Working Smarter in Tax Debt Management
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Foreword

This report is published at a time when in many countries the level of outstanding tax
debts is still higher than it was before the economic and financial crisis hit. Improving tax
compliance is an essential part of the work of the FTA and that includes achieving the best
possible rates of collection and recovery of the taxes that are assessed.

Many revenue bodies have been developing strategies and approaches to improve
the tax collection and recovery processes, so that they are more effective and cost less.
Very promising and proven new practices have emerged, which can deliver spectacular
improvements in performance in tax collection and recovery. This report provides a
comprehensive overview of the modern tax debt collection function.

The study was commissioned by the Forum on Tax Administration and sponsored by
the Commissioner of the Netherlands, Mr. Peter Veld. The work has been undertaken by
a Dutch project team and a task team of 14 FTA member countries: Australia, Belgium,
Canada, Chile, France, Ireland, Japan, Korea, the Netherlands, New Zealand, Singapore,
Sweden, the United Kingdom and the United States of America.

The Forum on Tax Administration

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs
in July 2002. Since then the FTA has grown to become a unique forum for co-operation
between revenue bodies at Commissioner-level with participation from 46 countries. Our
vision is to create a forum through which tax administrators can identify, discuss and influence
relevant global trends and develop new ideas to enhance tax administration around the
world. The work programme of the Forum is decided and overseen by a Bureau comprised of
commissioners from 12 revenue bodies. The FTA vision is to create a forum through which
tax administrators can identify, discuss and influence relevant global trends and develop new
ideas to enhance tax administration around the world. This vision is underpinned by the FTA's
key aim which is to help revenue bodies increase the efficiency, effectiveness and fairness of
tax administration and reduce the costs of compliance.

The FTA is supported by a number of specialist sub-groups and networks to help carry out
its mandate: The Taxpayer Services Sub-group, the SME Compliance Sub-group, the Large
Business Network, and the High Net Worth Individuals Network, and the Offshore Compliance
Network.

More information on the FTA, including details on products and publications, can be found
at its dedicated website: www.oecd.org/tax/fta

The study is part of the OECD Tax Administration Information and Guidance Series,
which extends across a range of areas of key interest to revenue bodies. National revenue
bodies differ in a number of important ways, including in respect of their institutional
legacies, the tax systems they administer, and the broader context they are part of. The series is therefore intended to inspire and inform revenue bodies rather than promote a standard approach to tax administration, which may be neither practical nor desirable.

Inquiries concerning this study should be directed to the International Cooperation and Tax Administration Division at the OECD Centre for Tax Policy and Administration.
# Table of contents

**Abbreviations and acronyms** ............................................................................. 9

**Preface** .............................................................................................................. 11

**Executive summary** ......................................................................................... 13

**Chapter 1. Introduction and background** ......................................................... 15
  - Background ........................................................................................................ 16
  - Scope of the report ........................................................................................... 16
  - Tax collection, then and now ......................................................................... 17
  - Methodology .................................................................................................... 17
  - The App ............................................................................................................ 18

**Chapter 2. The application of advanced analytics** ........................................ 19
  - Using advanced analytics to unlock the predictive power of data .................. 21
  - Segmentation .................................................................................................... 23
  - Risk analysis and risk models ......................................................................... 27
  - Bibliography ..................................................................................................... 31

**Chapter 3. Tax debt treatment strategies** ......................................................... 33
  - Payment thinking .............................................................................................. 34
  - Prevention and soft treatments ................................................................. 34
  - Enforcement tools ........................................................................................... 47
  - Bibliography ..................................................................................................... 55

**Chapter 4. Call centres** .................................................................................... 57
  - Outbound and Inbound Call Centres ......................................................... 58
  - The Outbound Call Centre and Debt Management ..................................... 59
  - Interactive Voice Response Technology ..................................................... 62
  - Workload Management ............................................................................... 63
  - Agent Capabilities ......................................................................................... 64
  - Performance management ............................................................................ 65
  - Performance measurement ........................................................................... 66
  - The Business case for Debt Management Call Centres ............................. 68
  - Bibliography ..................................................................................................... 69

**Chapter 5. Organisational aspects of tax debt management** .......................... 71
  - Integrated compliance .................................................................................... 72
  - Centralisation ................................................................................................. 73
  - Computerisation ............................................................................................. 74
  - Outsourcing ...................................................................................................... 76
  - Focusing on performance: Linking strategy to delivery using KPIs ............. 77
  -Continuous improvement: Lean ...................................................................... 81
Chapter 6. International aspects in debt management ............................................. 83
  Debtors who have gone abroad ................................................................. 84
  International assistance ........................................................................... 84
  Precautionary measures ........................................................................ 87
  Assistance tools in case of cross-border insolvency .................................. 88
  Challenges ahead in mutual assistance .................................................... 89
  Absence of international agreements for collection assistance ................. 90
  Untraceable debtors ............................................................................... 91
  Intervention prior to departure ............................................................... 92
  Bibliography ......................................................................................... 95

Chapter 7. Conclusions and future developments ............................................. 97

Annex A. Additional resources ....................................................................... 99

Annex B. Comparison of payment arrangements ............................................ 101

Figures
Figure 2.1 Chain of collection process in the Netherlands ......................... 20
Figure 2.2 From raw data to information for reporting ............................ 22
Figure 2.3 Growth-phase model of segmentation for debt management ..... 24
Figure 2.4 Debt breakdown over time in the Netherlands ......................... 28
Figure 3.1 Flyers versus an informative brochure .................................... 46
Figure 4.1 The Call Centre Environment .................................................. 59
Figure 4.2 Effectiveness of outbound calling experiment ....................... 66
Figure 5.1 Aspects of the debt management organisation ......................... 72
Figure 5.2 Forms of centralisation ............................................................. 73
Figure 5.3 Effectiveness and efficiency in debt collection ......................... 78
Figure 5.4 Value stream debt management .............................................. 80
Figure 6.1 Regulatory framework for mutual assistance ......................... 86
Figure 6.2 Mutual Assistance Process within the EU ............................... 87

Tables
Table 2.1 Debt oriented segmentation ....................................................... 25
Table 2.2 Risk based debtor oriented clustering ....................................... 25
Table 2.3 Indicators of risk ...................................................................... 29
Table 2.4 Risk Models ............................................................................. 29
Table 3.1 overview of payment arrangements ........................................ 39
Table 3.2 Overview revenue bodies using direct debiting ....................... 41
Table 3.3 Examples of reminders ............................................................. 42
Table 3.4 Online portals .......................................................................... 44
Table 3.5 Face to face collection ............................................................... 48
Table 3.6 Simplified attachments .............................................................. 49
Table 3.7 Third party liability ................................................................ 52
Table 3.8 Countries with confidentiality rules and exceptions ................ 54
Table 4.1 Auto dialler used in telephone collection ................................ 61
Table 4.2 Generic performance measures ............................................... 67
Table 4.3 Key metrics for the outbound call centre defined by the ATO .... 67
Table 6.1 Acceleration of the tax collection process ................................. 93
<table>
<thead>
<tr>
<th>Boxes</th>
<th></th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Box 2.1 The chain of collection system in the Netherlands</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Box 2.2 Tailored risk based strategy applied in France</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Box 2.3 Dynamic risk clustering in Canada</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td>Box 3.1 “Prevent, Assist, Recover &amp; Enforce” (PARE) strategy in New Zealand</td>
<td></td>
<td>35</td>
</tr>
<tr>
<td>Box 3.2 “Preventive communication” and “preventive dialogue” in Sweden</td>
<td></td>
<td>36</td>
</tr>
<tr>
<td>Box 3.3 Direct Pay in the United States</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>Box 3.4 Targeted education and communication in Australia</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Box 3.5 The UK Cabinet Office Behavioural Insights Team</td>
<td></td>
<td>46</td>
</tr>
<tr>
<td>Box 3.6 Article 22 Tax Collection Act 1990: Special seizure right in the Netherlands</td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>Box 3.7 The most relevant third party liability provisions in the Netherlands</td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>Box 3.8 Tax debt information is public information – Sweden</td>
<td></td>
<td>53</td>
</tr>
<tr>
<td>Box 4.1 Use of technology in the CRA’s Debt Management Call Centre</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>Box 4.2 Automatic call back system in Australia</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>Box 4.3 Workload management in Debt Management Call Centre of the CRA</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>Box 4.4 Staffing of the CRA’s Debt Management Call Centre (DMCC)</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td>Box 4.5 DMTC (debt management telephone centres) in the United Kingdom</td>
<td></td>
<td>66</td>
</tr>
<tr>
<td>Box 4.6 The business case for New Zealand</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Box 5.1 Automated enforcement and recovery procedures in Portugal</td>
<td></td>
<td>74</td>
</tr>
<tr>
<td>Box 5.2 Outsourcing in the UK</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td>Box 5.3 Using Lean in Australia</td>
<td></td>
<td>82</td>
</tr>
<tr>
<td>Box 6.1 Assistance in Collection in Canada</td>
<td></td>
<td>85</td>
</tr>
<tr>
<td>Box 6.2 International co-operation results in the freezing of assets worth AUD 27 million in Australia</td>
<td></td>
<td>88</td>
</tr>
<tr>
<td>Box 6.3 Features of Directive 2010/24/EU and Regulation (EU) 1189/2011</td>
<td></td>
<td>89</td>
</tr>
<tr>
<td>Box 6.4 Direct approach method of the Netherlands</td>
<td></td>
<td>91</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Definition</td>
<td></td>
</tr>
<tr>
<td>--------------</td>
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</tr>
<tr>
<td>AT</td>
<td>Autoridade Tributaria e Aduaneira (revenue body of Portugal)</td>
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<td>ATCA</td>
<td>Austrian Tax and Customs Administration</td>
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<td>Attachment</td>
<td>An order requiring that money to be withheld from an individual’s salaries, bank account or other intangible property. Attachments and Garnishments are frequently used to collect unpaid taxes.</td>
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<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
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<td>BTA</td>
<td>Belgian Tax Administration</td>
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<td>BVAT</td>
<td>Business Viability Assessment Tool</td>
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<td>C2P</td>
<td>Capacity to Pay</td>
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<td>CIAT</td>
<td>Inter-American Centre of Tax Administrations</td>
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<tr>
<td>Collection</td>
<td>Procedure before due date (standard acts such as reminders, summons etc.)</td>
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<tr>
<td>Compliance</td>
<td>Pay the correct tax due at the right time</td>
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<tr>
<td>C2P</td>
<td>Capacity to Pay</td>
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<td>CRA</td>
<td>Canada Revenue Agency</td>
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<td>CTI</td>
<td>Computer Telephony Integration</td>
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<td>DGFIP</td>
<td>La Direction générale des finances publiques (revenue body of France)</td>
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<tr>
<td>Enforcement</td>
<td>Collection or recovery with force starting by distress warrant or writ</td>
<td></td>
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<td>FTA</td>
<td>Forum on Tax Administration</td>
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<td>Garnishment</td>
<td>A legal procedure/court order to collect a debt, usually on wages, earnings</td>
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<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue &amp; Customs (United Kingdom)</td>
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<td>HNWIs</td>
<td>High Net Worth Individuals</td>
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<td>ICM</td>
<td>Integrated Case Management System</td>
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<td>IOTA</td>
<td>Inter-European Organization of Tax Administrations</td>
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<td>ITC</td>
<td>Irish Tax and Customs</td>
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<td>IRD</td>
<td>New Zealand Inland Revenue Department</td>
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<td>IRS</td>
<td>Internal Revenue Service (United States of America)</td>
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<tr>
<td>IRAS</td>
<td>Inland Revenue Authority of Singapore</td>
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<tr>
<td>IVA</td>
<td>Independent Viability Assessment</td>
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IVR  Interactive Voice Response
JNTA  National Tax Agency of Japan
KNTS  National Tax Service of Korea
KPI  Key Performance Indicator
KSK  Kozukei Sougou Kanri (Japanese computer system that automatically makes telephone calls to taxpayers c.q. automatic dialler system)
MAP  Mutual Assistance Process
MIS  Management Information System
MYOB  Mind You Own Business (a desktop accounting software provider)
NTA  Norwegian Tax Administration (Skatteetaten)
TCAN  Tax and Customs Administration of the Netherlands
OECD  Organisation for Economic Co-operation and Development
P2P  Propensity to Pay
PAYE  Pay As You Earn
PAYGW  Pay As You Go Withholding
PD  Predictive Dialler
PGP  Pretty Good Privacy (encryption and decryption tool)
RCT  Relevant Contracts Tax
REAP  Risk Evaluation, Analysis and Profiling
Recovery  Procedure after due date (enforcement i.e. issue of distress warrant, seizure)
Revenue  Tax and Customs Administration collection/recovery department
ROS  Revenue Online Service
RTR  Real Time Risk
SAS  Statistical Analysis System
SEA  Swedish Enforcement Authority
SME  Small and medium-sized enterprise
SMS  Short Message Service
STA  Swedish Tax Agency
TCAN  Tax and Customs Administration of the Netherlands
VAT  Value Added Tax
Xero  Accounting software provider
Preface

This report is published at a time when in many countries the level of outstanding tax debts is still higher than it was before the economic and financial crisis hit. Improving tax compliance is an essential part of the work of the FTA and that includes achieving the best possible rates of collection and recovery of the taxes that are assessed.

This report focuses exclusively on tax debt management and has particular emphasis on integrating payment issues in compliance processes. Drawing on the experience of the revenue bodies from fourteen countries, this report sets out practices and experience of revenue bodies in a number of areas. It describes risk management as well as a large number of practical examples of debt management strategies. The report also highlights the importance of international co-operation in the area of tax collection. The wealth of practical examples makes this report a unique and valuable source of reference. I am confident it will provide revenue bodies with inspiration and fresh ideas and a solid basis for future work for the FTA.

I would like to thank the fourteen FTA Member Countries and the Secretariat at the OECD staff who provided the study team with invaluable information, contributions and support.

Peter Veld
Commissioner Tax and Customs Administration of the Netherlands,
Sponsoring Commissioner
Executive summary

Following the global financial crisis the amount of money owed to revenue bodies increased sharply and it still has not fallen back to pre-crisis levels. It is estimated that OECD-governments alone were owed around two thirds of a trillion US dollars in undisputed tax debts at the end of 2013. For FTA member countries the total value of the tax debt book averages more than 12% of total net revenues, or more than six weeks’ worth of tax income. In some countries it is even larger. As governments work to repair public finances they expect revenue bodies to improve the flow of tax income and reduce their costs. Ensuring that everyone pays his or her taxes is also vital in terms of the perceived fairness of the tax system.

In response many revenue bodies have been developing strategies and approaches to improve the tax collection and recovery processes, so that they are more effective and cost less. Very promising and proven new practices have emerged, resulting in some spectacular improvements in performance in tax collection and recovery. There is a lot at stake. For example, if the average level of tax written off (around 3% of taxes assessed by FTA member countries) were to fall to the level achieved by the best performing countries (around 0.5%) it is estimated that FTA member countries would collect an additional EUR 40 billion each year. Clearly the level of write offs is not solely determined by the performance of the revenue body. Nonetheless, this report describes the ways in which selected FTA members have modernised their tax debt collection function. It serves as a practical guide to achieving greater success in collecting the taxes that are due.

The report provides a comprehensive overview of the modern tax debt collection function, describing the following essential features:

- **Advanced Analytics.** In the past revenue bodies may have focused on managing debts, rather than debtors. Debts would all be treated the same, which meant, for example, that reminders were sent to every late payer, even when experience shows that many debtors just ignore these letters. The application of advanced analytics makes it possible to use all the information revenue bodies have about taxpayers to accurately target debtors with the right intervention at the right time. This eliminates the cost of ineffective interventions and improves revenue flow. Advanced analytic techniques also make it possible to experiment with different interventions and rapidly assess their effectiveness. As a result some countries have been able to achieve dramatic positive results at very low cost.

- **Treatment Strategies.** The tax debt collection function needs to be able to choose from a rich suite of interventions, ranging from soft measures, designed to prevent people from falling into debt in the first place, through to tough enforcement measures. The report describes a large number of different collection and recovery techniques currently being employed by FTA member countries.

- **Call Centres.** Outbound call centres are commonly used in private sector debt collection operations because they make it possible to pursue a large number of
debts very efficiently. Revenue bodies are making increasing use of outbound call centres too. The report describes the way in which a debt collection call centre is commonly structured and how to manage the workflow. It discusses the capabilities outbound call centres need to have in terms of technology and in terms of the staff who work there. The report also outlines common approaches to the measurement and management of performance within the call centre.

• **Organisation.** Debt collection is a specialist function and is usually organised as such. It makes sense to group some specific types of taxpayer together, for example large businesses. For the very large number of debtors in the small and mid-sized business segment, it is more important to use analytics to choose the correct intervention. The debt collection function can then be organised around key disciplines, such as call centre management, liquidation, and face-to-face interventions. Choosing the correct key performance indicators is essential if the day to day operations of the collection function are to remain correctly aligned with the desired outcomes. Debtor behaviour is dynamic and so a commitment to continuous improvement will ensure that the organisation is responsive to those changes.

• **Debtors Who Have Gone Abroad.** As people and businesses move around the world more frequently the number of tax debtors who have left the country in which the debt was incurred is growing. One of the keys to addressing these challenges is international assistance and co-operation, particularly in the form of Assistance in Collection Articles in agreements between countries. The report describes the challenges facing revenue bodies and the tools and techniques that are available to tackle these challenges.

Revenue bodies are encouraged to compare the capabilities of their collection functions with the practices described in this report and in the accompanying app in order to identify possible areas for improvement. The FTA has not carried out a full review of tax debt collection practices for ten years. The shift in tax compliance strategy towards prevention, for example through the sorts of approaches described in the FTA report “Tax Compliance by Design”, which is published alongside this one, should reduce the total amount of tax debt owed to revenue bodies. But some debts will continue to arise and efficient collection remains essential to good tax administration. This report shows that a great deal has happened since 2004 and that the pace of change is increasing. Insights obtained from advanced analytics are changing the ways in which revenue bodies tackle outstanding tax debts and there is an emerging trend towards centralising the management of debt across government. For these reasons this is an aspect of tax administration that the FTA should subject to more regular review.
Chapter 1

Introduction and background

It is estimated that OECD-governments alone were owed around two thirds of a trillion US dollars in undisputed tax debts at the end of 2013. For FTA member countries as a whole the total undisputed tax debts is in excess of 12% of total net revenue.

Many revenue bodies have been developing strategies and approaches to improve the tax collection and recovery processes, so that they are more effective and cost less. Very promising and proven new practices have emerged, resulting in some spectacular improvements in performance in tax collection and recovery. This report provides a comprehensive overview of the modern tax debt collection function.

This chapter provides a background to this study and it sets out the scope, the structure and the methodology of this report. Finally this introduction mentions the development of a smartphone app to complement this report.
Background

Revenue bodies have been operating in a challenging payment environment since the start of the economic and financial crisis in 2007. It is estimated that OECD-governments alone were owed around two thirds of a trillion US dollars in undisputed tax debts at the end of 2013. For FTA member countries as a whole the total undisputed tax debts is in excess of 12% of total net revenue, or more than six weeks of tax income. At the same time the resources available to tax administrations have been under pressure and in many countries have reduced significantly. Nonetheless, revenue bodies have been expected to sustain or improve levels of tax collection as governments look to repair public finances. Ensuring that everyone pays his or her taxes is also important in terms of the perceived fairness of the tax system.

Consequently, many revenue bodies have been developing strategies and approaches to improve the tax collection and recovery processes, so that they are more effective and cost less. Very promising and proven new practices have emerged, resulting in some spectacular improvements in performance in tax collection.

This report brings these endeavours together in an overview of good and best practices. There is a lot at stake. For example, if the average level of tax written off (around 3% of taxes assessed by FTA members) were to fall to the level achieved by the best performing countries (around 0.5%) it is estimated that FTA member countries would collect an additional EUR 40 billion each year. Clearly the level of write offs is not solely determined by the performance of the revenue body. Nonetheless, the practices described in this report can help revenue bodies achieve greater success in collecting the taxes that are due.

Scope of the report

The scope of this report is limited to tax debt management, i.e. to the tax collection and recovery processes. It is about dealing with definite and undisputed debts. Yet, when the payment of taxes is delayed and recovery becomes necessary, non-compliance has already taken place. After all, paying taxes is one of the four pillars of compliance:

1. Timely registration in the tax system as a taxpayer;
2. Filing tax information and returns on time;
3. Reporting of complete and accurate information: and
4. Payment of tax obligations on time.

Tax collection is the final and downstream link in a chain that starts with registration. The more tax administrations succeed in making taxpayers pay as they earn, the smaller the debt book will be. Tax administrators need to make tax payment part of the normal system of doing business and as close to the event creating the liability as possible, in order to eliminate or reduce the risk of non or late payment. Laws and practices corresponding with this principle are therefore critical in preventing tax debts from arising in the first place and so avoiding the need for recovery measures. Good payment performance can be supported in a number of ways, including withholding taxes, adequate provisional assessments and, last but not least, compliance risk management as a supervision and enforcement strategy focused on the prevention of non-compliance. These preventative strategies have been treated extensively by previous FTA reports and most recently in the study entitled “Tax Compliance by Design”. This report focuses on how best to deal with undisputed tax debts when they do arise, a subject the FTA has not dealt with for some time.
Tax collection, then and now

In the past and in many countries still, tax collection is primarily a standard process that is applied more or less uniformly to all debts. The figure 2.1 in chapter 2 provides an overview of the key steps in the collection process. Under the standardised approach every debt would proceed through each step until it is either paid or written off. The more effective approach focuses on the debtor instead of the debt and makes use of modern techniques such as advanced analytics and behavioural sciences to understand what is driving debtor behaviour. Instead of following a fixed order, the right tool is applied at the right time to the right segment of taxpayers. This approach is set out in this report, which is structured as follows.

Chapter 2: “The application of advanced analytics”. This chapter discusses how advanced analytics adds value by accurately predicting the incidence of non-payment and which response from the revenue body is most likely to be effective. Different taxpayers are susceptible to the application of different preventive, nudging and enforcement actions. In this field, analytics and behavioural sciences can help to determine which treatment strategy will secure the best result.

Chapter 3: “Tax debt treatment strategies”. Following on from the discussion of how best to decide which treatment strategy will be most effective in securing payment, this Chapter presents a suite of modern tax debt treatments to choose from.

Chapter 4: “Call Centres”. Many revenue bodies use dedicated call centres to provide service and information to taxpayers. The use of outbound call centres is not yet as widespread, but experience shows that they are highly effective for enforcement purposes and debt collection. This chapter describes how to constitute and manage outbound call centres for the purpose of tax debt collection.

Chapter 5: “Organisational aspects of tax debt management”. Modern tax debt management requires a dedicated organisational framework and the right Key Performance Indicators (KPI’s) to ensure efforts are targeted at the right output and outcomes.

Chapter 6: “International aspects of debt management”. Persons are increasingly internationally mobile and consequently the number of tax debtors who have moved abroad is growing. This chapter discusses some cross border collection issues.

Chapter 7: “Conclusion and future developments”. This Chapter summarises the main conclusions to be drawn from the preceding chapters and discusses potential future developments in the field of tax debt management.

The appendixes are devoted to an overview of additional resources and a comparison of payment arrangement.

