



Extract from the report to the
Public Accounts Committee on
the merger of debt collection into SKAT
(Danish Tax and Customs Administration)

June
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I. Introduction and results

1. This report is about the merger of the national and the municipal tax administration collection authorities into the Danish Tax and Customs Administration (SKAT).

The merger took place on 1 November 2005 when the responsibility for collecting outstanding payments from individuals and businesses to public authorities, was transferred to SKAT. Prior to the merger, outstanding payments were collected by municipalities, the Danish Agency for Governmental Management, the police and ToldSkat (former name of the Danish tax and customs authority). Total Tax arrears to public authorities have increased over the entire period since all debt collection activities were merged into SKAT.

In connection with the merger, SKAT was made responsible for harmonising the regulations governing debt collection and adapting its administration and organisation. Combined this was a huge and very demanding task for SKAT.

2. The Folketing's (parliament) objective of merging debt collection will appear from the comments to Bill no. L 112 on collection and recovery of certain outstanding payments. According to the comments, the merger was meant to improve procedural justice in the debt collection area through the establishment of a common set of rules and practice, improve administration in the area, reduce duplication of work and ensure implementation of the most effective and efficient methods for the collection of debt. Besides, the new organisation should increase management's focus on the area and make collection of outstanding payments from debtors with the ability to pay a priority. The comments to the bill included also mention of a number of prerequisites concerning savings in staff and more effective debt collection methods.

3. The objective of Rigsrevisionen's report is to assess whether SKAT has fulfilled the objectives and prerequisites set for the merger of debt collection. The report will answer the following questions:

- Has SKAT implemented the required measures relating to the organisation, administration and systems in connection with the merger of debt collection?
- Has SKAT implemented the required savings in staff and developed staff competencies?
- Is SKAT able to measure the performance of debt collection, including the effect of the recovery methods applied?
- Has SKAT been able to reduce the total level of debt since the merger?

Total tax arrears at the end of 2009 amounted to DKK 66.9 billion composed of:

- collectible debts (DKK 32.4 billion);
- uncollectible debts relating to businesses (DKK 19.6 billion);
- irrecoverable debts relating to individual taxpayers (DKK 14.9 billion).

Debt to public authorities may be written off due to, for instance limitation or bankruptcy.

MAIN FINDINGS AND CONCLUSIONS

Overall, Rigsrevisionen's report shows that at the beginning of 2010, i.e. four and a half years after the merger, several of the objectives and prerequisites of the merger of debt collection had not been met by SKAT.

As planned, SKAT has since 2005 implemented a number of initiatives to achieve the objectives underlying the plans for the merger. SKAT has established a one-string debt collection system, developed a new strategy and guideline for the collection of outstanding payments to public authorities and taken the initiative to produce new statistical material. SKAT has also created a framework for tighter management of debt collection and improved procedural justice. Finally, SKAT has also cut down staff as required and mapped staff's competencies.

The audit also points to several areas where SKAT can and should do better to meet the objectives and prerequisites of the merger. The tax regions (part of SKAT) are not complying in full with the strategies and plans laid down by SKAT. The framework for the management of debt collection was not established till 2009, the mapping of staff's competencies, to form part of the work going forward, was not implemented till 2009 either, and an IT project "One Common System for Enforced Collection" (EFI) to underpin the debt collection effort, is currently four and a half years overdue. SKAT is unable to provide evidence of amounts collected annually, nor can SKAT document the effectiveness of the various methods of recovering debts, or the scope of its activities. It is Rigsrevisionen's assessment that SKAT is missing basic management information in this area and information that could support effective execution of its tasks.

Total debts have increased in the period following the merger. The increase in tax arrears can be ascribed partly to the financial recession that occurred in 2008. Furthermore, SKAT has pointed to the fact that the enhancement of procedural justice has also increased the level of debt. However, according to Rigsrevisionen's audit there are indications that SKAT's debt collection activities have been inadequate. SKAT's level of activity in the debt recovery areas where data are available has declined in the years following the merger, and the quality of the effort made to collect outstanding payments has in several cases been inadequate.

This overall assessment is based on the following factors:

Measures implemented by SKAT relating to organisation, administration and systems in connection with the merger

SKAT has come a long way towards achieving the organisational and administrative objectives set for the merger of debt collection. SKAT has established a one-string system for collection of outstanding payments and has improved procedural justice in the area. SKAT has also developed new debt collection methods to ensure that debts are collected in the most effective and efficient manner.

But SKAT is still facing a number of problems relating to debt collection: management's focus on debt recovery was not such that it allowed close monitoring of the debt collection area till late in the period under audit; the tax regions are complying with the approved plans and strategies to varying degrees; staff cannot utilise the new methods effectively because they are not underpinned by the IT systems, and finally, SKAT has not yet established a joint IT system for debt collection (EFI), and in the opinion of Rigsrevisionen, the current time-frame laid down for the development of the IT system is risky.

