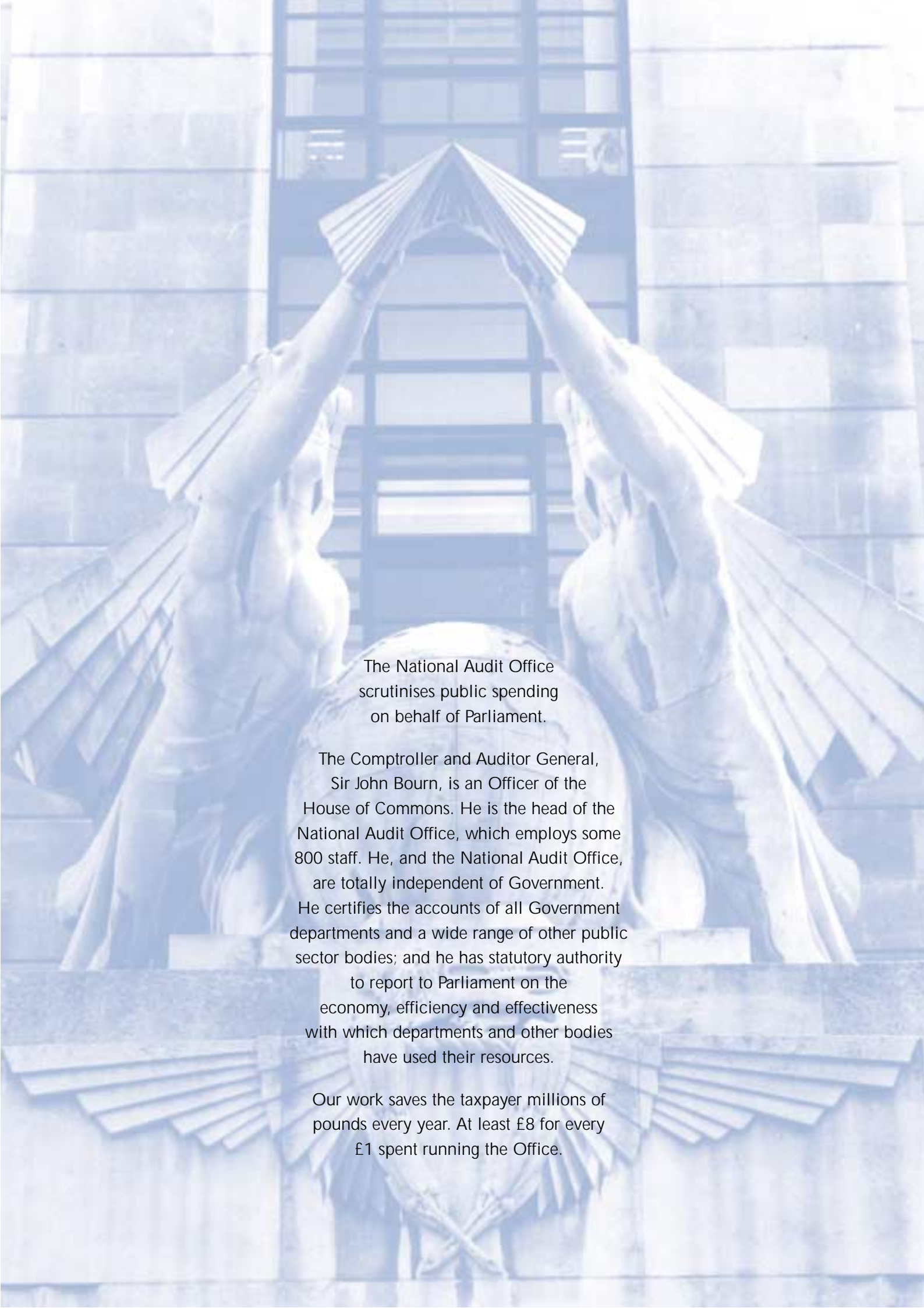


# The Recovery of Debt by the Inland Revenue

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 363 Session 2003-2004: 24 March 2004



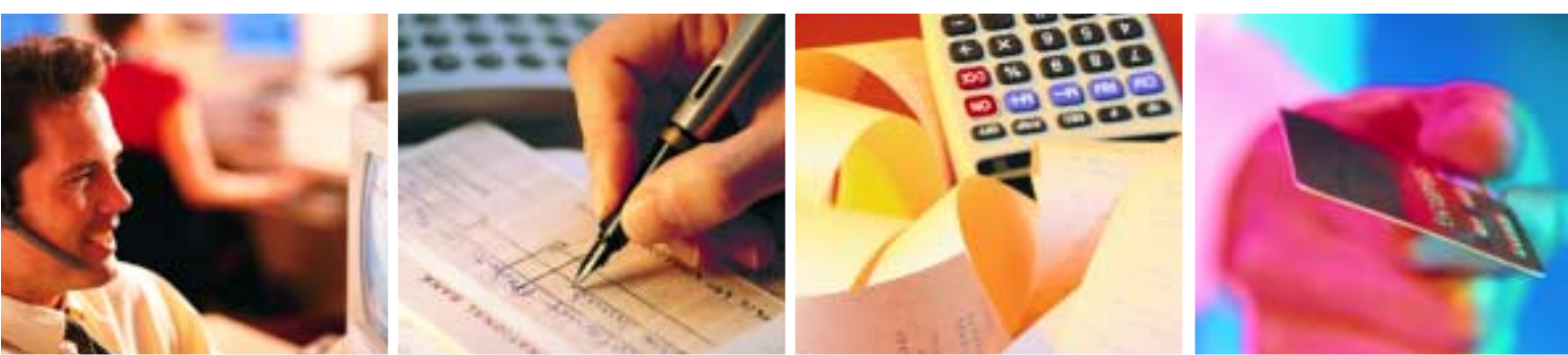


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# The Recovery of Debt by the Inland Revenue



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 363 Session 2003-2004: 24 March 2004

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

*John Bourn* National Audit Office  
Comptroller and Auditor General 15 March 2004

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# executive summary

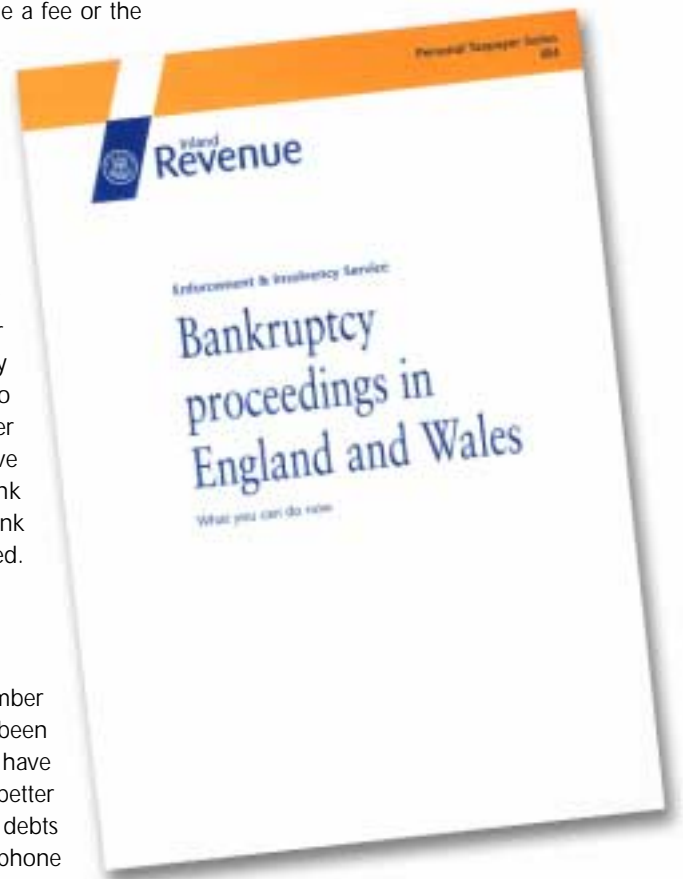
- 1 The Inland Revenue collected £219 billion in tax and National Insurance contributions in 2002-03. Most people and businesses pay their taxes on time but many thousands get into arrears because of financial difficulties or because they are unwilling to pay. At the end of March 2003, taxpayers owed around £14 billion although the total fluctuates throughout the year. A significant proportion of this debt was owed by insolvent businesses and by taxpayers who could not be traced, or was under negotiation or being paid off under instalment arrangements. The amount owed includes outstanding tax, interest, surcharges for late payment and penalties for failure to submit tax returns on time. The largest amounts outstanding are on Pay As You Earn (PAYE which includes National Insurance contributions) and Corporation Tax (paid over by businesses) and self-assessed Income Tax (paid by individuals such as those with an income not taxed at source).
- 2 After initial reminders to taxpayers requesting payment, cases which remain unpaid are followed up by the Department's Receivables Management Service which also chases up outstanding tax returns. In April 2001 the Department brought together all debt management functions into a separate business unit to enable the Receivables Management Service to pursue debts consistently and efficiently. The Service has some 8,000 staff and payroll costs of around £153 million a year.
- 3 The Receivables Management Service attempts to contact most taxpayers through its Telephone Centre to negotiate settlement, before passing cases which have not been settled to one of 143 local recovery offices for follow up action. This action can include negotiating time to pay off the amount owed, seizing goods, and taking the taxpayer to court to recover the amount owed. Where it is not possible to recover a debt using these methods the Service may instigate procedures to wind up a company or bankrupt an individual. If the debt cannot be recovered it may be written off. In the year to October 2002 the Department wrote off £523 million. In the year to March 2003 £275 million was written off in respect of National Insurance contributions.
- 4 This report examines:
  - The Department's performance in collecting debt (Part 1);
  - Whether the Department could collect and enforce debts more quickly and at lower cost (Parts 2 and 3);
  - Whether they could do more to encourage debtors to pay on time (Part 4).
 Our study methodology is set out in Appendix 1.

- 5 A review completed in 2001 recommended that the debt management and banking operations of the Department and HM Customs and Excise should be combined to achieve efficiency savings. In July 2003 the Chancellor announced a major review of the organisations dealing with tax policy and administration (HM Customs and Excise and the Inland Revenue) chaired by the Permanent Secretary to the Treasury, Gus O'Donnell. The primary purpose of the review is to make public service delivery more effective and efficient, examining ways to enhance service delivery through closer working or organisational change, possibly by restructuring the Departments. Another project being considered by the Cabinet Office is looking at developing a debt management function for the whole of Government which is examining the scope for consolidating all amounts owed by and to individuals in their dealings with Government. The practices and recommendations set out in this report are relevant to these wider initiatives.
- 6 From our work, we conclude that the Department have made significant improvements in recent years to the way that they collect and enforce debts. There are opportunities to improve performance further by providing more information, advice and support to taxpayers to help them comply, by making it easier for taxpayers to settle debts, and by improving the effectiveness of the Department's collection and enforcement methods to recover debts more quickly.

## Measures to improve debt collection and enforcement

- 7 The Department have systems for collecting debts which match the best used by other tax authorities we visited but they could develop these further. A review commissioned by the Department confirmed that the decision to set up the Telephone Centre was fundamentally sound because it costs significantly less to recover debt than other methods and enables the Department to make contact with taxpayers early in the process. The Telephone Centre employs around 285 staff at a cost of almost £9 million a year and makes initial contact with the taxpayer to collect the debt and any outstanding tax return. Given the substantial investment the Department have made in the Telephone Centre they should make better use of it by:
- *Routing through the Centre debts totalling over £3 billion a year which are currently handled by more expensive methods.* This includes individual debts of more than £5,000 on self-assessed Income Tax which are dealt with by local recovery offices, Class 2 National Insurance debt and various debts, such as overdue penalties, collected using manual systems. During 2005, the Department intend that all self-assessed Income Tax cases will be handled by the Telephone Centre.
  - *Pursuing all debts owed on different tax streams during initial contact with the debtor where appropriate.* The Department use separate computer systems to recover debts and taxpayers may be approached separately for each, for example, a sole trader with employees who owes self-assessed Income Tax, Class 2 National Insurance contributions and Pay As You Earn (PAYE). It may be more effective and efficient to use computer systems to consolidate relevant information for each debtor.
  - *Moving to the Telephone Centre some of the work carried out in local recovery offices such as initial telephone calls to enquire why promises to pay have not been kept.*

- 8 We found that the Telephone Centre had a backlog of 91,000 cases over six months old at the end of July 2003 which needed to be traced on self-assessed Income Tax. Following action by the Department the backlog had been reduced to 1,000 cases by the end of January 2004.
- 9 On PAYE, the Receivables Management Service has started to use the past history of employers to determine the most appropriate type of action to collect a debt. It recognises that there is much more to do in this area. For example credit card and utility companies use a range of techniques such as behavioural and collection scoring in order to group their customers into debtor types and then design methods for collecting the debts suited to each. Difficult to recover debts may be passed onto debt collection agencies which charge a fee or the debt may be sold on where cost effective. The private sector also shares information on the payment histories of individuals on a regular basis which gives them a wider and up to date view of individuals' financial circumstances. This enables private sector companies to identify those who are able to pay, and also points to the potential recovery actions which could be taken.
- 10 In cases where companies have gone into liquidation, the Department have to write off the debt because it is no longer recoverable. The most recent figures show write offs of over £575 million. They are starting to take earlier action to identify businesses heading for difficulty which could raise up to £50 million a year. Some tax authorities overseas use other measures to protect revenue, which the Department do not have the legislative powers to apply. These include using bank guarantees and requiring companies to put taxes into separate bank accounts in the Department's name as soon as these are deducted.



