



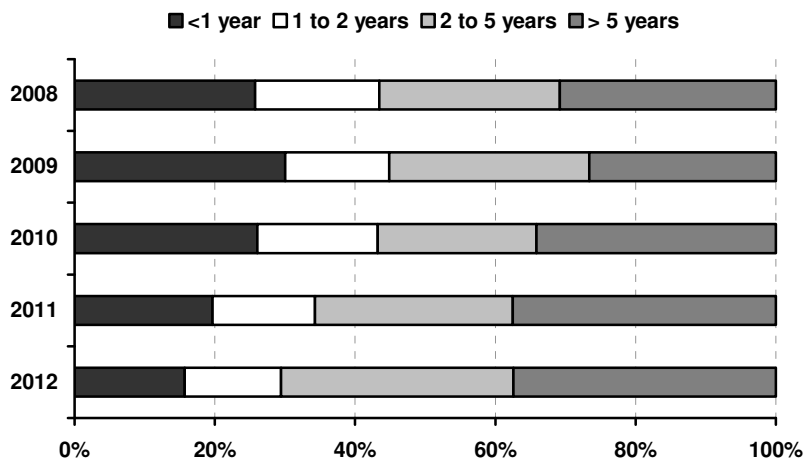
Source: Office of the Revenue Commissioners

Note: a The year of assessed liability is the tax period the liability relates to.

Debt Collection Targets

- 9.14** Revenue set a target to bring the cash level of its outstanding collectible debt (i.e. excluding debt under appeal) down from €1,389 million at March 2011 to €1,200 million by March 2012 — a target decrease of 13.6%. A reduction of 5.2% was achieved in the year, with the level of outstanding collectible debt at €1,317 million.
- 9.15** Without specifying a target, Revenue also set itself an objective of reducing the overall age of the debt outstanding during 2011 but this was not achieved (see Figure 9.5). The proportion of debt which was more than five years old at March 2012 was similar to the proportion in March 2011, but there was a significant increase in the proportion of debt which was between two and five years old.

Figure 9.5 Age of outstanding tax debt, end March 2008 to end March 2012



Source: Office of the Revenue Commissioners

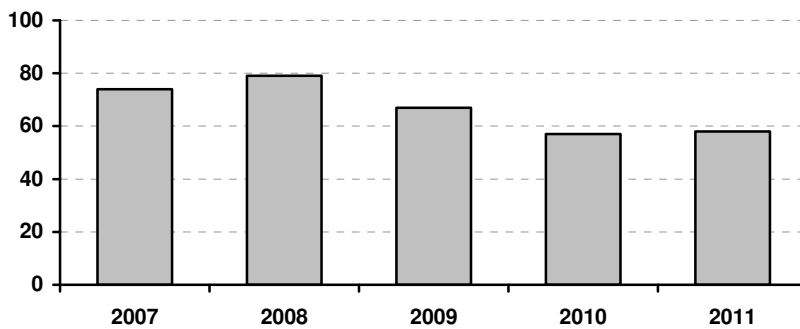
Interest Charged on Tax Debts

- 9.16** Revenue charges interest on the taxes paid late as a method of maintaining and improving timeliness of payment compliance. Revenue regards a late payment as one that was not received in the month the payment was due.
- 9.17** Interest is charged as follows
- PAYE/PRSI and VAT – 0.0274% a day
 - Income Tax, Corporation Tax and Capital Gains Tax – 0.0219% a day.
- 9.18** The interest is charged on a simple interest basis, and is equivalent to a charge of 10% a year for fiduciary taxes, and 8% a year for direct taxes.

- 9.19** The amount of interest on late payment levied by Revenue has declined from a level of almost €80 million in 2008 to €58 million in 2011 (see Figure 9.6). This contrasts with the substantially increased debt level in 2011 compared to 2008. The decline in interest levied is due in part to reductions in the interest rates charged by Revenue, with effect from July 2009.²

Figure 9.6 Interest collected on Late Payment of Tax^a, 2007 to 2011

€ million



Source: Office of the Revenue Commissioners

Note: a Excludes interest charged and collected as a result of Revenue's audit and investigation programmes.