- SKAT has established a one-string debt collection system and brought together the collection of all debt to public authorities.
- SKAT has in the period 2005-2010 launched various management initiatives, but the conditions permitting management to focus on debt collection were not established till 2009 when a board of production managers, six tax regions and the Centre for Enforced Debt Collection were set up.
- SKAT has developed various methods to help staff collect outstanding payments more effectively and efficient.
- However, SKAT has not ensured that the tax regions are using the approved methods to full extent.
- The value of the segmentation model that divides businesses into two categories (opponents and team players) according to their willingness and their ability to pay their debt is limited. First because the system cannot automatically determine which category a business belongs to, and secondly, the segmentation provides only a snapshot of the position of a business, which, according to SKAT, is continually changing. Therefore the segmentation cannot be used to prioritise SKAT's combined efforts directed at debtors.
- SKAT has in the period under audit had only limited focus on the objective to target efforts at debtors with the ability to pay.
- SKAT has harmonised the regulations governing the area as required and thereby also enhanced procedural justice. A set of rules governing collection of all outstanding payments to public authorities has now been established. The Debt Recovery Act ensures that debt collection takes place in compliance with a consistent set of rules.
- Rigsrevisionen's study has shown that debt collection is conducted differently across the country. Furthermore, the degree to which the tax regions have implemented the debt collection strategy and collection plans varies from one tax region to the next. Going forward, SKAT should ensure that businesses in comparable situations are subjected to the same treatment. The Ministry of Tax has stated that it is well aware of the need to ensure overall consistent treatment of all debtors, for instance by means of the debt collection policy and the implementation of due processes.

- SKAT has not yet established a joint IT system (EFI) designed to underpin debt collection by bringing together all debts relating to one individual debtor in one single account. EFI is currently four and a half years overdue compared to the timeframe laid down at the time of the merger. On the basis of the time lost so far, Rigsrevisionen considers the timeframe for the development of EFI risky, as it is based on the assumption that EFI is fully developed and that the IT system "One Tax Account" is also fully developed and providing the required support to the EFI system.

Staff cuts and development of staff's competencies

Up to the end of 2008, SKAT has reduced staff in a number of areas as assumed at the time of the merger. In 2009 SKAT did not manage to implement the planned savings, but it is expecting to have improved efficiency beyond the target in 2012. In the opinion of Rigsrevisionen, achievement of this target will possibly only if the IT system EFI, which has not been developed yet, has been put into operation.

SKAT's opportunities to adjust staffing in the individual units have been limited due to political agreements and a job security agreement with the staff.

It is essential for SKAT to have access to staff with the right qualifications if it is going to collect debts more effectively and efficiently. SKAT has emphasised that in addition to IT, staff's competencies are key to realising the objectives of the merger. SKAT recorded staff's competencies in 2006, but the mapping did not clarify whether tasks and staff's qualifications matched. Even though SKAT subsequently did launch various initiatives to compensate for the fact that the recording of staff competencies did not fulfil its purpose, it was not till 2009 that SKAT took the consequences and launched a new mapping exercise. In Rigsrevisionen's opinion the new mapping will provide a better basis for the forward-looking development of staff's competencies.

- SKAT has up to and inclusive of 2008 in the form of man-year reductions implemented the improvements of efficiency that constituted the basis for the Finance Act for 2007. SKAT did not manage to cut staff as planned in 2009, but is expecting to achieve the objective in 2012 when the efficiency gain is expected to exceed the originally set target. Rigsrevisionen is not in a position to assess whether SKAT will be able to achieve the objective set for improvement of the efficiency in 2012, but it is of critical importance that EFI, which has not been developed yet, is put into operation.
- The fact that the political agreement concerning the merger included a demand for job security, and emphasised that the merger should not lead to dismissals, but that savings should be achieved through normal attritions, did not leave SKAT much scope to adjust staffing in its various units. SKAT has taken various steps in an attempt to compensate for these restrictions and has, for instance transferred tasks between the units and used so-called virtual staff, i.e. staff who were physically not in the same location as their manager.

- The recording of competencies carried out in 2006 did not clarify whether tasks and staff's qualifications matched. SKAT has launched a number of activities within competence development and has taken several initiatives to compensate for the fact that the recording of competencies did not show whether tasks and staff's qualifications matched. However, Rigsrevisionen is of the opinion that it took a long time before SKAT took the consequences of the fact that the recording of competencies in 2006 did not fulfil its purpose. Rigsrevisionen is attaching great importance to the fact that SKAT is accentuating staff's competencies as being essential for the achievement of the objective of the merger to make debt collection more effective and efficient. Mapping staff's competencies is essential to provide SKAT with the necessary insight into the extent to which tasks and staff's competencies match. The mapping will also give SKAT an opportunity to prioritize development of competencies in the ill matched areas.
- The mapping of staff's educational level, which SKAT carried out in 2009, is providing SKAT and staff with a better basis for the forward-looking development of competencies. The mapping showed that the majority of staff members had the educational qualifications that are expected to constitute the principal level also in the future.