## Better information to improve performance

- 11 The performance of the Telephone Centre is assessed on the number of debt cases it actions which includes cases where payment has been obtained, promises to pay have been made and where cases have been passed onto the local recovery office for further action. A better measure of success would be the number and values of the debts collected as a percentage of the total passing through the Telephone Centre. The Department plan to introduce this by 2005.
- 12 Where the Telephone Centre is unsuccessful in recovering a debt, letters will be generated automatically by the Department's computer systems warning the taxpayer that further action may be taken. The local recovery offices may also write to the taxpayer, telephone or visit the taxpayer, to establish the nature of the problem. Seizure of the taxpayers' moveable assets (such as motor vehicles) known as distraint in England, Wales and Northern Ireland, or Court proceedings may then follow. The number of distraint and court proceedings increased from 155,416 in 2001-02 to 180,622 in 2002-03 because enforcement action was taken more quickly thereby increasing throughput. The Receivables Management Service however does not have sufficient reliable management information to predict the most effective methods to use in individual cases. It regards distraint as the most useful because people often pay if warned that this action will be taken. Better management information would help the Receivables Management Service to analyse the success of each of the recovery methods and allow it to determine more accurately appropriate recovery strategies for each case.

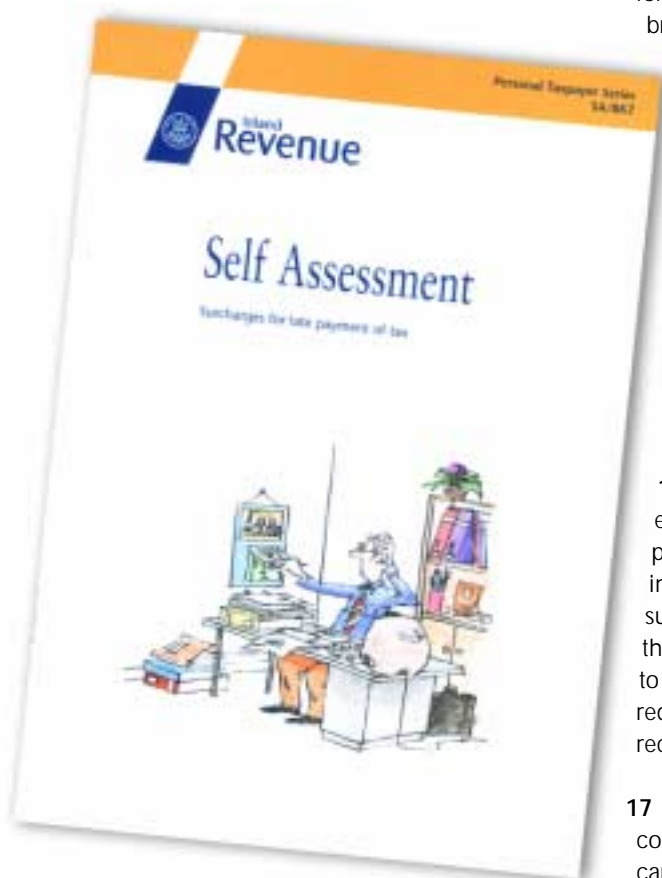


- 13 The Receivables Management Service has been benchmarking its processes with Tax Authorities in other countries to identify areas for improvement. With better management information, such as that set out in Appendix 2, the Service could adopt a wider range of practices used by other bodies in the public and private sectors to improve performance and test the effectiveness of their practices.

### Matching workload and resources

- 14 Over £3 billion on PAYE, Corporation Tax and self-assessed Income Tax was more than one year old at 31 March 2003. Under the Spend to Save initiative announced in Budget 2003, the Department have been given additional funding for an extra 75 staff to reduce the backlog of debt on these taxes which should bring in an extra £85 million a year in tax revenue by 2007-08. Given the amount of debt that is outstanding over one year old, it will be important for the Department to review, following the first year's experience on the Spend to Save initiative, the scope for further reductions.

- 15 Local offices which deal with the highest volume of debt have cleared a lower percentage of debt cases than others. To address this problem, the Receivables Management Service shifted part of the workload on self-assessed Income Tax to other parts of the organisation. It has also piloted the clustering of local offices to spread the workloads more evenly in an area and has decided to extend this approach to all local offices.



### Approaches to encourage prompt payment

- 16 There are a number of approaches used by the Department to encourage taxpayers to pay promptly. These include providing a range of payment methods to make the payment of taxes as easy as possible, imposing surcharges and interest on late payments, providing information, support and advice to taxpayers on their responsibilities and what to do if they have a problem. Encouraging taxpayers to pay their taxes on time helps to improve compliance rates thereby preventing the build up of debt and reducing the Department's costs of collection, as well as securing earlier receipt of sums owed.
- 17 The Department want more taxpayers to pay electronically because it is convenient and efficient. The Telephone Centre has been able to accept debit card payments since 2003 and local recovery offices will also be able to do so from mid 2005. The Department do not accept credit card payments but are considering the implications of offering this method of payment, including how the costs of any handling fees would be met.
- 18 The Department will consider giving taxpayers additional time to pay in cases of financial hardship. Taxpayers and those who advise them, would be better equipped to deal constructively with the Department if they knew more about the criteria for the acceptance of time to pay arrangements. In the United States of America, taxpayers can consult the Internal Revenue Service website to determine whether they are eligible for time to pay arrangements and can calculate the monthly instalments required to pay off a debt.

- 19 Helping taxpayers understand how their tax has been calculated is important in securing prompt payment of any sums due. The Department recognise that self-assessed taxpayers, whose affairs are complex, can find it difficult to understand the statement of account which sets out the calculation of tax and the amount owed and, in consultation with representative organisations, are looking to redesign it.
- 20 The Receivables Management Service provides a range of support and advice to help taxpayers understand their responsibilities for filing returns and paying their tax on time. This includes giving advice to taxpayers; making available a range of leaflets on dealing with tax debts; and seconding a member of staff to a voluntary sector organisation that advises taxpayers on debts. The Service recognises that some of its leaflets are out of date and plans to publish new versions in 2004. It could also provide more information and support for those who advise taxpayers on how to deal with debts and improve the Department's website by learning from tax authorities in other countries such as Australia, New Zealand and the United States which have well designed websites with helpful information to those who may be in financial difficulty.
- 21 To deter taxpayers from filing their tax returns and paying their taxes late, the Department can charge penalties and interest. Payments of PAYE should be made by the 19th of each month. The Department monitor payments received by the 23rd of each month but only 52 per cent of employers meet this target. The Committee of Public Accounts in their 29th report of Session 2002-03 recommended that the Department should aim higher than their current target of 50 per cent. The Department find that compliance levels increase when the final payment is made for the year in April. This is because the Department cannot charge interest when employers are late in paying each month except in April each year when interest is applied if the final payment for the year is not made on time. From April 2004 it will be mandatory for employers with 250 or more employees to pay their PAYE electronically. This is expected to improve compliance levels.
- 22 Tax authorities overseas and financial institutions use other measures to encourage payment on time, which the Department do not have legislative powers to apply in the UK. For example, a common practice used by financial institutions and the tax authority in the Netherlands is to charge for sending reminders to settle a debt. The Department issue over six million reminders a year. The tax authorities in the United States of America, Ireland and Norway also issue tax clearance certificates, which confirm that a taxpayer's affairs are in order, to encourage payment on time. These certificates are needed when a taxpayer seeks a Government contract or when obtaining a licence such as an excise or road transport licence. The certificates can also help to change taxpayers' attitudes to paying tax.

# Recommendations



**23** Our recommendations are designed to help the Department further improve their approach by identifying opportunities to reduce the levels of debt owed; to collect debts more quickly or reduce collection costs. The recommendations in paragraphs 24 to 26 below suggest improvements which the Department could introduce, building on their work to date. The Department would need to do further work to assess the savings that could be achieved from adopting the recommendations. The recommendations in paragraph 27 identify measures worthy of further consideration but which would require legislation to introduce.

**24 To improve debt collection the Department should:**

- have the capacity to route all types of debt through the Telephone Centre automatically;
- where appropriate pursue all debts owed on different tax streams during initial contact with the debtor;
- move to the Telephone Centre some of the work carried out in local offices, for example following up on cases where promises to pay have not been kept or where enforcement action has commenced;
- continue to move work between local offices and other parts of the Receivables Management Service to match workload more closely to resources;
- draw on the first year's experience of their Spend to Save initiative to assess the benefits of allocating additional resources to the recovery of debts over one year old;
- use scoring techniques to categorise debtors with appropriate recovery actions for each;
- use their information on taxpayers to predict those that are likely to get into debt and take early action to advise and support them.

**25 To improve management information as an aid to better performance the Department should:**

- develop systems to provide information needed to manage debt effectively (Appendix 2);
- periodically assess the cost effectiveness of the Telephone Centre and of campaigns for collecting debt and set targets for improving amounts collected; promises to pay kept and instalment arrangements maintained;
- analyse the success of different methods for recovering debt from different types of debtor as a basis for targeting future actions;
- upgrade computer debt management systems to help staff quickly and easily identify amounts owed by debtors across all tax streams.

**26 To provide more help for taxpayers who are in debt, the Department should:**

- clarify for taxpayers the criteria for granting time to pay;
- improve the statement of account so that taxpayers can easily understand the amounts they owe;
- as a matter of urgency, give taxpayers better information about payment and debt recovery arrangements.

**27 The Department may wish to explore the benefits and implications of the practices listed below which are used elsewhere in the private sector or by tax authorities overseas. However these would require changes in legislation to introduce:**

- providing the facility to pay by credit card and passing on handling costs to customers;
- applying penalties for all employers who are late in paying PAYE during the year;
- requiring companies with poor payment records to provide bank guarantees and/or set up separate bank accounts in the Department's name in which taxes deducted should be immediately transferred to help protect the revenue from losses from bankruptcy;
- charging for reminder letters to taxpayers who do not settle debts on time but have the ability to pay;
- selling on some of the hardest to collect debt to other organisations where it is cost effective;
- issuing tax clearance certificates where appropriate to compliant taxpayers who pay their taxes on time.



## About your Statement of Account

This statement gives details of

- all transactions since your previous statement,
- any balance now payable, and
- any amount shortly becoming due for payment.

If an Amount to pay is shown overleaf, please pay by the due date(s), or you will be charged interest. **If you have paid in the last few days the payment will appear on your next statement.**

### Dates payments are due

When a payment is due, we print the due date beside this in the left-hand column.

Payments on account are due before you have to send your Tax Return for the year. They are based on your bill for the previous tax year.

If the payments on account are less than your final bill for the year, a balancing payment is shown.

### Repayments

Your statement may show the date of a repayment. We carry out security checks, so the repayment may actually be posted some time after the date shown.

### How to contact us

- If you think your statement is wrong, please get in touch with the office shown overleaf.
- If you need help, you can call at an Inland Revenue Enquiry Centre during normal office hours - look in the phone book for your nearest centre.
- For general advice in the evening or at weekends you can call our Helpline on 0845 9 000444. Calls are charged at local rates.

### If you have an agent

We suggest you show this statement to your agent.

## How to pay

Please allow enough time for payment to reach us by the due date. We suggest you allow at least 3 working days for this.

### We recommend the following payment methods.

These are the most secure and efficient.

#### Internet or telephone banking



Provide your bank or building society with the following information:

- sort code 10-50-41,
- account number 23456000 and
- your paylip reference as shown on the paylip overleaf (10 numbers plus the final K).

#### At your Bank



Take this form with payment to your bank and where possible to your own branch. Other banks may refuse to accept payment. Please make cheques payable to 'INLAND REVENUE ONLY'.

#### At a Post Office



Take this form with your payment to any Post Office. If paying by cheque, make your cheque payable to 'POST OFFICE LTD'.

#### Girobank



If you have an Alliance & Leicester / Gm account send the completed paylip direct to Girobank.

### We can also accept payment by post



**By post** if you use this method

- Make your cheques payable to 'INLAND REVENUE ONLY'
- Write your paylip reference after 'INLAND REVENUE ONLY'
- Send the paylip and your cheque, both **unfolded**, to the Accounts Office in the envelope provided.