- 9.20** Revenue is unable to provide information on the proportion of late payments where interest was levied.
- 9.21** The Accounting Officer has stated that the application of interest charges on late payments of taxes is not focused on maximising the amount of interest collected but rather on changing the behaviour of taxpayers that have developed a pattern of late payment thereby gaining an unfair competitive advantage. In cases where a late payment pattern is emerging, the business is warned that such behaviour will lead to the imposition of interest charges. Before an interest charge is imposed and activated for collection, the case is examined by a case worker to establish
- that the action is appropriate and account is taken of the general compliance position in the case
 - whether there has been a previous warning about Revenue's intention to collect interest in the event of continued late payment or non-payment
 - the amount of interest that might be levied and the extent to which the payment has been delayed.
- 9.22** The Accounting Officer also stated that, since the downturn in the economy, Revenue's approach has been to work with viable businesses that encounter payment difficulties outside of their direct control and to facilitate those businesses returning to full tax compliance as soon as possible. In some instances, this approach involved an element of mitigation of interest that would otherwise have been payable.

² For example, the daily interest rates in relation to Income Tax, Corporation Tax and Capital Gains Tax were reduced from 0.0273% to 0.0219% — a reduction of just under 20%.

Write-Offs of Tax Debts

- 9.23** Tax debts are written off by Revenue mainly in situations where the debts are found to be uncollectible e.g. where a business is liquidated. A total of €321 million of taxes and PRSI was written off during 2011 — an increase of 7% compared to write-offs in 2010. 85% of the total written off was in respect of fiduciary taxes.
- 9.24** Almost all of the 2011 write-off was assessed on a case-by-case basis. Small debts due from over 105,300 taxpayers, totalling €1.4 million, were considered uneconomic to pursue and were written off on an automated basis.

Write-Offs by Sector

- 9.25** Three economic sectors accounted for 59% of the total tax written off in 2011, with fiduciary taxes accounting for the majority of the write-offs in each sector. The total amounts written off were
- construction sector – €87 million (27% of write-offs)
 - wholesale and retail trade sector – €64 million (20%)
 - accommodation and food services sector – €37 million (12%).

The majority of taxes written off in these three sectors were due to liquidation and the trade ceasing with insufficient liquid assets.

- 9.26** €38.8 million of tax was written off in 2011 in 20 cases where the amount in each case was greater than €1 million (see Figure 9.7). An examination of those cases indicates that 90% of the tax written off was fiduciary tax and that VAT comprised around three quarters of this. The largest single amount written off in 2011 was €7.15 million in respect of VAT.

Figure 9.7 Tax Write-Offs in excess of €1 million each, by sector, 2011

Sector	No. of cases	Fiduciary Taxes ^a €000	Direct Taxes ^b €000	Total €000
Construction	9	9,831	3,027	12,858
Wholesale and retail trade	5	12,306	—	12,306
Administrative and support service activities	4	8,095	850	8,945
Accommodation and food service activities	1	1,080	—	1,080
Extraterritorial organisations and bodies	1	3,641	—	3,641
Total	20	34,953	3,877	38,830

Source: Office of the Revenue Commissioners

Notes: a PAYE/PRSI, VAT, Relevant Contracts Tax.

b Income Tax, Corporation Tax and Capital Gains Tax.

Special Management Units

- 9.27** The high level of write-offs due to liquidation and trade cessation highlight the importance of Revenue's Commonality and Phoenix Units.
- 9.28** The performance of these units is measured in terms of the compliance rate of the companies being monitored. A case is deemed to be substantially compliant under the Commonality Programme where the outstanding liability is nil and, in the case of the Phoenix Programme, where the outstanding liability is less than €5,000. Figure 9.8 shows the number of cases monitored in 2011 and the proportion that were compliant in their tax affairs.

