

Chapter 13

Revenue Debt Collection

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13.1 Within Revenue, primary responsibility for debt management rests with the Collector General's Office. 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 most of the business and personal taxes for which Revenue has responsibility. While a number of tax districts currently have a limited role in debt collection, arrangements are being finalised to centralise debt management in the Collector General's Office.

Chapter Focus

This chapter reviews Revenue's debt collection function and, in particular

- how it is organised and resourced
- the debt collection objectives it set the organisation in 2010 and the extent of their achievement
- an analysis of the debt outstanding at 31 March 2011
- the extent of write-off of debt in the year.

Resources and Objectives

13.2 Revenue's debt management programme as set out in its 2010 Output Statement is carried out by 700 staff, assigned to collection and compliance work. The objectives of the programme for the year were to

- optimise the effective collection of taxes and duties
- minimise compliance slippage in 2010, in particular for large and medium sized cases
- reduce collectible or uncontested debt not otherwise the subject of agreed payment arrangements or enforcement proceedings by 25% in the course of 2010.

Organisation of Tax Collection

13.3 Currently, there are 21 debt management units within the Collector General's Office. The key functions of those debt management units include

- identification of arrears cases
- addressing arrears through normal collection activities or enforcement¹¹².

¹¹² Enforcement actions include the application of interest charges, using the sheriff or solicitor to enforce the debt or the use of other enforcement actions, which include attachment, liquidation or bankruptcy.

13.4 Tax collection is managed as follows

- The management of cases generally is split over 20 debt management units. The scope of each unit's activity is determined by reference to case size or the average annual amount of tax paid¹¹³ by individual taxpayers. These are categorised into tiers.
- A Dedicated Pursuit Unit manages cases linked by common directors where the debt exceeds €250,000 (the Commonality Unit) and Phoenix cases (the Phoenix Unit). The operation of this Unit is considered separately in Chapter 15.
- Staff are allocated to the various debt management units on the basis of the value of the tax at risk. Large cases, with the highest value payments have the highest ratio of staff to taxpayers.

13.5 As a result of limitations in its IT systems, Revenue is not in position to extract information in relation to the value of debt and the number of taxpayers managed in each of the tiers. For the purpose of this examination, Revenue has provided estimates of the debt and taxpayer breakdown. This is set out by tier in Figure 62.

Figure 62 Organisation of Debt Collection 2010

Tier	Average annual tax	No. of units	Average staff (WTE) 2010	Cost for 2010 ^a	Number of taxpayers managed	Debt at 31 March 2011 ^b
	€000			€m		€m
One	In excess of 480	1	16	1	6,396	147
Two	300 – 480	2	21	1	7,681	144
Three	43 – 300	8	130	7	65,076	594
Four	6 – 43	6	83	5	142,155	534
Five	<6	3	34	2	294,972	659
Dedicated Enforcement Unit	Combined debt >250 or Phoenix	2	23	1	n/a ^c	n/a ^c
Special Projects and Compliance Units	Various	11	143	8	n/a ^c	n/a ^c
Total		33	450	25	516,280	2,078

Source: Office of the Revenue Commissioners

- Notes:
- a Staff costs are based on average salary for the relevant grade and includes overheads and employer PRSI. An additional €0.5 million in overtime costs, not included above, was incurred in 2010.
 - b Revenue does not maintain records for each tier. The estimates in this column were provided by the Collector General based on its work distribution model.
 - c Information in relation to the case numbers and debt amounts for these units is not available and is included within the tier structure data.

13.6 The Accounting Officer stated that the tiered structured approach, which assigns resources in line with risk levels associated with non-compliance on a case size basis, was introduced at the start of 2009 and further consolidated in 2010. She stated that this approach ensures that those cases that pose the highest risks, are targeted in a timely manner.

¹¹³ 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.

Taxes and PRSI Outstanding

13.7 Figure 63 shows the amount of tax outstanding for each category of tax and summarises the charges raised, the payments made and the amounts written off in the twelve-month period ended on 31 March 2011. Total tax outstanding at the end of March 2011 has decreased by €34 million to €2,078 million when compared to the same period in 2010.