Methodology

This FTA report is the result of a project sponsored by the Dutch Commissioner. The work has been undertaken by a Dutch project team and a task team of 14 FTA member countries: Australia, Belgium, Canada, Chile, France, Ireland, Japan, Korea, the Netherlands, New Zealand, Singapore, Sweden, the United Kingdom and the United States of America. The Project team, as well as the task team, were strongly supported by the OECD Secretariat. The project started with a scoping document “Working Smarter in Tax Debt Management” shared with all FTA members in September 2013, leading to formation of the task team of the 14 interested countries.
The project team has worked closely with IOTA’s Area Group on debt management and is grateful for the information they provided. The team was also able to consult relevant reports from CIAT, SGATAR and open sources such as annual reports and the national websites of revenue bodies.

This report draws mainly on the experience of FTA member countries to identify good (and best) practices in tax debt management. It is deliberately forward looking. Not every FTA member country has adopted the approaches described and not all approaches will be suitable for implementation immediately in every country as this is highly dependent on the legal and cultural framework of each individual country. However, it does offer a menu of tax debt collection techniques and strategies that can be applied within a coherent overall framework. Where commercial practice or academic research suggests ways in which tax administration practice could be further improved we have endeavoured to note that in the relevant part of the report.

Tax collection, recovery and the best practices presented in this report are subject to continuous evolution. Inevitably, this report can only provide a snap-shot of current practice and some indications of how it will develop in the future. Lean and Lean-like techniques, where adopted, will guide the process of continuous improvement. This report recommends that the FTA establishes a mechanism for keeping best practice in tax debt management under review.

The App

As part of this project a special app(lication) has been developed to complement this report. This app contains the complete contents of the report and some useful extras such as videos, interviews, photographs and other illustrations of the practices discussed. The app is available to employees of revenue bodies of FTA member countries.

Note

Chapter 2

The application of advanced analytics

Analytical insights in behaviours and payment risks enable more effective and efficient debt prevention and collection. Risk based approaches and predictive models enable the automatic selection and identification of treatment strategies that target tax debtors on the basis of their characteristics and past behaviour, in other words: working smarter in debt management.

This chapter discusses advanced analytics to improve risk analysis and to establish a more advanced segmentation of debt cases. Better segmentation ensures that the debt collection treatment used is the one that is most likely to be effective.
For many years the FTA has emphasised the importance of differentiating taxpayers according to their compliance behaviours through a structured approach to Compliance Risk Management. This is as true for tax debt management as it is for other aspects of tax compliance work. More recently revenue bodies have started using advanced analytics as a tool for segmenting the taxpayer population in a much more sophisticated way. In their everyday dealing with taxpayers, revenue bodies collect a great deal of information about their behaviour, much of which is relevant to understand their payment performance e.g. was tax due paid on time, if not when was it paid and following what action by the revenue body. Furthermore, revenue bodies tend to store this data for several years. Using this data, and combining it with data from other sources where possible, advanced analytics can be used to understand how debtors have reacted to different treatments in the past and to build models that allow revenue bodies to predict which actions will be most effective in dealing with different types of debtors in the present. As a result, revenue bodies are able to deliver better collection outcomes with the same, or even reduced, resources. For example the Australian Taxation Office (ATO) uses taxpayer behaviour to target its debt treatments and differentiates its engagement with taxpayers. Over recent years, this approach has contributed to increases in the amount of debt collected and improvements in the efficiency and effectiveness of debt collection, as measured across a range of KPIs.

Most revenue bodies have succeeded in building a more or less integrated tax record system, showing all of a taxpayer’s basic data, liabilities, payments and balances in one system. Such a record system monitors the development of each debt and debtor over time. The collection process can be perceived as a series or chain of collection actions. Data in the system are structured to form a data layer which contains every debt and debtor in order of time, making it possible to follow them throughout the collection lifecycle. The chain of collection can identify where the tax debtor is in the chain at a certain time. Initially a tax debt arises when a taxpayer fails to pay on time. Before further action is taken, several days of tolerance (from the time when the relevant transactions were posted to the taxpayer’s account) are often allowed. Figure 2.1 shows the chain of collection process used by the Tax and Customs Administration of the Netherlands (TCAN).

Figure 2.1. Chain of collection process in the Netherlands

At any point in the chain a debt can be postponed, disputed, moved directly to “paid”, considered “uneconomic to pursue” or “written off”. The debt status “uneconomic to pursue” can be revoked once signals are received that the debtor is able to pay. In addition, a debt can be put on hold at almost any given moment when the taxpayer lodges an objection or appeal. Taxpayer behaviour through the chain of collection can help predict future behaviour and changes in behaviour may indicate the need for intervention.

Using the chain of collection every step in the collection and recovery process can be tracked and analysed in terms of effectiveness and efficiency. Accessing the data in the chain of collection system and having the data properly structured is a prerequisite for building risk models with predictive power. Revenue bodies can use these to forecast payment behaviour, for example by distinguishing between cases where the tax debt is likely to be paid without further intervention and those where early intervention is almost certainly needed. Focussing on the debtor’s characteristics, rather than the debt itself, it is essential to improve predictive models and improved dashboards that enable better informed decisions for collection purposes.

Box 2.1. The chain of collection system in the Netherlands

In recent years, the TCAN has developed its chain of collection system and a single client view with all the payment history of each debtor. The chain of collection is part of the data foundation, and the data foundation forms the basis for dashboards, risk analysis and collection support systems. Unlocked and properly modelled data are used to deliver business insight and provide the preconditions for dynamic monitoring and single client view. Dynamic monitoring is a near real-time check for a “match” between income and assets, the available collection measure and the current debt. As soon as a “match” appears, the collector is prompted with the suggested most efficient and effective measure for collection. A single taxpayer view provides a whole case view of the taxpayer, allowing debt collectors to see the payment history of every tax debt owed by one taxpayer including their tax credits.

A single client view can be used by call centres making instalment arrangements as well as for immediate collection. Knowing the customer’s aptitude to pay based on payment history can lead to improved co-operation between the inspector/auditor and the tax collector during the levying and audit process. As a result measures can be taken at an early stage in order to prevent non-compliance where possible.

Using advanced analytics to unlock the predictive power of data

The defining feature of advanced analytics is obtaining deep insights from data to enable highly segmented approaches to taxpayers, to predict behaviours and events with a reasonably high degree of certainty and, in some instances, to prescribe actions. It underpins the more sophisticated risk based approaches to tax debt management that are critical to the sustainable delivery of good outcomes.

Revenue bodies are data rich organisations that keep and maintain records of all citizens and companies, including essential facts about their tax behaviour such as filing performance, income information and tax payments, personal details and financial information. Revenue bodies also record details of the agency’s interactions, including compliance activities in relation to taxpayer debt management. Revenue bodies have more or less computerised their tax administration, making some or all of these records
available in electronic formats. Some revenue bodies also have access to useful third party information in electronic formats. These records provide a rich source of data for advanced analytics. One of the biggest challenges in this respect is integrating and understanding all of the available data to gain deep insights about taxpayers behaviour and payment risks. Tax systems are usually built around individual taxes and tend to focus on individual debts, instead of on debtors. Data integration matches debts to debtors using analytics techniques. Advanced analytics is a generic term for the effective use of the vast amount of data modern organisation, including revenue bodies, collect about their customers in electronic form (often referred to as “Big Data”) and using it to obtain fresh insights into how to influence their decisions, whether that be about what goods and services to buy or about whether to pay an outstanding tax debt (Davenport and Harris, 2007). Tools such as data mining and risk modelling turn the data into information on which collection decisions can be based. Specifically it greatly improves the ability of revenue bodies to predict which action is most likely to have the desired effect; in this case which debt treatment is most likely to result in payment. The application of advanced analytics is particularly suited for tax debt management because the payment cycle is relatively short. It may take a number of years to assess whether a compliance strategy aimed at improving the accuracy of income reporting has had a positive effect. Feedback from the debt collection process is more immediate; either the debt is paid or it is not. This also makes it easier to run random control trials supported by behavioural insights strategies for testing different wording in reminder letters, and assessing the results in terms of payments. Data driven tax collection make possible more effective prioritisation of debts, better resource allocation and greater consistency in treatment (Halssworth et al., 2014).

The data have to be cleaned and aggregated in order to become valuable information. This hierarchy is visualised in Figure 2.2. A single database or linked databases are used to enable analytics, allowing risk analysis and risk models to be built.

Figure 2.2. From raw data to information for reporting

Risk modelling and analytics requires expertise and people who understand both data analysis and business analysis who can collaborate with subject experts with knowledge of the revenue bodies’ systems and processes. These experts are called “data scientists” i.e. trained analysts who can analyse and research large data sets and develop new models that add business value. The early adopters of information technology in tax administration often face an additional challenge with their legacy systems. These information systems were generally built with the single purpose of automating the processing of returns and the assessment of specific taxes. These systems sometimes have limited ability to report data about the transactions they process.

Where information systems have been designed around tax types, it can be difficult to build up a holistic picture of an individual taxpayer’s overall position and compliance behaviour. If this is the case revenue bodies have to develop tools and techniques for extracting and analysing data from legacy systems. Fortunately the emergence of advanced analytics has encouraged the development of technologies that can extract the data from revenue bodies’ systems and make it available for analysis.

In recent years computer technology and analytical tools have become more widely available to extract and analyse big data sets. More recently predictive modelling and predictive analytics have been developed that use the information already available to enable further and better decision making.

Segmentation

The better management of debts and information made possible by advanced analysis enables a more debtor-oriented approach. This involves using a better understanding of taxpayer characteristics to tailor treatments of taxpayers based on their individual circumstances and behaviour. In practice this means grouping taxpayers with similar characteristics in segments.

Most revenue bodies use a form of segmentation, however the level of sophistication and detail of segmentation varies widely. Segmentation is a huge driver of performance resulting in effective and efficient treatment, in both audits and tax collection: In collection speed matters to some extent, but segmentation is of more importance. (Dohrmann and Pinshaw, 2009)

At its most basic, segmentation usually divides taxpayers into three main groups: 1) high revenue/large taxpayers, 2) small and medium sized enterprises (SMEs) and 3) individual taxpayers. The rationale behind this first stage of segmentation is that taxpayers within each of the three groups tend to share certain characteristics of relevance to their compliance behaviour.

High revenue/large taxpayers are primarily non-individual entities, such as corporations but will sometimes include High Net Worth Individuals (HNWIs). High revenue/large taxpayers usually have a dedicated finance department that the revenue body can deal with. While large taxpayers will take care not to pay before taxes are due, they will generally have a good payment history. Because of their significance as taxpayers, many revenue bodies have created single points of contact within the revenue body, sometimes known as customer relationship managers, who take primary responsibility for managing the relationship with these taxpayers. Regular interaction with the revenue body’s single point of contact means that real difficulties should be identified and addressed earlier on. In practice when payment issues do arise in this taxpayer segment they are more often than not the result of system problems on either side, or a misunderstanding. These can best be resolved through the dedicated single point of contact.
Due to the large number of SMEs it is not possible for revenue bodies to offer them a one to one relationship. These taxpayers are usually dealt with by teams that manage the debts arising from all kinds of SMEs. More often than not the SME segment is defined as what is not large and consequently it is a very heterogeneous group, ranging from businesses that are very similar to the largest groups of companies through to micro enterprises run by a single person and with no employees. A large number of debtors are small businesses with a relatively low value of tax debt. Due to the variety and number of SMEs revenue bodies have struggled with collecting their debts and with the costs involved. Revenue bodies have recognised that they need to further segment the population of SMEs if they are going to manage them effectively.

Private individuals also do not have a one to one relationship with the revenue body. Historically individual taxpayers have usually paid their taxes through withholding systems and have not been a significant debtor group. In some countries the advent of systems of tax credits has increased the numbers of individuals appearing on the debt book because credits have been overpaid and need to be recovered. In this discussion this particular group is not considered in depth but the more sophisticated segmentation strategies discussed are entirely applicable to this group of taxpayers.

Based on the findings of this study a growth-phase model of segmentation for debt management has been developed that shows the evolution of segmentation in tax debt management (see Figure 2.3).

**Figure 2.3. Growth-phase model of segmentation for debt management**

Effective segmentation has four levels of maturity ranging from static to dynamic.

The first maturity level is segmentation into broad taxpayer segments: large (high revenue) taxpayers, small and medium sized taxpayers and individual taxpayers. At this level debt management practices are still largely debt oriented but operate within the main segments. Examples of debt oriented segmentation are provided in Table 2.1.

<table>
<thead>
<tr>
<th>Effective segmentation has four levels of maturity ranging from static to dynamic. The first maturity level is <strong>segmentation</strong> into broad taxpayer segments: large (high revenue) taxpayers, small and medium sized taxpayers and individual taxpayers. At this level debt management practices are still largely debt oriented but operate within the main segments. Examples of debt oriented segmentation are provided in Table 2.1.</th>
</tr>
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</table>

### Table 2.1. Debt oriented segmentation

| The Netherlands | Since 2012, TCAN segments taxpayers into large companies, small and medium enterprises (SME) and individual taxpayers. To support this new segmentation, they established a centralised collection and recovery area for individual taxpayers (LIC: National collection centres in the Netherlands). |
| The United States | Internal Revenue Service of the United States of America (IRS) has established a segmentation of large business taxpayers, small business taxpayers and individual taxpayers. |

The second level is sub segmentation which is based on debt size, the debt age and the business sector. Business sectors can serve as a proxy for risk categorisation, allowing for improved allocation of resources to risks. Some countries are using sub segmentation to enable targeted campaigns focusing on specific “hotspots” (e.g. a particular industry). This second stage of segmentation is more refined allowing for focus on cases with the highest yield and those in certain risky sub segments. Ireland has arranged sub segmentation of debt by case size dividing the debtor base into 5 Tiers. Tier 1 taxpayers pay more than EUR 540,000 a year and for this group of debtors the Irish revenue has a higher ratio of resources to caseload than for the Tier 5 taxpayers who pay EUR 6,000 a year. Within each Tier the debt is further sub segmented by location, age and amount to aid the priority selection of cases for intervention treatment.

The third level of maturity is risk based clustering. In this level segmentation is increasingly debtor oriented, incorporating taxpayer behaviour into risk modelling and in the creation of taxpayer risk profiles. Risk modelling based on risk analysis makes it possible to cluster together debtors with similar profiles. Risk based clustering enables revenue bodies to apply tailored collection and recovery treatments based on the individual circumstances of taxpayers while also focusing on priority cases, such as those with the highest yield potential or those in particular risk categories. Examples of risk based debtor oriented clustering are provided in Table 2.2.

### Table 2.2. Risk based debtor oriented clustering

| Norway | The Norway Tax Administration (NTA) uses so-called “credit scoring” to predict the probability for future payment of underpaid tax based on known information about taxpayer. |
| Singapore | Inland Revenue Authorities of Singapore (IRAS) has a threefold approach: 1) encourage compliant taxpayers, 2) remind the taxpayer with a good payment history but defaulting for the first time and 3) fast and tough action for hard-core defaulters. |

Most revenue bodies apply more severe debt collection strategies to high-risk non-compliant taxpayers. Several revenue bodies have implemented tailored collection strategies based on value, some form of risk assessment and the complexity of collecting the debt. Commonly these tailored strategies combine soft and more severe treatments. Revenue bodies are making use of tax debt treatments that range from support and
education where this will pay dividends, to early and tough action where the risk of non-compliance is high and the taxpayer profile suggests other methods will not be effective. An illustrative example of using tailored strategies is provided in Box 2.2.

Box 2.2. Tailored risk based strategy applied in France

La Direction générale des finances publiques (DGFIP) uses the method of tailored actions according to the categories of taxpayers or claims in order to adapt the collection process. The strategies are tailored according to the risk of non-collection. The French tax collectors (i.e. public accountants) have to segment the population according to the following factors:

- The tax debtor’s behaviour (for example, a first taxpayer defaulter);
- The sector or branch of the professional activity (building trades, security, short-lived companies, occult activity, cleaning agencies, transport of people, clothing business, small business sector); and
- The working conditions of the debtor.

According to these different criteria, the policy of recovery is adapted according to:

- The costs of the measure; and
- The amount of the tax debt.

The French tax collectors are personally liable for tax debts that prove to be uncollectable e.g. because of the period of limitation,. Therefore, they have discretion to determine their recovery policy, but generally they follow the scheme provided by DGFIP in a guide.2

The categories for action are as follows:

1. Gentle approach. Especially if the debtor is in debt for the first time because, in general the tax debt is often paid by instalment or by a settled agreement. This is achieved either through face-to-face collection (in general when it concerns professionals or businesses) or by sending a letter (in general when it concerns individuals).

2. Mass actions. These are simple actions that are easy to employ and cheaper than “heavy actions” because they don’t need to be authorised by a judge before being taken.

3. Severe actions. This can entail an “Actio Pauliana”, “opening an insolvency procedure” or “seizure of real estates”. DGFIP can take enforcement measures against third persons that are equally liable for the collection of the tax debt. These kinds of actions are “severe” and therefore need to be authorised by a court before seizure of the assets or goods of the debtor or the liable third party can take place. These measures are more time consuming and are more expensive than “mass actions”.

The fourth level of maturity is dynamic risk clustering. Dynamic risk clustering aims to further improve the matching of treatments to each risk cluster and debt prevention. Each payment obligation is classified using predictive analytics and some cases will be subject to action before a liability becomes due in order to reduce the rate of debt occurrence. The specific collection measure chosen for each risk cluster is the one that matches the profile of the debtors in that cluster best. In this maturity level debtors are analysed to identify the best treatment. This approach enables the debt collection function to combine a tailored approach providing flexibility of response at the organisational level with expertise in the application of the tax treatment chosen at the level of the individual staff member dealing with a particular debtor. Because ineffective steps are eliminated and interventions are of higher quality, the cost of collection falls while collection results improve.
The process is dynamic because the results of the different debt treatments are fed back continuously into the predictive analytics model. As debtors’ behaviour evolves, the way in which debts are clustered will also evolve and possibly require a different debt treatment. The dynamic nature of this more sophisticated segmentation argues against embedding detailed segmentation into the organisational structure of the debt function. The function is more likely to be organised around the most frequently occurring treatments, whether that is a phone call, a face to face visit or enforcement, including liquidation and the seizure of assets. An illustrative example of dynamic risk clustering is provided in Box 2.3.

<table>
<thead>
<tr>
<th>Box 2.3. Dynamic risk clustering in Canada</th>
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| Canada Revenue Agency (CRA) has moved from intuitive decision making to an evidence based approach by employing sophisticated predictive data models to establish a risk score based on individual taxpayer behaviour. Through the use of predictive data models and business intelligence, CRA has enhanced its ability to make strategic and operational decisions about taxpayers as well as improved workload selection and prioritisation. The models can predict the tax potential of an outstanding return, identify accounts that will “self-resolve” thereby creating efficiencies by enabling accounts to be directed to the most appropriate debt management strategy, and predict the probability that an instalment arrangement will be adhered to, thus improving the productivity of the Debt Management Call Centre instalment campaign.  

Canada has also taken a threefold approach and has introduced initiatives aimed at 1) preventing non-compliance by reducing the opportunity for taxes to remain unpaid at the time of assessment, 2) encouraging and/or proactively assisting taxpayers to meet their obligations (filing and payment) in a timely and equitable fashion, and 3) deterring non-compliance by employing actions and strategies, notably when addressing existing non-compliance, to deter future non-compliance. |

Risk analysis and risk models

The ultimate goal of debt management is to increase the net present value of outstanding debt discounting treatment costs. In other words, to increase the number of debtors that will pay by the due date or as soon as possible, with optimised treatment costs, taking into account the need for a level playing field and legal principles. To achieve this goal a number of factors need to be modelled: the costs of treatment, the risk (including the discount curve3 of outstanding debt) and the expected impact of the treatment.

Risk models can help revenue bodies with smart debt management, for example, with prioritising debts for handling and optimising treatment of a debt a well as enabling segmentation. Before advanced risk models are available, revenue bodies often make use of more or less sophisticated indicators of risks. At the basic level this may be no more than ranking debts by a combination of size and age.

Risk models in debt management are representations of exposure to the loss of money owed by tax debtors to the revenue body. Risk is defined as “probability * effect”, in which effect is mainly materiality. Arguably risk to revenue bodies is broader and should include damage by media exposure or word of mouth to the perceived fairness of the tax system that would result from discussion of high levels of non-payment of tax debt. However, in this report “effect” is limited to the loss of money.
In general, it holds true that the older the debt the higher the risk of non-payment which is illustrated in Figure 2.4.

**Figure 2.4. Debt breakdown over time in the Netherlands**

This figure shows the income and VAT tax debt depreciation over time in the Netherlands and it visualises the compounded depreciations as it takes place after up to 30 months (horizontal axis). The upper graphs show the percentage, and the bottom graphs show the cumulated amounts in EUR. Income tax debt clearly shows different behaviour compared to VAT debts. The payment of tax debt increases in the first month (probably due to payment terms and fines), however right from the start there is a small percentage of loss in the form of debts that are uneconomic to pursue. On average, after sixteen months only 21% of the current value comes in, 37% is reduced due to new facts and 42% is uneconomic to pursue or written off. The VAT debt shows a different curve, after the first four months the value depreciates most.

The Netherlands uses sector based classification in its risk analysis. Sectors with a high insolvency rate include businesses taxpayers with higher risks. However, size, age, and sector are relatively unsophisticated indicators for risk classification. Advanced analytics make a more sophisticated analysis possible. Based on characteristics of both the debt itself and the debtor, a debt receives a risk classification. A group of taxpayers with the same classification can be clustered, enabling a segmented approach whereby the revenue body applies similar debt treatments across the group. This also supports a level playing field, by ensuring that taxpayers with similar characteristics are treated consistently. Behavioural aspects are increasingly recognised as being important to revenue bodies, but as behaviour is dynamic, risk models must be dynamic too. By using the Plan-Do-Check-Act cycle, a feedback loop is created which ensures that risk models are subject to continuous improvement.4

Risk models are built on frameworks of data which are based on logic and analytics identifying risk. Building risk models requires an objective classification and rating of these indicators. With the use of historic data it is possible to test the predictive model on a randomised subset of that data before it is applied to real cases and so assess how well it is working. The main indicators of risk (identified by the task team in this research) can be summarised as shown in Table 2.3.

*Source:* Booij, J., et al. (2013), Tax and Customs Administration of the Netherlands, the debt breakdown curve based on the chain of collection.
Risk models can be further improved by using third party data to better profile tax debtors. An example is obtaining (including buying) data that can assist in early detection of financial difficulties or insolvency, enabling improved debt management outcomes. There are several companies who buy, collect and sell such data (e.g. information on regular payment behaviour such as utility payments). Some revenue bodies already have financial data which was gathered for other purposes that can be re-directed to assist in debt management.

Many revenue bodies use risk models. This chapter concludes with Table 2.4 Risk Models which provides an overview of some current risk models. These illustrate the interaction between analytics, the segmentation of taxpayers, risk modelling and treatment. In order to make risk models work it is imperative to combine analytics and business intelligence with enforcement policy. For specific tax debtors this combination raises the choice between an integrated approach and a semi-mass approach. For example, the Netherlands uses automated enforcement with garnishment by attachment on wages for specific tax debtors with a success rate of over 98%. Analytics, segmentation and risk modelling enable new forms of organisation which will be discussed in Chapter 5.