You can find further information at <http://www.inlandrevenue.gov.uk>

#### Your Accounts Office is

Inland Revenue Accounts Office  
Shipley  
BRADFORD  
BD98 8AA  
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# Part 1

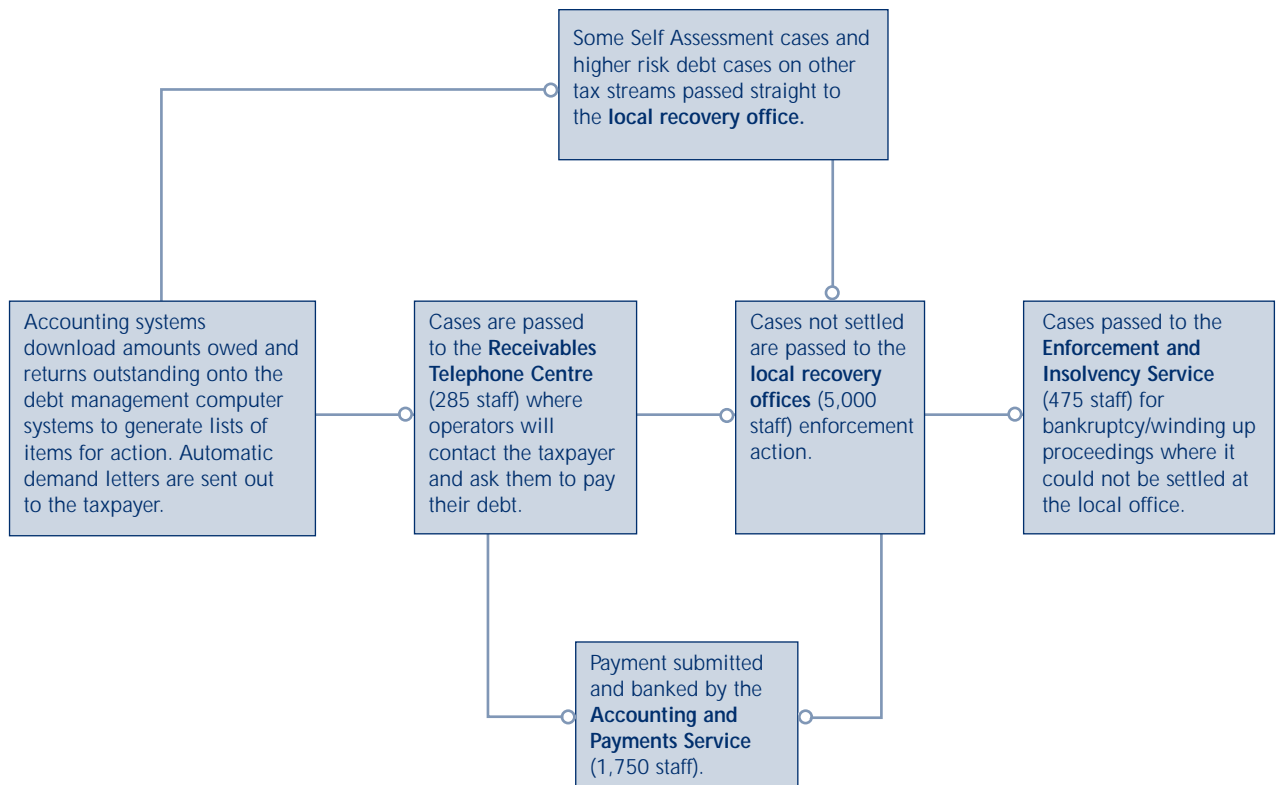
## The Department's performance in recovering debt

### The Receivables Management Service

1.1 The Department's Receivables Management Service is responsible for collecting debts (Figure 1), for receiving and accounting for payments and for chasing up outstanding tax returns. It employs around 8,000 staff at a payroll cost of £153 million a year. The Service was set up in April 2001 to bring together the Department's debt management functions into a single business unit, and to take a more consistent and efficient approach to pursuing debt. Centralised debt management functions are commonly used in the private sector, such as in major financial institutions, and they are being used increasingly in the public sector.

1.2 The Receivables Management Service's objective is to collect tax promptly and keep tax debts to a minimum. Their priorities are to collect the highest value debt and most recent debt as well as outstanding tax returns. The Service chases up outstanding tax returns alongside collecting debt because taxpayers must file tax returns to enable the Inland Revenue to establish the amounts owed. The Service also provides advice and support to help taxpayers comply in the future. Figure 2 shows that the Receivables Management Service exceeded its main targets on the collection of tax in 2002-03 when these were set for the first time.

#### 1 The Receivables Management Service's approach to collecting the majority of its debt



## 2 The Receivables Management Service's main targets and outturn

Targets on tax collected	2002/03 Target %	2002/03 Outturn %	2003/04 Target %
Percentage of employers who pay within 12 months of the due date (19th May)	96.5	97.0	96.7
Percentage of self-assessed taxpayers who pay within 12 months of the due date (31st January)	94.0	98.6	98.6

Source: *The Inland Revenue*

### What this report examines

1.3 This report examines:

- the Department's current performance in collecting debt (Part 1);
- whether they could collect debts more quickly and at lower cost (Part 2);
- whether the Department use appropriate methods to enforce the recovery of debts (Part 3);
- whether they could do more to encourage debtors to pay on time (Part 4).

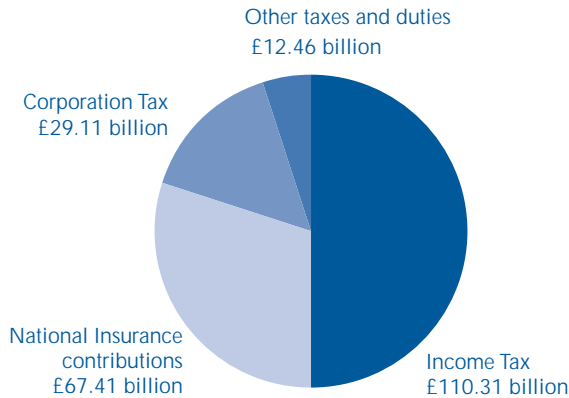
1.4 We employed specialist consultants to build a computer simulation model of the Department's approach to collecting debts. From the model, we were able to identify the times of year when debt levels build up and fall and the time taken to clear peaks. We analysed the Department's data on the clearance of debts by local recovery offices and we held focus groups with staff from these offices to identify areas where the work could be carried out more efficiently. Professor Wilson of Leeds University produced a report on best practices used in the private sector to collect debts and we contacted ten tax authorities overseas to discuss their practices. An Advisory Group provided expert advice to the NAO team. Further details on our methodology are set out in Appendix 1.

### The amount of debt outstanding

1.5 In 2002-03 the Inland Revenue collected £219 billion net in direct taxes and National Insurance contributions from 30 million taxpayers ranging from individuals to large multi-national corporations (**Figure 3**). Debts arise when taxpayers have not paid sums that are legally due by the date required. For example the final payment for self-assessed Income Tax is due on 31 January following the end of the tax year. The total level of debt can fluctuate throughout the year because of various statutory deadlines for paying different taxes. Taxpayers may not pay the amount owed on time because they do not understand that they need to pay the amount demanded or have forgotten to do so, or will not face up to their commitments or because they face temporary or longstanding cash flow problems. Others want to make it as difficult as possible for the Department to collect the debt in the hope that the amount owed will not be pursued further. There are some however who do not have any assets or income which will enable them to settle the debt such as those who are unemployed but owe money from a period when they were in employment.

1.6 Taxpayers owed the Department around £14 billion at the end of March 2003. Most of the debt is on Pay As You Earn (including employees' Income Tax and National Insurance Class I contributions deducted by employers), Corporation Tax, and self-assessed Income Tax (**Figure 4**). A significant proportion of this debt was owed by insolvent businesses and by taxpayers who could not be traced or was under negotiations, or being paid off under instalment arrangements. There were also 295,000 debt cases of Class 2 National Insurance contributions within the debt management system (payable by the self employed at £2 a week) totalling £140 million or an average of £475 each. Ensuring these debts are paid is of added importance because this affects the taxpayer's contributions record and their entitlement to welfare benefits including the state retirement pension.

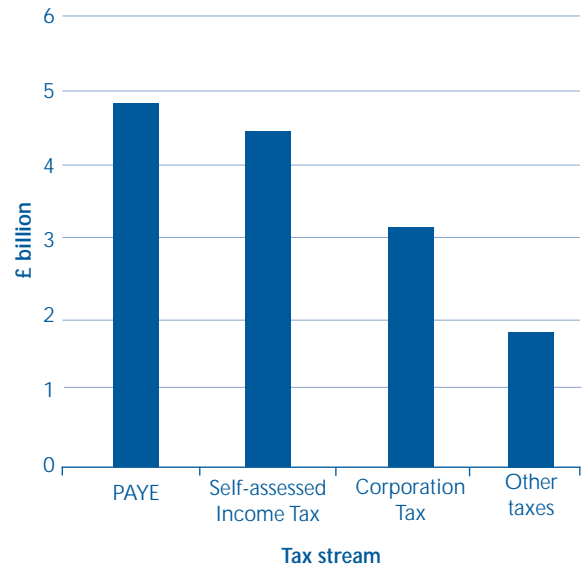
**3** The net tax and National Insurance contributions collected by the Department in 2002-03



Source: The Inland Revenue

- 1.7 Since 2000 there has been a gradual increase in the amount outstanding on PAYE and self-assessed Income Tax. At the end of March 2003 over half of the 2.3 million cases of debt on self-assessed Income Tax and PAYE were for less than £1,000 (Figure 5). The largest amounts owed however were for cases over £4,500 each.
- 1.8 Over £3 billion on PAYE, Corporation Tax and self-assessed Income Tax was more than one year old at 31 March 2003 (Figure 6). Under the Spend to Save initiative announced in Budget 2003, the Department has been given additional funding for an extra 75 staff to reduce the backlog of debt on these taxes which should bring in an extra £85 million a year in tax revenue by 2007-08. Given the amount of debt that is outstanding over one year old, it will be important for the Department to review, following the first year's experience of the Spend to Save initiative, the scope for further reductions.

**4** Levels of debt outstanding at the end of March 2003



**NOTES**

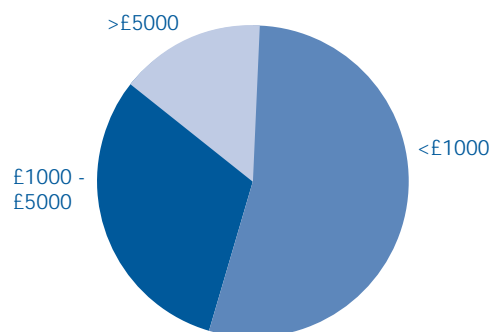
- 1 These amounts include interest, penalties and surcharges assessed by the Department for late payment.
- 2 The total of these amounts include all debts outstanding to the Department as at 31st March 2003. A significant proportion of this debt clears within a few days of being raised as a result of automatic demand letters issued by Department and does not get passed to the Receivables Management Service for action.

Source: The Inland Revenue



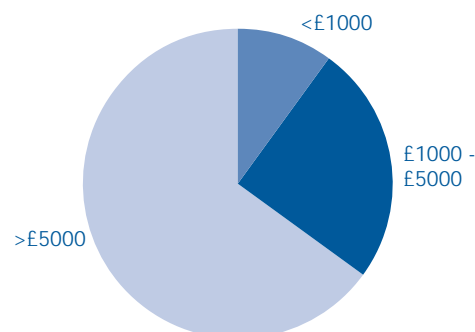
**5 Analysis of the debts outstanding on PAYE and self-assessed Income Tax on 31st March 2003**

Proportion of self-assessed cases outstanding by volume



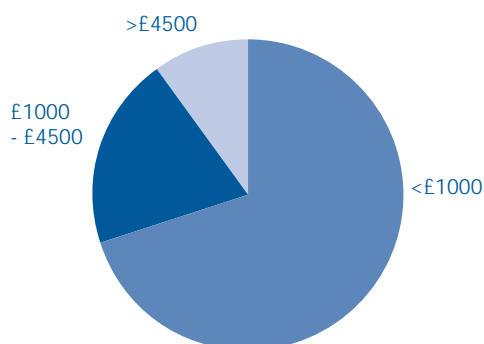
Total number of self assessment cases - 1 million

Proportion of self-assessed cases outstanding by value



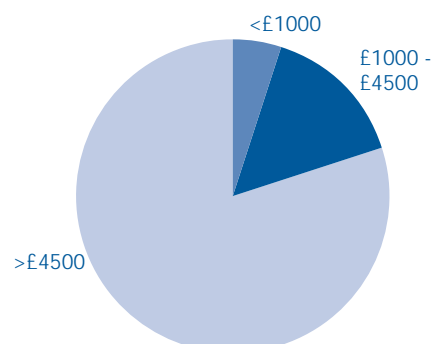
Total value of self assessment cases - £4.5 billion

Proportion of PAYE cases outstanding by volume



Total number of PAYE cases - 1.2 million

Proportion of cases outstanding by value



Total value of PAYE cases - £3 billion

**NOTE**

The amount of debt outstanding on PAYE differs from the amount shown in Figure 4 because it does not include the proportion of recent debt which has not yet been passed to the Receivables Management Service for action. Much of this debt clears within a few days of being raised as a result of automatic demand letters issued by the Department.

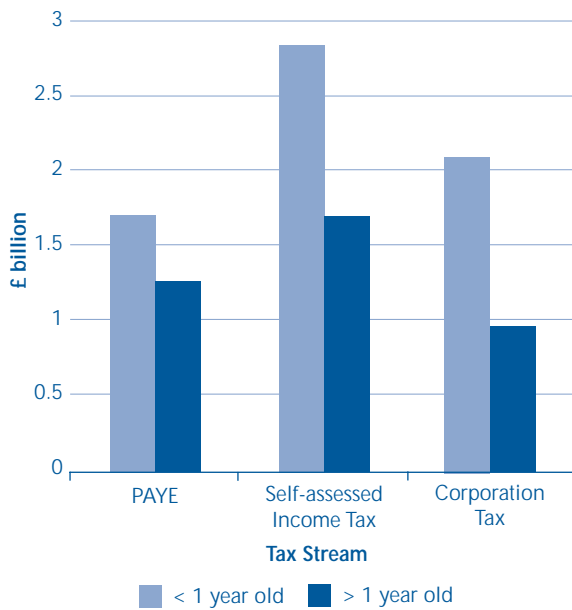
Source: National Audit Office

## The Department's debt management systems

1.9 The Receivables Management Service uses an automated Integrated Debt Management System to manage the collection and enforcement of debts for PAYE and Corporation Tax and other miscellaneous duties. The system was introduced in November 1999 in response to the 1994 Fundamental Expenditure Review which compared the Department's debt management processes with best practice in the private sector. The purpose of the system is to improve efficiency, reduce costs and tax arrears and to increase tax flows. The Receivables Management Service use separate systems for other tax streams such as for self-assessed Income Tax and Class 2 National Insurance contributions. Self-assessed Income Tax will be moved onto the Integrated Debt Management System by 2005 but a date has not been set for Class 2 National Insurance contributions.