Figure 63 Outstanding Taxes and PRSI^a

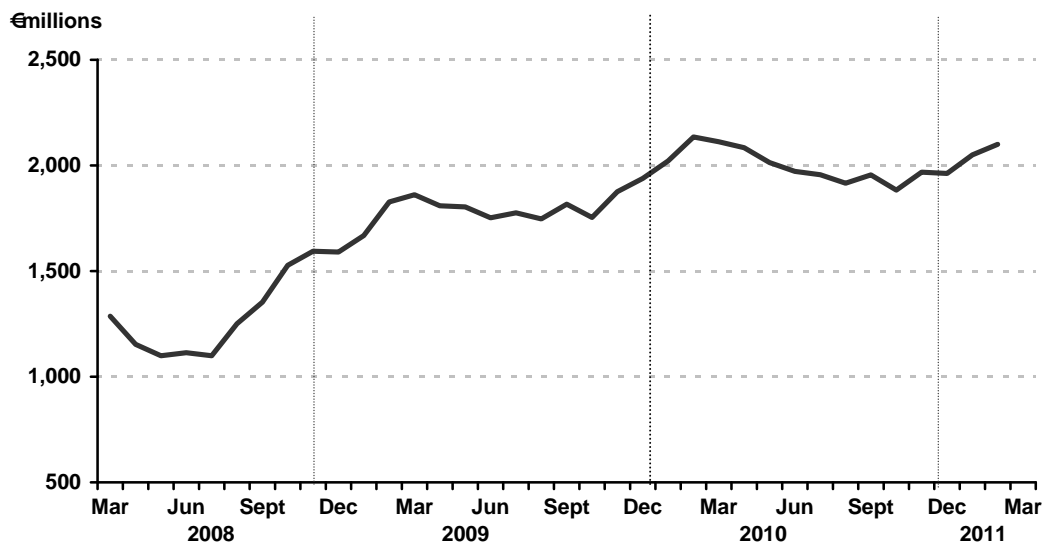
Tax or Levy	Balance at 31 March 2010	Net charges raised ^b	Paid	Written off	Balance at 31 March 2011
	€m	€m	€m	€m	€m
VAT	633	9,293	9,203	135	588
PAYE	173	10,529	10,528	35	139
PRSI	254	8,796	8,777	52	221
Income Tax (excl PAYE)	426	2,311	2,239	30	468
DIRT	–	442	442	–	–
Corporation Tax	315	3,527	3,498	13	331
Capital Gains Tax	244	339	310	4	269
Capital Acquisitions Tax	3	256	256	0	3
Abolished Taxes ^c	5	(5)	–	–	–
Relevant Contracts Tax ^d	59	13	(9)	22	59
Total	2,112	35,501	35,244	291	2,078
Debt as a proportion of net charges raised	5.4%				5.8%

Source: Office of the Revenue Commissioners

- Notes:
- The figures exclude those taxes which are not the subject of deferred collection, including Customs, Excise, Stamp Duties and that element of VAT associated with Customs and Excise. 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 2010 were reported by Revenue at €38.9 billion.
 - The opening balance of €5 million for Abolished Taxes was eliminated during 2010 as related debts, following investigation, could not be substantiated.
 - Relevant Contracts Tax net charges raised comprises assessments and declarations relating to principal contractors of €272.15 million, less claims of €259.34 million from sub-contractors. The net repayment of €9.44 million comprises €260.82 million received from principal contractors and €270.26 million repaid to sub-contractors (or offset against other tax liabilities).

13.8 Over the three years to March 2011, tax outstanding has increased to 162% of the level at March 2008 as depicted in Figure 64.

Figure 64 Monthly Debt Outstanding



Source: Office of the Revenue Commissioners

Management Approaches

13.9 The debt outstanding may be managed through

- normal collection activities
- payment agreements
- enforcement arrangements.

13.10 The debt outstanding at 31 March 2011 can be categorised into the debt management categories as set out in Figure 65.

Figure 65 Collection Status of Tax and PRSI, March 2011

Tax or Levy	Total debt €m	Under appeal €m	Under enforcement €m	Payment agreement €m	Other debt ^a €m
VAT	588	104	209	56	219
PAYE	139	12	9	9	109
PRSI	221	2	17	19	183
Income Tax (excl PAYE)	467	159	98	21	189
Corporation Tax	331	245	4	12	70
Capital Gains Tax	269	160	47	6	56
Capital Acquisitions Tax	3	–	–	–	3
Relevant Contracts Tax	60	7	18	3	32
Total March 2011	2,078	689	402	126	861
Comparator March 2010	2,112	669	378	119	946

Source: Office of the Revenue Commissioners

Note: a This category of debt comprises debt which is not under appeal and is not the subject of enforcement proceeding or payments agreements with the taxpayer.