Table 2.4. Risk Models

| Australia | The ATO uses a number of analytical risk models to prioritise cases, segment taxpayers and determine appropriate collection treatments. The models being used by Australia incorporate a large number of variables, including the filing and payment history of taxpayers. The core analytical risk models are propensity to pay (P2P) and capacity to pay (C2P). The P2P predicts the probability of the taxpayer paying all outstanding liabilities in full within a certain time interval (behavioural predictor based on previous behaviour and interactions with the taxpayer). The C2P predicts the financial capacity of the taxpayer to pay their debt against likelihood of insolvency in the next 12 months. The outcomes from the two models are combined to create a risk score. These models were developed and implemented as part of the “Debt Right Now” (DRN) program, which also involved a range of complementary initiatives in capability and technology. The core elements of the program were a risk based case selection methodology, an automated streaming model and dynamic allocation of resources based on client risk and optimised, predetermined treatments. Although the DRN program improved debt collection effectiveness and efficiency, the cumulative impacts of improved productivity gained through DRN and additional business improvements and innovations since then have not been sufficient to offset the sustained high level of debt inflow over recent years. Australia, therefore, is continuing to develop their suite of models to further enhance the targeting of their debt collection strategies. This work, which is being done in partnership with a major Australian university, is leading a shift to predictive and prescriptive analytics. They are currently in the process of developing predictive models that distinguish “self-finalising cases” and “non-finalising cases” – partial deployment has already occurred. When fully deployed operationally, these models will combine with the P2P and C2P to form a multidimensional view of risk, including the ability to action response score and run forecasting simulation in the longer term. This more comprehensive suite of models, when fully deployed, will enable the ATO to provide more targeted enforcement actions and optimise resources for recovery, improving overall collection outcomes. The combination of these efforts is expected to significantly enhance the effectiveness and efficiency of debt collection, allowing the ATO to better manage its debtors' financial situations and improve overall recovery rates. The outcomes from these models will be monitored and evaluated to ensure continued improvements in debt collection strategies. |
The Belgium Tax Administration (BTA) uses an insolvency risk tool and sophisticated in depth risk modelling. The Belgium risk tool is a predictive model using several KPIs (solvency, liquidity, profitability) to predict insolvency. Belgium uses risk analysis (SAS models) and risk ranking involving predictive modelling (insolvency risk and payment behaviour). The data mining provides for identification of taxpayers and aims to create fit-for-purpose recovery.

CRA uses automated strategies that employ a risk-based approach to prioritising cases for differing treatment based on taxpayer characteristics and past behaviour.

Irish Tax and Customs (ITC) has treatment strategies that are well targeted at the taxpayer on the basis of their characteristics and past behaviour. Debts are prioritised based on risk and differentiated so that the treatment fits the individual circumstances of the debtor. Ireland has integrated tax record and case management systems. All of a taxpayer’s basis data plus liabilities, collections and balances for all tax heads are on one record system which gives a whole case view of the taxpayer.

In Ireland “rule based risk evaluation and profiling” (“REAP”) is used for risk analysis. REAP is a risk evaluation and analysis process collecting the expert knowledge of revenue officers and turning that knowledge into “rules” (from knowledge to risky taxpayer to data base). It brings a differentiation in taxpayer in risk assessment and selection for auditing tax return declarations. REAP has a small limited role in the selection of debt cases for priority action. In Ireland the basis of all analysis tools and case management systems is an Integrated Taxation System, an Integrated Data Platform. The Revenue Online Service (ROS) is an electronic customer portal and internet facility which provides a quick and secure channel to pay tax debts (e-payment), file tax returns (e-filing), access tax details and claim repayments. There is an Integrated Case Management System (ICM) that is a revenue case management system for debt management and audit. ICM allows managers to select debt cases from ACAT. Also, an Integrated Business Intelligence houses data from third parties (interest payments, government payments, life assurance payments, investment undertakings, and merchant acquirer), allowing a complete view of all available information and providing access to historical information. This offers customer profiles and company profiles. REAP is used to select cases for an audit. Risk is analysed and ranked from highest to lowest forming a complete live business customer case base. REAP enables a whole case view of the taxpayer across all tax heads. A model predicting liquidation is in the process of being developed as well as a Geographic Information System to map taxpayer’s debt collection to locations.

In Spain every taxpayer is analysed along three parameters: 1) payment capacity, 2) amount of tax debt and 3) volatility of tax debt. Risk profiles are divided into medium, high and very high risk. Predictive analytics provide for warning notifications for the likelihood of liquidation.

In 2007 Sweden started with a system for data mining; the project used the insight of experienced tax collection area managers to build a model, which was followed by a pilot implementing the model in one region (there are 6 regions in Sweden). After proven success, nationwide implementation began in January 2010. This development was quite resource intensive and in some regions there was resistance because staff did not want to change old habits. The new system generates fewer signals than the old one. The old system had lots of different signals but now there is just one and that helps reduce the administrative work. The actual risk-score for non-payment is not accessible to the case handler. Case handlers are encouraged to use the whole toolbox, for example filing for bankruptcy and withdrawal of the certificate of tax compliance. The predictive model uses the signal to identify work items for the case handler, who can make an informed decision on what measures to take.
2. THE APPLICATION OF ADVANCED ANALYTICS – 31

Table 2.4. Risk Models (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>Her Majesty’s Revenue &amp; Customs (HMRC) has an integrated Debt Management System. The debt database receives the majority of debts from their largest tax systems. An IT-system that shows all the debts owed by one taxpayer from four main duties and tax credits to tax collectors. A segmentation tool is used to cluster taxpayers. Taxpayers are clustered based on payment history, payment ability, etc. and then receive tailored treatment. A risk engine is used which applies a risk score to each taxpayer to target the debt recovery activity to be most effective. This system allows HMRC of the United Kingdom to understand the characteristics of its taxpayers, improving payment compliance and helps their debt policy team to review and improve policy and legislation e.g. new legislation to collect small debts from salaries automatically through the PAYE code; and proposed legislation to recover money direct from debtors’ bank accounts, without applying to the County Court.</td>
</tr>
</tbody>
</table>

Notes

1. See for example the 2004 FTA guidance note “Compliance Risk Management: Managing and Improving Tax Compliance”, which provided a framework for the application of modern compliance risk management principles to the management of tax compliance risks. Available at: www.oecd.org/ctp/administration/33818656.pdf

2. Currently the guide only deals with the collection of tax debts owed by professionals. Therefore, the guide will be updated in order to include tax debts owed by individuals.

3. The discount curve is the curve of depreciation (loss of recovery possibilities) of debts over time.

4. Continues improvement or Lean strategies will be discussed in more detail in chapter 5.

5. The SAS-models: credit scoring, banking analogy: likelihood of a case defaulting on a loan based on their profile and the profiles of cases that have defaulted in the past. In the SAS software credit (bank) model it is possible to view risks at taxpayers and account levels, which enables to make better decisions.

6. Ireland’s Arrears Case Analysis Tool used by Debt Management Unit managers to analyse, segment, identify and select debt cases for priority collection/recovery action.

Bibliography


Chapter 3

Tax debt treatment strategies

Advanced (risk) analysis in combination with behavioural insights revenue bodies can separate the compliant taxpayer from the non-compliant taxpayer and choose the appropriate tax debt treatment ranging from soft treatments such as service, education, communication and influencing taxpayers’ behaviour through to hard treatments such as (legal) enforcement tools.

Prevention is seen to be the most efficient treatment strategy in debt collection, but it is not always given the attention it deserves. Prevention strategies require an end-to-end thinking or a “whole of organisation”/holistic approach and finding the right part of the revenue authority that has clear ownership of preventive measures appears to be an issue.

This chapter discusses the concept of payment thinking and the debt treatment strategies, which are of two main types: prevention, or soft treatments and enforcement tools.
Payment thinking

The concept of “payment thinking” was introduced by Sweden in 2012.¹ This concept is embedded in many strategic documents of the Swedish Tax Agency (STA), e.g. the annual business plan, operational plans and policy documents. This concept has to be taken into account throughout the whole organisation (legislators, policy makers, inspectors, auditors, tax collectors, management, etc.) and in order to do so, Sweden published National Guidelines.

The concept of payment thinking encompasses the awareness of all staff of possible difficulties in payments anticipated at the very end of the taxation process when the determined outstanding balance has to be paid. The next step after the awareness is to take actions as soon as possible if there is a risk that payment will not be made. This means that tax collectors have to be involved in order to devise an integral strategy to diminish the risks and to become more effectively and efficiently. Consequently, the traditional way of taxation, where after finalising each separate stage of taxation (audit, levying and tax collecting) the case is forwarded to the next stage, has to be abrogated in particular situations. At an early stage revenue bodies should compose a common strategy and make a strategic decision about what to do next in the interest of the state budget and that includes national and international cases.²

Prevention and soft treatments

Revenue bodies put an increased emphasis on the prevention of tax debt.³ Prevention of tax debt is a treatment strategy that is located at the far soft end of the range of treatment strategies.

An older debt is harder to collect and usually yields less cash and this fact makes early intervention highly attractive as a debt collection treatment. Many countries deploy new debt collection measures, strategies and procedures to prevent a tax debt enforcement becoming necessary. For example New Zealand has an early intervention strategy “Prevent, Assist, Recover & Enforce” (PARE) for minimising tax debt. Box 3.1 gives a more detailed overview of the work stream and how the PARE model relates to compliance risk management.

The preventive strategies identified in this study are summarised as follows:

Service driven strategies

- Service to taxpayers’ e.g. more/special service for tax intermediaries/advisers or large companies, and establishing a customer service centre;
- Payment arrangements;
- Direct debiting;
- Reminders, including text messaging; and
- Call centre for in- and outbound calls (which will be discussed separately in chapter 4).
Box 3.1. “Prevent, Assist, Recover & Enforce” (PARE) strategy in New Zealand

New Zealand Inland Revenue Department’s (IRD) traditional approach has focussed on recovery and enforcement actions, however “Debt 2010”, that refers to the debt component of a 10 year Debt Collection funding programme, has enabled new focus on early engagement such as preventative type messaging and interventions and “lighter touch” assistance interventions to customers to achieve compliance.

IRDs Debt 2010 vision on debt management of more taxpayers filing and paying on time, with fast engaging intervention for those who do not comply is set out in the PARE model below.

The PARE model has been operationalised over the last few years and includes the following four elements:

- **Prevent**: Create an environment where the customers are aware of their obligations and have the skills and education to comply.
- **Assist**: Ensure customers with liabilities have the information, tools and incentives to file and pay on time. When they miss a payment we work with them to resolve their situation quickly and easily.
- **Recover**: Work with customers in debt who want to resolve their situation, and ensure future compliance.
- **Enforce**: Manage intensely the habitual non-compliers and deter them from future non-compliance.

The PARE approach has matured considerably over the last four years, introducing additional early interventions and channels, these include “Just Pay” now letters, 40 to 75 day letters, outbound texting (SMS) and enforcement rounds (garnishee/deduction notices).

Debt 2010 has between 170 and 200 Collection Officers, Customer Service Specialist and support staff operating and supporting the initiative.
Strategies for influencing taxpayers’ behaviour

- Education and communication, including dialogue with the taxpayer (right from the start) and increasing knowledge and awareness of taxpayers;
- Advanced payment regimes/automation; and
- Online portals for service, information and payment.

Other strategies

- Implementing legislation such as third party liability provisions with strong preventive effect in the Netherlands. However in other countries these provisions serve as an enforcement tool and therefore will be discussed under enforcement tools;
- Holistic approach or whole-of-organisation approach and integrated compliance for dealing with the taxpayer/debtor (this organisational strategy will be discussed in Chapter 5);
- Alternative audits for low risk taxpayers, in line with co-operative compliance and visibility; and
- Being a reliable and trustworthy revenue body with motivated and well skilled staff.

A common theme of these strategies is that they are service driven with a strong emphasis on communication. An illustration of this approach is provided in Box 3.2.

Box 3.2. “Preventive communication” and “preventive dialogue” in Sweden

“Preventive communication” and “preventive dialogue” with taxpayers is the priority strategy in Sweden. The STA contacts several debtors, by telephone or other means, right from the start and offers them information on how to comply with their tax debts. The preventive measures are:

1. strong focus on respect with regards to taxpayers;
2. “right from the start” action to educate and inform the taxpayer on how to comply;
3. easy approach to complying taxpayers and a hard approach to non-compliant taxpayers; and
4. intelligent solutions in co-operation with taxpayers and stakeholders.

To facilitate this communication driven strategy a special Customer Service Centre has been established and online services are provided such as an online tax account for submitting declarations, for payment and for electronic communication. The Customer Service Centre is a key success factor in this strategy.

Another success factor is the introduction of the “payment thinking” within the Swedish revenue body. By being aware of collection and recovery at an early stage, right from the start, tax inspectors and tax auditors have a lot to gain.

With this strategy Sweden tries to maintain the high morale regarding the payment of tax debts, gaining more and better knowledge about taxpayers that are unable to pay and to improve legislation with regard to tax payment.
Another common theme is the earlier pursuit of debt cases by calling to obtain payment and fast follow up by the revenue body when debtors default on time to make pay arrangements. These early calls have resulted in more payment arrangements and more collection. For example, the French revenue body achieved good results by having public accountants (tax collectors) call the tax debtor to avoid enforcement measures. Besides the success rates, prevention strategies have resulted in a change of attitude and revenue bodies are now seen as more trustworthy by the public at large.

In general prevention is seen to be the most efficient treatment strategy in debt collection, but it is not always given the attention it deserves. Prevention strategies require an end-to-end thinking or a “whole of organisation”/holistic approach and finding the right part of the revenue authority that has clear ownership of preventive measures appears to be an issue.

**Service driven strategies**

The provision of good taxpayer services results in a credible, trustworthy and reliable revenue body and this increases voluntary compliance. Taxpayer services are therefore seen as an effective and preventive way to achieve voluntary compliance at an early stage and many revenue bodies have made taxpayer services a priority strategy.

Service strategies should be used in combination with deterrent measures in cases of non-compliance. This is the case with the service strategy of the IRS which focuses on the improvement of service to achieve voluntary compliance but uses tailored enforcement treatment in cases of non-compliance, such as enforcement laws to ensure payment of debts. Singapore’s service strategy takes as a starting point the fact that most taxpayers are compliant, but in cases of non-compliance IRAS uses strong deterrent measures.

In general revenue bodies provided the following services to taxpayers to increase compliance in paying taxes:

1. **Improvement of communication**: The provision of e-mail service and communication with taxpayers via various channels is becoming general practice. Revenue bodies also improve the quality of letters to taxpayers for example by applying different language, structure and layout based on behavioural insight. The ITC has improved its communication by contacting the debtor by phone before starting an enforcement action.

2. **Online service**: Revenue bodies offer many online services to taxpayers such as an individualised digital tax information box or online portals or systems which make online payment possible. ITC has developed an online system for the declaration and payment of Relevant Contracts Tax (RCT) for the construction, haulage and forestry industry. Principal contractors notify Revenue before a payment to a sub-contractor is made, Revenue respond automatically in real time to notify what percentage withholding tax should be applied (i.e. 0/20/35%). At the end of the month a RCT return is automatically created by the Revenue system from the payment notifications and a tax deduction for the Principal is made a few days later by direct debits. As a result return compliance and payment is almost 100% and non-compliance relates to failed direct debits. The provision of online services is also a good tool for providing self-service to taxpayers and to encourage taxpayers to take responsibility for timely payment.

3. **Easy payment**: e.g. online payment and online instalment arrangements. The National Tax Agency of Japan (JNTA) has made easy payment possible by offering the option of paying tax at convenience stores that are open 24 hours a day. This
service is particularly popular with those who are not necessarily familiar with online payment and are anxious about the security of information (elderly taxpayers for example). An important element of the Australian voluntary compliance strategy is the wide variety of contemporary payment methods, including BPay and online credit card payment (see the ATO App). The ITC promotes payment by direct debit and developed a self-service on-line web portal to assist and encourage small customers to pay tax by monthly direct debit.

4. **Support for viable businesses**: Since the financial crisis many tax administrations allow viable businesses additional time to pay. This has led to highly desirable outcomes: viable businesses that might have been liquidated have survived, securing many jobs. Also tax debts have been paid in full or in part reducing write offs. In order to make good judgements about the viability of businesses facing liquidity problems staff should have commercial awareness and it is recommended to use third party data to assist the decision making process. Revenue bodies also visit small businesses to provide assistance.

5. **Reducing costs for taxpayers** by reducing filing frequency for taxpayers with small debts. This is general practice in Ireland and results in less cost for taxpayers and less collection interventions.

6. **Close co-operation between policy makers and the revenue body to establish a simpler tax system**: Ireland as well as the Netherlands for example have benefitted from close co-operation between policymakers and the revenue body to agree and put in place new procedures and powers.

7. **Co-operation with the taxpayers, other stakeholders, service providers and intermediaries**: Many countries such as the United States, are aiming at a good relationship with their taxpayers and other stakeholders with the provision of good services being key in creating or maintaining this good relationship and improving compliance in paying taxes.

An illustrative example of an effective service strategy to improve compliance in paying taxes is “Direct Pay” introduced by the United States. Box 3.3 provides more details about this application.

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**Box 3.3. Direct Pay in the United States**

IRS Direct Pay is a new payment application officially available as of 1 May, 2014 to individual taxpayers through the IRS website (IRS.gov) The most marketable advantage of the programme is that it is a free service that allows taxpayers to make electronic payments directly to the IRS from their checking or savings accounts. This service is secure, provides electronic confirmation, and the quickest possible way to make a payment.

IRS Direct Pay is currently only available to individual taxpayers, not business taxpayers. The service can be used for the following payment types:

- Instalment Agreements;
- Balance Due Notices;
- Estimated Tax Payments;
Payment arrangements

Many revenue bodies have responded to the recent economic and financial crises by exercising a degree of restraint or leniency when dealing with tax debtors, particularly SMEs. There is a trend globally to grant time to pay arrangements ranging in duration from a few months, to as long as ten years. Time to pay arrangements are considered to be an efficient and effective tax debt management tool. Table 3.1 gives a selected overview of payment arrangements. A full overview of payment arrangement schemes is set out in Annex A.

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Australia enables taxpayers to enter into a payment arrangement without needing to speak with one of its staff, using either online services or automated telephone services. The online service is currently only available for individuals with income tax debts up to AUD 50,000 for a 12 months payment arrangement, but this is to be extended to cover businesses and activity statement debts and superannuation debts in the near future. The automated telephone service, which uses Interactive Voice Response (IVR) technology, is available to both individuals and businesses for both income tax debt and activity statement debts up to AUD 25,000. These services are complementing other digital tools, including a payment arrangement calculator, a payment plan estimator mobile app and an online business viability assessment tool that help taxpayers to assess their capacity to pay and to work out sustainable payment arrangements. Australia’s expanding range of self-help tools is designed to make it as easy as possible for taxpayers to self-manage their debts.</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada offers a range of different payment arrangements that are based on the taxpayer’s ability to pay. Most payment arrangements are made with the CRA Debt Management Call Centre but a taxpayer can also load his payment arrangement under some parameters online through the option of My Payment on CRA website. A payment arrangement in Canada has to be made on the totality of the debt.</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>The Netherlands offers a range of payment arrangements for individuals as well as for businesses. Payment arrangements (with all different conditions) range from 12 months up to 36 months. Under special unforeseen circumstances a longer period can be provided for by the tax collector. Since the economic and financial crisis the Netherlands offers the possibility of easy short time suspension of payment by telephone. Payment arrangement can be requested by calling the Tax Line (inbound call centre) of the tax administration and will be granted at once if several conditions are met.</td>
</tr>
</tbody>
</table>
Australia, Canada, the Netherlands and the United Kingdom have put in place special payment arrangements following disasters, for example following floods, the economic crisis and farming crises such as the outbreak of foot and mouth disease.

Table 3.1. overview of payment arrangements  (continued)

<table>
<thead>
<tr>
<th>Country</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>New Zealand offers a range of different arrangements. In New Zealand a customer centred approach was adopted focusing on preventing taxpayers incurring debt with early intervention (setting up payment arrangements) and focusing on cases with the greatest likelihood of cash collection. A payment arrangement may be realised either before or after the tax debt amount is due to be paid. Payments can be a lump sum and/or varied or regular amounts over a period of time. All obligations, expectations and amounts expected for the duration of the arrangement are set out at the start. This gives certainty to the revenue body and to the taxpayer. When the taxpayer defaults on the arrangement the system automatically manages the imposition of late payment penalties and the case is identified and automatically flagged for follow up. New Zealand revenue monthly issues defaulted arrangement campaigns to ensure defaults are addressed quickly.</td>
</tr>
<tr>
<td>Korea</td>
<td>In Korea when the tax authority considers a tax debtor’s application of payment arrangement, the tax authority considers the applicant’s tax compliance level, grounds for the application and his/her plan for the payment arrangement. Once the application is accepted, the tax debtor is required to submit security. No request for provision of security is made in cases where a tax debtor proves his/her ability for repayment. The National Tax Service of Korea (KNTS) may allow taxpayers to enter into a payment arrangement when a tax debtor meets one of the requirements below: A. The tax debtor satisfies the standard of a compliant taxpayer established by the Commissioner of the KNTS. B. It is clear that the outstanding tax amount may be collected by deferring the attachment of properties or the sale of the attached properties whereby the business may be operated normally.</td>
</tr>
<tr>
<td>Singapore</td>
<td>In Singapore almost all payment arrangements are granted under the condition of direct debiting from the taxpayers account. This has resulted in higher compliance and collection.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>In the UK people are encouraged to approach HMRC for Time To Pay (TTP) when they are in temporary financial difficulty. There is an incentive to make early contact to resolve the debt, because penalties which would be incurred for late payment are suspended as soon as a TTP arrangement is in place. In most cases HMRC insists on direct debit for TTP as this not only automates recovery but also notifies the department as soon as a payment is missed. In response to the economic crisis HMRC set up a Business Payment Support Service in 2008, allowing businesses and individuals access to TTP over the phone, for straightforward requests of limited duration. HMRC does however need to ensure that only those who are in genuine difficulty, and who cannot secure commercial finance to pay their tax, are allowed TTP. To help make this decision, an income and expenditure questionnaire is completed with the debtor and for requests in excess of £1m, an independent business review can be required, to demonstrate the business’ genuine need for TTP, but also its viability.</td>
</tr>
<tr>
<td>United States</td>
<td>The IRS has established several ways for tax debtors to apply for a payment agreement (Instalment Agreement): online, through correspondence, by telephone, by e-mail and in person at the local revenue office. Payment in instalments is possible by payment check, through payroll deductions, electronic funds transfer and direct debit. Numerous programs are available to taxpayers based on the type of taxpayer (individual, business, etc.) and the tax balance owed. The objective is to effect full collection of the tax due over a period of time while ensuring future compliance and that a hardship is not being imposed on cooperative taxpayers. This has been evaluated in practice for many years. This program allows taxpayers to set up an instalment agreement through direct debit of their bank account. It helps taxpayers to resolve their tax liabilities without adding unnecessary burden on them and without the involvement of additional staffing.</td>
</tr>
</tbody>
</table>
**Direct debiting**

Direct debiting is an instrument used in several countries by revenue bodies. Direct debiting has its own rules in each country depending on domestic law making it a very country specific tool, but the general explanation provided below shows how direct debiting can be an effective tool in debt collection.

“A direct debit or direct withdrawal is a financial transaction in which one person withdraws funds from another person’s bank account. Formally, the person who directly draws the funds (“the payee”) instructs his or her bank to collect (i.e. debit) an amount directly from another’s (“the payer’s”) bank account designated by the payer and pay those funds into a bank account designated by the payee. Before the payer’s banker will allow the transaction to take place, the payer must have advised the bank that he or she has authorised the payee to directly draw the funds. It is also called pre-authorised debit (PAD) or pre-authorised payment (PAP). After the authorities are set up, the direct debit transactions are usually processed electronically. Direct debits are typically used for recurring payments...”