1.10 The Service's computer systems produce a great deal of information such as the total amount of debt collected each month on each tax stream and the number of enforcement actions and the amount of debt involved. The Service recognises however that the information has been unreliable and that there are gaps such as on the number and value of cases settled at each stage of the debt recovery process for each tax stream; where backlogs occur in the system and how long these take to clear; and the costs of taking each type of recovery action. The lack of such information affects the Service's ability to manage the work as efficiently as possible and to assess the effectiveness of actions taken. The Service intends to improve its management information systems but this depends on funds being made available. Drawing on the practices of other organisations, we have identified the types of information that would enable the Receivables Management Service to manage debt more effectively (Appendix 2).

**6** Age of debts on PAYE and self-assessed Income Tax at 31 March 2003



**NOTE**

The amount of debt outstanding on PAYE differs from the amount shown in Figures 4 because it does not include the proportion of recent debt which has not yet been passed to the Receivables Management Service for action. Much of this debt clears within a few days of being raised as a result of automatic demand letters issued by the Department.

Source: The Inland Revenue

1.11 Private sector companies we contacted have invested heavily in reliable management information to help them identify opportunities for collecting debt more quickly and at lower cost and to understand better their customers and the types of actions that are most effective in recovering debts. The information also enables them to use a number of techniques for improving performance (Figure 7). The tax authorities in Austria and the Republic of Ireland have also developed computer information systems which enable effective management of the total debt workload (Case example A).

**CASE EXAMPLE A**

**Austrian Tax Authority's management information system**

In April 2001 the Austrian Tax Authority introduced a new debt management system on which all taxes are managed. The system is very flexible and allows revenue officers and managers to filter and search the database of debts on many different criteria e.g. age, value, number of recovery actions taken and time taken between recovery actions. The results of searches are available immediately. The system allows officers and managers to manage the workload and prioritise debts for collection. It also allows the staff in head office to analyse the performance of the different tax offices and individual collection officers.

Source: National Audit Office

**7** Techniques used by the private sector to improve performance

With the "champion/challenger" approach, existing debt collection practice is continually tested by using new techniques on segments of their debtor population to evaluate whether any are more cost effective than current practice. A new approach found to be more effective then becomes the standard approach, until another more successful method is found.

**Benchmarking** involves reviewing performance in debt recovery achieved against the performance levels achieved by other similar recovery organisations, to determine relative performance and also to compare collection practices in place. The Receivables Management Service benchmarks its practices with a number of other tax authorities but does not benchmark its performance on a regular basis with other private sector or public sector organisations to see how it compares and whether there are opportunities for improvement.

Major lenders in the private sector are also putting effort into developing **activity based costing** which will allow them to assess the cost effectiveness of their collection actions. This provides them with information to determine returns and average cost of different types of recovery action, to determine the cost effective action.

# Part 2

## The collection of debt

2.1 This Part of the Report examines the Receivables Management Service's approach to collecting debts through its Receivables Telephone Centre.

### Debt collection action by the Receivables Telephone Centre

2.2 The Receivables Telephone Centre was set up in 1999 to obtain outstanding tax returns and collect most debts on PAYE. It now also deals with Corporation Tax and self-assessed Income Tax (Figure 8). The Telephone Centre is based at three locations (East Kilbride, Cumbernauld and Shipley) and employs around 285 staff at a cost of almost £9 million a year. One-off costs for computer and telephone equipment amounted to over £3 million.

2.3 A consultancy review commissioned by the Department in 2002 confirmed that the decision to set up the Telephone Centre was fundamentally sound because it significantly reduces the costs of servicing debt compared with other methods. The review also found that the Department have systems for collecting debts which match the best used elsewhere. The Department are unable to measure the amount of debt collected as a result of a call. However, in a one-off exercise to consider the effectiveness of the Telephone Centre, the Department estimated that, on PAYE debts, the Telephone Centre collects £877 for every £1 spent compared with £396 for local recovery offices. Part of the reason that collection costs are lower is because staff spend less time preparing for a call as the information is presented to them on screen and the computerised dialling system only puts operators through to calls when the taxpayer's telephone is answered. This results in staff making more contacts with taxpayers. However, some of the cases passed to the local recovery offices are more complicated than those handled by the Telephone Centre and consequently more time must be spent resolving them. Similar call centres are used widely in the private sector. Of the overseas tax authorities we visited, only Canada uses a telephone centre to collect debts although others (Norway and the Netherlands) are considering introducing them to reduce debt collection costs.

2.4 We found that there are opportunities to make even better use of the Telephone Centre by:

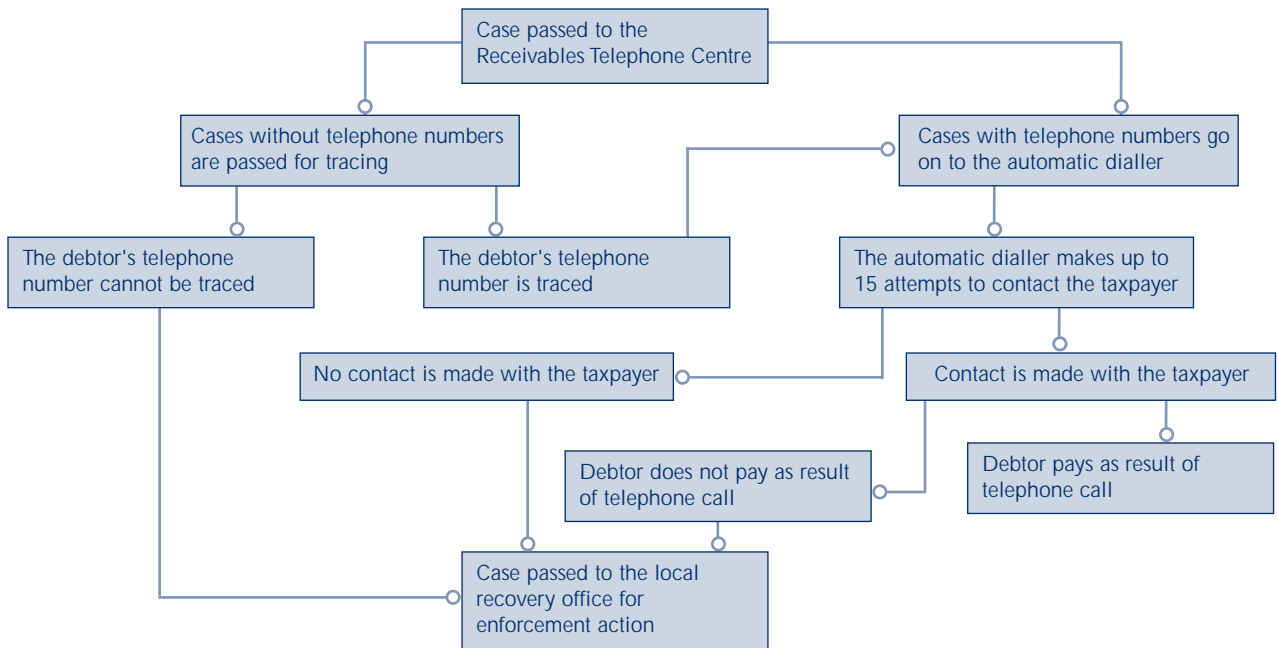
- Reducing the time taken to recover tax debts and the cost of collecting them;
- Having the capability to route all types and values of debt through the Centre;
- Where appropriate pursuing all debts owed on different tax streams during initial contact with the debtor;
- Tracing missing telephone numbers more quickly and successfully;
- Setting targets on the amount of debt recovered.

These opportunities, together with the costs and benefits, are examined below.

### Reducing the time taken to recover tax debts and the cost of collecting them

2.5 In the absence of data to assess fully the Service's performance (paragraph 1.9 and 1.10), we employed consultants to build a computer model of the debt management process to show where peaks of debt occur; when these occur during the year; and how long these debts take to clear. The results from our computer model show that on PAYE, the Receivables Management Service clear nearly 90 per cent of debt cases within 90 days which is higher than in the utilities sector (Figure 9). On self-assessed Income Tax, only 59 per cent of cases are cleared within that time. Our computer model shows that this is mainly because peaks on self assessment build up during September, January and March which take up to 10 weeks to clear. The model also shows that about 50 additional staff would reduce these peaks and save around £2 million net a year, which might otherwise be written off.

**8** How the Receivables Telephone Centre pursues outstanding debts

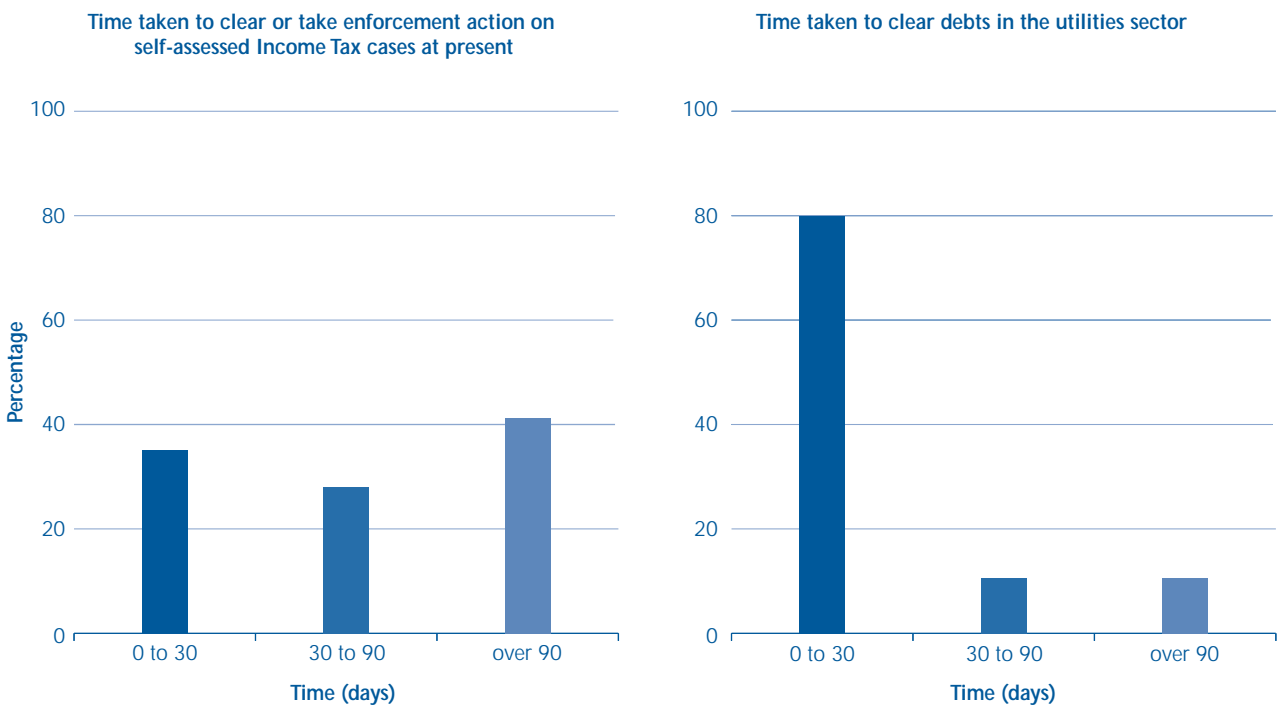


**NOTES**

- 1 The tracing section of the diagram applies only to self-assessed Income Tax.
- 2 The Centre also pursues outstanding tax returns. In 2002-03 the Telephone Centre made 282,000 customer service calls to remind taxpayers to return their self-assessed Income Tax returns before the deadline of 31 January.

Source: The National Audit Office

**9** Time taken to clear debt cases on self-assessed Income Tax compared with the performance of the utilities sector



Source: National Audit Office

- 2.6 Local offices will check to ensure that promises to pay made to the Telephone Centre have been kept and that payment has been received. This aspect of the work could be undertaken by the Telephone Centre and would provide direct feedback on the effectiveness of their actions. Where judgment is obtained in the courts, the local offices will follow up to recover the amount from the taxpayer. This work could be done more cost effectively by the Telephone Centre.
- 2.7 Nearly 500,000 self-assessed Income Tax debts of over £5,000 are sent directly to local recovery offices for initial telephone contact. Reallocating these cases to the Telephone Centre could halve the collection costs and save £700,000 a year. The Department intend that all self-assessed Income Tax debts will be handled by the Telephone Centre during 2005.

### Routing all types of debt automatically through the Telephone Centre

2.8 Certain types of debt are handled by other parts of the Receivables Management Service, for example Class 2 National Insurance contributions paid by self-employed people and a range of miscellaneous debts such as outstanding penalties and surcharges. Not all cases are passed to the Telephone Centre using automated systems including:

- Class 2 National Insurance cases are managed by the National Insurance Contributions Office which issues reminders using its computer systems. If the Office is unsuccessful in recovering the debt the Receivables Management Service input them manually on to the Integrated Debt Management System rather than using more cost effective automated systems. If the process could be automated costs could be reduced by around half, saving around £1.6 million a year
- Over 200 staff in the Receivables Management Service maintain manual records for a range of miscellaneous debts, mainly penalties on late payment of PAYE. During 2002-03 these staff received 537,000 new cases and around 293,000 cases, totalling £1.2 billion, were outstanding at the end of October 2002. Staff seek to recover the amounts owed by telephone or letter and if unsuccessful, cases are input manually onto the Integrated Debt Management System so that these can be pursued by the Telephone Centre and local offices. In 2002, the Department considered computerising the records at a cost of around £2 million but have postponed doing this because of other priorities. The Department is currently carrying out a feasibility exercise to determine the costs and benefits of automating these processes as the first stage of a programme of work to update tax accounting systems.

