



Tax Working Group
Te Awheawhe Tāke

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This paper contains advice that has been prepared by the Tax Working Group Secretariat for consideration by the Tax Working Group.

The advice represents the preliminary views of the Secretariat and does not necessarily represent the views of the Group or the Government.



IR / MSD Common Debtors as at 30 September 2016

Summary of Findings

The key research questions for this project were:

- To what extent can MSD non-current debtors (i.e. those not currently on a benefit) be matched to IR data?
- What are the characteristics of IR and MSD customers with debt to both agencies?
- What is the ability of those with IR & MSD debt to service that debt?

A high level summary of the answers to these questions is presented here.

A separate report including more detailed information on common debtors is also available.

The MSD data used for this project was supplied under an MOU, and was available only for the purposes of this research.

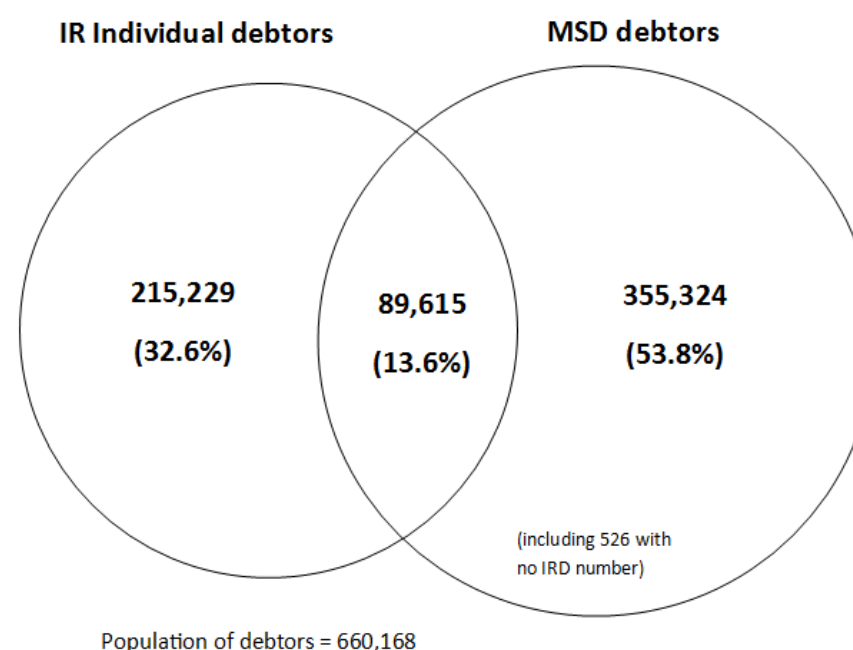


IR / MSD Common Debtors (as at 30 September 2016)

Executive Summary

- Of the 660,168 individuals with debts to IR and MSD, 89,615 (13.6%) had debts to both.
- These common debtors had \$1.705 billion of debt, representing 22% of the total combined debt of \$7.696 billion.
- Including penalties and interest, the median combined debt was \$6,548 (the average was \$19,025.) Excluding penalties and interest the median combined debt was \$4,519 (the average was \$8,783).
- Of 3,437 MSD debtors with a missing IRD number 526 (15%) could not be matched.
- Almost half of the common debtors are Maori. Over an eighth are Pacific Islanders. These proportions are out of line with the general population, but consistent with the (non-retired) beneficiary population.
- 39% of common debtors have children in their care. There are 70,000 children in the care of common debtors.
- The majority (86%) of common debtors are of prime working age (25-54).
- 8,800 common debtors (10%) have overseas addresses.
- Over half of the total debt of common debtors is Child Support (Non-Custodial) debt with IR. Over 80% of this debt is penalties and interest.
- The second largest type of debt belonging to common debtors is MSD non-current debt (14%). This is predominantly debts owed to MSD by ex-beneficiaries.

Individual Taxpayers and Beneficiaries with debt as at 30 September 2016



- Common debtors tend to have limited amounts of non-benefit salary and wage income.
- Some ex-beneficiaries have more substantial amounts of wage and salary income.
- The average wage and salary income of common debtors in the year to 30 September 2016 was \$16,242.
- To assess ability to pay common debtors have been allowed a budget consisting of rent, utilities, public transport, and basic food. The first three expenses are based on StatsNZ Household Expenditure Survey and vary by region. Basic food costs are from the Food Cost Survey collated by the Department of Human Nutrition, University of Otago and provide for a “nutritionally sufficient” diet.
- Income used in assessing ability to pay includes household income for WfFTC recipients, where available, and individual income for other common debtors. (Overall this approach is estimated to understate household income for up to 7% of common debtors.)

- It is estimated that **54%** of common debtors cannot afford to cover even the very basic expenses allowed for. This group have **no ability to make debt repayments** to either agency.
- A further **17%** of common debtors are **extremely unlikely to have any ability to make debt repayments**. This group can meet the very basic expenses allowed, but have limited capacity to cover further basic expenses such as toiletries and basic clothing and footwear.
- **12%** of common debtors **may possibly have a limited ability to make debt repayments**, but require careful assessment of this capacity. They can likely meet basic expenses, including toiletries and basic clothing, but if engaging in the workforce are likely to require a private vehicle and other items such as better quality clothing and footwear.
- Only **7%** of common debtors are assessed as being **likely to have an ability to make debt repayments**. They also require individual assessment to ascertain their ability to repay.
- The remaining 10% of common debtors have been identified as being overseas. Their ability to repay has not been assessed.
- The common debtors analysed were all “Active” IR clients on 30 September 2016. As of 5 December 2017 the status of some had changed. 882 (1%) had become bankrupt and 115 were deceased or ceased.