Table 3.2 provides some examples of revenue bodies using direct debiting is and similar treatment.

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Australia provides an online payment arrangement system for individuals with income tax debts up to AUD 50 000 which gives taxpayers the option of paying via direct debit. This service is being extended to cover all entities and taxes. A condition of the ATO agreeing to a payment arrangement in relation to some high risk taxpayers, is that payments must be made via direct debit.</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada promotes online payments through their self-service on-line web portal.</td>
</tr>
<tr>
<td>Finland</td>
<td>As of January 31st, 2014 Finland has replaced direct debiting by e-invoice and other invoicing methods. This leads to automatic debiting of an account on the due date when activated.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Ireland promotes the payment of tax debts by direct debit. For this purpose a self-service on-line web portal was developed to assist and encourage small customers to pay tax by monthly direct debiting.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>HMRC offers an online direct debiting instalment arrangement, a payment plan in which a taxpayer pays off a tax balance owed over a series of monthly automatic debits from his or her bank account.</td>
</tr>
</tbody>
</table>

**Reminders**

Most revenue bodies’ standard collection procedure starts with a written reminder requesting payment.

Revenue bodies use different channels for their reminders, for example:

1. Written notices or soft demand letters (Australia, Austria, France, Finland, Ireland and the Netherlands).

2. Electronic and digital reminder e.g. SMS-alert, e-mail, mobile telephone (Australia, New Zealand and France in some cases) and reminders via outbound calls (Australia).

Two examples are provided in Table 3.3.
In general, the reminder has proven to be very effective in increasing compliance and sending “gentle” reminders is even more effective. Austria and Sweden, for instance experienced an increase of tax payment and prevention of enforcement measures by issuing a “gentle” reminder and Norway achieved a reduction of attachments of 30% and a reduction of unsatisfied (angry) callers just by sending gentler reminders.

Currently revenue bodies are experimenting with different wordings of bulk reminder mailings. With targeted messages (such as comparing debtor’s payment record with that of his/her neighbours), using different envelopes and different colours of the text.

For example, Australia is progressively updating its debt letters and scripting to incorporate behavioural economics principles and associated design improvements to positively influence voluntary compliance. The ATO recognises that people do not always make decisions on a purely rational basis and that it is possible to make it easier for them to make the right choices by:

- Making language, structure and layout clearer;
- Ensuring that the consequences of non-compliance are clear and stated up front; and
- Making it easier for taxpayers to understand the steps they need to take to address their debt; and thereby avoid firmer debt recovery action.

A key result has been improved response rates, and the approach is now incorporated in a broader range of communications (e.g. SMS alert and email).

### Strategies for influencing taxpayers behaviour

In general, individuals are more likely to recognise and comply with a social norm if they know that most other people also comply. Seeing other dog owners carrying plastic bags to collect their pets’ waste encourages others to do the same (Cialdini, 2006). Revenue bodies send many different messages concerning payment of tax – letters, notices, reminders, warnings – often without having the desired impact. Revenue bodies increasingly recognise that behavioural insights can be used to improve the effectiveness of their actions.

Behavioural research helps revenue bodies to better understand why taxpayers are compliant or not. Additional behavioural insights enable the revenue body to select the most effective way of approaching taxpayers. Based on these insights and taking into

<table>
<thead>
<tr>
<th>Country</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td>In its on-going efforts to improve service to its clients, Canada has been exploring early intervention strategies intended to positively influence taxpayers to file their returns and to pay taxes when due. As part of this initiative, Canada sent automated filing and payment reminders to new Goods and Services Tax/Harmonized Sales Tax (GST/HST) registrants and new employers using an automated dialling announcing device (ADAD). Testing has shown that those contacted by ADAD with a filing reminder were more likely to comply with their filing obligations in the short term.</td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td>New Zealand has successfully used Short Message Service (SMS) to provide real-time reminders of key payment dates to groups of taxpayers that are targeted based on their previous year’s behaviour. This resulted in an increase in on-time payments from 72% in 2010 to 84.6% in 2013. The success rate proves that sending reminders by SMS notification prior to the due date or prior to sending the distress warrant is an effective preventive instrument.</td>
</tr>
</tbody>
</table>

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Behavioural research helps revenue bodies to better understand why taxpayers are compliant or not. Additional behavioural insights enable the revenue body to select the most effective way of approaching taxpayers. Based on these insights and taking into
account the group of taxpayers to be contacted, phraseology in letters, the tone of voice and language used on telephone calls can be adapted to heighten its impact.

The 2010 FTA study “Understanding and Influencing Taxpayers” Compliance Behaviour” (November 2010) contains an extensive review of compliance literature on the subject of influencing taxpayer behaviour and it identified and discussed the following six behavioural factors that determine the level of compliance in a taxpayer population:

1. Deterrence;
2. Norms;
3. Opportunity;
4. Fairness and Trust;
5. Economic factors; and
6. Interactions.6

The report concluded that while there is no simple answer as to how to best influence taxpayer behaviour, revenue bodies should adopt a compliance strategy that combines both a deterrence approach and a normative approach. The deterrence approach should be used to create and support social norms – to create awareness about the fact that society does not approve of non-compliant behaviour. In the long run, high levels of compliance are achieved by establishing and reinforcing norms in favour of compliance. Not only are norms considered by both researchers and revenue bodies to be the most effective way to influence behaviour, they are also considered the least costly. In the UK HMRC has demonstrated how an understanding of norms can have a reasonable impact on tax debt collection at very low cost. Their work on the wording of reminder letters has been documented in some detail by the National Bureau of Economic Research. The work of the UK’s Behavioural Insights Team is discussed in more detail below.

Behavioural insights are also used in tax debt management to influence or make it easier for taxpayers to pay their debts. Tools that can be used for this purpose are:

- Education and communication;
- Advanced payment regimes/automation;
- Online portals for service, information and payment; and
- Dedicated team for influencing behaviour.

*Education and communication*

Some revenue bodies encourage tax compliance by providing information in schools, at service centres and online using social media. These countries see benefits in this type of activity and the education of taxpayers is an effective tool for raising awareness of tax payment obligations. Box 3.4 illustrates how the ATO uses targeted education and communication to help tax debtors meet their payment obligations and to improve their compliance.

Clearer understandable communication is important especially with small and medium sized businesses can benefit from this insight. An example of simplified communication in the Netherlands is provided in Figure 3.1.
Behavioural insight has also demonstrated that differentiating in written notices (gentle versus demanding) can have a big impact.

**Advanced payment regimes/automation**

Advanced payment regimes/automation are widely used by revenue bodies across the world. Australia introduced effective advance payment regimes to collect the bulk of taxes due in the fiscal year in which the income on which they are based is earned. Ireland has a withholding tax on income payments to employees (PAYE: Pay As You Earn) that are treated as advance payments of income tax. Employed Income taxpayers in the UK pay their income tax by PAYE (payroll withholding). The self-employed, small business owners and individuals with non-payroll income must file a self-assessment tax return and pay what they owe directly. The vast majority do so, but some of them fail to pay on time.

**Online portals for service, information and payment**

To increase voluntary compliance many revenue bodies have established online means of payments. Some examples are provided in Table 3.4.

**Table 3.4. Online portals**

<table>
<thead>
<tr>
<th>Australia</th>
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<tbody>
<tr>
<td>Australia is moving to a whole-of-government service for its citizens with the introduction of “myGov”. myGov is a secure and convenient way to access a wide range of government services online, all in one place. Individuals can access their ATO online services account through “myGov”. The ATO business portal is a secure website for managing business tax affairs, where taxpayers can:</td>
</tr>
<tr>
<td>• view, prepare, lodge and revise their activity statements</td>
</tr>
<tr>
<td>• view and request their refunds</td>
</tr>
<tr>
<td>• view their statement of account and payment options</td>
</tr>
<tr>
<td>• update their details</td>
</tr>
<tr>
<td>• transfer funds between their accounts</td>
</tr>
<tr>
<td>• communicate with the ATO through a secure mailbox</td>
</tr>
<tr>
<td>• test, lodge and download selected files.</td>
</tr>
</tbody>
</table>
Dedicated teams for influencing behaviour

The Behavioural Change Team in the Netherlands, a dedicated team specialising in behavioural change, uses randomised field studies to measure the effects of different approaches, generating insights into ways to improve. It combines signals from employees and citizens, literature studies, questionnaire studies and big data analyses with lab studies in order to improve compliance using customer interaction. The Behavioural Change Team uses a variety of techniques such as describing the social norms of a peer group, the use of Post-Its attached to regular mailings to personalise messages sent to taxpayers and the use of concepts such as authority, social proof, reciprocity, to simplify communication and highlight important information.

These insights have helped the TCAN to tweak letters and other communication with taxpayers in order to improve customer interaction and compliance.

An illustrative example is the simplified flyer/leaflet triggering debtors to call the TCAN for help with realising a payment arrangement. The simplified flyer has resulted in an increase in payment arrangements initiated by tax debtors.
The UK Cabinet Office Behavioural Insights Team has identified seven insights and eight trials based on evidence from behavioural science showing that, by going with the grain of how people behave, the prevalence of fraud, error and debt can be reduced. These insights and trials are summarised in Box 3.5.

**Box 3.5. The UK Cabinet Office Behavioural Insights Team**

**Part 1. Lessons from behavioural science: seven insights to reduce fraud, error and debt**

**Insight 1. Make it easy**: Make it as straightforward as possible for people to pay tax or debts, for example by pre-populating a form with information already held.

**Insight 2. Highlight key messages**: Draw people’s attention to important information or actions required of them, for example by highlighting them upfront in a letter.

**Insight 3. Use personal language**: Personalise language so that people understand why a message or process is relevant to them.

**Insight 4. Prompt honesty at key moments**: Ensure that people are prompted to be honest at key moments when filling in a form or answering questions.

**Insight 5. Tell people what others are doing**: Highlight the positive behaviour of others, for instance that “9 out of 10 people pay their tax on time”.

**Insight 6. Reward desired behaviour**: Actively incentivise or reward behaviour that saves time or money.

**Insight 7. Highlight the risk and impact of dishonesty**: Emphasise the impact of fraud or late payment on public services, as well as the risk of audit and the consequences for those caught.

**Part 2: Test, learn, adapt – eight trials to reduce fraud, error and debt**

**Trial 1. Using social norms**: investigates whether informing people that the vast majority of those in their area have already paid their tax can significantly boost payment rates.

**Trial 2. Highlighting key messages and norms**: examines whether we can increase tax compliance among doctors by simplifying the principal messages and actions required, as well as using social levers and norms.
Enforcement tools

Most revenue bodies have a wide range of recovery powers and tools at their disposal. The recovery phase usually consists of several measures of varying severity.

The app provides an overview of all the different enforcement tools encountered in this study, listing them in order of severity.

Revenue bodies use a wide range of standard legal enforcement tools of a similar nature, such as: summons, demand, writs, distress warrants (with or without a court order), the “privilège du préalable” claims, garnishee orders, garnishments, judgements, simplified and regular seizure, electronic attachments, third party liabilities, offsetting debt and refunds, restructuring and more flexible arrangements, bankruptcy and liquidation, penalties and interest regimes for late payment and writing off the debt.

In this section we provide more information about the following typical legal enforcement tools:

1. Face-to-face collection;
2. Simplified attachments;
3. Seizure of assets owned by third parties on the premises of the tax debtor;
4. Third party liabilities; and
5. Publication of tax debtor’s information.

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Box 3.5. The UK Cabinet Office Behavioural Insights Team (continued)

Trial 3. Using salient images: investigates whether using images captured by the Driver and Vehicle Licensing Agency can help to reduce unnecessary repeat correspondence and encourage prompt payment of fines.

Trial 4. Better presentation of information: explores different ways of presenting information to discover which is most effective at encouraging the payment of debts.

Trial 5. Personalising text messages: tests the impact of sending more personalised text messages on people’s propensity to pay court-ordered fines.

Trial 6. Prompting honesty: examines whether simplifying key messages, emphasising the consequences of fraud and getting people to sign forms upfront results in more honest declarations.

Trial 7. Varying the tone of letters: explores the effectiveness of different types of communication in encouraging plumbers to get their tax affairs up to date.

Trial 8. Using beliefs about tax: tests the effectiveness of different messages – related to the fact that most people think that paying tax is the right thing to do – on payment of tax debts by companies.

Face-to-face collection

Face-to-face collection is one of the debt treatments that managed in the right way and targeted at the right cases can deliver high quality debt collection outcomes. The correct targeting of face-to-face interventions is important because this is one of the more expensive tools available to revenue bodies, involving as it does one to one contact with the taxpayer in the field. The best outcomes can be achieved through professional, confident, respectful and straight communication. For some debtors, routine forms of communication are not effective: letters will not be opened and phone calls not answered. But face-to-face contact or field calls can be harder to avoid and enable the collection agent to deliver a clear message that demonstrates the revenue body’s determination to follow up debts and ensure complete adherence to payment conditions that have been agreed. Face-to-face contact is often necessary if goods are to be seized. Information gathered during field calls can also be used in determining whether or not issuing legal proceedings will be worthwhile and for collecting other information that will enrich the revenue body’s understanding of that taxpayer.

The cost efficiency of face-to-face collection can be improved by adopting a business model that achieves geographical coverage without relying on the existence of a network of local offices. This can be achieved by means of suitably skilled but home based staff, supported by mobile IT devices which allow the agents to record the results of each call in real time and have those results uploaded to the debt system automatically. Table 3.5 illustrates how face-to-face collection works in practice.

Table 3.5. Face to face collection

| United Kingdom | The United Kingdom has established a Mobile Field Force as part of its tax debt collection function. Approximately 450 face-to-face recovery agents have been appointed. They work from home, generally travelling to taxpayers’ premises and homes by car and are qualified to undertake a range of interventions, including asset seizure, court appearances and are able to take payments and agree time to pay arrangements. These agents are organised as a national team for face-to-face work. The field agents are supported by mobile IT with national coverage. Field force agents are equipped with mobile IT devices that hold details of the debtors to be visited. These devices are connected wirelessly to the back-office and allow the agents to record the results of each call in real time and those results are uploaded to United Kingdom’s debt management system automatically. The safety of field agents is a priority and it is important that the back office knows where the agents are at any given time. The mobile IT devices can be “killed” remotely if lost making them more secure than traditional paper records. |
| Ireland | Ireland only uses face-to-face collection in the limited circumstance of a new or existing small taxpayer that has not filed returns or paid current taxes for the previous 5 months. After a process of automatic letters and (outbound) telephone contact fails to get a response, an officer from the local tax office will make a field call to determine if the taxpayer is still trading and to quantify the level of trading in an on-going business, so that a realistic estimation of the tax due can be made. The field call will also gather intelligence on available assets for possible seizure. Ireland’s experience is that using of a sequence of three automatically generated warning letters followed by a contact by a local tax office, is a proportionate and cost effective management of the circumstance described. The potential risk that a non-compliant taxpayer is still trading and accumulating large undeclared tax debts undetected is considered to be low as a result. |

Simplified attachments (by garnishment)

When soft collection tools have no effect, most revenue bodies can apply enforcement tools such as attachment (by garnishment), seizures of assets such as cars, real estate and money in bank accounts, and attachment of wages and other periodic income or benefits.
Some revenue bodies use online recovery measures, including simplified electronic and automatic attachments and garnishments. The use of simplified recovery measures and simplified attachments and garnishments has proven to be very efficient.

Simplified attachments and garnishments include the electronic (automatic) attachment to bank accounts which is common practice in Australia, Belgium, France and the Netherlands. Table 3.6 sets out some examples of simplified attachments showing the different uses and processes associated with this tool.

Table 3.6. Simplified attachments

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
</table>
| Australia   | The ATO uses the instrument of automatic attachment. They issue a garnishee notice to third party (e.g. a bank) holding money on behalf of the taxpayer, requiring the third party to make the payment of the amount specified on the notice to the ATO. The ATO has developed a new electronic garnishee notice and garnishee tool, which streamlines processes for issuing formal “requests for information” and garnishee notices to some financial institutions. Australia also added an electronic payment channel for banks to use in response to the garnishee notice. The system allows the ATO and the banks to interface with a secure data exchange and send and receive information in real time, without the need for printed copies, white mail systems and in some instances, potential manual human intervention. Electronic automation has improved payment times, reduced case activity handling times and reduced transactional costs. The ATO is currently in the process of implementing this more broadly across their business, to both maximise savings and improve interactions with banks. The ATO uses two types of garnishees:  
  1. Point-in-time garnishee. This garnishee type is confined to savings and trading accounts and operates for a single instant in time. It requires a financial institution to pay the Commissioner of Taxation the total liability of the taxpayer, or 30% of available funds, whichever is the lesser amount. On payment of that amount (or if no amount is currently owed to the taxpayer) the notice expires and the financial institution has no further obligation under the notice. The benefits of issuing a PIT garnishee include the:  
     - avoidance of hardship for the taxpayer by ensuring that some funds remain available  
     - ability to continue to operate the accounts to make essential payments and receive further deposits as the account is not frozen until expiration or withdrawal of the notice.  
  2. Standard garnishee. Circumstances in which a standard garnishee notice would be issued to a financial institution include:  
     - a lump sum deposit into an account is anticipated but the date of deposit is unknown  
     - merchant card facility garnishees  
     - proceeds of sale being paid with an unknown settlement date  
     - debtor accounts or wages, salary or ongoing contractual payments.  
  Standard garnishees on banks can only be for a fixed amount, rather than a percentage (%) basis and remain in place until the debt is paid or the notice is withdrawn. |
| The Netherlands | The automatic and electronic attachment tool used by the Netherlands revenue is the so-called Governmental claim that was introduced on October 1st, 2009. The Governmental claim is a form of automatic and electronic attachment of a bank account for tax debts of individuals. Upon request of the tax collector, banks are obliged to pay the amount of the tax debt due from the bank account of the taxpayer, including the credit margin amount of the bank account (amount which is permitted for overdraft). Saving accounts are excluded from the attachment. The payment obligation of the bank expires once the tax debt has been paid. The revenue body can only use this tool in cases of small debts, i.e. a maximum outstanding balance EUR 1,000 and the claim itself must not exceed EUR 500. There is a monthly maximum of EUR 500 that can be seized from a bank account and it only applies to income tax and some car tax. The bank issues a notification on the bank statement and the tax collector has to inform the taxpayer within seven days. This electronic attachment tool has proven benefits for collection performance in the Netherlands. |
| France      | French tax collectors can relatively easily arrange to be paid by tenants, banks, life insurance companies, employers, notaries, from the sums they hold on behalf of the debtor. The tax collectors can also be paid directly from the debtor’s bank account. The tax collectors have access to some of the databases in which they can find some data about the bank accounts of the debtor (the number of the bank account and to whom this account belongs) and/or about certain properties that they have sold for instance (according the French law, the act of selling of real property has to be published). This simplified attachment is initiated by the sending of a letter by the French revenue. It applies to individual tax debtors and to business-tax debtors. |
Seizure of assets

Seizure of assets of the tax debtor is the most common enforcement method in Ireland. Generally the threat of seizure is sufficient to obtain payment of a tax debt. The Irish revenue does not use this power itself. Instead it uses sheriffs that are appointed by government and are accountable for their actions to the court.

Seizure of assets including those owned by third parties on the premises of the tax debtor

The seizure of assets owned by third parties on the premises of tax debtors is a unique tool that is effectively and efficiently applied by TCAN. This tool makes it possible for the tax collector to seize assets (movables) that are owned by third parties but are used on the business premises of the tax debtor. It applies only to certain business tax debts (i.e. VAT and wages tax) and usually affects banks or other third parties with a pledge or another security granted on the assets on the business premises.

This tool is provided for in the Dutch Collection Act 1990. One of the legal principles is that a creditor may recover his claim against a debtor only from his assets and not from the assets of third parties. However, an exception to this principle has been laid down in the Dutch Collection Act 1990 for the collector of taxes. The collector is permitted to recover unpaid tax debts from certain movables of third parties which are on the “land” of the taxpayer (i.e. in his home or on the business premises) at the time of the seizure.

An overview of the conditions of this seizure tool is set out in Box 3.6.

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**Box 3.6. Article 22 Tax Collection Act 1990: Special seizure right in the Netherlands**

The Dutch tax collector may exercise this special right of seizure if a number of conditions are satisfied, namely:

1. The tax debts must relate to non-personal taxes, e.g. wages and salaries tax and turnover tax (VAT);
2. The seizure must be of movables, e.g.
   - harvested or non-harvested fruits of the land, such as potatoes and grain that is
   - stored in a barn or
   - that has been harvested but is still on the land;
   - movables for cultivating or using the land, for example agricultural machinery;
   - movables for furnishing a home or farm; these are the goods most commonly;
   - seized under this right; (for this purpose a home is deemed to include an office, shop or factory);
3. The movables must serve as furnishing; for this purpose furnishing includes:
   - furniture;
   - free-standing cupboards and showcases in a shop;
   - movable machines in a factory;
   - office furniture;
   - implements and tools in a factory;
   - the equipment and furnishings of a café (furnishing does not include, for example, the stock in trade of a business, the stocks of wine in a hotel, clothing and cars);
Third party liabilities

Third party liabilities are the fourth group of legal enforcement tools. Many countries have legislated the possibility to pursue collection of third parties for payment of tax debts. This tool is mainly used for third parties such as directors in relation to tax debts with regard to business activities such as wages tax and VAT. For example in Australia there is the so-called director penalty. In the Netherlands and Portugal directors may be held liable for company debts such as VAT. The Netherlands has legal provisions that allows the tax collector to hold third parties, such as notaries, contractors, directors, shareholders and spouses, liable in more than 40 situation (see Box 3.7 for an overview of the most relevant ones). The Netherlands revenue experienced that this legal tool has great preventive effect on tax compliance.

Box 3.6. Article 22 Tax Collection Act 1990: Special seizure right in the Netherlands (continued)

4. The goods must have been seized on the “land” (in practice: property or business premises) of the taxpayer. For this purpose, the term includes the part of land or dwelling, office, factory with site or farm with land which is actually used by the taxpayer. The identity of the owner or tenant is not important for this purpose. The condition is that the property or the business premises are actually used by the taxpayer and that he can use it independently of third parties. If the collector has seized movables that belong to a third party that are on the property/business premises of the taxpayer, the third party has two forms of redress:

a. If the third party believes that the collector has wrongly designated certain movable goods subject to the special right of seizure, he may protest (in writing) with the Dutch tax collector or

b. lodge a legal notice of “opposition” to the seizure with the civil courts;

If the third party recognises that the seized goods come within the definition of movables liable to seizure under this special right, his only redress is to object (in writing) with the Dutch tax collector. He may not lodge a notice of opposition with the civil courts.

The conditions mentioned above suggest that the goods which may be seized under this special right are limited to harvested or harvested fruits and movables which serve furnishing of a home or farm or for the cultivation or use of the land. This seems to suggest that this special right of seizure can be exercised only in the agricultural sector. However, numerous court cases show that it can be applied and is applied in many other cases. In practice most cases concern the goods on the business premises and used for the business of the taxpayer.

Box 3.7. The most relevant third party liability provisions in the Netherlands

- third party contracting or using temporary staff, liable for social security contributions;
- the contractors and sub-contractors ultimate responsible for tax debts and social security contributions debts;
- the business-directors and former business-directors liable for business-debts (mostly VAT and wages tax debt);
- the representatives of bodies not established in the Netherlands liable for all tax debts;
- the managers of a permanent establishment in the Netherlands liable for all tax debts;
Examples of third party liabilities for directors and shareholders for company tax debts can be found in Table 3.7 and more detail is available in the app.