### Pursuing all amounts owed during the initial contact with the debtor

2.9 Debtors may owe the Department money in respect of different taxes. For example, a sole trader employing others in his business, could owe his own self-assessed Income Tax and Class 2 National Insurance contributions (handled by the National Insurance Contributions Office), the Pay As You Earn of his employees and overdue penalties (handled by the Network Units part of the Receivables Management Service). Because the Department pursue these debts through separate systems the debtor may be approached separately on each debt they owe. TaxAid (a charity aimed at low income people, offering free tax advice to people in financial need) considers that a summary statement of all arrears would help taxpayers in this situation as would a single point of contact for negotiating payment. The system used by the Collector-General's Office in the Republic of Ireland illustrates how debt collection could be improved by taking an overall view of a taxpayer's debts. (**Case example B**).

## CASE EXAMPLE B

### The approach used by the Collector-General's Office in the Republic of Ireland

- The Collector-General's Office operates an Active Intervention Management computer system which deals with taxpayers' cases across different tax streams.
- Managers prioritise the taxpayer cases that staff should pursue mainly by the total owed across all tax streams.
- The caseworker contacts the taxpayer, only after looking at total liability, and examining their filing and payment history, to determine their risk and ability to pay. This enables the caseworker to make a targeted approach to each taxpayer, geared to securing the best outcome from the call.
- The advantages for the taxpayer are that there is one point of contact with the Office and any refunds due to the taxpayer on one tax stream are automatically set against liabilities on others.
- In the last 6/7 years, since its introduction, there have been dramatic improvements to debt collection during which the outstanding debt has reduced from 15 per cent of the value of tax collected in 1997 to three per cent in 2003.

Source: National Audit Office

## Tracing debtors' telephone numbers and addresses

- 2.10 In many thousands of cases each year the Receivables Management Service do not have an up to date telephone number or address because the information has never been provided or contact details have changed. The Department usually obtain the contact details from tax returns but it is not a legal requirement to provide this information nor are taxpayers required to notify the Department of a change of address or telephone number. Tax returns also do not ask taxpayers for other contact details such as an email address or mobile telephone number. Private sector organisations maintain comprehensive contact details on each customer and select the most appropriate form of contact when collecting debts (in many cases by email).
- 2.11 Around a quarter of all self-assessed Income Tax cases are passed to the Telephone Centre without a telephone number. In 2003 the Telephone Centre traced the telephone numbers of 22 per cent of cases at an average cost of £8.50 each. A private sector tracing agency the Centre has used was more successful, tracing 30 per cent of the cases at a cost of three pence for each. At the end of July 2003 the Telephone Centre had a backlog of 91,000 cases waiting to be traced which were six months old. Following action by the Department the backlog had been reduced to 1,000 by the end of January 2004.
- 2.12 Around 500,000 self-assessed Income Tax forms are also returned to the Department by the Post Office with "not known at this address" marked on them. Between April and October 2004, the Receivables Management Service intend to introduce information technology to improve the efficiency of the tracing units, allowing staff to concentrate on more complex cases. The Department estimate that they will trace an additional 35,000 taxpayers each year producing extra revenue of around £50 million a year.

- 2.13 The Department's Service Offices, which process tax returns, may hold up to date contact details for taxpayers on their computer systems. There are no easy means by which the Telephone Centre or the local recovery offices can obtain these because their computer systems are not linked with those elsewhere in the Department. When contact details are updated on one system those on other systems remain unaltered. The Department are developing a strategy to improve and manage contact data, using information technology to improve the tracing of taxpayers whose whereabouts are not known to them.

## Setting targets on the amount of debt recovered

- 2.14 Given the substantial investment the Department have made in the Telephone Centre they need to assess whether it is making the best return and whether there are opportunities to increase its contribution further. The performance of the Telephone Centre is measured in terms of the number of debt cases cleared including the number of agreements to pay the amount owed and the number of cases passed to local offices for further action. Some private sector organisations measure the performance of their debt collection call centres by the number and value of payments obtained and the percentage these represent of the totals handled. The Receivables Management Service are making enhancements to its management information systems which will record the amount of debt cases cleared by payment or by obtaining promises to pay and which will provide a better basis for setting targets on the amount of debt collected in a similar way to the private sector.

# Part 3

## Enforcing the recovery of debt

3.1 This Part of the Report examines:

- The methods used by local offices for enforcing the recovery of debt;
- Managing the workload of local offices;
- Settling debts through the Department's Enforcement and Insolvency Service;
- The approach to writing-off debts.

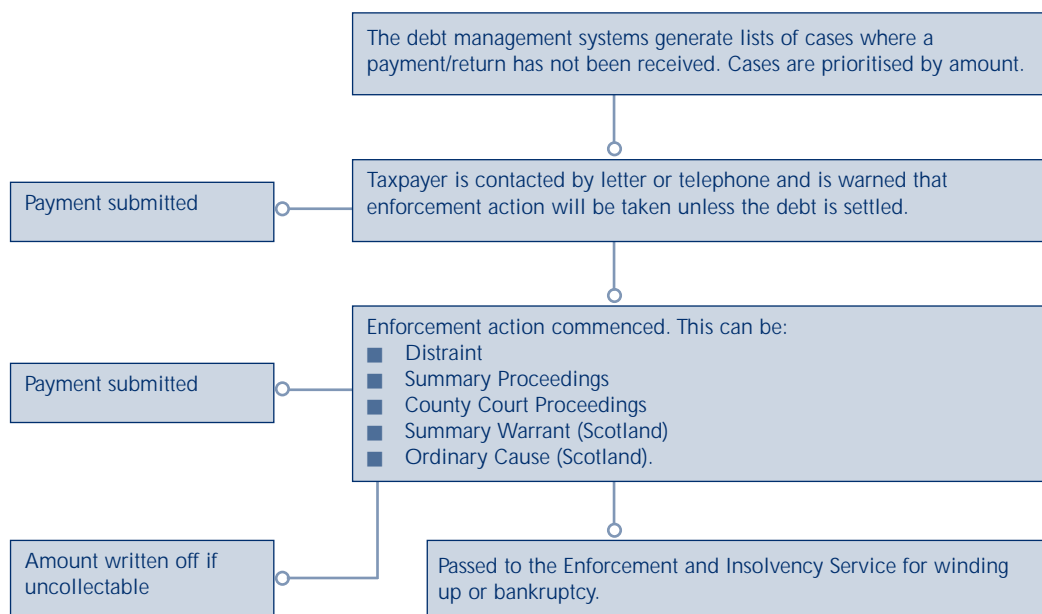
### The methods used by local offices for enforcing the recovery of debt

3.2 The Receivables Management Service has 143 local recovery offices across the United Kingdom employing around 5,000 staff at a payroll cost of £92 million. These offices are responsible for taking enforcement action on debts where the Telephone Centre has been

unsuccessful in recovery and where cases are sent directly to them. Action can involve contact by letter, telephone or personal visit, seizure of the taxpayer's moveable assets (such as motor vehicles and jewellery) known as distraint action or Magistrates' Court and County Court proceedings in England and Wales (Figure 10). Similar methods apply in Scotland and Northern Ireland. Appendix 3 sets out more information on each of the main methods and where they can be applied. The main priorities for the local offices are to deal with all individual debts over £5,000 and newly received cases.

3.3 The number of enforcement actions taken by local offices increased by 15 per cent from 155,416 in 2001-02 to 180,622 in 2002-03 (Figure 11), mainly because of an initiative by the Service to clear a backlog of cases during the year. Of the different enforcement methods used (Appendix 3), the Service believes that

#### 10 How the local recovery offices pursue outstanding debts



Source: The National Audit Office

distrain (the seizure of a moveable asset) is one of the most effective ways of recovering debts (**Case example C**). Its examination of a sample of cases shows that on receiving a letter warning of distraint action 27 per cent of taxpayers immediately paid their debt, and 44 per cent contacted the local recovery office as requested. It also found that Summary Proceedings was a cheap method for recovering relatively small amounts (**Case example D**). County Court Proceedings are a more expensive way of collecting debts but the Department has found it is effective if used in appropriate cases. Legislative changes to increase the effectiveness of enforcement action pursued through the courts will be taken forward as soon as parliamentary time allows.

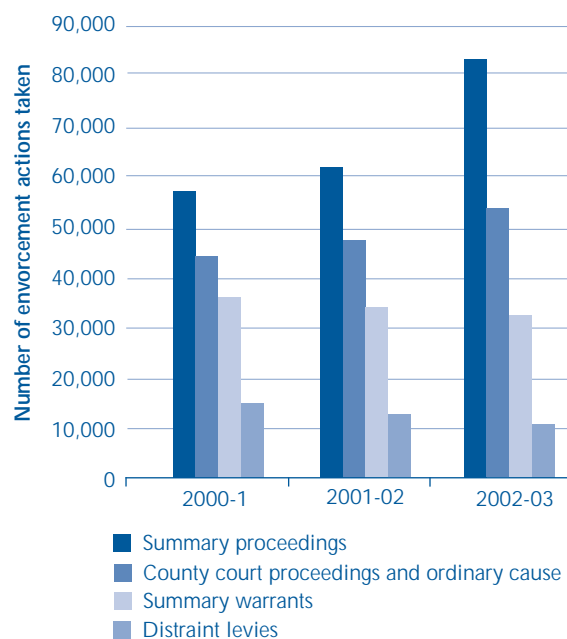
3.4 Some private sector organisations have almost completely abandoned court action because of the costs involved and the aim of maintaining long-term relations with customers. These companies favour negotiating repayment solutions with customers and use a range of different methods such as rescheduling debt, consolidating debts and suspending interest. Where these solutions do not work, they will put the debt out to external debt collection agencies to collect on their behalf for a fee. Large volume lenders use four or five debt collection agencies and monitor the performance of each agent and their in-house collection service according to the type and age of debt. The Internal Revenue Service in the United States is also planning to outsource the collection of \$13 billion in tax debt to commercial debt collection agencies. They consider that this will allow their staff to focus on the more complex, higher value cases. The Inland Revenue in the United Kingdom have not outsourced the collection of debt because of confidentiality and data protection implications to taxpayers. New debt could also continue to build up for the taxpayer which would need to be pursued alongside other amounts outstanding, so that outsourcing is likely to be less cost effective in these cases.

3.5 Overseas tax authorities use a range of other practices to recover debt which the Receivables Management Service could also consider adopting (**Figure 12**). Legislative change would be required in order to use these practices in the United Kingdom.

## Managing the workload of local offices

3.6 Workloads vary considerably between local offices with London offices having the highest levels. **Figure 13** shows the workload for self-assessed Income Tax but there is also a similar pattern for PAYE. Our computer model shows that workloads peak in September and March coinciding with due dates for payment for each of the taxes, and that consequent peaks occurring in the offices can take over six months to clear.

11 Number of enforcement actions taken from 2000-01 to 2002-03



Source: The Inland Revenue and the National Audit Office

### CASE EXAMPLE C

#### How the threat of distraint action can result in settlement of a debt

A company had not paid over PAYE deductions from employees for over 5 months. The Receivables Management Service contacted the company and payment was promised but was not forthcoming. Staff visited the company and were told it was unable to pay because the bank had withdrawn its overdraft facilities. A distraint notice was issued to the company directors which stated that stock valued at over £40,000 would be taken within 14 days and auctioned if the debt was not settled. The company paid off the amount outstanding within a week.

### CASE EXAMPLE D

#### How the Department uses Summary Proceedings

A taxpayer owed £800 on self-assessed Income Tax which was due on 31st March 2002, and £120 in interest and penalties. The taxpayer defaulted on time to pay agreements that he arranged with the Receivables Management Service and so it commenced Summary Proceedings against him. The Magistrate's Court hearing was held in January 2003 where an agreement was reached that the taxpayer would pay in full within three weeks. The taxpayer kept to the agreement and paid the debt.



**12 Practices used by other tax authorities to recover debts**

**Denmark - Registration and security**

All new businesses must register with the Tax Authority, which can refuse to register businesses that owe them money from a previous venture. Where the Authority believes there is a risk that a business will build up debts which it will be unable to pay, it can ask the business to provide security on registration. The Authority can also set a credit limit for a business. If exceeded the Authority will take action to recover the debt. In the UK a business must register with the Inland Revenue within three months of starting up, but is not required to provide any financial security.

**Withholding of salary**

A local authority can ask a debtor's employer to withhold part of the debtor's salary each month and pay it over to the tax authority. In the UK an Attachment of Earnings Order is needed from the courts.

**Norway - Distraint on bank or credit card accounts**

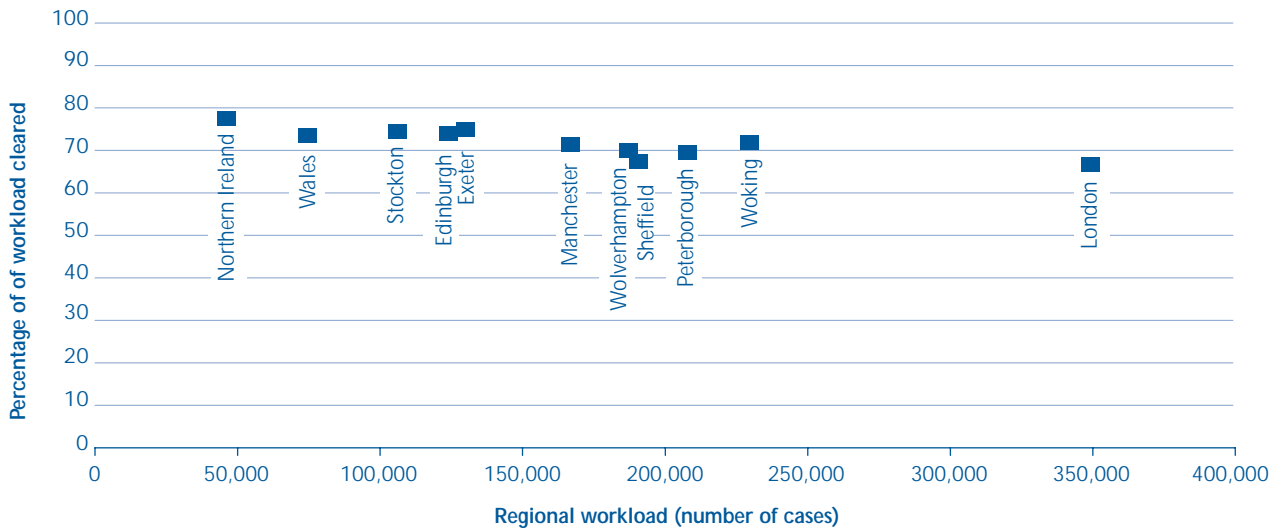
The tax authority can distraint on the account set up by the business to handle customers' credit card transactions mainly used where businesses have few tangible assets and high daily takings, such as restaurants. All of the business's takings from transactions using that company's credit card over the period of the agreement are paid over directly to the Authority.