13.11 €689 million, accounting for about one third of the total debt outstanding is the subject of an appeal by the taxpayer and, while the appeals are being disposed of, Revenue is prevented from seeking to collect it. This is an increase of €20 million over the amount under appeal twelve months previously.

13.12 In relation to the remaining debt which is available for collection – €1,389 million

- 29% of the debt is the subject of enforcement proceedings by Revenue (26% in March 2010).
- Revenue has concluded payment agreements in respect of 9% of the debt outstanding (8% at March 2010).
- Uncontested debt, which was not covered by agreements with the taxpayer or had not progressed to enforcement totalled €861 million, accounting for 62% of the collectible debt (€946 million – 66% of collectible debt in March 2010).

13.13 Revenue had adopted a target to reduce collectible or uncontested debt, not otherwise the subject of agreed payment arrangements or enforcement proceedings, by 25% during 2010. This category of debt stood at €880 million at end 2009 and had fallen to €815 million by end 2010 – a decrease of 7.4%¹¹⁴. The Accounting Officer is satisfied with this achievement in light of the extremely challenging economic and financial environment in which businesses have been operating.

13.14 Figure 66 sets out an aged analysis of the balance outstanding at 31 March 2011 in respect of taxes and duties due in relation to periods up to end 2010. It indicates that 20% of the amount outstanding related to the most recent tax period (26% in March 2010). Some 66% of the amount outstanding relates to tax periods prior to 2009 (the comparative percentage in relation to debt at March 2010 was 57%).

¹¹⁴ The figures in Figure 65 differ due to the fact that Figure 65 gives a later position (March 2011).

Figure 66 Aged Analysis of Pre 2011 Debt at 31 March 2011

Taxhead	Total tax outstanding €m	2010 €m	2009 €m	2006 to 2008 €m	Prior to 2006 €m
VAT	588	198	111	170	109
PAYE	139	57	27	34	21
PRSI	221	109	50	47	15
Income Tax	467	1	84	160	222
Corporation Tax	331	17	17	68	229
Capital Gains Tax	269	1	10	85	173
Capital Acquisitions Tax	3	–	–	–	3
Relevant Contracts Tax	60	26	4	22	8
Total	2,078	409	303	586	780
Comparator^a	2,112	550	363	478	721

Source: Office of the Revenue Commissioners

Note: a These are the corresponding amounts outstanding for periods ending twelve months previously.

Write-Offs of Tax and PRSI

13.15 €300 million of taxes and PRSI was written off during the year ended 31 December 2010, €61 million or 87% of which was in respect of fiduciary taxes¹¹⁵. Taxes written off have more than doubled between 2008 and 2010. The main increases in 2010 as compared with 2009 were as follows

- VAT written off increased by €33 million
- Income Tax written off increased by €15 million
- PRSI written off increased by €14 million
- PAYE written off increased by €6 million.

13.16 A breakdown by taxhead, of the total amount written off, is shown in Figure 67.

13.17 €298.2 million of the 2010 write-off was assessed on a case-by-case basis. The remaining €1.4 million, relating to 113,360 cases with balances of less than €1,000, which were considered uneconomic to pursue, was written off on an automated basis.

¹¹⁵ The fiduciary taxes are VAT, PAYE/PRSI and Relevant Contracts Tax and are collected by businesses on behalf of Revenue and held in trust until paid to Revenue.