### Table 3.7. Third party liability

<table>
<thead>
<tr>
<th>Country</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Since 1993 directors have been personally liable for their company’s liabilities that relate to the amounts withheld from wages in connection with the employees’ income tax obligations (pay as you go withholding) if these liabilities are not paid by the due date. Since 2012, directors have also been personally liable for their company's liabilities that relate to the employees’ superannuation entitlements (superannuation guarantee charge) if these liabilities are not paid by the due date. If a company fails to meet a pay as you go withholding liability or a superannuation guarantee charge liability by the due date, the ATO may issue a director penalty notice to inform the director and to enable it to start legal recovery proceedings.</td>
</tr>
<tr>
<td>Belgium</td>
<td>The directors of companies or bodies corporate are jointly liable in the event of default on wage withholding tax or VAT owed by the companies or the bodies corporate they manage when said default is attributable to an Aquilian offence (quasi-delict). A presumption of liability “Juris Tantum” is laid down in the case of repeated default.</td>
</tr>
<tr>
<td>Canada</td>
<td>Canada can raise memorandum assessment against third parties to whom property had been transferred by the tax debtor. This will result in the third party being responsible for the debt. Memorandum assessment can also be raised against directors of corporations holding them responsible for paying the GST/HST debts or payroll deductions as they are amounts held in trust for the government.</td>
</tr>
<tr>
<td>France</td>
<td>In France, partners of companies are equally liable for the payment of tax debts due by the company with which they are associated. The existence or the extent of their liability depends on the nature of the company. The leader (or business executive) can equally be declared liable – under some conditions – for the payment of tax debts due by the company which he runs or he directed.</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>In the Netherlands more than 40 third party liabilities are laid down in the Tax Collection Act 1990 (this is much more than any other European country has). However, most of the third liability provisions are not and do not have to be used because of their very strong preventive effect. The most used third party liability provision is that of the personal director’s liability for business tax debts (VAT and wages tax) and the provision whereby shareholders can be held liable for corporate tax debts. The tax collector can hold a third party liable by the sending a written notice. After filing a protest the tax collector will decide upon the protest after which the liable third party can take resort to the tax courts.</td>
</tr>
</tbody>
</table>
Publication of tax debtor’s information

Some tax revenue bodies publish the names of debtors and details of their tax debts. Countries that publish some information about debtors on a more regular basis, such as the names of debtors, include Korea (information about taxpayers with over KRW 500 million in tax debt). The Swedish authorities consider this information as public information and their approach is described below.

**Box 3.8. Tax debt information is public information – Sweden**

The Swedish authorities (STA and SEA) not only recover/collect tax debts but also claims of private parties, such as television licenses, student loans, traffic insurance contributions, mobile telephone bills and loans. Sweden has found that if third parties are aware of the existence of a tax debt it is less likely that the debtor will incur more debts with third parties.

Information regarding tax debts (and debts of individuals) is considered public information in Sweden. Everyone can request details of a specific person’s or company’s tax debt. The information regarding debts in the national debt register is also used by private credit agencies for credit rating purposes of private persons and companies.

The awareness in Swedish society that debts are public has a preventive effect making it less likely that debts will arise and more likely that they will be paid. There is no name and shame list in Sweden, but upon request, the information about debts is given free of charge. The Swedish revenue may inform anyone about the debt according to Swedish law. The Swedish revenue also sells non-confidential information to credit rating agencies. The authority may not provide information about debtors if the information is classified as confidential pursuant to the secrecy law. The credit rating agencies keep records for payment defaults and gather some of the information, which is not considered as confidential, from Swedish revenue.
For most revenue bodies’ debtor’s information is still strictly confidential and cannot be made public, but in some countries exceptions are made. An overview of selected countries that have exceptions in place is provided in Table 3.8.

Table 3.8. Countries with confidentially rules and exceptions

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>CRA only releases debtors’ information in cases where a court conviction for tax evasion or for failing to file income tax returns is obtained. The information released to the media is available to the public since it is derived strictly from court records and not from confidential information held by revenue. More information on these convictions is available on the CRA Web site at <a href="http://www.cra.gc.ca/convictions">www.cra.gc.ca/convictions</a>.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Ireland publishes debtors’ information in the case of a court order or a Notice of Attachment. Names of taxpayers are published when caught evading tax (i.e. not declaring the proper tax due) and of those who were penalised for failure to submit a tax return.</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>The Netherlands makes debtor’s information public only in case of bankruptcy or legal restructuring procedures for individuals.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>The United Kingdom publishes debtor’s information only in case of criminal acts.</td>
</tr>
</tbody>
</table>

An overview of all tax debt treatment tools and instruments ranging from soft to hard is provided in the app.

Notes

1. The term “payment thinking” was introduced in a presentation of Sweden during an IOTA meeting in 2012. The term “payment thinking” is a free translation of the Swedish term “betalningsperspektiv”.

2. Sometimes it is for the better to terminate the audit and file for bankruptcy rather then proceed and to impose an assessment resulting in a large amount to pay and already determined as uncollectible. Moreover, if no assets are available in the home country through the channel of mutual assistance information could be obtained if there are assets abroad (in case there is evidence to send a request to a certain country). If there are assets, depending on the risks, the other country could be asked to take precautionary measures and if there are no assets, the audit could be terminated too.

3. Prevention is the key them of the FTA information note “Right from the Start: Influencing the compliance Environment for Small and Medium Enterprises” OECD (2012) The central
3. TAX DEBT TREATMENT STRATEGIES – 55

A shelf company is considered a company that has never performed any business activity. These companies solely exist for the purpose to sell off the shelf. It offers a convenient alternative to set up a company from scratch (the name of the company is changed, new directors are appointed and shares will be issued).

Bibliography


Dedicated call centres for providing services and information to taxpayers are now commonplace. Revenue bodies are increasingly using outbound call centres for enforcement purposes and debt collection in particular. Outbound call centres are a standard part of tax debt collection in the private sector and are proving their worth in the field of tax debt collection.

This section describes some of the similarities and differences between inbound and outbound call centres, how the debt collection call centre relates to the overall debt management process, some of the technology deployed and some of the principal components of effective outbound call centre management.
The use by Revenue bodies of dedicated call centres for providing services and information to taxpayers is now commonplace. The use of outbound call centres for enforcement purposes, and debt collection in particular, is not yet as widespread but is increasing. Outbound call centres are a standard part of debt collection in the private sector and are proving their worth in the field of tax debt collection. For example, Sweden uses outbound calls to target new high risk debtors and this has resulted in a success rate of 80% of debtors making payment. In New Zealand, early interventions by outbound call centre agents have resulted in an increase in immediate payments and time to pay arrangements, resulting in earlier collection of tax debts.

**Outbound and Inbound Call Centres**

As the names suggest, the main difference between the two types of call centres is directional: outbound centres primarily make calls and inbound centres primarily receive calls. That said much of the underlying infrastructure is the same in terms of the physical facilities required by call centre agents, the technology for routing calls according to agent availability and skills, the ability to record calls and to provide agents and managers with real-time feedback on workloads and performance. However, there are also some important differences between the two types of call centre.

In terms of technology the main difference is that outbound call centres depend for their effectiveness on the capability to make large numbers of outbound calls automatically, using a piece of technology commonly referred to as an “auto-dialler”. Apart from that, the main differences result from the different direction of the flow of calls.

Inbound call centres are demand driven and they typically aim to provide a rapid response to callers and to provide good quality replies to their requests for advice and assistance. Typically inbound centres will have targets to minimise the time callers spend waiting in a queue to speak to an adviser and the number of occasions when callers hear a “busy” signal and have to redial. Delivering good quality service in an inbound call centre involves sophisticated forecasting of demand that makes dynamic use of the data about call flows captured by the call centre’s systems. It also requires a flexible workforce that can be allocated and scheduled according to the fluctuations in demand. By contrast, outbound call centres have much greater control over workloads as the call centre is essentially creating the call volumes itself. In practice even primarily outbound call centres deal with a mix of outbound and inbound calls. As a result, they still need the capability to manage call volumes intra-day and to match available resources to demand and so ensure that all calls are dealt with to the same service standards.

Both the similarities and the differences between outbound and inbound call centres might suggest that the most effective model would be a “blended” call centre. Much of the technology and other infrastructure required is the same, which suggests that there may be economies of scale available. Perhaps even more tempting is the potential to smooth workloads and so simplify the task of matching staffing to workload peaks. As the volumes of outbound calls are under the control of the call centre, those volumes can be reduced as inbound calls peak and increase when inbound calls reduce. But there are some significant drawbacks in combining an inbound and service oriented call centre operation with enforcement focused outbound operation.

Revenue bodies have developed service call centres to provide a cheaper and more responsive alternative to traditional forms of contact with taxpayers (face-to-face meetings and written correspondence). However, in many instances they have struggled to match
demand and call volumes have exceeded capacities on a number of occasions. Revenue bodies are currently developing approaches that will encourage taxpayers to self-serve on-line but currently inbound call centres tend to be under pressure. In these circumstances there is a real danger that in a blended call centre pressure to provide good service to inbound callers will crowd out the capacity to make outbound enforcement calls. But perhaps the more significant barrier to the efficiency of blended call centres is that the capabilities required for dealing with inbound service calls are quite different from those needed by someone handling enforcement calls and demands for payment in particular. So while co-location of the different types of call centre makes sense, as it allows revenue bodies to realise the economies of scale available if the basic infrastructure is shared, experience suggests that they still need to be managed and staffed separately.

**The Outbound Call Centre and Debt Management**

The modern outbound call centre occupies a central role in the advanced management of tax debts. Figure 4.1 provides a generic illustration of how the outbound call centre relates to the overall debt management process and some of the key elements of the call centre operation.

![Figure 4.1. The Call Centre Environment](image)

The allocation of calls to the call centre operation for treatment will flow from the analytics and triage process that was described in Chapter 2. The ability to make effective contact by telephone is obviously dependent on the availability of up-to-date telephone numbers and consequently this aspect of the debt management process, like so many others, is dependent on other parts of the revenue body being aware of the value and importance of keeping contact details for taxpayers current. Before revenue bodies began to develop the more sophisticated analytic capabilities we have described, it was common for all debtors to be referred to the call centre if a telephone number was held on the taxpayer’s record. In more developed tax debt management operations, debtors who are not likely to respond to a call will be filtered out and targeted with other interventions that
are likely to be successful. This increases the success rate of the calls that are made by the outbound call centre and eliminates the costs of an enforcement action that will not result in payment.

As is explained later in this chapter, both the auto dialler and campaigns that focus on taxpayers with payment difficulties will drive inbound traffic to the debt management call centre. Interactive Voice Response (IVR) technology means that some of these calls can be dealt with automatically, without being referred to a human agent.

Call centres collect a great deal of management information, which in turn provides a real time feed of data back to the analytics function. It also supports the processes of performance management, training and development within the call centre itself.

The process in an outbound call centre starts with allocating the calls to the agents. Debtor details are loaded into the auto dialler, which will make then outbound calls to debtors in accordance with a schedule designed to maximise the number of calls that connect with a “live” individual. An auto dialler is an electronic device or software that automatically dials telephone numbers and “tells” which numbers to dial and how to respond to different situations (if an answering machine is reached, a human person answers the call, a busy signal, etc.). Auto diallers can be used to leave automated messages requesting a call back if the call reaches an answering service or it can connect the call to an agent. The messages left by auto diallers are carefully constructed in order not to breach taxpayer confidentiality if listened to by someone in the household who is not the taxpayer. However, these messages are successful in encouraging debtors to make contact. This capability can be used to complement other “campaign” tools that encourage debtors to make contact and discuss how their debts can be resolved.

Predictive dialling is an enhanced form of auto dialling enabling a call centre to make a larger number of calls within a fixed time period by starting the dialling process while agents are dealing with earlier calls. The predictive dialler anticipates when an agent will be free to handle another call. Predictive dialling software analyses call patterns to determine the optimal time to dial more numbers. The predictive dialler will often dial numbers when no agents are available, knowing that an operator is likely to end a call right when another one begins.

The benefit of using (predictive) auto dialler technology is that call centre staff don’t waste time waiting for people to answer phone calls, they will not be connected with engaged lines, answering machines, fax machines and disconnected numbers. This increases the number of debtors reached and staff can focus on the conversation with the taxpayer.

The scheduling of calls to be made by the auto dialler across the working day needs to reflect differences in the different work patterns of different types of taxpayers. For example, it makes more sense to phone an employer during the day as they are likely to have a fixed place of business whereas the self-employed individual may be easier to reach in the evening. The volumes of calls loaded can be adjusted to take account of the flow of inbound calls. Some examples of how the auto dialler is used in telephone collection and the effectiveness of auto dialling are summarised in Table 4.1.

Box 4.1. provides for a more detailed illustration of how technology supports the operation of tax debt collection.
Table 4.1. Auto dialler used in telephone collection

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>Australia's tax debt call centres use high volume outbound predictive dialler technology. This is an important part of the ATO’s early intervention strategy, enabling it to contact more taxpayers more quickly. Calls are presented to staff with on-screen account details. Cases are selected using risk models of “capacity to pay” and “propensity to pay”, which recommend the most appropriate debt collection treatments. The focus is not solely on the efficiencies that flow from the high volume of calls handled, but also on the effectiveness of the interactions, as measured, for example, by payment arrangement “kept rates”. This outbound capability is complemented by an inbound call centre service that supports taxpayers who choose to engage with the ATO.</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>Canada has had a telephony system dedicated to collection for 17 years. Established in 1997, the CRA has one national call centre that specialises in collections, referred to as the Debt Management Call Centre (DMCC). With dedicated collections call centre agents, the DMCC is capable of handling both inbound and outbound calls, as well as high volume, low risk tax debts at low costs. When a tax debt is assessed by the CRA, the collection system uses business intelligence and risk scoring to determine the period of time that will be allotted to the taxpayer to voluntarily pay their debt. If the debt is not paid within that period of time, a letter is sent to the taxpayer to encourage payment of the debt. Should the taxpayer not respond to the letter, or the letter leads to further questions, the account is transferred to the national call centre that specialises in collections, referred to as the Debt Management Call Centre (DMCC). The DMCC process employs an Automated Dialling Announce Device (ADAD) which allows for automated outbound calls with a programmable message that plays when the taxpayer answers their phone. The use of the ADAD is intended to promote compliance among taxpayers who have not responded to collection letters. It is also used to encourage new business registrants to file their paperwork before their first filing deadline, and to remind taxpayers that they have instalments that are due. At the end of a call, call centre agents code the account with one of the following: “will pay”, “cannot pay”, or “will not pay”. If a payment on an account cannot be arranged by a call centre agent, the account is transferred to the Account Receivable National Inventory (ARNI) or the local Tax Service Office, based on existing debt management strategies in the collections system, to proceed with more aggressive collection actions to resolve the debt (for example, garnishing assets – usually bank and other third parties).</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>Japan has successfully installed regional Call Centres for collection. In operation since 2002 there are now 12 call centres Collection by telephone is considered extremely effective in Japan (82% payment within three months). Japan uses an outbound Call Centre and an automatic dialler method and makes direct contact to, for instance, remind the taxpayers of the tax debt. Supervisors prepare a list of taxpayers subject to telephone reminders based on the information from the KSK (main and integrated computer system that manages national tax claims by connecting every regional tax office with the central tax office) system. This system automatically makes calls to taxpayers. The operator asks the taxpayer to pay the tax debt in arrears while checking the information as displayed on the terminal screen. If no response is given, the computer system automatically records this. Taxpayers can ask for a payment arrangement. The computer system automatically monitors the status of the implementation of the payment plan. When no response is received from the taxpayer after several calls (e.g. 5 times) the call centre provides for written reminders also during nighttime. If no response is received thereafter the case is returned to the tax office and a disposition of delinquency is executed. The benefit is: call centres made calls to 750,000 taxpayers during fiscal year 2012 (July 2012-June 2013) which resulted in 80% of debtors paying in full or pledging.</td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td>In New Zealand collection by telephone (automatic dialler technology) is a priority. New Zealand has given more emphasis on newer smaller debts as well and this shows an improvement in slowing debt growth via better use of outbound calling campaigns.</td>
</tr>
</tbody>
</table>
Interactive Voice Response Technology

Interactive Voice Response (IVR) technology is used at the front end of call centres. Some revenue bodies use this technology in their dealings with debtors. An IVR is an automated telephony system that interacts with callers, gathers information and routes calls to the appropriate recipient. An IVR system accepts a combination of voice telephone input and touch-tone keypad selection and can provide appropriate responses in the form of voice, fax, call-back and e-mail. An example of how IVR works is provided in Box 4.2.

Box 4.2. Automatic call back system in Australia

Calls enter the ATO environment through a queue determined by the customer selection in the IVR system. These queues then deliver calls to Customer Service Representatives according to their skill sets. The ATO also offers an automatic call back system for customers to reduce the number of calls waiting in their queues. When a customer chooses this option, their details are automatically placed in a virtual queue and re-called when it is their turn. Calls can also be returned at a time chosen by the taxpayer that is more convenient to them. (It is also possible for small businesses to use this service to request a visit from a tax officer to assist them in meeting their tax obligations.) This is different to the outbound dialler systems that are used in the outbound contact centres where phone numbers are pre-loaded into dialler software.
IVR technology is an effective way of optimising revenue bodies’ phone calls. It can easily be integrated with existing call centre services, such as answering telephone calls or providing customer support. IVR applications can hand off a call to a person who can view data related to the caller at a display. The lack of human interaction that is a feature of IVR systems can have surprising advantages. Taxpayers often prefer to resolve their outstanding debts without having to discuss their affairs with another person. For these taxpayers on-line or IVR solutions are attractive and, within certain parameters, offer a low cost way for revenue bodies to set up time-to-pay arrangements with taxpayers.

In the app is described how the centralised phone notice system of Japan works and it provides a holistic picture of how a tax collection call centre has been deployed in practice.

Workload Management

The success of a call centre, whether inbound or outbound, depends on good workload management as well as an investment in workflow. When workload is badly managed it can affect staff negatively and it can create stress, burnouts, illness, dissatisfaction with the job and lack of faith in management and this can have a negative impact on the overall work environment. For the reasons discussed at the outset of this section, having a mix of inbound and outbound calls makes it easier to manage peaks and troughs in the numbers of inbound calls. While it is difficult to manage a mix of service and enforcement calls, it is perfectly possible to create a beneficial flow of incoming calls from debtors to the debt management call centre.

It is already described how the auto dialler can help to encourage the debtor to make contact with the revenue body. But some countries (have) target(ed) debtors with “campaign” messages designed to encourage them to contact the debt collection call centre. This generates inbound calls from taxpayers who are more likely to have prepared for the call and have the information to hand that is needed to achieve a positive conclusion, whether that is payment, correction of an error, a payment arrangement. These campaign messages can be delivered in the form of a written output or using alternative methods, such as SMS messages.

Workload management is designed to distribute calls across the day and between agents in a way that optimises performance. Traditionally this is a highly automated and top-down process but that can create significant stress in the workforce. It is one of the reasons why call centre environments are not seen as attractive places in which to work by some. However, there is evidence that more effective workload management can be achieved by providing staff with real time information about workflows and pressures. Armed with that information and with the discretion to manage their own working day, staff are able to respond to the work situation and reschedule their activities on the fly. Not only is this more efficient than a top-down approach it also gives staff much greater control over their work and increases their job satisfaction. For call centre agents and managers it is much easier to handle calls if there is an effective system for recording customer contact and a single view of all their (current) liabilities. This is sometimes hard for revenue bodies that rely on legacy systems designed around specific tax types to achieve but the absence of a record of earlier contacts and a single view will drive up call times and degrade the taxpayer’s experience of the call and their perception of the revenue body’s efficiency. Where a call requires some follow up action, or hand off to another team, having an automated workflow system is obviously advantageous.
The example of the workload management in the Debt Management Call Centre of the CRA in Box 4.3 illustrates that a mix of inbound and outbound call can be efficient, but only when staff are scheduled properly during peaks.

Box 4.3. Workload management in Debt Management Call Centre of the CRA

The DMCC delivers a national programme handling a mix of inbound and outbound calls, that runs from 7:00 a.m. to 11:00 pm EST, in order to provide coverage nationally from 8:00 am to 8:00 pm across the five time zones the DMCC services.

For scheduling purposes, the DMCC uses historical data about call volumes from previous days to profile the mix of staff required in terms of inbound, outbound and “blended” agents. Adjusting the start time for dialling a particular work-list may yield higher numbers of connections.

Outbound calls or campaigns that are generated by the CRA result in call backs that are routed through the inbound calls lines. For example, if the CRA increases letter campaigns to debtors, the DMCC needs to increase staff to the inbound lines accordingly. Auto diallers can also be used to leave automated messages requesting a call back if the call reaches an answering service. The volumes of calls loaded can be adjusted to take into account the flow of inbound calls as these messages will in turn generate inbound calls on specific lines.

When staffing their telephone lines, the DMCC also needs to be cognisant of the absenteeism rate of employees. In order to meet their daily objectives, they only permit 5% of employees per workload/per language skill to be on vacation at any time.

The DMCC also tracks the results of “connects” and adapts strategies to continually increase and improve upon previous results. Calling businesses during the evening or calling individual taxpayers during the workday might not yield the best results – it makes more sense to phone an employer during the day as they are likely to have a fixed place of business, but the self-employed individual may be easier to reach during the evening.

Agent Capabilities

The debt management call centre environment differs from other call centre environments within a revenue body and this requires special qualified staff with specific capabilities. Call centre agents need to have the capabilities to handle debt calls (service skills). To deal with outbound calls agents need skills which are different from the skills needed in a service oriented inbound call centre (negotiation and selling skills).

The focus in outbound call centres is on the payment of the debt and agents need to have the capability to communicate effectively with the taxpayer. This means that agents should have a professional tone and attitude showing that he or she is in control and he or she must have a mandate to make (payment) arrangements with the debtor as is essential that the agent has a good understanding and knowledge of debt collection procedures and legislation. Furthermore, agents should be good listeners with problem solving capabilities to resolve any issue. Agents will need to have customer care skills, including being friendly on the phone and showing empathy when dealing with upset or difficult taxpayers. In some call centres more complex cases are handed off to more experienced second line agents, who would expect to have longer call durations but, on average, handle higher value debts.
Box 4.4. provides a country example of staffing of the Debt Management Call Centre at the CRA, including their roles and capabilities/expertise.

Box 4.4. Staffing of the CRA's Debt Management Call Centre (DMCC)

The CRA's DMCC is staffed by approximately 280 employees during peak season; outside of peak season, staffing levels decrease to about 190 employees.

There are two categories of debt workloads being handled by the call centre: 1) tax (debts of personal and corporate income tax, payroll deductions, goods and services tax or harmonised sales tax); and 2) government programmes (debts of other Government department such Employment Insurance overpayments, Old Age Security overpayments, Student Loans etc.) with each having sub-workloads categories.

The DMCC's management structure is comprised of one assistant director, four managers, and 22 team leaders (numbers can vary depending on the time of the year) each of whom have 10-12 call centre agents that report directly to them.

There are also three specialty teams:

- The first is the quality support team that handles complaints, consultation calls from other first line agents, and monthly work quality reviews. They are also responsible for procedures and the provision of technical training.

- The second specialty team is the traffic control unit. This team consists of six to seven employees who manage the call centre's daily operations, including scheduling of shifts, managing the phone lines and service levels, responding to telephony enquiries, and adapting to real-time changes. The traffic control team also performs the statistical reporting for the call centre.

- The third specialty team is the teletrace team. This team searches for new or updated contact information for taxpayers whose file does not contain current and/or valid contact information (both phone numbers and addresses).