**Republic of Ireland - Recovery of debt through a third party**

A third party, such as a bank, holds funds on behalf of the debtor. The tax authority can obtain these funds without going through the courts. In the UK a Third Party Debt Order is obtained through a County Court judgement.

Source: National Audit Office

**13 The workload and percentage of self-assessed Income Tax cases cleared in each region during 2002-03**



Region	Workload (000s)	Cleared (000s)	Number of offices
London	350	230	19
Woking	230	170	17
Peterborough	210	140	16
Sheffield	190	130	12
Wolverhampton	190	130	14
Manchester	170	120	19
Exeter	130	100	12
Edinburgh	120	90	10
Stockton	110	80	15
Wales	74	55	8
Northern Ireland	46	36	3

**NOTES**

- 1 Where a debt has been cleared this means that it has been collected, written off or passed to the Enforcement and Insolvency Service.
- 2 Workload consists of overdue self-assessed Income Tax returns and debts, a significant number of which the Telephone Centre has attempted to pursue and has passed to a local recovery office for action.

Source: The Inland Revenue and the National Audit Office

- 3.7 In the main those local offices with the highest volume of cases on self-assessed Income Tax have cleared a lower percentage than others in 2002-03 (see Figure 14). To help address this problem, the Service has shifted part of the workload on self-assessed Income Tax to other parts of the Service outside of the local office network. This approach could be used more frequently than at present to help smooth out the problems in managing workloads at peak times.
- 3.8 As a pilot, the Receivables Management Service clustered 13 local offices into groups to manage the peaks and troughs at the local level more effectively by shifting the work between offices in a cluster according to demands and staff availability. This has also enabled better use of staff time by allowing them to specialise on aspects of the work. For example one team deals with all County Court proceedings for the cluster and they represent the Inland Revenue at all related court hearings. Under the previous arrangements a separate officer from each local office would attend court in respect of their own cases even though several offices might have hearings at the same court. Clustering is being extended to a further 38 local offices in 2003-04 and to all offices during 2004-05.
- 3.9 Some of the Department's computerised debt management systems have had an effect on staff productivity. Although local recovery office staff can manually link related cases and work these together, caseworkers must look across multiple screens to gauge the full extent of the debt. This is because the Integrated Debt Management System currently includes PAYE and Corporation Tax debt but staff need to access separate

systems for self-assessed Income Tax and Class 2 National Insurance debts. The Receivables Management Service recognise that, at present, different kinds of debt cannot be linked cost effectively and local office staff told us that the current systems for identifying debt owed by a taxpayer are cumbersome and time consuming. The Receivables Management Service plan to be able to link debts together in the future and a first step towards this will be made when self-assessed Income Tax debts are moved on to the Integrated Debt Management System in 2005. Ideally these systems should automatically collate information and all debts relating to a taxpayer so that they can be worked as one case.

## Settling debts through the Enforcement and Insolvency Service

- 3.10 The Department's Enforcement and Insolvency Service (part of the Receivables Management Service) is responsible for settling the debts of individuals and companies where a local recovery office has been unable to do so. It settles around £300 million of tax debt each year. In 2003, it achieved 82 per cent settlement of cases within six months of receipt from the local recovery offices against a target of 60 per cent. Around a third of the debt is recovered either by payment in full or through time to pay arrangements. A third is written off and the remaining third is reduced. Reduction of a debt is a process whereby a legacy debt (incurred before the introduction of self-assessment of Income Tax) assessed by an Inspector is disputed by the taxpayer or their agent, and a revised amount is agreed.

## 14 The amount of debt written off in 2001 and 2002

Category of write off	Amount written off £ million (2001)	Amount written off £ million (2002)	Percentage change
Bankruptcy / liquidation	416	337	-19
Not worth further pursuit (including legacy debts)	31	95	+206
Taxpayer not at address	32	55	+71
Miscellaneous	11	19	+73
Taxpayer gone abroad and no identifiable United Kingdom assets	8	6	-23
Doubtful liability / invalid arrears	6	8	+28
Taxpayer deceased and / or recovery would result in undue suffering or privation	2	3	+43
<b>Total</b>	<b>506</b>	<b>523</b>	<b>+3</b>

### NOTE

The table includes taxes and miscellaneous duties written off by the Department in the year to October. The table does not include £275 million of National Insurance contributions written off in the year to March 2003. The equivalent figure for the year to March 2002 was £145 million. The increase was the result of a one-off exercise to clear old debts that were not recoverable. Around 90 per cent of these debts were written off because of bankruptcy or insolvency.

Source: Inland Revenue

The balance is then cleared from the records. The Department may revise a debt at any time where the taxpayer has produced information which shows that the amount is not owed. Some taxpayers however only provide the relevant information at a late stage when bankruptcy action is imminent.

- 3.11 Under the Enterprise Act 2002 the Crown's preferential rights to unpaid PAYE was removed to ensure that unsecured creditors are major beneficiaries of monies available for distribution from liquidated companies. For the Inland Revenue this means that they are no longer paid before other creditors. The change in status puts a premium on early identification of cases at risk and prompt action to avoid escalating debts (**Case Example E**). The 2003 Budget announced a three-year "Spend to Save" initiative which will increase the number of staff to a total of 540 to help improve debt recovery in cases under threat of insolvency and aims to raise around £50 million a year.
- 3.12 Tax authorities we visited also sought to reduce losses from companies going bankrupt by requiring companies to inform the tax authority as soon as they are unable to pay their tax and to hold their equivalent of PAYE in a separate bank account (**Case example F**). Adopting these practices might reduce the amount of money written-off each year, but there would be additional costs involved for businesses which would need to be taken into account in deciding whether to introduce legislation to bring about this change.

## Writing off debts

- 3.13 Where the Department are unable to collect a debt they write it off. In the year to October 2002, the Department wrote off £523 million in taxes and miscellaneous duties. In the year to March 2003, £275 million was written off in National Insurance contributions. The main reason for write off continues to be bankruptcy/liquidation (**Figure 14**). A substantial amount is also written off each year because the taxpayers cannot be traced (paragraph 2.10 to 2.13).
- 3.14 In recent years the Department has written off large volumes of legacy debts (debts incurred before the introduction of self assessment). This is because in December 2001 there was around £500 million of legacy debt outstanding and the Department introduced new arrangements for dealing with these debts which in some cases were so old that it was not reasonable or cost effective to pursue them further. Between December 2001 and March 2003 £121.5 million of legacy debt was paid leaving £294 million outstanding at the end of March 2003.

## CASE EXAMPLE E

### How the collapse of a company affects the amount that can be recovered

In 2003, a company failed to pay over to the Department nearly £8.8 million in tax and National Insurance contributions deducted from employees for five months before going into administration. The Department took early action as soon as problems emerged to try and recover the money but the company did not keep to the schedule of repayments and shortly after went into administration. It was compulsorily wound up in January 2004. The Department expect to recover around £900,000 (just over 10 per cent of the amount owed) from the liquidators.

## CASE EXAMPLE F

### Other approaches used by tax authorities

In Norway, employers must put the payroll withholding tax into a separate bank account as soon as it is deducted from their employees. This ensures that it is paid over and almost eliminates the risk of default with 99.9 per cent of the tax deducted by employers paid over to the tax authority. Any employer not transferring payroll withholding tax to the collection office faces severe penalties of up to six years' imprisonment.

In Denmark, the Central Customs and Tax Administration can demand security from companies, such as bank guarantees to provide cover for future requirements such as insolvency and tax debts. In the UK, HM Customs and Excise will also require financial security in similar circumstances.

- 3.15 In the private sector, large volume lenders will put the debtor's financial circumstances under surveillance until the debtor is in a position at some time in the future to make repayments again, rather than writing off the debt. The Department is considering introducing a similar approach. The private sector is also making increasing use of debt sale and purchasing and this is one of the fastest growing areas in the debt collection industry. In the United Kingdom private sector debt collection industry, most of the debts that are sold on are those that the financial sector would normally write off. The debts are sold to the highest bidder for collection/recovery and trade for a percentage of the amount owed. To the seller, any price obtained is a bonus compared with writing off the debts. Some lenders are considering selling off debts earlier in the collection cycle for a higher yield, to improve cash flow and where this action is more cost effective than incurring further rounds of collection costs with low probability of collection.

# Part 4

## Practices for encouraging customers to settle their debts

### 4.1 This Part of the Report examines:

- The Payment methods accepted by the Receivables Management Service;
- The penalties imposed on late filing of tax returns and the surcharges and interest imposed on late payments;
- The information, support and advice provided to taxpayers to help them avoid getting into debt and to settle any tax debt which they have incurred;
- Encouraging the timely payment of taxes.

### Payment methods

4.2 In January 2003, the Department produced a strategy for making payments methods more accessible, convenient and efficient by making more of them available electronically, such as direct debit and "Girobank Billpay". Customers can currently pay through 33 transaction options (Figure 15) of which cheques is the most popular with around 16 million received a year totalling over £100 billion. Tax authorities overseas are also looking to increase the use of electronic payments. Denmark and Norway are the furthest ahead with the majority of payments made in this way. Private sector organisations in the UK are encouraging more of their customers to make payments electronically and online.

### 15 The 33 payment options

Method	Indirect channels				Direct channels		
	Bank/Post Office Counter	Telephone Bank	Bank Automated	PC Internet Banking	Telephone	Accounts Office-Post	In person
1 Cheque	✓					✓	✓
2 Bank Giro	✓						
3 Girobank	✓		✓				
4 Paymaster			✓				
5 Postal Order						✓	✓
6 Cash	✓					✓	✓
7 Girobank Billpay				✓			
8 Direct Debit					✓	✓	✓
9 BACS	✓	✓		✓			
10 CHAPS	✓	✓		✓			
11 Debit Card	✓	✓		✓	✓		✓
12 Certificates of Cash Deposit						✓	✓
13 Inland Revenue Payable Order						✓	
14 Standing Order	✓	✓		✓			

#### NOTE

BACS - Bank Automated Clearing System; CHAPS - Clearinghouse Automated Payment System (for same day payment).

Source: Inland Revenue

- 4.3 In 2001 the Receivables Management Service introduced the Joint Employer Remittance Initiative to encourage large employers to pay PAYE electronically and on time. The initiative focuses on regular communications with employers, establishing good working relationships and avoiding the need for more confrontational contact when amounts are overdue. The Service targeted 440 employers which habitually paid late and by April 2003, 77 of these had moved to electronic payment. They also plan to adopt this approach for Corporation Tax and self-assessed Income Tax. From 2004-05 changes introduced in the Finance Act will make it mandatory for large businesses with 250 or more employees to pay their PAYE electronically.
- 4.4 During 2003, the Department set up arrangements to allow the Telephone Centre to accept payment by debit card over the telephone. Local offices will be able to accept debit card payments from Mid 2005. At present the Department do not accept credit card payments. One of the reasons is that the transactions attract a service charge unlike other methods of payment. Those who currently pay by other methods may switch to credit card payments, potentially increasing collection costs. They are currently exploring the implications of introducing credit card payment and looking at ways of minimising costs to the Department. Legislation would be needed to allow the Department to pass on these costs. Of the tax authorities visited, Germany is the only one setting up legislation to accept credit card payments. Private sector organisations readily accept credit and debit cards to settle a debt.
- 4.5 The Department expect taxpayers, where necessary, to draw on bank or building society deposits; call on amounts they are owed by third parties; realise stocks shares, bonds, and saving certificates; or sell assets such as cars to enable them to pay in full. If the taxpayer does not have sufficient realisable assets, or is unable to borrow sufficient funds, the Department will consider requests to pay by instalments. Any proposal is only agreed on condition that the customer pays all future tax liabilities in full as and when these fall due. Surcharges (a fine) are usually added except where instalment arrangements are agreed for current year self-assessed Income Tax debts on or before 28 February. In 2002-03, the Department received thousands of requests from customers for additional time to pay, for example, there are over 27,000 arrangements in place in the local recovery offices for paying off arrears on self-assessed Income Tax. The Department will not consider time to pay arrangements where the taxpayer has defaulted on a previous arrangement or where a tax return is outstanding. All of the tax authorities we contacted overseas allow time to pay arrangements in appropriate circumstances, with some clearly directing customers to

this option if they have difficulty in paying their tax on time. In the private sector, time to pay arrangements or payment plans are a commonly agreed mechanism for customers unable to pay in full on time.