INLAND REVENUE & MINISTRY OF SOCIAL DEVELOPMENT



Objective: Establish a debt collection strategy for common debtors

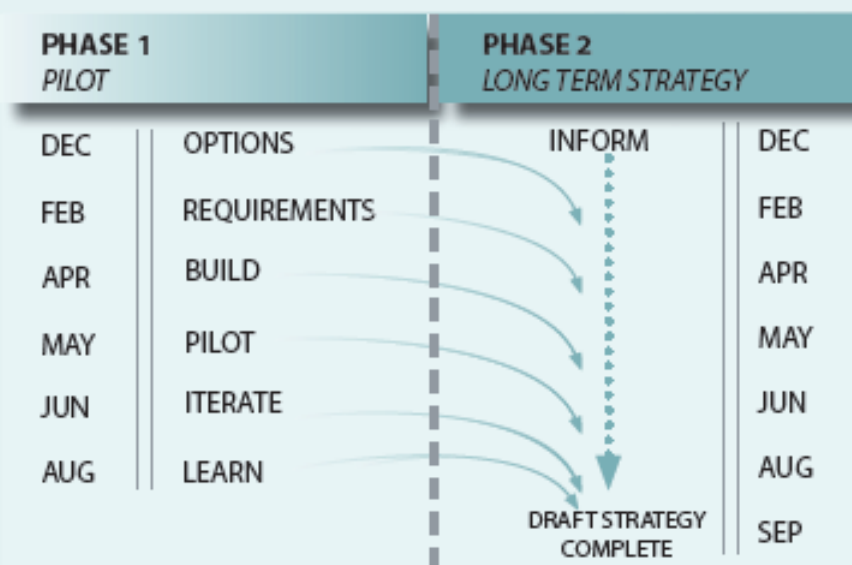
AGREED PRINCIPLES

1. Collaborate to manage common debtors to achieve customer centric outcomes for Individuals and their Families.
2. Co-design effective processes, leverage intelligence, and insights to inform Policy development and improve common debtor's long-term compliance behaviour and outcomes.
3. Reduce compliance costs for employers and administration costs for Inland Revenue and MSD while maximising benefits for Government.

WHERE WE ARE GOING

- Establish agreed pilot approach for debt collection for common debtors.
- Gather learnings and intelligence to inform long-term decisions. Share debt collection practices, policies and tools
- Agreed process for long-term common debtors debt collection.

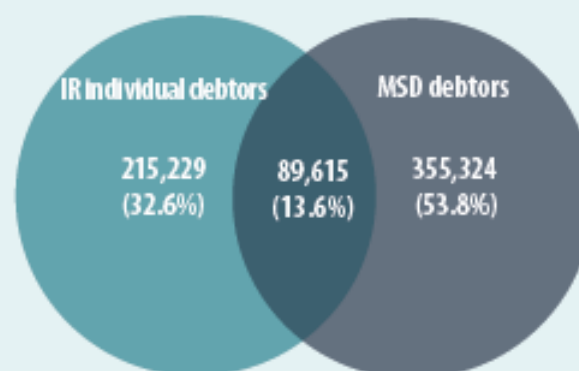
HOW ARE WE GOING TO GET THERE*



* Subject to change pending a detailed project plan.

RESEARCH FINDINGS

Debtor numbers of a total of 660,168



Common debtor profile

- Of the 89,615 common debtors 8.6% have overseas addresses
- 35,000 common debtors (39%) have families, involving 70,000 children
- 40% are current beneficiaries
- The average salary + wage income for year ended 30/09/2016 was \$16,242

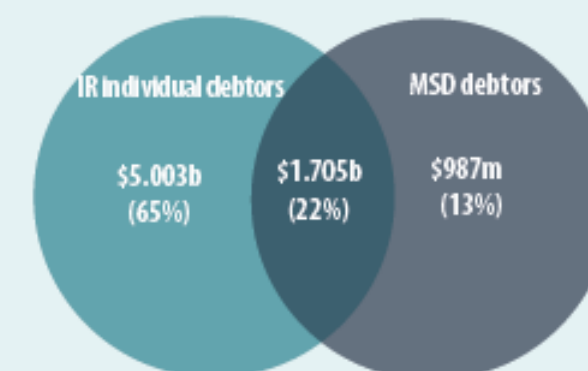
Ability to pay (Common debtors)

- Measured against a subsistence level budget:
- 54% no ability to pay
 - 17% extremely unlikely to have any ability to pay
 - 12% limited ability to pay
 - 7% likely to have ability to pay

Debt repayment history

- 69% of IR and 64% of MSD common debtors have made some form of repayment towards their debt and 45% towards both
- 12% have made no repayment to either IR or MSD

Debt values of a total of \$7.6b



Characteristics of the debt

Of the \$1.7b common debt:

- \$1.3b is outstanding IR debt (excluding penalties and interest the total is 405m).
- \$382m is outstanding MSD debt.
- The average IR debt (excluding penalties and interest) is \$4,519
- The average MSD debt is \$4,264
- 92% of IR outstanding debt is from Social Policy.

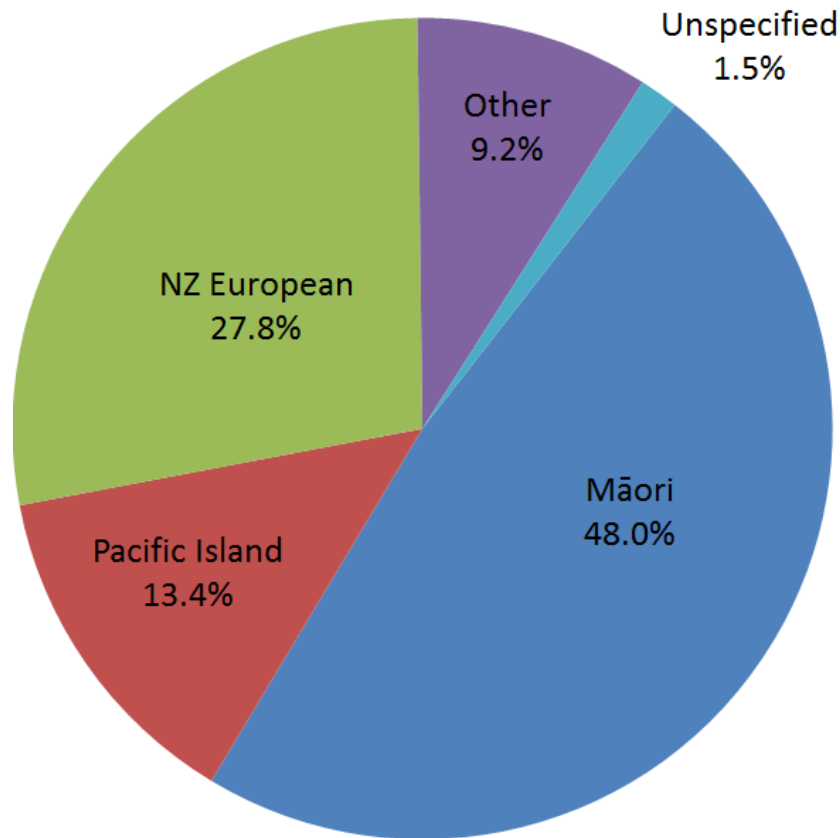
Repayment arrangements

At 30/09/16 common debtors had repayment arrangements in place as follows:

- 30% with both IR & MSD
- 24% with IR only
- 15% with MSD only
- 31% with neither agency

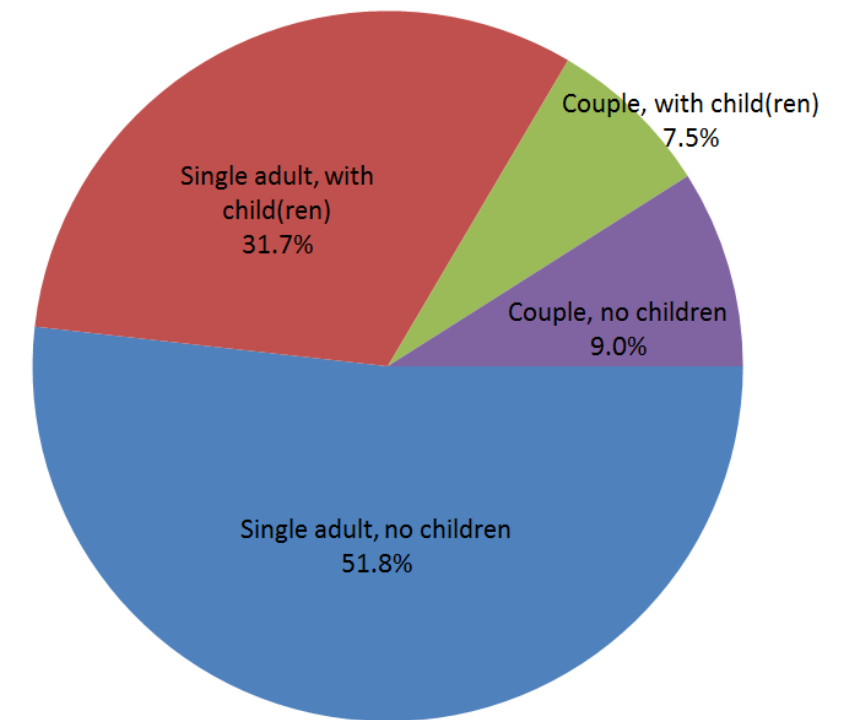
IR / MSD Common Debtors (as at 30 September 2016) Demographics

Ethnicity

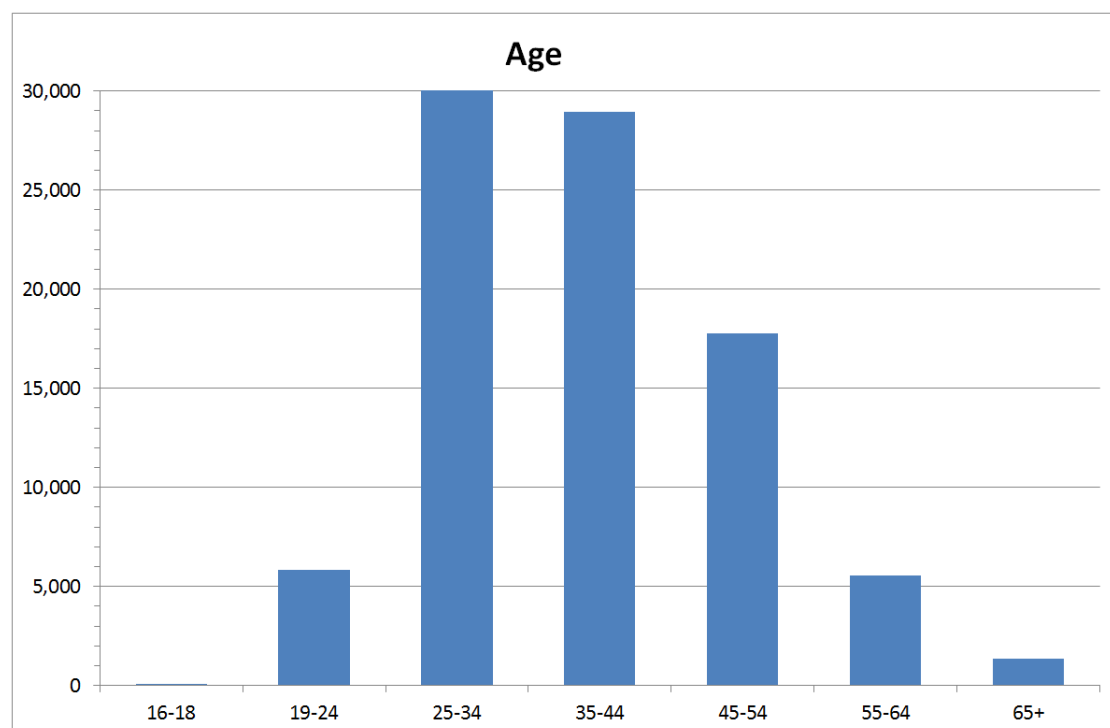
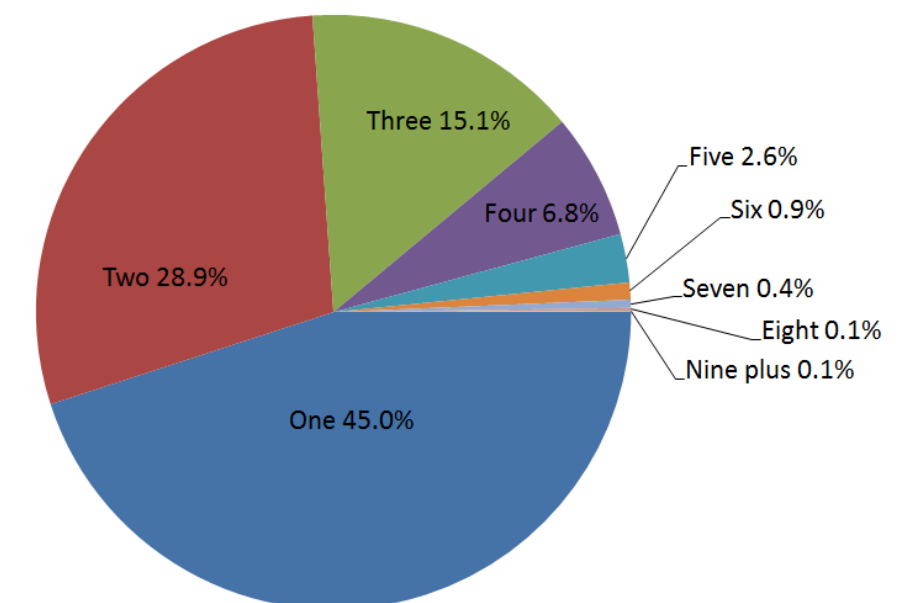