Performance management

Part of the call centre environment is the Call Centre Management Information Systems (MIS) that provide a wealth of real-time information about performance. Some of this feeds directly into the visual management, or wallboards, in the call centre, which gives agents and managers alike a picture of performance through the day. The MIS also feeds performance feedback systems that can show agents and managers at the beginning of each shift how each person and location has performed over the previous day. These feedback systems also enable strategic decisions about the priority of different debt types. This data coupled with information gathered from call quality monitoring exercises also feeds into training, development and continuous improvement activities in the call centre environment. The MIS also feeds back into the analytics function so that outcomes achieved can be taken into account in improved modelling of taxpayer behaviour and their responses to the interventions chosen.
Box 4.5. DMTC (debt management telephone centres) in the United Kingdom

There has been a cultural shift of focus from output to outcome in the UK. Output used to mean that the call centres focused on measuring things like the number of calls per hour, amount of “down time” etc. each day. Outcome means that the focus is now on achieving the best outcome possible from each call each day, however long that takes. This means that the call handlers focus on either gaining payment “cash to bank” or moving the case on through the process (perhaps to field force or to the enforcement teams). All matrixes have been simplified and there are just two measurements now in place; the first is service level (answering the calls) and the second is the amount of cash to bank.

This new way of working has also gone a long way to improve staff engagement within the call centres as handlers have screens with “real-time” information on them. This enables handlers to pick quieter times to carry out tasks other than handling calls (training etc.) and they will see when things are busy and be able to adjust their work accordingly.

Performance measurement

Most revenue bodies are required to measure their performance and to account for the use of resources on compliance activity for internal and external purposes. The use of call centres has proven to be effective in creating and increasing compliance and “time to pay”.

In the Netherlands the outbound calling experiment resulted in 76.5% of response while the randomised control group of similar debtors resulted into 19.8% (see Figure 4.2).

Figure 4.2. Effectiveness of outbound calling experiment

Traditionally revenue bodies measure their performance by measuring the output of their activities. Now there is a trend in tax administration performance measurement to place greater emphasis on measures of outcome and this also applies to the performance of the debt collection call centre (OECD, 2014).

Establishing good quality metrics is a challenge and relying on a single metric is not considered to be wise. A single measure is not likely to be a true measure of effectiveness. Using simplistic metrics will distort behaviour as this is a target, such as the duration of the call, that the call centre agent definitely will be able to meet whether the outcome be good or not.
Call Centre outcomes will include payment (cash to bank) and the payment arrangements. Some cases will have to be referred on for other interventions/actions, such as a face-to-face visit, legal action, bankruptcy, filing, etc. These desired outcomes should shape the performance targets set for tax debt collection call centres.

These targets will need to be broken down into objectives that teams and individuals need to meet.

Table 4.2 provides an overview of some generally used measures.

### Table 4.2. Generic performance measures

<table>
<thead>
<tr>
<th>Timeliness</th>
<th>Total calls answered</th>
<th>The overall volume of calls answered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of calls abandoned</td>
<td>The number of customers who hang up the phone before being answered as a percentage of total calls made – less than 3% is understood to be a good target.</td>
<td></td>
</tr>
<tr>
<td>Service level</td>
<td>The percentage of calls answered within a specific timeframe – usually 90% within 20 seconds.</td>
<td></td>
</tr>
<tr>
<td>Average call duration</td>
<td>The overall conversation and wrap up time for calls</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accessibility and Quality</th>
<th>Turnover percentage of staff that leave the call centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absenteeism</td>
<td>Percentage of staff with sick leave</td>
</tr>
<tr>
<td>Quality of answers</td>
<td>Quality of answers to tax questions (target of 80-85%)</td>
</tr>
<tr>
<td>Quality checks</td>
<td>Percentage of calls passing quality checks</td>
</tr>
</tbody>
</table>

The ATO captures individual team members and site performance through the balanced scorecard in the Debt Outbound Telephony environment. The key metrics relevant to the outbound environment are mentioned in Table 4.3.

### Table 4.3. Key metrics for the outbound call centre defined by the ATO

<table>
<thead>
<tr>
<th>Efficiency measures</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Handle Time (AHT)</td>
<td>The AHT is a measurement of the average time spent per customer related activity. This measure includes agent time on the call and time spent completing call related work directly following the call. This measure gives a good indication of the speed taken to complete an activity. It should be used in conjunction with effectiveness measure to ensure the appropriate outcome. Target: 21 minutes for inbound calls; 10 minutes for outbound calls.</td>
</tr>
<tr>
<td>Adherence</td>
<td>Adherence refers to the number of customer service hours an agent was scheduled to provide in comparison to the number of customer service hours achieved. Adherence is an overall measure of the time spent in customer service, with consideration given to when the customer service time was provided. This includes the time spent waiting for calls to arrive, talk time, after call work, placing outbound calls and other customer related activity. Target: 95%</td>
</tr>
<tr>
<td>Attendance</td>
<td>Attendance is calculated by the number of unplanned leave days per month. This measure helps managers to identify where additional support for staff is required or where there may be underlying issues with job satisfaction and morale. Target: 1.16 days per FTE per month</td>
</tr>
</tbody>
</table>
The ATO also works with staff to balance efficiency and effectiveness to ensure that the right balance of outputs and outcomes is achieved. This is leading to a shift to whole of client and re-engagement approaches.

The Business case for Debt Management Call Centres

One of the biggest challenges facing the tax debt collection function is capacity; the number of debtors is almost always greater than the debt collection function can realistically interact with. Fortunately, as we have already described, modern tax collection functions are finding ways to tailor mass communications with tax debtors so that they are more effective. But the numbers of taxpayers who need to be contacted in person in some way still exceeds the numbers that could be handled wholly by individual case officers reviewing cases one by one, deciding on the next course of action and when a phone call is needed, placing that call manually and hoping to get through. Modern debt collection call centres, coupled with campaigns designed to generate inbound calls from debtors wanting to address their arrears, can act as a force multiplier. The predictive dialler eliminates the time wasted waiting for a call to be answered and connecting with answer phones and other devices such as fax.

Creating an outbound call centre capability clearly requires investment in both infrastructure to support the operation and in staff recruitment and training. To be effective, outbound call centre agents need to develop specific skills and capabilities. However, this investment delivers clear monetary benefits, in terms of debtors who are contacted sooner than they would otherwise have been, or who might never have been contacted in the absence of a call centre capability. This helps to reduce the size of eventual write-off of debts, reduces the unit costs of handling each debtor and increases cash flow. These benefits can be readily compared with the cost of investment. In New Zealand the IRD estimates that it achieves a rate of return of eight times the cost of investing in this aspect of debt management. The investment in staff and their skills helps to deliver other benefits too and some of those that the IRD has identified are described in Box 4.6.

### Table 4.3. Key metrics for the outbound call centre defined by the ATO (continued)

<table>
<thead>
<tr>
<th>Effectiveness Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kept Rate</td>
<td>The payment arrangement kept rate measures the percentage of payment arrangements that are adhered to in a defined period of time. Target: 55%</td>
</tr>
<tr>
<td>Conversion rate</td>
<td>The conversion rate measures the percentage of contacts that resulted in payments, calculated using inbound and outbound calls. Target: 30%</td>
</tr>
<tr>
<td>Values</td>
<td>Values are based on demonstrated behaviours observed by the agent’s manager and peers. There is no set calculation for measuring values.</td>
</tr>
<tr>
<td>Quality</td>
<td>The Integrated Quality Framework is used to assess the quality performance of the organisation. The Quality Management System is used to assess the quality performance of the individual agent. Each Debt Collections Officer will have three QMS reviews per month. Minimum acceptable benchmark: 90%</td>
</tr>
</tbody>
</table>
Box 4.6. The business case for New Zealand.

Between 2004 and 2008, the total tax base in New Zealand grew by 35%, but total tax debt increased by 91% (NZD 1.92 billion). As at 30th June 2009, there were 353 300 cases of tax debt, totalling NZD 5.060 billion. To manage this growth IRD made investments in specific resources. It uses industry standard technology (campaign management tools and a predictive dialler) supported by additional people resources (to maximise asset utilisation).

IRD’s focus has been on engaging and applying interventions on customers who incur new debt; this is to prevent the debt aging and incurring additional penalties and interest i.e. managing the debt before it becomes unmanageable and heavily impaired. Engagement can vary from a range of letters and text messaging to outbound phone calls and enforcement actions.

The IRD has evaluated the effectiveness of it “targeted and tailored” debt collection approach of the 7 February 2012 debt campaign. Among customers who indicated that at least one intervention prompted them to take action, letters were considered to be the most useful intervention to encourage payment (59% to 100% across customer groups). Around one-third of medium debt and high debt debtors considered the outbound phone call to be the most useful intervention (31% and 35% respectively).

It was observed that Outbound phone calls clearly serve an important role in the overall campaign in that they provide customers who may or may not otherwise contact IRD with the opportunity to enter into a dialogue with IR about their debt situation. Both IRD’s use of outbound phone calls, and the way IRD staff handled the calls, are viewed very favourably. Importantly, the discussions left debtors knowing what to do next.

In the evaluation the outbound phone calls are positively regarded. 87% think it is appropriate for IRD to phone them when they have an overdue payment. Sizeable majorities consider the staff to be friendly and helpful (87%), knowledgeable (78%), to have provided an opportunity to ask questions (76%), and to have instilled confidence in the debtor about what to do next (75%). 66% of debtors who recalled the outbound phone call agreed that the call made the process quick and easy for payment.

Note

1. ARNI is a new model for the allocation of non-face-to-face workload. ARNI builds on regional and national initiatives which have already demonstrated that accounts involving non-face-to-face interaction can be collected without regard to geographic boundaries.

Bibliography

OECD (2014), Measure of tax compliance outcomes: A practical guide, OECD, Paris
Chapter 5

Organisational aspects of tax debt management

Advanced analytics and technology allows revenue bodies to focus on the debtor and less on their internal processes and functions. These new strategies have implications for revenue bodies’ organisation and for that reason revenue bodies are structuring their organisation towards an end-to-end organisation.

This chapter provides revenue bodies with some guidance on how to organise a modern analytics based debt organisation to improve compliance and revenue bodies’ performance. This chapter touches upon the following organisational aspects of debt management: integrated compliance or tax compliance by design, centralisation, computerisation, outsourcing, focusing on performance and continuous improvement with the application of the “lean” philosophy to debt collection.
Integrated compliance

For tax debt management purposes revenue bodies should have an integrated approach which means understanding the chain of collection and the value stream for matching treatment to the overall strategic goals, as well as having a modern analytics based debt organisation. The following picture reflects different aspects of the debt management organisation and sets it in the wider context of the effort to improve overall compliance.¹

Integrated compliance means applying a holistic view for achieving a high level of tax compliance and seeking tax compliance by using comprehensive and systematic approaches, i.e. “Tax Compliance by Design”. The idea is that compliance is embedded as a natural part of the taxpayers’ business process. It involves making tax administrations more effective by reducing the likelihood of non-compliance, including non-payment. Tax compliance by design in debt management means that taxes should be levied as close to real time preferably based on lead indicators instead of lag indicators, such as income and tax declarations that are prepared in arrears and submitted annually.

Development of new technology and new strategies creates more opportunities for integrated compliance and can be used to increase compliance in paying taxes in real-time, paying directly as you earn and paying per transaction made. For example sales taxes could be collected at point of sale through the banking system. This approach is discussed

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**Source:** Van den Bogaard, R.B.P. (2014), Tax and Customs Administration of the Netherlands.
in more detail in the 2014 FTA report “Tax Compliance by Design”. However, while Tax Compliance by Design should reduce the incidence of tax debt, some debts will still arise. This chapter discusses how best to organise the debt collection function.

Centralisation

Centralisation is the grouping of similar activities into one organisational entity and serves as a means for increased effectiveness. By being a provider of scale and critical mass centralisation is an enabler of specialisation and automation. Centralisation of tax debt collection is seen as a way to ensure a consistent and uniform approach to taxpayers and has become common in many countries. Centralisation can extend beyond the revenue body if all government debts are centralised in a “whole of government” approach, under which collection of all debts due to government is centralised in a single agency, rather than an activity undertaken by many different government departments. Figure 5.2 illustrates various forms of centralisation.

![Figure 5.2. Forms of centralisation](image)


Centralisation of tax debt management starts with distinguishing tax collection from the audit and assessment processes and having a specialised separate department for collection. Tax debt management can then be organised around specific taxpayer segments (i.e. individual taxpayers, SME’s and large taxpayers), as was discussed in the section on segmentation.

Many revenue bodies including Belgium, Canada, France, Ireland, the Netherlands, Sweden and the United States have centralised debt collection. As from of July 1st, 2012 the Netherlands has centralised collection and management of individual taxpayers in one national tax collection centre (LIC). The LIC ensures that an individual taxpayer is confronted with a number of automatic and manual collection instruments for instance the direct debiting of government claim and short payment arrangements. The LIC uses a
semi-mass approach to tax debts. Ireland has a Debt Management Unit that executes solely compliance work (70%) and recovery or debt management work (30%). Integration of compliance in debt management is realised by electronic return filing and payment being combined in one transaction.

**Computerisation**

Extensive investment in computerisation by revenue bodies has had a great impact on the organisation of tax services. Computerisation allows revenue bodies to centralise more functions and has many other benefits.

Some countries have succeeded in eliminating almost all paper from the payment process which has generated cost savings, for example in Ireland. The electronic services revenue bodies now offer are extensive and in some countries taxpayers have their own personal tax account available online. Many countries now have systems enabling e-filing and e-payment. In this section the focus is on the services related to payment. For more on self-service and managing service demand see the 2013 FTA report “Managing Service Demand – A Practical guide to help revenue bodies better meet taxpayer’ service expectations”.

Online payment services range from e-notifications, designed to assist debt prevention, to tools for payment including systems that allow taxpayers to set up their own payment arrangements. E-notifications include sending an e-mail and using SMS alerts. Electronic payment methods include the use of direct debiting. This can be available 24 hours a day and allows the taxpayer to choose an appropriate arrangement themselves. In the United States it is also seen as a way to help those who want to be compliant. Revenue bodies use electronic bank withholdings from state and private suppliers and credit card operators as well as electronic seizures.

Revenue from the sale of seized goods is also improved by computerisation. Using online auctions increases the number of auction participants and provides a fairer price for auctioned goods, helping both the taxpayer and the revenue body. It also reduces the administrative burden. Several countries publish details of tax debtors and use the Internet for this purpose. This is helpful for companies who are suppliers to these tax debtors and acts as a significant incentive to avoid getting into tax debt.

Box 5.1 provides an example of the advantages of computerisation in debt management.

**Box 5.1. Automated enforcement and recovery procedures in Portugal**

Since 2005 the Autoridade Tributaria e Aduaneira (AT) has been implementing an electronic system for enforcement and recovery procedures based on internet and web technology as a channel to communicate with taxpayers and debtors as well as external bodies. This computerised system allows the tax administration to manage the recovery procedures in an integrated and automated model. The enforcement and recovery procedures are carried out mostly by automated triggers. Computerised systems are for example used for:

- Acknowledgement of the debt which is electronically communicated to SEFWEB.
- Automatically issuing notifications triggered electronically by the SECIN system (that chooses the channel to communicate with the debtor: electronically or by post).
Box 5.1. Automated enforcement and recovery procedures in Portugal (continued)

• Automatically generating a series of automated enforcement procedures, like compensation of reimbursements, seizures/attachments of available assets and other enforcement measures.
  - Managing the compensation process: it starts automatically by the Tax Administration or at the initiative of the taxpayer (the SISCOWEB system).
  - Seizures/attachments: the SIPE system automatically gathers information regarding various assets liable to attachment and subsequently these assets are sold by the electronic auctions system, the SIGVEC system, through the internet. The system has intelligence to choose the assets, triggered by a decision matrix and automatically starts the procedures of attachments/seizures provided by strength roles. It communicates electronically with other external systems and bodies, like the police authorities to seize vehicles, with banks to attach bank accounts, with registers (vehicles and real estate properties), with customs to seize imported goods and with the electronically transport document of goods system to seize them or the trade.
  - Collecting all the data available from liable administrators and managers and facilitating collection from liable third parties (the SIGER system).

• Providing services to tax debtors:
  - Debtors receive electronic reminders to inform them about the consequence of non-payment of debts, before each procedure of the coercive act begins. The taxpayers and debtors can pay the debt anytime anywhere, on the internet at the tax web site in their private area.
  - The TA offers the taxpayers the ability to reply directly to coercive acts in its web portal, allowing, among other features, the consultation of the recovery processes held against them, to lodge claims (also managed in an automated form), the direct online response to the orders of seizures, the simulation of the collateral values, as well as it gives the opportunity to the taxpayers to obtain certifications of their tax situation.

• Segmenting tax debtors: In 2010, AT implemented a strategy of debtors segmentation based on the total amount of the debt. A specific category of large debtors, called “strategic debtors” are determined by the amount of the debt exceeding EUR 500,000 or whose debt represents 80% of the regional debt portfolio. A system named “SIGIDE” or “MSD” (System of Integrated Management of Strategic Debtors) is used to collect all information (past and present) on the debtor, which then serves as the basis for developing a strategy to recover the debt. This system merges all data available of the debtor into a “single point of view”, such as, customers, suppliers, assets, debts, auditing procedures, administrative and judicial litigation, as well as relationships with other taxpayers and the identification of managers when the debtor is a corporation.

• Publishing tax debtor’s information: Tax debtor’s information is published on the website (www.portaldasfinancas.gov.pt) according to certain legal requirements. This practice has a coercive character and it is also used as a deterrent measure that is expected to engrain a general social censorship (name and shame) concerning the breach of compliance of tax duties. An application, the SIPDEV System, is responsible for the entire administrative procedure of publication, from the initial selection of debtor to the definitive publication of the tax debtors list on the internet.
Outsourcing

Processes and work can be outsourced to private sector collection agencies, either to extend capacity or to cluster similar tasks in the outsource partners business allowing them to use their experience with specific debtors and achieve economies of scale to add value to tax debt management. Delegating functions to the private sector has several legal and policy implications that need to be considered. Tax debt is regulated by tax laws which can complicate things for private collectors. Given the level of public scrutiny and risk of violation of privacy, comprehensive governance and quality assurance frameworks associated with the referral of debts to private sector collection agencies are essential. Box 5.2 illustrates how HMRC uses the private sector.

Box 5.2. Outsourcing in the UK

Since 2009 HMRC has used private sector Debt Collection Agencies (DCAs) to augment in-house debt collection capability. HMRC currently uses a panel of 12 DCAs. In order to pursue debts, DCAs make contact by telephone, letter and SMS text message. They also negotiate time to pay arrangements. They do not make contact face to face, or carry out any enforcement activity.

As part of the procurement process for the current panel, all DCAs were subjected to rigorous checks to ensure that they met HMRC’s standards of security and customer service. In addition, a robust audit and assurance process is in place to ensure that DCA performance standards are maintained. This means that the private sector agencies operate under close supervision, according to the same rules and standards as HMRC itself.

DCAs are paid commission only on successful recoveries (payment by results), so no payment is made where there is no recovery. Using the panel of DCAs has allowed HMRC to increase debt collection capacity when it has been necessary to do so.

HMRC recently negotiated an agreement with the private sector to collect the vast majority of tax credit debt on its behalf. Reform of the way benefits and payments are made within the UK means that this type of debt (tax credit overpayment debt) will diminish and using external resource to collect this debt type in the meantime makes good sense.

In addition, HMRC plays a key role in supporting a cross-government Cabinet Office led initiative called the Debt Market Integrator (DMI). The objective of this project is to form a joint venture with the private sector to create a DMI which will be the sole route to market to access private sector debt collection services for the vast majority of government.
Experiences of outsourcing tax debt to private parties vary among revenue bodies. Australia has been outsourcing collection of mainly lower value, less complex debts since 2006. This is an integral part of their debt collection, providing more flexibility in managing workloads and enabling greater coverage of its debt holdings. Other countries such as Japan (although on a small scale) are also outsourcing some tax debts for collection. Some countries tried outsourcing debt for several years and eventually concluded it was uneconomic and now deal with these debts through their own debt collection department. This means success is not to be taken for granted and outsourcing requires monitoring and evaluation. In the Netherlands, a pilot for the outsourcing of high volume, low value debt is being carried out aiming to learn from a private collection agency.

When considering outsourcing it is important to think through the following aspects:

- What are the legal constraints (e.g. tax law, governance law and privacy law)?
- How will the revenue body supervise the actions of the private sector collection partner?
- What governance and quality assurance frameworks need to be in place?
- What is the remuneration model for the private sector partner (benefit sharing or no cure no pay basis)?
- Is the focus exclusively on relatively simple, low value, high volume tax debts (income tax, motor vehicle tax etc.)?

**Focusing on performance: Linking strategy to delivery using KPIs**

Key performance indicators (KPIs) are quantifiable measurements, agreed to beforehand that reflect the critical success factors of the organisation. Whichever KPIs are selected, they must reflect the organisation’s goals and must be clearly linked to the desired success or outcome. They must also be measurable. Every revenue body uses KPIs to measure their outcome. Governments define the strategic goals for revenue bodies.

The main goal of debt collection is to optimise the net present value of the debt collection process. KPIs are essential to measure the performance of the debt collection function as a whole and more particularly the measurement of outcomes at the strategic, operational and individual level. They are indispensable for day-to-day management of every revenue body as well as for setting the overarching targets.

The tax debt collection function traditionally has limited control and influence over the input into the debt collection process in terms of the rate at which new debts arise. The tax debt collection function also has to operate within the legal framework that is laid down by its country, which will be a mix of tax debt specific rules and general law governing debt collection, for example the liquidation processes. The resources available to the debt collection function will also be the result of decisions taken by the revenue body as a whole and by government. So the debt collection function is mainly responsible for optimising the efficiency and effectiveness of treatment possible within those constraints. The output of debt collection as a process is having the debts paid and, when it’s not paid, determining which part is irrecoverable (to be written off) or uneconomic to pursue. Figure 5.3 depicts the relationship between a strategy, the efficiency and (cost) effectiveness.

Sometimes outcomes are defined in terms of making progress toward strategic goals, but often it is simply the repeated, periodic achievement of some type of operational goal. Accordingly, choosing the right KPIs relies upon a good understanding of what is
important for the organisation and what the desired outcome should be. Various techniques are used to assess the present state of the revenue body, and its key activities, and to select performance indicators. These assessments often lead to the identification of potential improvements, so performance indicators are routinely associated with “performance improvement” initiatives. A very common way to choose KPIs is to apply a management framework such as the Balanced Scorecard (Kaplan and Norton, 1992).

**Figure 5.3. Effectiveness and efficiency in debt collection**

Nine countries that participated in the task team provided an overview of their KPIs. Some countries such as Australia, Belgium and Sweden have very detailed KPIs. Ireland, France, Japan and the Netherlands have opted for a smaller number of higher-level KPIs. There is some variation in the number and detail of KPIs across countries but there are a number of strategic and operational KPI’s that are used by many revenue bodies. Most revenue bodies that have been involved in this study have KPI’s that broadly measure their performance at the following three separate levels.

- **Strategic**: The level at which the overall performance in tax revenue and debt collection can be measured;
- **Operational**: Measures the effective execution of particular aspects of debt collection or debt management; and
- **Individual**: Based on critical elements and standards, for example service levels (calls answered) and cash to bank.

This report discusses the strategic and operational KPIs in more detail below.