- 4.6 Organisations we contacted which represent taxpayers' interests find that the Department are willing to offer time to pay arrangements in most cases. The Chartered Institute of Taxation commented that an early approach by the tax debtor to the Inland Revenue will usually result in a negotiated agreement for time to pay based on a realistic appraisal of the commercial circumstances. TaxAid (a charity aimed at low income people, offering free tax advice to people in financial need) commented that the Inland Revenue have given some of their clients "very fair and sympathetic treatment" but along with National Debtline (a national telephone helpline for people with debt problems) are concerned as to whether all cases are treated consistently as some are rejected out of hand where time to pay seem appropriate. Both organisations consider that taxpayers and the voluntary sector who advise them would be better equipped to deal constructively with the Department if they knew more about how decisions are made. The Internal Revenue Service in the United States of America has sought to make time to pay arrangements more easily accessible and transparent (**Case Example G**).

## CASE EXAMPLE G

### The approach used by the United States Internal Revenue Service

The United States Internal Revenue Service has set up an Interactive Instalment Payment Process on their website which allows taxpayers to determine whether they are eligible for time to pay arrangements and calculate the amount of monthly instalments to pay off a debt. Interest is automatically added when calculating the instalments and an administration fee of US\$43 is also applied. The information is then used by the taxpayer to make an instalment agreement request on line.

- 4.7 To help taxpayers save for a tax bill the Department provide Budget Payment Plan arrangements to enable taxpayers to make payments in advance using direct debit facilities and there are currently nearly 3,000 in place. These plans are particularly useful for the self employed who may be concerned about how they will meet future tax liabilities. The arrangements are not however well publicised by the Department. There are also obvious advantages in these arrangements for the Department in preventing the build up of large debts.

## CASE EXAMPLE H

### How a self assessment debt increases over the course of a year

Date	Event	£ Arrears	£ Penalty	£ Surcharge	£ Interest
31/1	The taxpayer has not submitted a return and it becomes overdue. The taxpayer incurs an automatic penalty of £100.	0	100	0	0
28/2	During the month the taxpayer submits his return and declares a liability of £1,000. Interest is charged on the debt at 6.5% from the date it became due on 31st January. Additionally a surcharge of 5% of the tax which has still not been paid more than 28 days after the due date is imposed.	1,000	0	50	5
31/3	The taxpayer does not pay the surcharge within 30 days; therefore interest begins to accrue on the surcharge in addition to the debt.	0	0	0	6
31/7	A further surcharge of 5% of the tax which has not been paid more than 6 months after the due date is imposed.	0	0	50	23
31/8	The taxpayer does not pay the new surcharge within 30 days therefore interest begins to accrue on the new surcharge in addition to the old surcharge and the debt.	0	0	0	6
31/1	A year's worth of interest has accrued on the surcharge and the debt.	0	0	0	30
<b>Total debt owing after a year</b>		<b>1,000</b>	<b>100</b>	<b>100</b>	<b>70</b>

## Penalties, surcharges and interest

4.8 The Department use a range of penalties to deter taxpayers from late filing of tax returns, and charge interest for late payment of taxes due (Appendix 4). For example, self-assessed Income Tax returns which have not been filed on time attract a fixed penalty of £100, followed by a further £100 if not received within a further six months and daily penalties may also be imposed. Surcharges are also made when tax remains unpaid more than 28 days after the due date and interest is charged on the total amount owed. **Case example H** shows how a debt could build up over the course of a year. In the year ended March 2003 the Receivables Management Service raised £3.1 million in daily penalties for late filing of tax returns. Data is not available on the amount collected in interest and surcharges. On self-assessed Income Tax there is an incentive for taxpayers to submit their returns by the end of September each year as the Department will calculate the amount of tax due or to be refunded if any. Tax authorities overseas use penalties to deter taxpayers from late filing and late payment and provide some incentives. In Norway, for example, taxpayers who do not pay their tax by the due date have to pay a further four per cent to compensate for "loss of liquidity" and in the Republic of Ireland those who file their tax returns online are allowed an extra three weeks to submit their returns.

4.9 The Department cannot charge interest or penalties where employers pay over late each month the PAYE and National Insurance contributions deducted from their employees. Payments should be made by the 19th of each month. The Department monitor

payment received by the 23rd of each month but only 52 per cent of employers meet this timescale (**Figure 16**). The Committee of Public Accounts in their 29th report of Session 2002-03 recommended that the Department should aim higher than their current target of half of employers paying over to the Exchequer by the statutory date. The Committee concluded that the Department's target was insufficiently challenging for a flow of funds amounting to two thirds of all Revenue tax receipts and National Insurance contributions. The Department find that compliance levels improve when the final payment is made for the year in April. This is because the Department cannot charge interest when employers are late in paying each month except in April each year. As described in paragraph 4.3, from 2004-05 employers with 250 or more employees will have to pay their PAYE electronically. This is coupled with a new surcharge for persistent late payment which the Department believe will improve payment performance amongst large employers.

### 16 The percentage of employers paying over the tax and National Insurance deducted from their employees by the 23rd of each month

Year	%
2000-01	48
2001-02	51
2002-03	52

Source: Inland Revenue

4.10 In addition to penalties and surcharges the Department charge taxpayers the costs incurred in taking distraint, Magistrate Court and County Court actions and in issuing a Winding Up Petition. These charges are met from any payments made or the proceeds of any disposal of assets before these are applied to the tax and interest owed. In 2002-03, £20 million was charged to taxpayers in enforcement costs. The Department, however, do not apply charges similar to those in the private sector for routine chasing up debtors to recover an amount, which can be up to £20 for each reminder. Of the tax authorities overseas that we contacted, the Netherlands charges for all of the actions they take including sending out reminder letters as a means of encouraging prompt payment and recovering their costs. The Department currently issue over 6 million reminders a year for PAYE and self-assessed Income Tax. Charging those who deliberately pay late when they have the means to do so could provide a contribution towards the Department's administration costs and provide a stronger deterrent. Legislation would be required to allow the Department to make such charges.

4.11 TaxAid, Citizens Advice, National Debtline and Business Link consider that the penalties are appropriate for those who deliberately delay payment but not for those who are in serious financial difficulties. TaxAid considers that in these cases penalties and surcharges can act as a disincentive as the taxpayers feel they will never get on top of their debts. It also considers along with National Debtline that some of the Department's practices are not as flexible or as helpful as those used by some private sector organisations where interest will be frozen or waived to make repayments easier. The Department are required however by the legislation to charge interest and apply penalties regardless of the circumstances of the taxpayer.

## Providing information, advice and support to customers

4.12 Taxpayers who understand how their tax is calculated and can predict their liability are more likely to pay their tax on time. For self-assessed taxes, the Inland Revenue send taxpayers their calculation of the tax payable for the year and a statement of account showing any payment due. The Department recognise that taxpayers find it difficult to understand the statement of account where their affairs are more complex and in consultation with representative organisations are redesigning it. From March 2004 taxpayers who are registered on the Government Gateway will also be able to view their own Self-Assessment account online.

4.13 The Receivables Management Service provides taxpayers with a range of support and advice to help them understand their responsibilities for filing returns and paying their tax on time. For example these include:

- Providing advice to taxpayers about a tax return or debt. For example, the scripts used by Telephone Centre staff include sections on explaining to taxpayers the importance of paying their taxes on time and the actions that could be taken against them if they do not. In 2002-03 the Telephone Centre made 282,000 customer service calls to remind taxpayers to return their self-assessed Income Tax returns before the deadline of 31 January. They targeted those who were required to file returns for the first time and some who had filed their returns late in the previous year. Around one in five of those contacted filed their returns on time;
- Offering support through the Payment Helpline to taxpayers having difficulties in settling their debts. The Helpline deals mainly with self-assessed Income Tax cases. There is also a dedicated phone number that voluntary sector debt advisers can use to obtain information which will help them deal with a client's problem. TaxAid and National Debtline commended the Department for introducing this initiative;
- Seconding staff to voluntary sector organisations that advise taxpayers on debts. This also gives staff an external perspective of the Receivables Management Service's advice to taxpayers and where improvements could be made. One member of staff is currently seconded to TaxAid.

4.14 The Receivables Management Service also issues a range of leaflets providing information for taxpayers on how to pay, on the collection and enforcement actions the Department will take, and have arrangements for taxpayers with special needs. It recognises that some of the information is inaccurate or out of date and omits aspects that are important to taxpayers. For example, some leaflets were produced in 1994 before the introduction of self-assessed Income Tax, and give limited information about a taxpayer's rights or what the taxpayer can do if they cannot pay. The Receivables Management Service is working with the voluntary sector and other organisations to update the leaflets, which it expects to publish during 2004. It should also look at producing the guides in languages other than English and Welsh as this would help address the needs of taxpayers who do not speak these languages. We found that tax authorities overseas usually provide material in several languages such as the Australian Taxation Office which produces information in 15 languages. TaxAid also considers that the Receivables Management Service could provide more information for those who advise taxpayers on how to deal with debts and could consult with the voluntary sector on what form that could take.

4.15 The Department's website provides information for taxpayers who may have difficulties in paying their tax but there is scope for major improvements to the content, presentation and navigation around the site. The material is mainly limited to a high level summary of the collection processes, operational functions, and enforcement actions. It does not include information on the Payment Helpline, which deals mainly with time to pay requests, and the codes of practice. There are no links from the Receivables Management Service webpage to other pages for the guides on enforcement actions or links to or contact details for other organisations that may be able to help a taxpayer.

4.16 Of the tax authorities we contacted overseas those in Australia, New Zealand and the United States have helpful information and advice for tax debtors (**Case example I**).

## Encouraging the timely payment of taxes

4.17 From 2002-03 the Integrated Debt Management System was programmed to use the past history of PAYE debtors to determine the most appropriate action to collect the debt. For example, if a debtor is a new taxpayer, or has never paid late in the past, the first telephone call they receive from the Receivables Management Service will be mainly educational to help the taxpayer become compliant. Where a debtor has previously paid late several times then the call will be used to warn the debtor that enforcement action will be taken unless they pay their debt immediately. Credit card and utility companies also use a range of scoring techniques such as behavioural and collection scoring to segment their customers into debtor types and design approaches to collecting the debts suited to each. Where there is little prospect of collecting a debt the case is fast tracked through to other types of recovery action such as putting out the debts to debt collection agencies.

4.18 The Department have set up the Taxpayer Payment and Filing Initiative to improve their understanding of taxpayer behaviour and take forward ways of encouraging people to comply. In 2001, they commissioned a qualitative research study of self-assessment taxpayers to help explain the variety of filing behaviour (**Figure 17**). The Department are planning to examine the filing and payment behaviour of companies and attitudes to tax debt and enforcement.

## CASE EXAMPLE I

### The information provided by other tax authorities on their websites

The Australian Taxation Office website ([www.ato.gov.au](http://www.ato.gov.au)) directs customers to a webpage "difficulty in paying your tax debt". It provides a contact helpline and email address for customers to contact the Taxation Office if customers cannot pay their tax on time or if payment would cause serious hardship.

New Zealand's Inland Revenue website ([www.ird.govt.nz](http://www.ird.govt.nz)) directs individuals who are "having difficulties making a tax payment" to a webpage setting out the options for payment which includes time to pay arrangements and which requests the customer inform them early of any difficulties in making payment. The webpage links to a booklet that draws together information and advice on how to pay, the collection and enforcement measures that may be used and contact helpline numbers available.

The United States of America Internal Revenue Service website ([www.irs.gov](http://www.irs.gov)) has a section for filing and/or paying late and the different methods available to those who cannot pay all they owe by the due date.

## 17 Selected findings of the Department's research into filing behaviour

- Incentives and deterrents with the greatest impact on behaviour were:
  - The £100 penalty for late filing
  - A shortening of the tax return form to ease completion
  - The television advertising campaign to encourage filing
  - Telephone reminders to encourage filing
- Incentives and deterrents need to be targeted at the reasons why people file late
- Self assessors expressed positive views overall about the Inland Revenue sources of information and guidance, but negative views included:
  - Navigating around the website
  - Quality and clarity of advice given via the telephone.

*Source: Inland Revenue*



4.19 Work underway in other parts of the Department could also be used by the Receivables Management Service to bring them more into line with best practices used in the private sector. The Department's Customer Insight team is using a commercially available consumer geodemographic analysis package to segment their customer population into 54 customer types, and to understand how customer characteristics affect their behaviour in interactions with Inland Revenue. The Department hope to use the results to target their communications with each customer type. The Receivables Management Service should take advantage of this facility or other similar packages to develop expected payment profiles for their customers based on type and location, and to profile their actual performance against these, such as the approach taken by the Tax Authority in Canada (**Case example J**). They could also look to extend this work further to understand which taxpayers are unlikely to pay on time and the reasons this is the case. This would allow the Department to predict which groups of taxpayers need to be supported at an early stage. A number of private sector companies including credit card and utility companies use this approach. The private sector also shares information on the payment histories of individuals on a regular basis so that they can obtain a view of individuals' financial circumstances. This enables them to identify those who are able to pay and also point to potential recovery actions which could be taken. The Department however, are not able to provide information to others.

4.20 To encourage taxpayers to pay their tax on time, the tax authorities in the United States of America, Republic of Ireland and Norway issue tax clearance certificates which confirm that their tax affairs are in order. These certificates are needed when a taxpayer seeks a Government contract or when obtaining a licence such as an excise or road transport licence. The certificates can also help to change taxpayers' attitudes to paying tax. To introduce them in the UK would require changes in legislation.