- Almost half of the common debtors are Maori. Over an eighth are Pacific Islanders.
- 39% of common debtors have children in their care.
- There are 70, 000 children in the care of common debtors.
- The majority (86%) of common debtors are of prime working age (25-54)
- 55% of common debtors are male

Family make-up

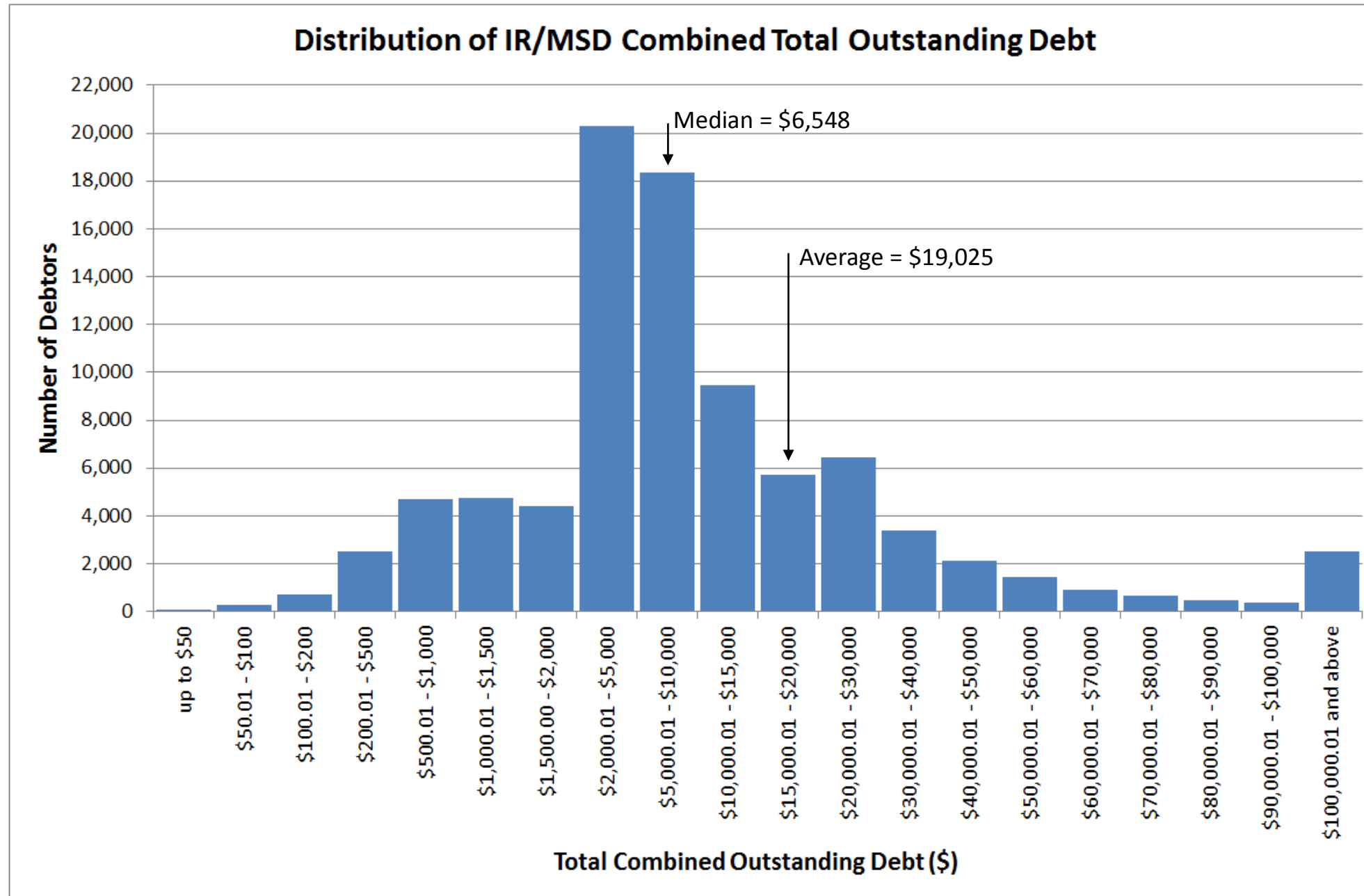


Number of children per family as a % of 35,152 families with children (covering 69,964 children)