Figure 9.8 Phoenix and Commonality Programme Compliance Rates, December 2011

Debt Management Unit	Cases	Compliant
Commonality Unit	3,787	71%
Phoenix Unit	658	66%
Total	4,445	70%

Source: Office of the Revenue Commissioners, Collector General's Division

Write-Off Assurance Procedures

- 9.29** The Internal Audit Branch in Revenue undertakes an annual examination of tax write-offs. Its 2011 audit examined a sample of 246 cases, representing 10% (€32 million) of the total value of write-offs in the year. Internal Audit was satisfied that all the write-offs were in accordance with the prescribed criteria. Internal Audit also examined the results of automatic write-offs in 2011 and verified that the authorised selection criteria were correctly applied.
- 9.30** The Accounting Officer stated that Revenue conducts on-going analysis of its debt collection activities in all cases where debts are written out. The Collector General's Division operates a debt management case working quality assurance programme to evaluate adherence to case working guidelines, including the guidelines relating to write-off of uncollectible tax debt. She noted that there is also a requirement in every case for a write-off decision report to be completed. This report requires the case worker to outline
- the tax payments made by the customer and Revenue's actions to effect collection
 - whether any extended periods of inactivity arose in case working or enforcement action
 - enforcement actions taken to secure payment of the debt before write-off was considered
 - information on any previous write-off in the case of businesses linked by common directors
 - lessons to be learned arising from the case and how those lessons are being applied to debt collection procedures.
- 9.31** This information is considered by the manager responsible for approving the write-off. The Collector General reviews a sample of cases written off across Revenue to ensure that the guidelines have been followed. These reviews consider whether further actions are required to reduce Revenue's exposure in such cases.

Conclusions and Recommendations

- 9.32** There was a significant increase in the amount of debt owed to Revenue between 2008 and 2010. The level of collectible debt outstanding reduced by around 5% during 2011. Revenue had targeted a reduction of over 13% for the year.
- 9.33** Direct taxes (self-assessed Income Tax, Corporation Tax and Capital Gains Tax) accounted for 56% of the total debt outstanding at March 2012. Much of this is old debt, relating back to 2009 and earlier years. The balance of the debt (44%) relates to fiduciary taxes, collected by employers and businesses on behalf of Revenue. Debts in these cases are significantly younger, reflecting in part a higher write-off rate due to businesses going into liquidation.
- 9.34** Because of the high risk of revenue losses due to businesses going into liquidation, Revenue has established specialist debt management units to target companies that have ongoing direct business links, or where related companies previously went out of business with debts to Revenue (referred to as phoenix companies). Over 4,400 cases in those categories are managed by the specialist debt management units. Around 30% of those cases owed money to the Revenue in 2011. This was down from an estimated 34% debtor cases in 2010.
- 9.35** Revenue aimed to reduce the average age of its debt during 2011, but a reduction was not achieved. The increased average age of the debt reflects the net impact of less new debt recorded, relatively higher rates of collection of younger debt and writing off of fiduciary taxes, and a high level of appeal of direct taxes.
- 9.36** Lodging an appeal puts a stop on Revenue's efforts to recover the related debts until after the appeal process is completed. 85% of the debt on appeal in March 2012 related to 2008 and earlier years of assessment.

Recommendation 9.1: 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.

Accounting Officer's Response: Agreed. Since debt is not available for collection until the appeal process is concluded it is not practical to develop targets for that category of debt. In relation to collectible debt, Revenue is developing additional performance measures. An I.T. development which is currently under testing will facilitate enhanced reporting on debt management performance.

- 9.37** Revenue does not have sufficient management information to allow it to readily monitor its effectiveness in debt management, and to target its debt collection effort. In February 2012, Revenue commenced piloting the use of a new debt analysis tool.

Recommendation 9.2: Revenue should develop its debt management system to include the capacity to generate reports showing the composition in terms of the type and age of debt, the size of the debt by case, and the current status and history of each case. It should also support the generation of relevant debt collection performance measures, including in relation to the rate of appeal, duration of appeal proceedings and appeal outcomes.

Accounting Officer's Response: Agreed. The new debt management tool introduced in February 2012 will enhance the information available in relation to outstanding debt. Revenue will continue to enhance its capability in relation to debt management programmes.