## CASE EXAMPLE J

### The approach used by other tax authorities

The **Canada** Customs and Revenue Agency use their Compliance Measurement, Profiling and Assessment System (COMPASS) to analyse compliance risks by industry sector, geographic area and other statistical or demographic breakdowns. Cases are risk scored and assigned to an appropriate collection strategy. Scores are made according to:

- The amount owed
- Historical data on the compliance history of the case
- Status of the case (active, dormant)
- Type of business (construction, restaurant etc)

In **Sweden**, the Enforcement Authority (part of the Tax Authority) is responsible for collecting debts on behalf of all Government Departments and private sector organisations where a court judgement has been obtained. In deciding on the most appropriate method for recovering a debt, the Enforcement Authority looks at the total amount owed by the debtor. For example the Enforcement Authority will look at whether a debtor's proposal to repay an organisation is realistic given all the other debts they owe. The Enforcement Authority's objective is to ensure that an individual or company is compliant in the future and it gives highest priority to dealing with cases where difficulties in repaying debts are being experienced for the first time.

# Appendix 1

## National Audit Office methodology

### Fieldwork visits

- 1 We visited the Inland Revenue's Receivables Telephone Centre, Enforcement and Insolvency Service, National Insurance Contributions Office, Network Units, and Technical Standards. We also visited specialist areas such as training, management information, and the Joint Employer Remittance Initiative.

### Staff focus groups

- 2 We held three focus groups with Recovery Managers. The staff were drawn from each geographic region, with up to 12 staff at each group. The focus groups aimed to determine:
  - their local priorities and major changes in the previous year affecting their priorities;
  - main challenges faced in meeting their priorities and their consequences;
  - local good practice examples.

### Data analysis

- 3 To assess the Inland Revenue's performance in collecting debt, we gathered a range of data from Inland Revenue computer systems. We analysed trends in volume and value of debt and characteristics of debts and of the debtors.

### Case sample examination

- 4 We examined a sample of around 150 cases of debt to understand the complexities that can be involved in cases and the appropriateness and result of actions taken to recover the debt. We selected the cases from four local recovery offices and the Enforcement and Insolvency Service. The cases covered self-assessed Income Tax, Pay As You Earn and Corporation Tax debts.

### Computer simulation modelling

- 5 We appointed Simul8 Corporation ([www.Simul8.com](http://www.Simul8.com)) to develop a computer simulation model of the Receivables Management Service. The first phase built an overall framework simulation of the system. The second phase involved a data analysis simulation, with each tax stream modelled as a separate process.

### Customer behaviour analysis

- 6 We reviewed the overall Inland Revenue approach to customer segmentation with their specialist Customer Insight and Analysis and Research teams. We determined the Receivables Management Service's scope to work with these areas to develop an analytical approach to segmentation of debtors, gain an understanding of risk and behaviours, develop effective means to target recovery and collection actions by segment, and gain an understanding of relative performance.

## Advisory Group

- 7 We established an Advisory Group to provide advice and feedback to the study team at major stages of the examination. Membership of the group was designed to provide a helpful range of external insights and expertise. Membership was:

Debbie Felkin	Receivables Management Service	<a href="http://www.inlandrevenue.gov.uk/rms">www.inlandrevenue.gov.uk/rms</a>
Anne Marie Goddard	Department for Constitutional Affairs	<a href="http://www.dca.gov.uk">www.dca.gov.uk</a>
John Lague	Receivables Management Service	<a href="http://www.inlandrevenue.gov.uk/rms">www.inlandrevenue.gov.uk/rms</a>
Harry Metcalfe	Centrica	<a href="http://www.centrica.co.uk">www.centrica.co.uk</a>
Jane Moore	TaxAid	<a href="http://www.taxaid.org.uk">www.taxaid.org.uk</a>
Alan Sambridge	Adjudicator's Office	<a href="http://www.adjudicatorsoffice.gov.uk">www.adjudicatorsoffice.gov.uk</a>
Barry Stamp	Institute of Credit Management	<a href="http://www.icm.org.uk">www.icm.org.uk</a>
Graham Whittaker	British Telecom	<a href="http://www.bt.com">www.bt.com</a>
Janet Wilson	Citizens Advice	<a href="http://www.nacab.org.uk">www.nacab.org.uk</a>
Ian Young	Tax Faculty, Institute of Chartered Accountants of England and Wales	<a href="http://www.icaew.co.uk/taxfac">www.icaew.co.uk/taxfac</a>

## Consulting stakeholders

- 8 We consulted a variety of stakeholders during the study (listed), to gain a range of external perspectives on the issues examined. We developed a self-completion questionnaire covering:
- the extent to which dealing with tax debts was an issue for their members/customers;
  - information provided by the Revenue on debts owed and how to settle debts;
  - Inland Revenue advice and support to those in debt such as time to pay arrangements;
  - Inland Revenue penalties applied to tax debts.

British Chambers of Commerce ([www.chamberonline.co.uk](http://www.chamberonline.co.uk))  
 Business Link ([www.tvc.org.uk](http://www.tvc.org.uk))  
 Chartered Institute of Taxation ([www.tax.org.uk](http://www.tax.org.uk))  
 Citizens Advice ([www.nacab.org.uk](http://www.nacab.org.uk))  
 Confederation of British Industry ([www.cbi.org.uk](http://www.cbi.org.uk))  
 Debt Help UK ([www.debt-help-uk.org.uk](http://www.debt-help-uk.org.uk))  
 Durham Business Club ([www.durhambusinessclub.co.uk](http://www.durhambusinessclub.co.uk))  
 Federation of Small Business ([www.fsb.org.uk](http://www.fsb.org.uk))  
 Institute of Credit Management ([www.icm.org.uk](http://www.icm.org.uk))  
 Low Incomes Tax Reform Group ([www.litrg.org.uk](http://www.litrg.org.uk))  
 Money Advice Scotland ([www.moneyadvicescotland.org.uk](http://www.moneyadvicescotland.org.uk))  
 National Debtline ([www.nationaldebtline.co.uk](http://www.nationaldebtline.co.uk))  
 TaxAid ([www.taxaid.org.uk](http://www.taxaid.org.uk))  
 Tax Relief ([www.taxrelief.org.uk](http://www.taxrelief.org.uk))

## Private sector practices

9 We appointed Professor Nicholas Wilson of the Credit Management Research Centre, University of Leeds ([www.cmrc.co.uk](http://www.cmrc.co.uk)) to advise us on best practice in the collection of debt in the private sector. His work examined financial services, utilities and home shopping.

## Revenue Departments overseas

10 We visited Revenue Departments and / or Audit Offices in eight other countries, listed below. Each visit aimed to determine the approach to the collection of tax debt, such as:

- their management information systems, performance measures and targets;
- payment methods available to customers;
- collection and enforcement powers, penalties and measures used;
- approach to time to pay arrangements, writing off debts, and risk analysis.

11 We also carried out desk based research into the approach used in the United States of America, Canada and Australia. We are very grateful to all those who assisted us for their valuable contributions.

Country	Finance Department	Audit Office
Austria	Finanzverwaltung ( <a href="http://www.bmf.gov.at">www.bmf.gov.at</a> )	Der Rechnungshof ( <a href="http://www.rechnungshof.gv.at">www.rechnungshof.gv.at</a> )
Canada	Canada Customs and Revenue Agency <a href="http://www.ccr-a-adrc.gc.ca">www.ccr-a-adrc.gc.ca</a>	Office of the Auditor General ( <a href="http://www.oag-bvg.gc.ca">www.oag-bvg.gc.ca</a> )
Denmark		Rigsrevisionen ( <a href="http://www.ftrr.dk">www.ftrr.dk</a> )
Germany	Das Dienstleistungsportal des Bundes ( <a href="http://www.bund.de">www.bund.de</a> )	Bundesrechnungshof ( <a href="http://www.bundesrechnungshof.de">www.bundesrechnungshof.de</a> )
Netherlands	Ministerie van Financien <a href="http://www.minfin.nl">www.minfin.nl</a> )	Algemene Rekenkamer ( <a href="http://www.rekenkamer.nl">www.rekenkamer.nl</a> )
Norway	Skattedirektoratet ( <a href="http://www.skatteetaten.no">www.skatteetaten.no</a> )	
Republic of Ireland	Collector General's Office, Irish Revenue ( <a href="http://www.revenue.ie">www.revenue.ie</a> )	Office of the Comptroller and Auditor General ( <a href="http://www.gov.ie/audgen">www.gov.ie/audgen</a> )
Sweden	Riksskatteverket ( <a href="http://www.rsv.se">www.rsv.se</a> )	

# Appendix 2

## Our suggestions on the information needed by the Department to manage debts more effectively

- 1 The Receivables Management Service require better information on the number and value of debts outstanding, on the customers who owe the tax, and their performance in taking action to clear these debts. We have identified the minimum data set necessary for the Receivables Management Service to manage their performance effectively:
  - a central database containing:
    - the total number of debt cases and amount of debt due;
    - the total amount of debts owed and the total amount of repayment due across all taxes, for each taxpayer/business;
    - the full range of contact details for each taxpayer/business;
    - the payment behaviour, personal and financial circumstances and geo-demographic data for each taxpayer/business;
  - for each recovery action:
    - the number of cases cleared and amount of debt collected;
    - the average unit cost;
    - the range of time taken, from receipt of cases to taking action;
    - the number of cases awaiting action (backlogs);
    - the number of cases and the amount of debt not subject to recovery action due to lack of time and resources;
  - the number of time to pay arrangements in place and the amount of debt involved;
  - the number of time to pay arrangements cancelled due to failure to comply with arrangement terms.

# Appendix 3

## Glossary of terms

Enforcement action	Description
Distrain	The act of seizing the movable property of a defaulter to compel payment of a debt. The goods may subsequently be sold at public auction if the debt remains unpaid. Distrain is used in England, Wales and Northern Ireland. (Case example C)
Summary Warrant	Summary Warrant is the most common enforcement method used in Scotland. Until 2002, most Summary Warrants were enforced by the use of "poinding", the Scottish equivalent of distraint. "Poinding" has now been abolished and replaced by "attachment". This is similar to distraint but, unlike distraint, cannot be carried out in private dwellings.
Summary Proceedings in the Magistrates' Court	These are used in England, Wales, Scotland and Northern Ireland and can only be used for debts at a value of less than £2,000. The legal processes in Scotland and Northern Ireland are slightly different from those taken in England and Wales. In Scotland proceedings are taken in the Sheriff's Court. (Case example D)
County Court Proceedings	These are used in England and Wales. The Scottish equivalent is Ordinary Cause which is taken in the Sheriff's Court.

# Appendix 4

## Inland Revenue penalties and surcharges imposed for late submission of returns and payment of tax for the major tax streams

### Self-assessed Income Tax

#### Filing of tax returns

Most customers are due to return their tax return by 31 January after the end of the tax year.

The Department charge a £100 penalty if they do not receive the tax return by 1 February and a further £100 if they have not received the return by 31 July.

The Department can ask the Appeals Commissioners to impose a daily penalty of up to £60 a day, if they consider the fixed penalties alone will not result in submission of the tax return.

Penalties are due for payment 30 days after the date of the notice informing the customer of the penalty. Interest is charged on penalties paid late.

Customers may appeal against the penalties if they consider they had a reasonable excuse for not sending their return in by the deadline, such as serious illness or bereavement. This may be considered by the Appeals Commissioners.

#### Payments of tax

Most customers are due to pay their final tax bill by 31 January after the end of the tax year. This is the total tax for the year less tax already paid.

The Department charge interest on tax unpaid from the date the payment was due.

The Department impose a 5% surcharge on any tax which is still unpaid more than 28 days after the due date and an additional 5% surcharge on any tax which is still unpaid more than six months after the due date.

Surcharges are due for payment 30 days after the date of the notice informing the customer of the surcharge. Interest is charged on surcharges paid late.

Customers may appeal against the surcharges if they consider they had a reasonable excuse for not paying their tax by the deadline, such as serious illness or bereavement. This may be considered by the Appeals Commissioners.

### Pay As You Earn

Within 14 days of the end of each tax month, an employer must pay its Accounts Office all the amounts due for that tax month in respect of:

- Income Tax
- Pay As You Earn (PAYE)
- Deductions from subcontractors
- Student Loan Deductions
- National Insurance contributions (NICs)

The tax month ends on the 5th, and payment is due by the 19th.

If an employer's average monthly payments for the current year are likely to be less than £1,500, it can choose to pay its Accounts Office quarterly rather than monthly.

The Department charge interest on any payments received after 19th April for any outstanding PAYE and Class 1 NICs payments from the previous year.

The Department may charge penalties for any return of Class 1A NICs on form P11D(b) not received by 19 July and interest on payments of any Class 1A NICs received after this date relating to the previous year.

### Corporation Tax

A company must pay no later than nine months and one day after the end of the accounting period (the normal due date), except for large companies, which must pay by quarterly instalments. The company calculates its own liability based on its profits for the year.

Accounting periods are normally 12 months long and are the period for which the company's accounts are drawn up.

## Filing of tax returns

There is a penalty for non return of self assessment Company Tax Return by the statutory filing date - 12 months after the end of the accounting period. Tax returns must be filed with the company's audited accounts which disclose the profit figure on which the Corporation Tax liability is calculated.

The maximum penalty is equal to the amount of tax which the company owes for the accounting period but is unpaid 12 months after the end of that accounting period.

If Inland Revenue send the company a Notice to Deliver but the company does not send in the Company Tax Return by the filing date, it may become liable to a penalty. The amount of the penalty depends on how late the company sends in the return, and on the previous filing record. The flat-rate penalty if returns have been late for three or more accounting periods in a row, and the latest return is filed more than three months after the filing date, is £1,000.

There can also be tax-related penalties when a company:

- does not file a return within 18 months of the end of the accounting period, or of the filing date if this is later, and
- has not paid the right amount of tax.

If the company files its return 24 months or more after the end of the accounting period, the penalty is 20% of the tax unpaid at the 18 month point or, if later, the filing date.

*Source: Inland Revenue*

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# Appendix 5 Organisation chart