IR / MSD Common Debtors (as at 30 September 2016)



| IR/MSD Combined Total Outstanding Debt | Joint Debtors | | |
|--|---------------|------------|-----------------------|
| | Number | Percentage | Cumulative Percentage |
| up to \$50 | 94 | 0.1% | 0.1% |
| \$50.01 - \$100 | 260 | 0.3% | 0.4% |
| \$100.01 - \$200 | 707 | 0.8% | 1.2% |
| \$200.01 - \$500 | 2,503 | 2.8% | 4.0% |
| \$500.01 - \$1,000 | 4,704 | 5.2% | 9.2% |
| \$1,000.01 - \$1,500 | 4,739 | 5.3% | 14.5% |
| \$1,500.00 - \$2,000 | 4,427 | 4.9% | 19.5% |
| \$2,000.01 - \$5,000 | 20,299 | 22.7% | 42.1% |
| \$5,000.01 - \$10,000 | 18,356 | 20.5% | 62.6% |
| \$10,000.01 - \$15,000 | 9,473 | 10.6% | 73.2% |
| \$15,000.01 - \$20,000 | 5,742 | 6.4% | 79.6% |
| \$20,000.01 - \$30,000 | 6,426 | 7.2% | 86.7% |
| \$30,000.01 - \$40,000 | 3,408 | 3.8% | 90.5% |
| \$40,000.01 - \$50,000 | 2,114 | 2.4% | 92.9% |
| \$50,000.01 - \$60,000 | 1,437 | 1.6% | 94.5% |
| \$60,000.01 - \$70,000 | 894 | 1.0% | 95.5% |
| \$70,000.01 - \$80,000 | 661 | 0.7% | 96.2% |
| \$80,000.01 - \$90,000 | 475 | 0.5% | 96.8% |
| \$90,000.01 - \$100,000 | 374 | 0.4% | 97.2% |
| \$100,000.01 and above | 2,522 | 2.8% | 100.0% |
| All | 89,615 | | |

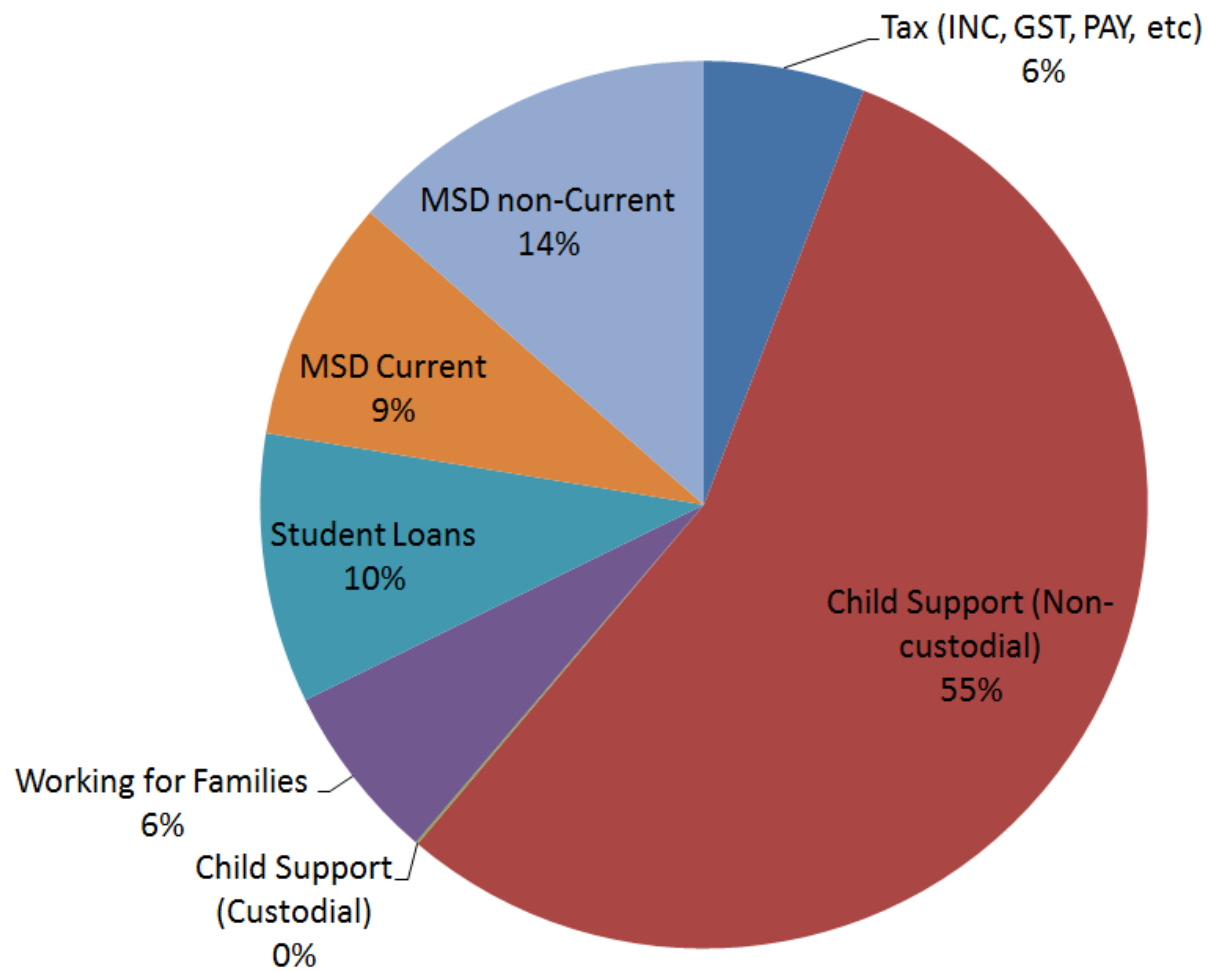
The majority of common debtors have a total combined debt of \$2,000 to \$5,000 (22.7%) or \$5,000 to \$10,000 (20.5%).

The median combined debt was \$6,548 and the average combined debt was \$19,025.

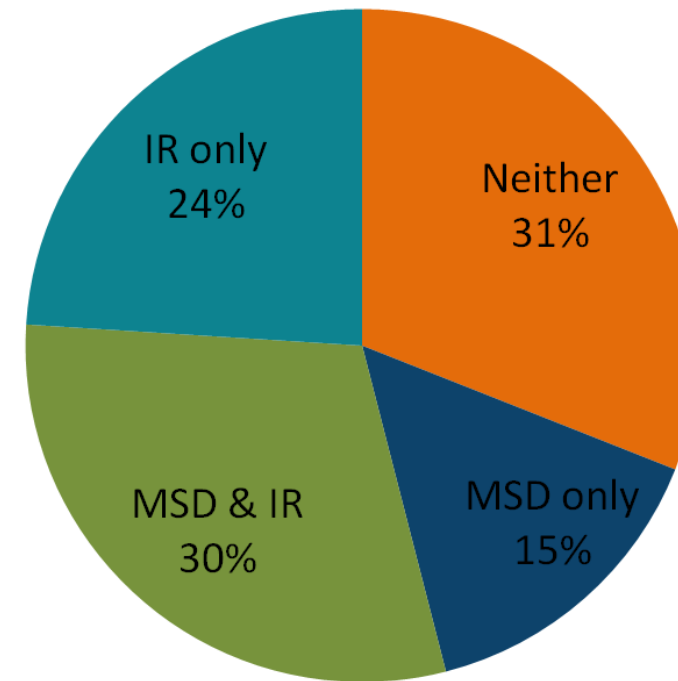
Excluding penalties and interest the median combined debt was \$4,519 (the average was \$8,783).

