



Extract from the report to the
Public Accounts Committee on
SKAT's management of arrears

December
2014

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1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns SKAT's (Danish customs and tax administration) management of arrears in the period April 2013 to November 2014. It appears from the report on the audit of the government accounts for 2013 that arrears are on the increase, there is uncertainty about the total amount of arrears and the launch of a common IT-based collection system (EFI) caused significant problems in 2013. The first part of the EFI was launched in September 2013. Rigsrevisionen initiated the study in June 2014.

2. The purpose of this report is to assess SKAT's collection of arrears primarily in the period that followed immediately after the first-phase launch of the EFI system, i.e. from September 2013 to November 2014. We examine the correctness of the data that provided the basis for SKAT's collection of arrears, SKAT's handling of some of the problems that emerged after the phased launch of the EFI system, and we assess SKAT's use of selected collection methods. Lastly, we examine whether the performance targets set by the Ministry of Taxation for collection of arrears in the Finance Act are adequate. The report answers the following questions:

- Has SKAT's management of arrears in the period April 2013 to November 2014 been satisfactory?

The audit approach and quality requirements to **narrow reports** are identical with those applying to Rigsrevisionen's other reports, but the scope of narrow reports is more limited.

Common collection system (EFI) This is SKAT's new IT system for collection of arrears. It includes data transferred from other IT systems like, for instance, the Danish digital vehicle registration system.

CONCLUSION

SKAT's management of arrears in the period April 2013 to November 2014 is not considered satisfactory by Rigsrevisionen. The data that provided the basis for SKAT's collection of arrears was inaccurate and problems relating to the collection of arrears that were known before the phased launch of the EFI system, or emerged after the launch, were not addressed appropriately. In September 2014, SKAT decided that 80 per cent of the resources dedicated to collection of arrears should instead address and resolve these problems. As a consequence, only 20 per cent of the resources are currently dedicated to collecting arrears. Rigsrevisionen notes that this decision is expected to have a negative effect on the total volume of arrears. Lastly, Rigsrevisionen finds it unsatisfactory that the Ministry of Taxation has not ensured that the targets defined for collection of arrears in the Danish Finance Act cover all aspects of SKAT's collection of arrears.

The web-based vehicle registration system was launched in June 2012. It handles registration of vehicles, allocation of number plates, insurance, vehicle certification, calculation and collection of tax, and summons for compulsory vehicle tests.

Tax account – a new system launched in September 2013 for handling businesses' unsettled debt with SKAT

Five units in SKAT are responsible for collecting arrears:

- bailiffs
- commercial debt
- personal debt
- payment and accounts
- payment and collection

1,200 man-years are allocated to collection.

SKAT has informed Rigsrevisionen that a stepwise launch of the EFI was decided in the summer 2013. SKAT worked out a list of errors that needed to be corrected before the first-phase launch in September 2013, but did not plan how and to what extent manual processes were to compensate functionalities that would not initially be available in the EFI system, i.e. amount of resources needed and for how long a period. SKAT was aware – prior to the phased launch – that, for instance, incorrect limitation periods and other errors detected in the old data on arrears would be transferred to the EFI system. SKAT was also aware that any problems relating to the web-based vehicle registration system and the tax account system would affect the EFI system and collection of arrears. SKAT had not determined either – prior to the first-phase launch of the EFI – how these problems should be addressed.

The examination shows that new problems concerning, for instance, functionality emerged after the phased launch of the EFI system, as did problems with the web-based vehicle registration system and the tax account system, which prevented transfer of data to the EFI system.

SKAT has tried to address the problems by adding additional resources and transferring staff from other functions to perform required manual processes and by managing operations based on detailed, regularly updated, plans. In the opinion of Rigsrevisionen these plans have not provided a suitable basis for managing the process; they included neither a clear prioritization of the problems affecting SKAT's collection of arrears nor deadlines for resolving the problems. In September 2014, SKAT launched a plan, addressing specifically how the many problems should be tackled. SKAT has informed Rigsrevisionen that the correction of errors in the data basis in combination with the enhanced functionality of the EFI system is a prerequisite for the implementation of full-scale collection activities. According to the plan, 80 per cent of all collection resources should be dedicated to resolving the problems in the period September 2014 - December 2014. This means that SKAT has downgraded operations temporarily with only 20 per cent of the total collection resources being dedicated to collecting arrears. Rigsrevisionen finds that SKAT should have launched a plan for tackling the many problems much earlier.

It is Rigsrevisionen's assessment that the current two performance targets included in the Danish Finance Act (tax gap and collection rate for other arrears) do not sufficiently cover all aspects of SKAT's collection of arrears. This assessment is underpinned by the fact that the tax gap target for 2012 was achieved despite an increase in the total amount of tax arrears. Rigsrevisionen is of the opinion that more adequate targets must be defined for SKAT's collection of arrears.