**Strategic KPIs**

At the strategic level most tax debt collection functions track the following indicators:

1. Size of debt book;
2. Ratio of collectable debt to net tax collections;

**Source:** Van den Bogaard, R.B.P. (2014), Tax and Customs Administration of the Netherlands.
3. Proportion paid on time;
4. Recovery rate;
5. Costs of collection;
6. Write off; and
7. Paid against forecast.

Size of debt book

Australia, Belgium and the Netherlands amongst others, measure the size of the debt book, which is the total value of outstanding undisputed tax debts at any given time. The desired outcome is to reduce the amount of total tax debt on hand.

Ratio of collectable debt to net tax collections

An internationally recognised KPI used in Australia is the ratio of collectable debt to net tax collections. This KPI puts the size of the debt book into perspective and is a good measure of tax debt management performance. This approach makes the KPI more valuable because it provides more insight into the effects of economics on the size of the debt book and so differentiates that from the performance of the revenue body.

Proportion paid on time

For every revenue body “paying on time” is very important. It is used as an outcome indicator for compliance in Belgium, France, Ireland and New Zealand, measured as a percentage of total amount of taxpayers who paid before due date. The ATO has KPIs that measure the value of income tax liabilities (company and individual) and the total value paid on time. They also measure according to the type of entity. It is important to distinguish how payment performance varies between different groups of taxpayers. It makes it easier to see where there is scope to try different approaches aimed at improving payment performance. It also helps to improve the quality of forecasting.

Recovery rate

Canada, Japan and Sweden use this KPI as a fundamental indicator of how well tax debt has been managed during a year. It measures the effectiveness of debt collection.

Cost of collection

Australia measures the cost effectiveness of the debt collection process, which is stated as the cost of collecting AUD 1 000. They also measure, on a more operational level, the debt collection per FTE (Full Time Equivalent, a measure of staffing).

It is notable that cost effectiveness is not a specific strategic KPI in other countries, although this doesn’t mean that it’s not recognised as an important issue. All the revenue bodies involved in this study are working actively to reduce the costs of collection. Nevertheless as shown in Figure 5.4 “Value stream debt management”, when the value stream is made visible it is important to know how cost effective debt collection is and how much more cost effective it could be. The tax debt collection process is one of the contributors to the delivery of the overall level of tax compliance in a country. For more on measuring compliance outcomes see the FTA report “Measuring tax compliance outcomes”.
Write off

The amount of tax debt written off as irrecoverable is a key measure and one that attracts attention from oversight bodies and the public. There is also a category of debt that remains recoverable but not being economic to pursue, either because the cost of recovery exceed the value of the debt or because of capacity constraints. Australia has a KPI that measures the trend in the value of debt that it is not economic to pursue. The Netherlands is going to implement a new KPI that will measure the percentage of write offs over a certain limited period. The Netherlands will also measure the added efficiency of “Dynamic monitoring”. Dynamic monitoring is a near real-time check for a “match” between income and assets, the available collection measure and the current debt. This approach aims to reduce the amount of permanent write offs.

Paid against forecast

Forecasting the total amount of collected or recovered debt is not an easy exercise. Over the years there will be variations in the total amount of tax paid and the recovery rate. When the economy and tax policy framework are stable forecasting future revenues is a relatively easy task. This is also the case when there are no significant organisational changes in a revenue body. However much has changed over the last five or six years. The financial crisis resulted in fewer taxpayers meeting all their liabilities on time, reduced compliance and also less total tax revenue. There have been organisational changes in tax administration and new instruments have been developed to limit the amount of tax debt arising and also to increase the amount of debt that is collected. These variables make it harder for revenue bodies to use or develop reliable forecasting models. In this study, Ireland and Canada are identified as countries that are using specific strategic KPI’s to measure the relationship between the actual collected amount and the amount forecasted.

Operational KPIs

The operational KPIs are the performance indicators employed at the operational level. They assist revenue bodies and their managers to measure outcome on a more “day-to-day” basis and they complement the strategic KPI’s which are also useful at the operational level. Performance indicators that are used at the operational level are generally of two types: enforcement and inventory.

- **Enforcement**: is directly linked at specific collection activities like the number of summons, seizures, court cases, bankruptcies or cases that have been handled over a certain period.

- **Inventory**: is a performance indicator that can be linked to the number of debts, such as tax debts older then a certain period of time (age), and other volume measures such as the number of cases managed by a call centre or the number of reminders sent to debtors.

Trends

In most revenue bodies there is a need for more insight into the cost effectiveness of the debt collection process, not least because in many countries the resources available to pursue debts is static or reducing. Therefore, countries are looking at how collection can be further optimised at a lower cost. They want to understand the effects of costs of changes in the organisation, such as centralisation, segmentation and the use of better analytics and new technology. There is a clear trend to further reduce the amount of tax written off. Some debts which appear uneconomic to pursue may become easier to collect if better data can be made available about the current financial situation of debtors.

Increasingly performance management is linked to risk management. For most revenue bodies the objective is “less is more”, which signifies a desire to undertake fewer interventions with higher impact. This means adopting a risk based approach to performance.

Tax organisations are actually linking the two areas more explicitly and an increasing number of software solutions now offer integrated risk and performance management. Looking at risks for every strategic objective on the performance network and develop Key Risk Indicators (KRIs) next to the KPIs allows revenue bodies to assess and mitigate the risks of not achieving strategic goals. This can also be very helpful on an operational level, i.e. Control Risk Self Assessment (CRSA). Essentially, CRSA involves bringing the staff of an entire unit (or several interrelated units) together for a facilitated workshop where not only do they discuss risk and control issues but often also devise action plans to address those issues.

Continuous improvement: Lean

Lean is a set of business best practices that aim to maximise customer value while minimising waste enabling organisation to increase productivity with fewer resources. Past decade lean methodology has been leveraged from production industry to service organisations, and has inspired revenue bodies to adopt lean practices in order to optimise business processes and eliminate non-value adding activities waste. Lean methodology incorporates both rapid change as well as gradual continuous improvement. Continuous improvement has been introduced by revenue bodies in Australia, Finland, Ireland, the Netherlands, New Zealand, Norway, United Kingdom and the United States. FTA members can find out more about lean methodologies at the secure FTA lean website.
which is accessible for all FTA revenue bodies: www.ftalean.org/. The application of lean methodologies to the debt collection process is illustrated by the example of the ATO in Box 5.3.

Box 5.3. Using Lean in Australia

The ATO has been streamlining debt litigation through the use of Lean methodology. The ATO’s goal was to rationalise their current case referral method, simplify interactions, reduce costs and maximise electronic interactions in the debt litigation process. Australia ran a Lean business process analysis workshop attended by officers from both departments (Legal/Debt). This included a floor-walk to observe interactions and systems in use. Attendees identified opportunities to streamline existing litigation processes and change jurisdictions from Federal to State based courts. The ATO targeted the Supreme Court who agreed to engage with them to test and trial their electronic platform at no cost to the user. The ATO then trialled a central referral point for routine debt matters direct to legal firms and optimised the use of electronic channels with the Supreme Court. Results to date show removed duplication of effort and reduced case handling times. The ATO enabled electronic interactions by changing jurisdiction for more routine cases, and realised significant savings from reduced filing fees and paper savings. Process mapping identified areas of inefficiency and duplication and also gave clear visibility of the end-to-end process. Connecting with a key intermediary and building a relationship led to tailored use of electronic channels and cases.

To address the number and value of debts that had disputes on their income tax assessments, a whole of organisation programme was developed for each taxpayer segment to ensure quicker resolution of disputes and then collection of any remaining income tax liability. This addressed the issue of the taxpayers’ engagement on payment issues through the phases of audit and objection, rather than leaving collection to the end. Representatives from the relevant Compliance Area work with the Review, Disputes and Resolution area and the Debt area to ensure that the elements of compliance risk, the significance of any litigation or alternative dispute resolution, and collection are considered at all stages of the process. An important consideration was maintaining the long standing ATO practice that disputes are managed separately (in separate teams) to the audit decision making process.

The ATO’s approach is to test, learn and adapt. Recognising that experimentation is critical to best practice and innovation, the ATO has adopted “fail fast” as a principle. If something doesn’t seem to work, drop it (fail fast) and learn from the experience as part of the continuous improvement process.

Note

1. The picture is a reflection of what was discussed in the “Workshop Working Smarter On Debt Management” at Schiphol Airport Amsterdam (the Netherlands) between the project group and the Task Team members in March 2014.
Chapter 6

International aspects in debt management

As a result of increasing globalisation taxpayers are much more mobile internationally than they once were. This not only makes it harder for revenue bodies to accurately determine the correct tax liabilities of their taxpayers: it also makes tax collection more difficult. However, national revenue bodies only have jurisdiction within the borders of their own country under the principle of fiscal sovereignty. In general the authorities of one country will not assist with the recovery of taxes due to another country, a principle known as the “Revenue Rule”, unless they have entered into a bilateral, regional or multilateral agreement that provides for mutual assistance in the recovery of tax claims. If national measures are exhausted in a cross-border case where the taxpayer resides abroad and/or owns assets in another country, the tax collector has to seek recourse abroad.

This chapter discusses the application of “payment thinking” in the cross border situation and cross border collection issues such as international assistance in recovery, including the limits to the scope of international agreements, the process and challenges of international mutual assistance, precautionary measures and cross border insolvency issues, tools for dealing with untraceable taxpayers and early intervention tool at the point of departure.
Payment thinking, which is discussed in Chapter 3, does not stop at the national border and time is crucial, since older debts are more difficult to collect than newer debts. Responding to globalisation revenue bodies created (centralised) teams of specialists on international tax collection and mutual assistance. Countries are putting more effort into international tax recovery because the debts owed by taxpayers who have gone abroad are increasing in value and number.

Debtors who have gone abroad

There are some exceptions to the general rule about older debts. New Zealand has found that recovery from persons who have moved abroad with unpaid student loans has actually been improved by the passage of time. These debtors have progressively improved their financial position and have become able to afford the required payment. With the direct approach method the Netherlands successfully collected older claims, in a number of cases more than 20 years old. The direct approach of the Netherlands is discussed in more detail below. In both cases the debt was not subject to any statute of limitation.

Good quality information about debtors who have gone abroad is important in the daily practice of tax collection. The flow of information between revenue bodies will increase dramatically as a result of the new global standard for the automatic exchange of information. In 2013 the European Commission adopted a legislative proposal extending the scope of automatic exchange of information in Directive 2011/16/EU on administrative co-operation to new items, like dividends, capital gains and account balances, without the condition of availability of information.

More than 65 jurisdictions have publicly committed to implementation of the new global standard for the automatic exchange of information. The exchanged information can be used for tax collection purposes making it possible to match debtor details with information about assets held abroad. A request for assistance in recovery of tax claims could be sent immediately. This will speed up the mutual assistance procedure for the recovery of tax claims and will affect the recovery rate positively.

International assistance

Taxpayers may have assets throughout the world, but tax authorities generally cannot go beyond their borders to take action to collect taxes. However provided there is an appropriate bilateral or multilateral legal basis, revenue bodies can collect taxes beyond the boundaries of their country with the assistance of other countries. In common law countries, the general principle of international tax law was that a country will not assist in the enforcement of the tax claims of another country. However, this principle, also known as the “revenue rule”, has gradually been abandoned as the result of the increased mobility of taxpayers and capital. Countries are increasingly willing to engage in assistance in tax collection, provided certain conditions are met. Assistance in tax collection has an important deterrent effect, which in some countries may outweigh the benefit of tax debts actually recovered with the assistance of another country. Mutual assistance in recovery of tax claims should therefore be an integral part of the overall national tax collection process (the chain of collection), which itself is a cornerstone of a fair taxation system.

Australia is embarking on an approach of applying analytical tools to its debt book to identify taxpayers and the countries that they are now based in. Australia will then
engage with these countries via the agreements that are in place to seek collection of the outstanding amounts.

There are a number of international legal instruments on the basis of which collection assistance may take place: Bilateral tax conventions which are generally based on the Article 27 of the OECD Model Convention,\textsuperscript{2} regional instruments such as the Directive 2010/24/EU and the Multilateral Convention on Mutual Administrative Assistance in Tax Matters which has been signed by over 65 countries. When more than one legal instrument may serve as the basis for assistance in the collection of taxes, the problem of overlap is generally addressed within the instruments themselves. In 2007 the OECD published a Manual on the implementation of Assistance in Tax Collection.

The inclusion of these Articles of Assistance in Collection are vital in enabling revenue authorities to address limitations in collecting debt from taxpayers who have gone abroad or those that manage their business, employment activity or wealth internationally.

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<th>Box 6.1. Assistance in Collection in Canada</th>
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Canada has Assistance in Collections Articles provisions (based on Article 27 of the OECD Model Convention) in a number of its bilateral treaties. They provide the legal framework for Canada and its tax treaty partners to assist each other with the collection of taxes that are finally determined.

Collection assistance between tax treaty partners is facilitated through memorandum of understanding (MOU) which provides the mechanism for collection assistance referrals between competent authorities identified in the respective treaty/MOU agreement.

In general two conditions have to be fulfilled for a request to another country to assist in the collection of a tax debt. Firstly, the tax claim has to be finally determined, i.e. no legal remedies are left to dispute the claim. Secondly, the claim needs to be fully recoverable and enforceable, meaning the claim should not be barred by the statute of limitation and a writ of execution has to be issued. It depends on the bilateral agreement whether there are additional conditions or not.

The benefit of mutual recovery assistance agreements is the departure it provides from the general law principle of non-co-operation with foreign jurisdictions in the collection of taxes.

Additionally, countries around the world are recognising the effect that globalisation, coupled with off-shore tax evasion and avoidance tax planning strategies, are having on the their tax revenue base. Mutual collection assistance not only provides an enforcement tool for tax collection in a global environment, but is also considered to increase taxpayers’ compliance with domestic tax laws and have a deterrence effect. Taxpayers are less likely to fail to pay their taxes when they move abroad if it is clear that revenue bodies have the means to collect tax claims with the assistance of other jurisdictions (preventive effect). The framework for mutual assistance is demonstrated in Figure 6.1.

It is necessary to extend the national tax collection process to enable countries to recover claims outside their own jurisdiction. This could be in the final stage of taxation, i.e. after the assessments become due and recoverable or at an early stage when it is determined that there is no redress within the jurisdiction of the home country. Consequently, the tax collector has to seek recourse abroad by applying collection assistance agreements depending on the
As shown in Figure 6.2 the mutual assistance process consists of a chain of three stages. The first stage contains the levying process and the national tax collection process (principle of exhaustion). The next stage governs the interstate process, i.e. communication between the competent authorities for collection assistance (Central Liaison Offices in the EU context) of both EU Member States or contracting states. The final stage regards the tax collection process in the requested country to collect the foreign debt according its laws (principle of national treatment). It is apparent that if one of these stages is not working effectively and efficiently it will negatively affect the whole chain (Van der Smitte, 2014). It is also clear that an improvement to only one or two stages will not change the whole chain. Even if the national stages work properly from a legislative point of view the organisation of the tax administration, could influence the process negatively, if there is a lack of staff, lack of training of staff, language problems and poor performance by a contracting states or a EU Member State.

More countries want to expand the scope of collection assistance in tax treaties to enable governmental claims other than tax, such as student loans and child support benefit claims since the difficulties with regard to finding debtors and collecting claims abroad applies also to these governmental claims too. There are two main problems that may

**Figure 6.1. Regulatory framework for mutual assistance**

arise. The first problem seems to be the absence of international/bilateral agreements or the inapplicability of an agreement with regard to the tax claims concerned and/or other governmental claims (i.e. the limited scope of the existing international agreements). Secondly, a growing number of tax debtors (and debtors of other governmental claims) have become untraceable, because taxpayers leave without notifying the authorities about their new address abroad.

Mutual assistance is also an important instrument in the fight against fraud and illegal activities and is essential due to increasing cross-border activities. Tax administrations around the world are recognising the effect that globalisation, coupled with offshore tax evasion and avoidance tax planning strategies, are having on their tax revenue base.

Precautionary measures

In order to safeguard the collection right of a revenue body in a foreign country a request to take precautionary measures (also called interim measures or measures of conservancy) may be sent to another country, if both contracting states are able to take such measures under their domestic laws. Such measures could be taken at an early stage, i.e. in a situation where it cannot yet ask for assistance in collection, e.g. when the tax claim is not enforceable. Such measures could include the seizure or the freezing of taxpayer’s assets or placing a lien on the taxpayer’s property. In general, the tax collector must have good reasons to justify the use of precautionary measures, for instance fear for embezzlement or tax evasion and the use of fraudulent means. EU Member States can request for taking precautionary measures on the basis of EU directive 2010/24 to ensure recovery where a claim or the instrument permitting enforcement in the applicant Member State is contested at the time when the request is made, or where the claim is not yet the subject of an instrument permitting enforcement in the applicant Member State. However, disparities in the different national laws of the applicant and requested Member State may prevent enforcement. A similar process is mutatis mutandis included in Article 27 of the OECD Model Tax Treaty and Article 12 of the Convention on Mutual Administrative Assistance in Tax Matters.
In Australia, for instance, with respect to certain tax debts, the revenue administration is able to retain an amount that would otherwise have to be refunded to an entity. According to legislative provisions it is also possible to suspend payment of a refund until the information provided by the taxpayer relating to the refund is verified. Canada has legislation that allows them to raise a jeopardy assessment, which includes provisions that allow immediate collection of the debt as a result of the assessment if there are grounds to believe the tax revenue is in jeopardy. The jeopardy measures (court procedures) are effective upon service of the court authorisation and assessment on the taxpayer, and remain effective unless the taxpayer is successful in a judicial review of the courts authorisation. A successful example of international co-operation is provided in Box 6.2.

Box 6.2. International co-operation results in the freezing of assets worth AUD 27 million in Australia

Australia and South Africa have worked together to secure AUD 27.2 million in assets. This is the first time the ATO has sought the assistance of the South African Revenue Service (SARS) under article 25A of the double taxation agreement between Australia and South Africa.

SARS agreed to assist the ATO in the collection of the liabilities and successfully applied to the court in South Africa for a preservation order in relation to assets in South Africa owned by an Australian resident.

The ATO is continuing to work with SARS and is evaluating further recovery strategies, which may include obtaining judgment in an Australian court and seeking to enforce it in South Africa.

The request for assistance was an initiative under Project Wickenby, a cross-agency government taskforce targeting tax evasion, avoidance and crime.

Assistance tools in case of cross-border insolvency

Due to the international mobility of people and assets revenue bodies also have to deal with insolvency problems in cross border situations. Revenue bodies can turn to international assistance agreements in cross border debt collection, but international assistance in cross-border insolvency cases seems to be a bridge too far.

In general, assistance in insolvency cases is not considered a tax collection measure and many countries exclude foreign tax claims in bankruptcy cases and such exclusion is generally recognised (Wessels, 2012). However, the Legislative Guide on Insolvency Law, which was approved by UNCITRAL in 2004, does not see any conclusive arguments why such claims cannot be acknowledged if a country wishes to do so. Nowadays many jurisdictions do provide assistance, but it is limited to providing the requesting country with all the information needed for the applicant country to exercise its rights (i.e. date of the judgment, name of the liquidator, etc.).

Within the EU (except for Denmark) Regulation 1346/2000/EC on insolvency proceedings the commencement of an insolvency procedure is directly recognised in the legal framework of the other EU Member States. So, a creditor can directly lodge a claim under the procedure even if he is established in another EU Member State than where the liquidation has been initiated. In addition, the curator/liquidator has to inform the creditors established in the other
EU Member states that they can lodge their claims in the insolvency estate. He has to mention under which conditions this declaration has to be made.

Some jurisdictions provide assistance in cross-border bankruptcy matters by lodging the claim for bankruptcy and/or represent the foreign revenue body in bankruptcy procedures. In these countries assistance is only provided on the basis of reciprocity. The revenue bodies of the EU Member States have alternative ways to provide assistance in case of bankruptcy that range from providing the necessary information to representing the applicant country in bankruptcy procedures on the basis of reciprocity.

**Challenges ahead in mutual assistance**

A well-functioning mutual assistance system in tax collection between tax authorities is an essential tool to protect the financial interests of the Contracting States to ensure that taxpayers cannot readily avoid payment of tax. As part of the national tax collection system, a comprehensive and deterrent system will have an influence on the behaviour of all taxpayers. The awareness among taxpayers that enforcement after emigration continues is considered a strong signal. In the absence of an agreement for mutual assistance in the recovery of tax claims or in case of poor performance of a contracting state, tax delinquents could easily escape their fiscal (payment) obligations.

As mentioned, preventing taxpayers from leaving their home country without paying their outstanding tax debts is not easy. Measures taken to avoid the need for mutual assistance and to secure payment of the tax claim, such as revoking passports and banning taxpayers from leaving the country, are difficult to apply because it is problematic to determine when a taxpayer is leaving the country. This is even the case when they are required to inform the authorities. Taxpayers of Member States of the EU benefit from the internal market and the provisions that guarantee the free movement of people (as well as goods and services). Consequently, revenue bodies of Member States of the EU cannot routinely limit people’s right to travel within the EU and only in rare cases it is permitted to do so (de Troyer, 2009; Van der Smitte, 2014). Implementing EU provisions, dealing with the communication of requests and replies between the competent liaison offices, are laid down in Commission Implementing Regulation (EU) 1189/2011 which contains features, set out in Box 6.3, which improve the mutual assistance process in generally speeding up the process.

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**Box 6.3. **Features of Directive 2010/24/EU and Regulation (EU) 1189/2011

For mutual assistance within the EU Member States use so-called e-forms and a secured network (CNN network). E-forms are standardised digital forms, with an automatic translation function, which are available in all official languages of the EU. Another advantage is the use of a Uniform Instrument Permitting Enforcement that shall not be subject to any act of recognition, supplementing or replacement in the requested Member State.

E-forms are sent via a secured network between the Member States, which allows the Central Liaison Offices of the Member States, i.e. the competent authorities, to communicate electronically, which has a significant positive effect on the processing time, e.g. reduction of the processing time of requests for exchange of information of more than 60% (in the Netherlands).
Communication between non-EU Member States or between an EU Member State and a non-EU Member State (contracting states) in general takes place by regular mail or alternatively by sending secured encrypted files. The before-mentioned features have resulted in a significant reduction of the processing-time of the mutual assistance process in the EU. However, the exchange of information and the application of mutual assistance between countries without a secured network is a problem and affects the process time of the mutual assistance process (MAP) negatively. The OECD presented a solution to encrypt files with PGP to enable contracting states to transmit information in a secure manner. The next step would be to design standard e-forms and to determine whether a Uniform Instrument Permitting Enforcement could be considered.

As stated before, there is still room for improving the performance of contracting states. For example in the field of time limits and results. Since time is a crucial factor for tax collection, exceeding time limits could affect the yield of mutual assistance in the recovery of tax claims negatively (Brondolo, 2009). A quick and adequate response to solve this problem should be of interest to all contracting states. Therefore it would be helpful to increase co-operation between the contracting states, for example by publishing performance statistics or performing peer reviews undertaken by the Global Forum for the exchange of information. It is also important to stress that a strict application of the principle of reciprocity, which could be applied in a case where a contracting state, is not performing well in relation to another contracting state, could hamper the mutual assistance procedure in general (De Goede, 2009).

Absence of international agreements for collection assistance

In the absence of an international agreement alternative ways to recover the tax claim have to be explored. Most countries are required to pursue a debt until it is irrecoverable by law or has become uneconomical to pursue. Consequently, the debt will be written off once all tax collection measures have been exhausted.