IR / MSD Common Debtors (as at 30 September 2016)

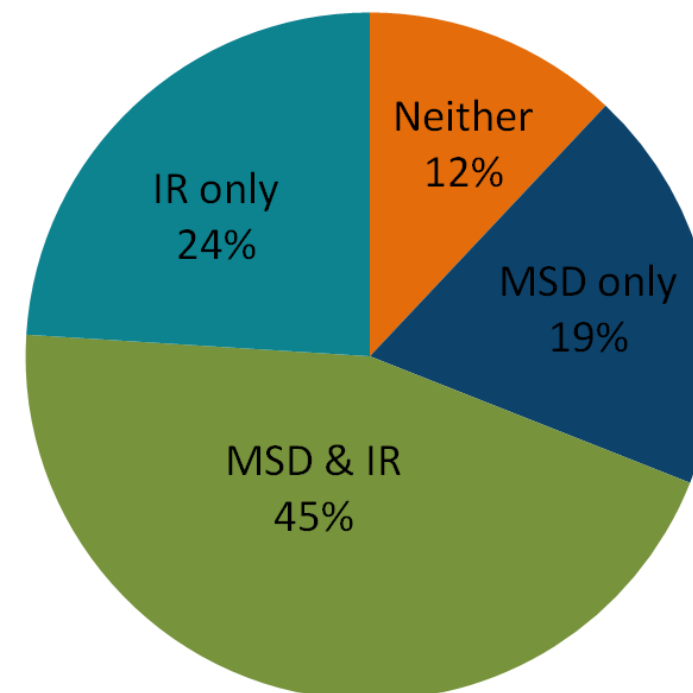
Type of Debt as a Proportion of Total
(including Penalties and Interest)



Payment arrangements in place with:



Repayments made to:



- Over half of the total debt of common debtors is Child Support (Non-Custodial) debt with IR. Over 80% of Child Support debt is penalties and interest.
- The second largest type of debt belonging to common debtors is MSD non-current debt. This is predominantly debts owed to MSD by ex-beneficiaries.
- Common debtors tend to have limited amounts of non-benefit salary and wage income
- Some non-beneficiaries have more substantial amounts of wage and salary income.
- The average wage and salary income of common debtors in the year to 30 September 2016 was \$16,242

| Type of debt | Total | Penalties & Interest |
|-------------------------------|----------------------|----------------------|
| Child Support (Non-custodial) | 942,776,458 | 766,347,251 |
| MSD non-Current | 230,978,482 | - |
| Student Loans | 167,678,335 | 54,192,581 |
| MSD Current | 151,213,834 | - |
| Working for Families | 110,897,698 | 43,422,360 |
| Tax (INC, GST, PAY, etc) | 99,942,064 | 53,710,094 |
| Child Support (Custodial) | 1,453,929 | - |
| TOTAL | 1,704,940,800 | 917,672,286 |



IR / MSD Common Debtors (as at 30 September 2016)

Assessment of Ability to Pay

| | Number of Common Debtors | Sum of Surplus | Mean Surplus | Median Surplus | % All Common Debtors | % All Common Debtors with Surplus | % Surplus Group | % Debtor Group |
|---|--------------------------|----------------|--------------|----------------|----------------------|-----------------------------------|-----------------|----------------|
| Surplus not calculated | | | | | | | | |
| MSD current debtors | 171 | - | - | - | 0% | - | 2% | 0% |
| MSD non-current debtors | 8,652 | - | - | - | 10% | - | 98% | 17% |
| MSD current & non-current debtors | 6 | - | - | - | 0% | - | 0% | 0% |
| Total | 8,829 | - | - | - | 10% | - | 100% | - |
| Annual deficit (i.e. Surplus < 0), \$ | | | | | | | | |
| MSD current debtors | 23,561 | 193,391,088.70 | 8,208.10 | 7,222.80 | 26% | 29% | 49% | 66% |
| MSD non-current debtors | 23,743 | 269,202,494.70 | 11,338.18 | 9,928.54 | 26% | 29% | 49% | 46% |
| MSD current & non-current debtors | 1,181 | 11,108,637.79 | 9,406.13 | 7,858.47 | 1% | 1% | 2% | 54% |
| Total | 48,485 | 473,702,221.19 | 9,770.08 | 8,430.25 | 54% | 60% | 100% | - |
| Annual surplus (i.e. Surplus > 0), \$ | | | | | | | | |
| MSD current debtors | 11,840 | 112,704,720.29 | 9,518.98 | 6,269.89 | 13% | 15% | 37% | 33% |
| MSD non-current debtors | 19,478 | 376,073,320.49 | 19,307.59 | 15,478.43 | 22% | 24% | 60% | 38% |
| MSD current & non-current debtors | 983 | 12,485,988.13 | 12,701.92 | 9,512.75 | 1% | 1% | 3% | 45% |
| Total | 32,301 | 501,264,028.91 | 15,518.53 | 11,217.23 | 36% | 40% | 100% | - |

Surplus = Gross Income (family where available)

- + MSD Supplementary Payments + IR WfFTC + Child Support received + Maintenance received
- Tax on income- Student Loan Repayments - Child Support paid - Maintenance paid - Fines paid
- Expenses (Rent, Utilities, Public Transport & Basic Food)

(Items are included where they could be identified, and have come from a range of data sources.

Current payment arrangements with MSD are excluded from calculation of the budgetary “surplus”.)