Figure 67 Taxes Written Off

Taxhead	2008 €000	2009 €000	2010 €000
Fiduciary taxes written off			
Value Added Tax	57,710	101,530	134,539
PAYE	19,831	37,145	43,535
PRSI	25,438	47,610	61,480
Relevant Contracts Tax	12,581	16,617	21,875
	115,560	202,902	261,429
Direct taxes written off			
Income Tax	5,310	10,305	25,001
Corporation Tax	3,016	3,889	8,259
Capital Gains Tax	985	2,610	3,498
Automatic Write-Offs	4,125	1,842	1,398
	13,436	18,646	38,156
Total tax written off	128,996	221,548	299,585

Source: Office of the Revenue Commissioners

13.18 In 2010, there was a 17% increase in PAYE write-off and a 29% increase in PRSI write-off. In response to my inquiries in this regard, the Accounting Officer noted that an internal review of debt written off in cases relating to insolvency in 2010 revealed that, while the number of insolvencies remained very much the same in the construction and services sectors, the number of insolvencies in the hospitality sector increased by 26%. Revenue noted that the hospitality sector is associated with lower paid employment and, as the PAYE/PRSI ratio is higher in such employments, this would have contributed to the comparatively higher PRSI write-off in 2010.

13.19 Figure 68 sets out the number of cases and the amount written off by category. Approximately 87% (€259 million) of the amount written off arose in cases where businesses had ceased or encountered difficulties. The balance of €40 million relates to cases where the amount outstanding was not collected due to factors such as an inability to locate the taxpayer, a decision by Revenue that the amount outstanding did not warrant committing resources to collecting it and compassionate grounds.

Figure 68 Reasons for Write-Off

Reason	2009		2010	
	Number of cases	Amount written off €000	Number of cases	Amount written off €000
Business cessation/difficulty				
Liquidation/receivership/bankruptcy	1,260	131,876	1,739	165,979
Ceased trading – no assets	1,000	47,533	2,032	77,205
Uncollectible due to financial circumstances of taxpayer	233	7,148	305	8,369
Examinership	28	7,497	32	6,974
Deceased and estate insolvent	49	746	74	869
Other reasons				
Cannot be traced/outside jurisdiction	209	6,409	563	10,916
Uneconomic to pursue ^a	76,067	18,961	120,953	27,544
Compassionate grounds	76	1,197	135	1,575
Unfounded liability	20	181	17	154
Total	78,942	221,548	125,850	299,585

Source: Office of the Revenue Commissioners

Note: a Includes 113,360 cases written off automatically (74,111 in 2009).

13.20 The largest single amount written off in 2010 was €3.82 million in respect of PAYE/PRSI (€3.15 million) and VAT (€0.67 million). There were 16 other cases where the amount written off was greater than €1 million.

13.21 The Internal Audit Branch in Revenue undertakes an annual examination of tax write-offs. Its 2010 audit examined a sample of 255 cases, representing 17.3% (€1.5 million) of the total value of non-automated write-offs (€98 million). Internal Audit was satisfied that all write-offs were in accordance with the criteria prescribed. Internal Audit also examined the results of the automatic write-offs in 2010 and verified that the authorised selection criteria were correctly applied.

13.22 Figure 69 outlines the breakdown of amounts written off under each taxhead, for all cases where more than €1 million was written off in 2010. In all but one case, the write-off of tax related to business cessation or insolvency.

Figure 69 Tax Write-Offs in excess of €1 million – 2010

Reason	No. of cases	Fiduciary Taxes ^a	Direct Taxes ^b
Creditors voluntary liquidation	7	8,898,619	1,830,750
Revenue court liquidation	3	6,441,443	585,112
Ceased trading – no assets	2	4,889,002	—
Examinership	2	2,735,187	12,148
Cannot be traced – outside jurisdiction	1	2,793,340	—
Insolvency – adjudicated bankrupt	1	—	2,231,570
Company was wound up	1	1,237,879	—
Total	17	26,995,470	4,659,580

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

b Income Tax, Corporation Tax and Capital Gains Tax.

Conclusion

At the end of March 2011, debts owing to Revenue amounted to €2.1 billion. Outstanding debt now represents just short of 6% of the corresponding charges raised.

In 2010, Revenue aimed to reduce the level of uncontested debt, not subject to enforcement proceedings or payment agreements with the taxpayer, by 25% – the actual reduction achieved was 7%.

The value of taxes written off continues to increase. There was a significant increase in the value of tax written off in 2010 when compared with 2009 and 2008. Write-offs increased by 72% in 2009, when compared with 2008. A further increase of 35% was recorded in 2010.

The largest amount of tax written off in a single case in 2010 was €3.8 million. In sixteen other cases, debts in excess of €1 million were written off. In all but one case, the write-offs were related to business cessation or insolvency.