The ability to recover from a tax debtor is very limited if the he or she has moved to a country with which no “assistance in collection” agreement is concluded. Therefore countries will make an effort to find the tax debtor in order to send reminder letters by regular mail. A tax bailiff can serve the relevant documents by registered mail at the tax debtor’s home or residence abroad (e.g. Belgium, Japan and the Netherlands).

Countries are also using differentiated direct approach methods, i.e. contact by telephone, e-mail and/or by letter (e.g. Belgium, the Netherlands and Sweden). But in these cases the problem is that there is no leverage to enforce payment. In such cases International Private Law applies, i.e. an exequatur procedure has to be commenced (national court order, i.e. execution title, has to be transformed into a court order of the country where the taxpayer resides and/or his assets are). Such proceedings are very costly and could be lengthy without guarantee of success. Consequently, tax debts are often written off. The Netherlands extended its direct approach and visits tax debtors in their new home country to negotiate payment even when a treaty exists. This method is very efficient, i.e. an average recovery ratio of more than 50%. It also benefits both involved countries, i.e. increasing the revenue of one country and less administrative burden for the other country. The taxpayer is able to negotiate directly with the tax collector in the Netherlands and obtains legal certainty when a settlement is concluded. Detailed information about the process of the extended direct approach by the Netherlands is shown in Box 6.4.
Untraceable debtors

Tax debtors can move easily from one country to another and become untraceable. Untraceable taxpayers may be rewarded for not fulfilling their tax payment obligation in the sense that the revenue body will not be or is not able to collect their tax liability. The most obvious way to find a taxpayer who has moved to another jurisdiction is issuing a request for exchange of information provided for in a bilateral, regional or multilateral exchange agreement.

However, to file a request for exchange of information the revenue body needs to know (or have presumptions about) the whereabouts of the tax debtor. Therefore it is preferable that departing tax debtors notify the revenue administration of their departure date and contact details in the other country, in particular if they have on-going tax issues including

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**Box 6.4. Direct approach method of the Netherlands**

TCAN has a special team dealing with taxpayers who have moved abroad using the direct approach method. A special national tax collector is appointed. After an analysis, countries are designated where the revenue body has significantly interest in terms of the number of taxpayers and their outstanding balances. A country will be indicated. The aim of this approach is to finalise all fiscal matters and to cut all fiscal ties with the Netherlands to avoid new problems in the future. The following steps are taken:

1. The indicated country will be informed about the actions and procedures (and also the Dutch embassy);
2. Sometimes an advertisement is published in a local newspaper (announcing the approach and the contact details of the national tax collector);
3. Warning letters including an instrument permitting enforcement are sent to taxpayers by registered mail;
4. If letters are sent back via returned mail service due to an invalid address, the revenue administration of the new home country will be asked to provide an address (pursuant the provisions of an existing agreement or otherwise negotiated);
5. If contact is established between the taxpayer and the revenue administration payment will be negotiated (from immediate payment to long-term payment arrangements). The negotiation includes all taxes, even taxes that are outside the scope of an existing agreement;
6. If the taxpayer is still involved in outstanding tax issues in the Netherlands, for example through a corporation in which he or she has shares the taxpayer will be advised to dissolve the corporation as part of the integral negotiated agreement; and
7. Finally, the debt will be paid (in full or partially) or written off (in full or partially). A Tax Clearance Certificate will be sent to the taxpayer to confirm the agreement and the consequences.

Prerequisites for using the direct approach method are:

- A team of specialists in the recovery of tax claims. The specialists must have language skills and the ability to learn the legal system of the country involved;
- A national appointed tax collector who is authorised to take over and handle cases from local offices and to negotiate with taxpayers abroad.
a debt. Many countries do not impose sanctions for not providing this information, but some countries, such as Belgium and New Zealand, impose late payment penalties and charge interest on the outstanding amounts for tax. Either way, if the taxpayer stays untraceable the only effect is that such penalties and interests increase the amount of uncollectible tax claims and consequently the tax debt book. The usefulness of such measures could therefore be questioned.

In Australia, Belgium and the Netherlands any person who changes residence is obliged to inform the municipal authorities of this change (in Belgium under penalty of a fine). This change is subsequently registered in the National Population Register, to which the respective tax administrations have access. In Australia, taxpayers who do not notify the authorities of a change of address will be denied the right to plead that the previous address the tax administration relies on was not effective in any proceedings commenced against them. Publicity about the consequences is used to inform taxpayers and to urge them to comply with national law. Social media is also increasingly used for this purpose.

In Japan a taxpayer who is moving abroad, is obliged by law to assign and register a “tax agent” (who will act on behalf of the taxpayer to file the tax return and pay taxes) to his/her local tax office. If a taxpayer fails to fulfil the above-mentioned obligation, tax authorities may immediately commence the collection procedures for the amount due in advance of the due date for payment, including by seizing and selling the taxpayer’s assets.

When a taxpayer is finally located it is possible that the debtor is not aware of the existence of a debt, because he or she did not receive the respective assessment(s). There can be different legal consequences if this is the case. In Belgium, Canada, Ireland, Korea and the Netherlands, when the revenue administration does not provide proof of sending the notice of assessment, the assessment will have no legal effect before the moment that the taxpayer was informed of the existence of the tax assessment and the period allowed for an appeal or objection commences at that moment.

General tax and collection legislation normally limit the time allowed for recovery of unpaid tax (statute of limitation) and these provisions need to be taken into consideration. For example, it is not possible for the IRD in New Zealand to make an adjustment to an assessment after a period of four years unless there is evidence of tax evasion and in the Netherlands it is not possible to impose an assessment after a period of three years, and that means that the taxpayer has to be notified within this period. In Japan the taxpayer is deemed to have received a notice even if his/her address is abroad (by international mail), or unknown (by public notification shown on the notice board of his/her local tax office).

Another provision used by revenue bodies is the automatic prolonging of time allowed for recovery of the tax debt of taxpayers who did not notify the authorities of their whereabouts.

Some revenue bodies implemented special units and established procedures to locate untraceable taxpayers, such as Australia, Belgium and the United Kingdom. New Zealand has set-up a Facebook account to encourage engagement with the revenue administration and developed a range of payment options to help make offshore payments more straightforward.

**Intervention prior to departure**

In general revenue bodies find out that taxpayers have moved abroad without providing a new address when a letter is sent back via returned mail service. Revenue bodies are very often unable to take measures to secure payment of the tax claims and in an increasing
number of cases tax debtors become untraceable. Even if tax debtors are required to inform the authorities when leaving the country and even if the requirement is backed up by a penalty, they often “forget” to inform the revenue body.

Nevertheless, revenue bodies still try to prevent tax debtors leaving the country without paying their outstanding debts. Early intervention is a key to success. A number of countries have taken early intervention measures, such as issuing a departure prohibition order, which concerns the power of a revenue body to issue and serve such an order on a person who is subject to a tax liability where there is a reasonable belief that it would be desirable to prevent the person from leaving the country without discharging the tax liability or making arrangements for the liability to be discharged (Korea, Australia and Singapore). Another effective tool in Singapore is the ability to deduct 40% of the gross monthly salary.

Timing is crucial in tax collection matters. When tax debtors leave, or are about to leave, their country creditors, including revenue bodies, have to move quickly. Therefore some revenue bodies have provisions in place to accelerate the tax collection process. In general it means that the tax claim is declared due immediately and consequently has to be paid right away. The general reason to commence such procedure is the existence of the potential danger of loss of tax revenue to the revenue body, like tax evasion, fear for embezzlement and “flight” risk (leaving the country with no possibilities of redress). Acceleration is only effective if there is reasonable prospect of levying payment, for example in cases where the existence of assets is known. Table 6.1 provides some country examples.

Table 6.1. Acceleration of the tax collection process

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Acceleration is possible in cases where the ATO reasonably believes that the taxpayer may leave Australia before the due date. A written notice must be given to the taxpayer to bring forward the due date.</td>
</tr>
<tr>
<td>Belgium</td>
<td>In Belgium acceleration is possible when the tax collector considers the rights of the Treasury at risk, i.e. because of the situation or the behaviour of the tax debtor, all the statutory deadlines that have not yet expired are cancelled.</td>
</tr>
<tr>
<td>Canada</td>
<td>The CRA is able to accelerate the tax collection process by removing the collection restrictions on certain tax debts when there is a potential danger of loss of tax revenue to the government.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Ireland could apply acceleration except if the debt is under appeal or the prioritisation of resources. In this regard, resources are focused on the collection of the largest and most recent debts before small debt.</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan could immediately commence the collection of the amount of tax due in advance of the due date if certain conditions prescribed by law are met (e.g. the taxpayer has attempted to evade taxation by fraudulent acts, the taxpayer has moved abroad without appointing a tax agent, the taxpayer (entity) has been dissolved). Moreover, with regard to tax evasion cases that may be subject to criminal prosecution, revenue body may seize the taxpayer’s assets even before the assessment of tax has been finalised.</td>
</tr>
<tr>
<td>Korea</td>
<td>In Korea, the head of the District Tax Office has the authority to collect taxes before the payment due date when certain conditions are met e.g. when the debt collection process is already undergoing for previous tax debt, when a corporation has dissolved, when it is acknowledged that there is a risk of tax evasion, etc.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>If the tax collector fears embezzlement or in case of presumed knowledge that a taxpayer is about to leave the country the tax collector can accelerate the collection process by taking immediate enforcement measures. In case of a contested claim it is to the discretion of the tax collector to decide whether to continue the recovery.</td>
</tr>
<tr>
<td>Singapore</td>
<td>In Singapore, assessments are raised to fully tax the amount of income if a controller is of the view that the taxpayer has ceased his economic activities and is about to leave Singapore. Employers’ duty to give notice and withhold tax and travel restrictions also helps to recover taxes before the person leaves Singapore.</td>
</tr>
</tbody>
</table>
Notes


2. In some countries, national law, policy or administrative considerations may not allow or justify the type of assistance envisaged under this Article or may require that this type of assistance be restricted, e.g. to countries that have similar tax systems or tax administrations or as to the taxes covered. For that reason, the Article should only be included in the Convention where each State concludes that, based on the factors described in paragraph 1 of the Commentary on the Article, they can agree to provide assistance in the collection of taxes levied by the other State.


4. See the commentaries on the Articles of the Model Tax Convention, Article 27, paragraph 4 and Explanatory report of the Convention on Mutual Administrative Assistance in Tax matters, Article 12.


7. OECD member States use in such case software called PGP (Pretty Good Privacy).

8. See the 2012 OECD “Manual on the implementation of exchange of information provisions for tax purposes”.

9. See Com (2012), 722 of the European Commission, p. 9: the European Commission is working closely with the OECD on the on-going development of IT formats to be used for the automatic exchange of information under Directive 2011/16/EU.

10. The difference between the amount to be collected and the amount that is actually collected.

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>If particular conditions are met the STA may file a claim for recovery before the normal due date for sending claims to the SEA, i.e. forwarding a specific tax claim for immediate recovery.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>The UK does not have provisions to collect tax before it is a debt (i.e. before due date). However, in some circumstances they are able to ask for a security against future PAYE and VAT debt that may arise. If there is a sizeable debt and HMRC suspect that it will be difficult to collect, it will work quickly to ensure payment. If it seems that fraud will or may take place HMRC is able to secure any tax sums that may be outstanding.</td>
</tr>
</tbody>
</table>
Bibliography


Goede, J. de (2009), *Efficiency in mutual assistance in tax matters. What is in a name?*, IBFD.


Conclusions and future developments

The report has identified the following essential features of a modern debt collection function:

- **Advanced Analytics.** Revenue bodies can no longer afford to treat all debtors in the same way. This gives the non-compliant too much scope to play the system and results in actions that are ineffective, or unnecessary. The application of advanced analytics makes it possible to use all the information revenue bodies have about taxpayers to accurately target debtors with the right intervention at the right time. This eliminates the cost of ineffective interventions and improves revenue flow. Advanced analytic techniques also make it possible to experiment with different interventions and rapidly assess their effectiveness. As a result some countries have been able to achieve dramatic positive results at very low cost.

- **Treatment Strategies.** The tax debt collection function needs to be able to choose from a rich suite of interventions, ranging from soft measures, designed to prevent people from falling into debt in the first place, through to tough enforcement measures. The report and accompanying app provide an overview of modern treatment strategies.

- **Call Centres.** The report describes the way in which a debt collection call centre is commonly structured and how to manage the workflow. It discusses the capabilities outbound call centres need to have in terms of technology and in terms of the staff who work there. The report also outlines common approaches to the measurement and management of performance within the call centre.

- **Organisation.** Debt collection is a specialist function and needs to be organised as such. It makes sense to group some specific types of taxpayer together, for example large businesses. For the very large number of debtors in the small and mid-sized business segment, it is more important to use analytics to choose the correct intervention. The debt collection function can then be organised around key disciplines, such as call centre management, liquidation, and face-to-face interventions. Choosing the correct key performance indicators is essential if the day to day operations of the collection function are to remain correctly aligned with the desired outcomes. Debtor behaviour is dynamic and so a commitment to continuous improvement will ensure that the organisation is responsive to those changes.

- **Debtors Who Have Gone Abroad.** As people and businesses move around the world more frequently the number of tax debtors who have left the country in which the debt was incurred is growing. The report describes the challenges facing revenue bodies as a result and the tools and techniques that are available to tackle the problem. The adoption of the “Standard for Automatic Exchange of Financial
Account Information in Tax Matters” will improve the flow of information internationally and will be a very valuable source of information for collection purposes. The inclusion of Assistance in Collection Articles in agreements between countries will enhance the prospects for favourable collection outcomes. Revenue bodies may also want to consider whether they should make more effort to monitor how well they support one another through assistance in collection.

Revenue bodies are encouraged to compare the capabilities of their collection functions with the practices described in this report and in the app in order to identify possible areas for improvement. The increasing use of analytics is changing the ways in which revenue bodies tackle outstanding tax debts and there is an emerging trend towards centralising the management of debt across government. For these reasons this is an aspect of tax administration that the FTA should subject to more regular review.
Annex A

Additional resources

Below is a list of additional resources used in the process of researching for this project. The list is intended as inspiration only and is by no means exhaustive. Mention does not imply endorsement.

Annual reports of revenue bodies


FTA website: www.oecd.org/site/ctpfta/.


FTA: Tax compliance by design: Improved effectiveness by adopting a system perspective, October 2014.

FTA Workshop “Working Smarter In Tax Debt Management”10-13 March 2014 in Amsterdam, the Netherlands.
IOTA – website: www.iota-tax.org/.

IOTA Area Group on debt management, including the meeting “Use of segmentation and classification within debt management area”, Dublin, Ireland October 2013.


### Annex B

Comparison of payment arrangements

<table>
<thead>
<tr>
<th>Revenue body</th>
<th>Who</th>
<th>On request</th>
<th>Max period</th>
<th>Conditions/criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>All tax debtors</td>
<td>Online and written application</td>
<td>12 months</td>
<td>Provide information about assets, Justified reasons, Properly behaviour in the past, Payment within one year, No obvious reason of permanent financial difficulties, Security, Interest, fine</td>
</tr>
<tr>
<td>Australia</td>
<td>All tax debtors</td>
<td>– Online</td>
<td>12 months</td>
<td>The online service is only available for individuals with income tax debts up to AUD 50,000 for a 12 months payment arrangement, but this is to be extended to cover businesses and activity statement debts and superannuation debts in the near future.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Automated telephone service-Email/written application</td>
<td></td>
<td>• The automated telephone service is available to both individuals and businesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Discussion with debt collection officer</td>
<td>Unlimited</td>
<td>• for both income tax debt and activity statement debts up to AUD 25,000.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>– Other payment arrangements may involve negotiations with debt collection officers. The conditions relating to these arrangements, including the length of the arrangement, will vary according to the taxpayer’s individual circumstances. For example, high risk taxpayers may be required to make an upfront lump sum payment. They may also be required to make payments by direct debit. Where the ATO has concerns about a taxpayer’s viability, that taxpayer may need to demonstrate that they can service a payment arrangement while meeting their other ongoing commitments.</td>
</tr>
<tr>
<td>Armenia</td>
<td>All tax debtors</td>
<td>Written application</td>
<td>2-6 months</td>
<td>Security, interest, fine</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>All tax debtors</td>
<td>Written application</td>
<td>1-9 months</td>
<td>Security (no interest)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– longer period in special circumstances (natural disasters, force-majeure circumstances)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue body</td>
<td>Who</td>
<td>On request</td>
<td>Max period</td>
<td>Conditions/criteria</td>
</tr>
<tr>
<td>--------------</td>
<td>-----</td>
<td>------------</td>
<td>------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Belgium</td>
<td>NB Tax collector is personally liable when granting payment facilities! Some exceptional cases only!</td>
<td>Written application, Visit local office</td>
<td>—</td>
<td>Information about assets, Payment capability (income), Security, Interest</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>All tax debtors</td>
<td>Written application</td>
<td>Unlimited</td>
<td>Security, Interest, Bank statement to prove cash flow, Forecast of expected revenues and costs, Contracts</td>
</tr>
<tr>
<td>Estonia</td>
<td>All tax debtors</td>
<td>Written application, Electronic application</td>
<td>24 months unless a guarantee is given</td>
<td>Estimated cash flow, Profit statement, Balance sheet, Income and expenditure statement, Information about reasons for payment problems, Security (in case of high debt and request for long payment period), In case of e-application: only information required is the duration of the payment period and the payment date.</td>
</tr>
<tr>
<td>Finland</td>
<td>All tax debtors</td>
<td>Written application, Online, By telephone</td>
<td>6 months without security; longer period with security but no longer than 24 months or 36 months in some particular cases.</td>
<td>1-In case of temporary difficulties. 2-No deferral in case of: having other taxes undergoing recovery by an enforcement authority, having failed to submit tax returns as required by law overdue prepayments still outstanding, overdue instalments relating to a payment arrangement made with you previously, no arrangement in case of habitual offender</td>
</tr>
<tr>
<td>Italy</td>
<td>All tax debtors</td>
<td>Written application</td>
<td>72 months to 10 years (in exceptional cases only: due to involuntary causes)</td>
<td>Inform about reasons of difficulties, Information about hardship: documents liquidity-</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>All tax debtors</td>
<td>Written application</td>
<td>12 months</td>
<td>Security, Payment history, Interest, fine</td>
</tr>
<tr>
<td>Korea</td>
<td>All tax debtors</td>
<td>Written application, By fax, Visiting Tax Office, Online</td>
<td>12 months</td>
<td>Security (e.g. bond, certificate of deposit, convertible bond), When a tax debtor proves payment capability, he/she doesn't need to submit security.</td>
</tr>
</tbody>
</table>
## ANNEX B. COMPARISON OF PAYMENT ARRANGEMENTS

<table>
<thead>
<tr>
<th>Revenue body</th>
<th>Who</th>
<th>Conditions/criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Netherlands</strong></td>
<td>All tax debtors</td>
<td>- Written application&lt;br&gt;By telephone&lt;br&gt;• Special circumstances (disasters as for example the floods, the economic crisis, farmers and cow disease).&lt;br&gt;• Security&lt;br&gt;• Interest&lt;br&gt;• In case of request by telephone:&lt;br&gt;• it should be an individual taxpayer or a self-employed taxpayer, or a business taxpayer.&lt;br&gt;• restricted to four months suspension and a and a tax debt of not more than EUR 20 000.</td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td>All tax debtors</td>
<td>• Payment arrangement by which a part is being paid and a remainder part that is paid in instalments.&lt;br&gt;• Payment arrangement for 100% of the tax debt or Payment arrangement for less than 100% of the tax debt with the remaining tax debt being written off (because the taxpayer faces serious hardship, recovery represents an inefficient use of the revenue resources or where recovery has been maximised by accepting an instalment for part of the outstanding tax debt.&lt;br&gt;• A payment arrangement may be realised either before or after the tax debt amount is due to be paid. Payments can be a lump sum and/or varied or regular amounts over a period of time. All obligations, expectations and amounts expected for the duration of the arrangement are set out at the start. This gives certainty to the revenue and to the taxpayer.&lt;br&gt;• When the taxpayer defaults on the arrangement the system automatically manages the imposition of late payment penalties and the case is identified and automatically flagged for follow up.&lt;br&gt;• New Zealand revenue monthly issues defaulted arrangement campaigns to ensure defaults are addressed quickly.</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>All tax debtors</td>
<td>No request possible; is a power of the tax authorities&lt;br&gt;– Interest&lt;br&gt;– Security</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>All tax debtors</td>
<td>Written application&lt;br&gt;24 months or longer&lt;br&gt;– Security&lt;br&gt;– Income and cost statement&lt;br&gt;– Financial statement</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>All tax debtors</td>
<td>Written application&lt;br&gt;5 and 7 years&lt;br&gt;– Information about reasons of difficulties&lt;br&gt;– Instalment plan&lt;br&gt;– Statement of payment capability&lt;br&gt;– Security&lt;br&gt;– Interest, fine during period</td>
</tr>
<tr>
<td><strong>Russian Federation</strong></td>
<td>All tax debtors</td>
<td>12 months&lt;br&gt;– Information about assets&lt;br&gt;– Security&lt;br&gt;– Interest</td>
</tr>
<tr>
<td><strong>Singapore</strong></td>
<td>All tax debtors</td>
<td>Almost all payment arrangements must be made under the condition of direct debiting from the taxpayers account.</td>
</tr>
<tr>
<td><strong>Slovenia</strong></td>
<td>All tax debtors</td>
<td>Written application&lt;br&gt;24 months&lt;br&gt;– Interest&lt;br&gt;– Evidence of illiquidity&lt;br&gt;– Inform about reasons of loss of ability to obtain revenues&lt;br&gt;– Income statement&lt;br&gt;– Balance&lt;br&gt;– All liabilities</td>
</tr>
<tr>
<td>Revenue body</td>
<td>Who</td>
<td>On request</td>
</tr>
<tr>
<td>--------------</td>
<td>-----</td>
<td>------------</td>
</tr>
</tbody>
</table>
| Slovakia     | All tax debtors | Written application | 12 months or 60 months | – Information about financial and economic situation  
– Security  
– Interest  
– Conversion of tax debt into share in ownership  
– Security  
– Financial statements |
| Sprska B&H  | All tax debtors | 12 months or 60 months | 24 months and 6 months | – Security  
– Amount lower than EUR 18 000 no guarantee required |
| Spain        | All tax debtors | Online application (processing/according the agreement is done manually) | No special limit | – Significant Hardship cases  
(-No security) |
| Switzerland  | All tax debtors | Online application | 1-2 months for individuals and 3 months for businesses in principal | – In case of exceptional reasons  
– Temporary payment problems  
– Problems should be due to reasons beyond taxpayers control  
– Or benefits the public  
– No other debts during request  
– Security (in case of big debt)  
– Viability necessary  
– Information about income and economic state. |
| United Kingdom | All tax debtors | Online application | 1-2 months for individuals and 3 months for businesses in principal | – Income and expenditure statements  
– Information on reasons for inability to pay  
– Must have ability to pay whilst paying ongoing debts  Encouragement to pay by direct debiting. |
| United States | All tax debtors | Written application | 1-2 months for individuals and 3 months for businesses in principal | Online IA only with direct debiting. |
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Contents
Executive summary
Chapter 1. Introduction and background
Chapter 2. The application of advanced analytics
Chapter 3. Tax debt treatment strategies
Chapter 4. Call centres
Chapter 5. Organisational aspects of tax debt management
Chapter 6. International aspects in debt management
Chapter 7. Conclusions and future developments
Annex A. Additional resources
Annex B. Comparison of payment arrangements

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