Note that this “surplus” is measured against an extremely restricted, subsistence level, budget.

| Region | Weekly Expenses (\$) | | | |
|-------------------|----------------------|--------|----------------------------|-----------------------------|
| | Single | Couple | One Parent with Child(ren) | Two Parents with Child(ren) |
| Urban Auckland | 405.30 | 461.90 | 611.20 | 675.20 |
| Urban Waikato/BoP | 332.70 | 400.60 | 479.10 | 543.10 |
| Urban Wellington | 355.00 | 437.50 | 540.70 | 604.70 |
| Urban Rest of NI | 310.60 | 380.20 | 483.10 | 547.10 |
| Urban SI | 364.60 | 412.80 | 449.00 | 513.00 |
| Rural (NI & SI) | 347.00 | 394.50 | 522.80 | 586.80 |

Expenses = Rent + Utilities + Passenger Transport + Basic Food

A simplified approach has been taken to expenses to be applied in the assessment of ability to pay. Expenses considered include Rent, Utilities, Passenger Transport (i.e. public transport only, not use of a private vehicle) from the Debt Collection Household Expenditure Guide (based on Statistics New Zealand Household Expenditure Survey) and Basic Food costs (from the Food Cost Survey collated by the Department of Human Nutrition, University of Otago).

Grocery non-food items (not included) = \$21.30 per week (= \$1,108 per annum) from HES.

No allowance has been made for many expenditures, such as: vehicle ownership and running, insurances, clothing and shoes, medical expenses, hobbies, sports, after school activities, haircuts, pets, tobacco or alcohol, interest payments on outstanding loans with private providers, HP arrangements, fines (civil and court) for non-beneficiaries.

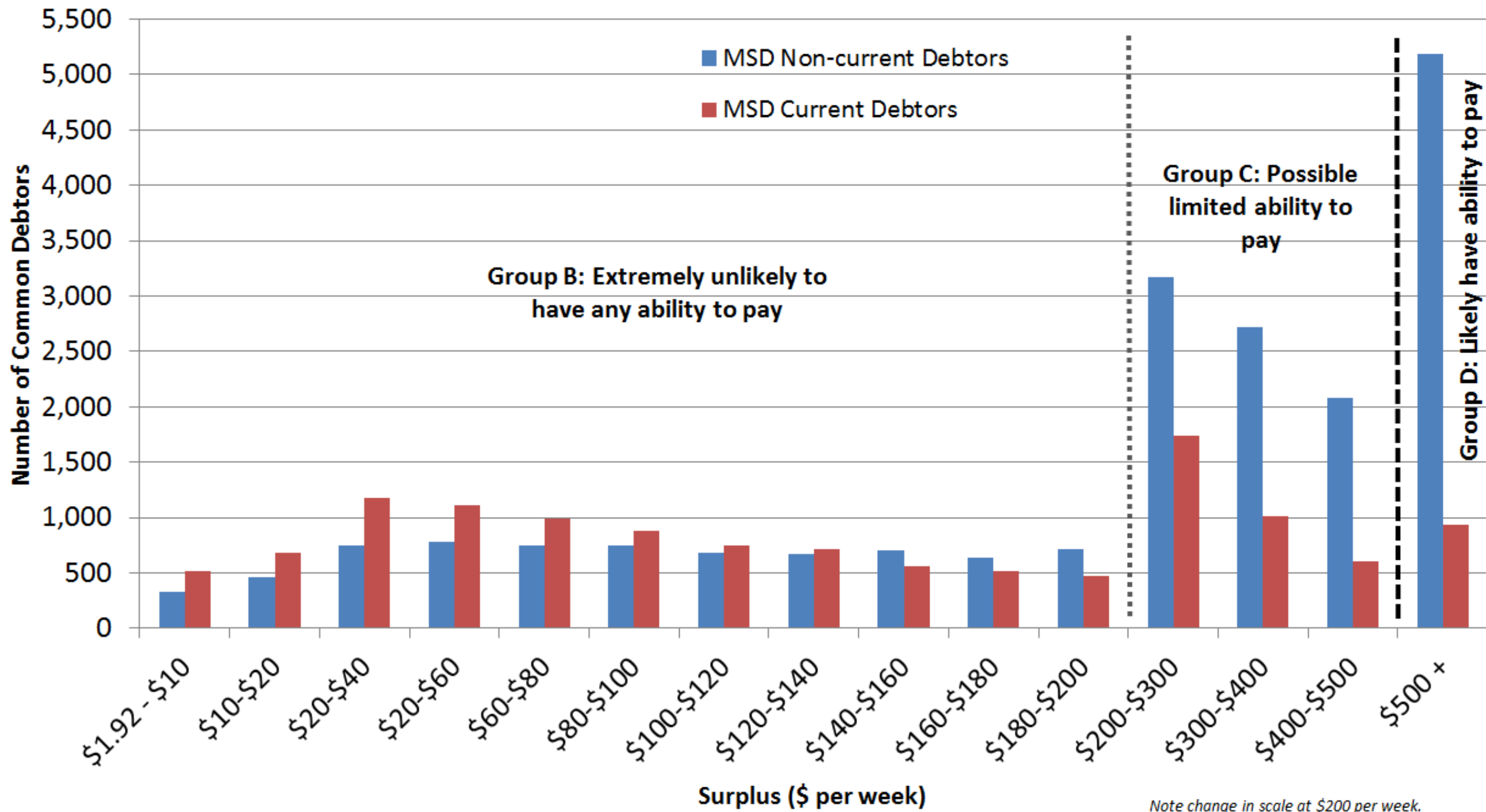
Note that the HES is for all households, with a range of incomes. This exercise is based on (mostly) very low income households.

As a point of comparison, <https://www.newzealandnow.govt.nz/living-in-nz/money-tax/comparable-living-costs> shows living costs for a single person in Auckland of around \$661.60 per week (this figure is based on StatsNZ HES).