Measurement of debt collection performance

There is a gap in SKAT's knowledge of the debt collection performance. The reason is that SKAT lacks statistics on amounts collected, cost-effectiveness of collection operations, and the effectiveness of the individual collection methods. SKAT has taken initiatives to improve the quality of the statistical material.

- SKAT's statistics and data records do not underpin the assumptions underlying the merger. Thus it cannot be derived from the statistics whether SKAT is using the most effective collection methods, nor has SKAT access to statistics that can help it manage and focus its debt collection on collecting outstanding payments from debtors with the ability to pay. Furthermore, SKAT is not able to generate data on the size of the amounts collected in individual years, and the information available for the assessment of the effectiveness of the individual debt collection methods is inadequate.
- The debt collection strategy laid down in 2006 included ambitious plans for SKAT's measurement and analysis of performance within debt collection. These plans have not yet been implemented. As a consequence of the delay relating to EFI, SKAT took certain initiatives in the course of 2009 to improve the statistic material. SKAT is expecting the new statistic material on outstanding payments to have full effect in 2011.

SKAT's collection of outstanding payments since the merger

SKAT has not managed to reduce total outstanding payments since the merger, and outstanding payments increased by 34 per cent to DKK 66.9 billion from the end of 2006 to the end of 2009.

The increase in total outstanding payments can partly be ascribed to the financial recession that occurred in 2008 and to some extent to the increased focus on due process of law. However, Rigsrevisionen has also noted indications that SKAT is partly responsible for the increase in debts. Thus SKAT's level of activity, in the areas where data evidence is available, has declined in the years following the merger, and the quality of SKAT's effort to recover outstanding payments has in many cases been inadequate.

- The collectible outstanding payments increased from the end of 2006 to the end of 2009 by 33 per cent to DKK 32.4 billion, whereas the uncollectible and irrecoverable debt in the same period increased by 34 per cent to DKK 34.5 billion. Total tax arrears added up to DKK 66.9 billion at the end of 2009. Generally, throughout the period, SKAT was unable to achieve the targets set annually in the Finance Act for the size of collectible outstanding payments.
- The financial recession that occurred in 2008 contributed to increasing total outstanding debts after the merger. SKAT has pointed out that due process of law has been enhanced, which has also increased the level of outstanding payments. SKAT took over all debt collection activities from other public authorities at a time when Danish economy was thriving. SKAT has not been able to take advantage of the favourable economic conditions in the period from the merger to mid-2008, and reduce the level of outstanding payments. Rigsrevisionen's audit findings indicate that SKAT's debt collection activities have been inadequate.
- SKAT is missing basic information on its debt collection activities, but in the areas where data are available, indications are that SKAT's level of activity within debt collection has generally declined since the merger. SKAT has used the methods of withholding salary and registration with RKI (credit information agency) less after the merger. From 2008 to 2009, however, SKAT succeeded in increasing the use of salary withholding by approximately 23 per cent, yet without reaching the 2005 level. In late 2009, an estimated 69 per cent of the individual taxpayers with the ability to pay paid off their debt. In comparison, SKAT had set a target according to which 80 per cent of all debtors with the ability to pay should be paying off their debt. The number of enforcement proceedings commenced in the period 2006-2008 increased, but dropped again in 2009. SKAT has stated that the establishment of the Centre for Enforced Debt Collection and the amount of time spent to develop staff's competencies have made debt recovery less efficient. However, SKAT is expecting the new Centre for Enforced Debt Collection to contribute to effective, efficient and consistent debt collection activities in the future.

- It must be assumed also that the inadequate quality of the debt collection activities accounts to some extent for the shortfall in amounts collected. The quality of debt collection activities directed at personally owned businesses and limited liability businesses has not been satisfactory, which, in the opinion of Rigsrevisionen, must have led to a shortfall in the level of amounts collected. This assessment is based on various audit findings and the fact that several of the tax regions has not implemented the prescribed debt collection measures. To this should be added that in the past, the tax centres had different practices for the manual correction of debt records. In many cases, outstanding payments were incorrectly moved from the category of collectible debts to the category of uncollectible debts which were not pursued as rigorously. SKAT has taken steps to clarify its guideline for manual corrections accordingly. Finally, Rigsrevisionen finds it unsatisfactory that the tax centres had not prepared the cases for transfer to the Centre for Enforced Debt Collection, and that the Centre in consequence hereof was forced to write off debts worth DKK 781.5 million due to limitation.