IR / MSD Common Debtors (as at 30 September 2016)

Assessment of Ability to Pay

Distribution of Common Debtors with a positive Surplus



Note that this "surplus" is measured against an extremely restricted, subsistence level, budget

IR / MSD Common Debtors (as at 30 September 2016)

Assessment of Ability to Pay— Summary

Note that ability to pay is measured against an extremely restricted, subsistence level, budget

Assessed Ability to Pay (89,615 Common Debtors)

A: Total combined debt = \$937m (55%)

Arrangements in place: 65%

No Arrangements in place: 35%

B: Total combined debt = \$216m (13%)

Arrangements in place: 86%

No Arrangements in place: 14%

C: Total combined debt = \$198m (12%)

Arrangements in place: 86%

No Arrangements in place: 14%

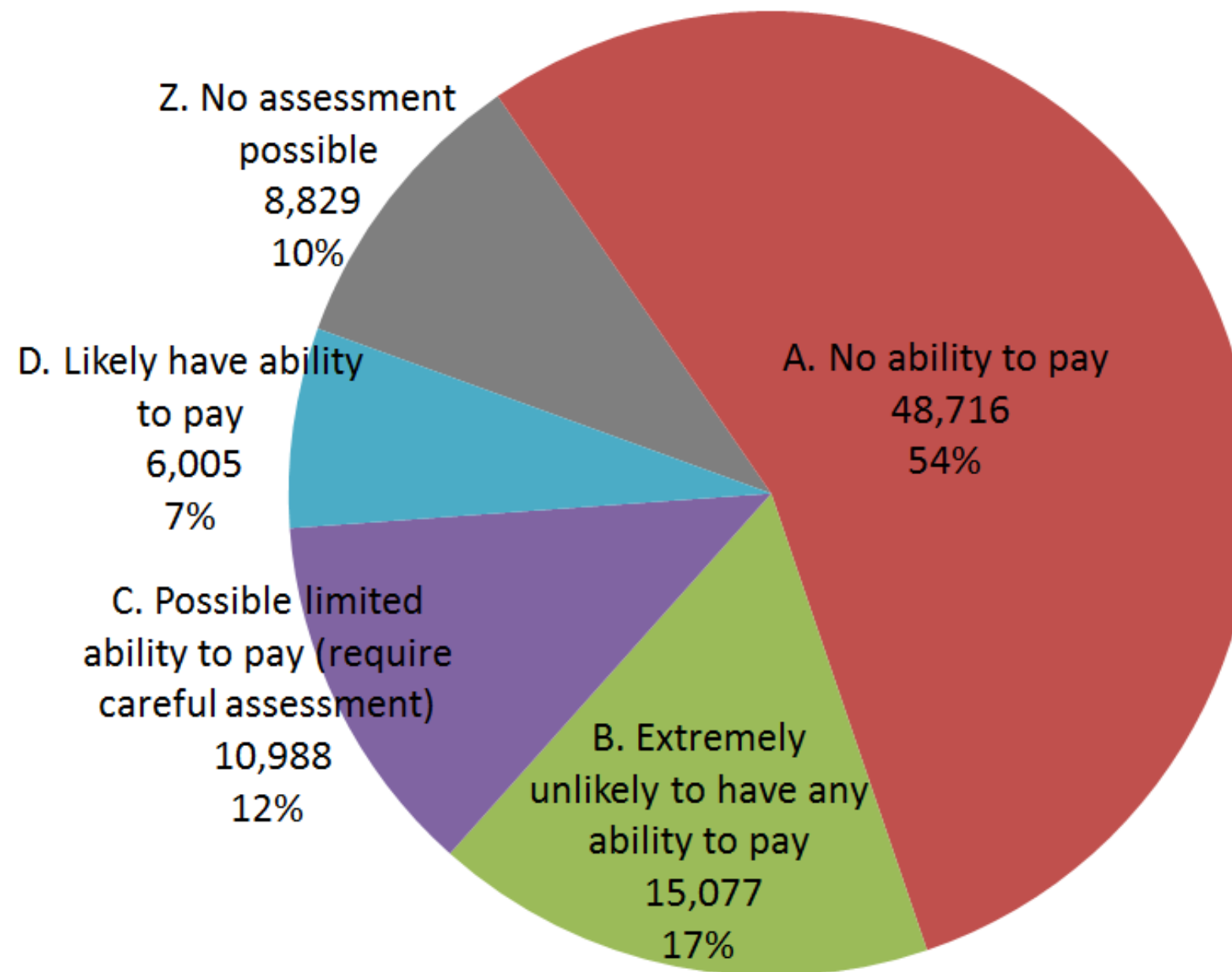
D: Total combined debt = \$120m (7%)

Arrangements in place: 81%

No Arrangements in place: 19%

Z: Overseas addresses

Total combined debt = \$233m (14%)



Caveat: Expenses have been included where a partner is identified, even where the income of that partner is not identified. Overall this affects 7% of those for whom ability to pay was assessed.

| Group | Proportion having partner with no income recorded |
|---|---|
| Z. No assessment possible | n.a. |
| A. No ability to pay | 8% |
| B. Extremely unlikely to have any ability to pay | 5% |
| C. Possible limited ability to pay (require careful assessment) | 8% |
| D. Likely have ability to pay | 6% |
| Overall (A, B, C, D) | 7% |

IR / MSD Common Debtors (as at 30 September 2016)

Extra Information

Bankruptcies and Deaths:

As at 5th December 17, **882** (1%) of the common debtors were **bankrupt** (185 of these were undischarged).

610 (69%) of this group were assessed as being in a deficit position w.r.t. their ability to pay at 30 September 2016.

As at 5th December 17, **115** of the common debtors were **deceased or ceased**.

83 (72%) of this group were assessed as being in a deficit position w.r.t. their ability to pay at 30 September 2016.

| Summary of debt of 882 bankrupts | | | |
|--|--------|--------|------------|
| | Mean | Median | Total \$ |
| Total debt (incl penalties & interest) | 56,725 | 15,380 | 50,031,638 |
| Penalties & interest | 29,713 | 1,946 | 26,206,845 |
| Total debt (excl penalties & interest) | 27,012 | 10,184 | 23,824,793 |

| Summary of debt of 115 deceaseds & ceaseds | | | |
|--|--------|--------|-----------|
| | Mean | Median | Total \$ |
| Total debt (incl penalties & interest) | 79,913 | 7,992 | 9,189,984 |
| Penalties & interest | 61,519 | 2,351 | 7,074,683 |
| Total debt (excl penalties & interest) | 18,394 | 4,267 | 2,115,301 |