



Innovative approach to collecting tax debt: implications for evaluation

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Overview

- Background
- The Domestic Debt Feasibility Study (DDFS)
- Evaluation issues, implications and how they were dealt with
- Summary

Background

- Maximising tax collection is Inland Revenue's (IR) mandate
- Total tax debt could more than double by 2014 unless IR takes a different approach to managing debt

The Domestic Debt Feasibility Study (DDFS)

- To establish the feasibility of using debt collection agencies to collect tax debt
- Involved allocating 13,700 debt cases for debt <\$20,000 to
 - Debt collection agencies 1 and 2 (DC1 and DC2)
 - An IR Team functioning like a debt collection agency

DDFS timeline



← Letters sent to debtors and/or their agents →

Issue 1: No comparative group set-aside to compare DDFS vs. Business-as-usual (BAU)

- No debtors set-aside to compare DDFS vs. BAU
- The project team wanted to compare DCA1 vs. DCA2 vs. the IR Team

Implication 1: Can't determine if DDFS is better than BAU

- Important to compare DDFS debtors vs. non-DDFs debtors to find out if the DDFS approach is the better approach

Remedy 1: Identify a comparable group from another time period

- Find debtors satisfying the same “profile” as those in the DDFS but from one-year earlier
- Can only match on observed variables (e.g. administrative data)
- Cannot match on unobserved variables (e.g. attitude towards payment of tax debt)

Issue 2: Unequal allocation of cases among DC1, DC2 and the IR Team

- The IR Team received fewer debt cases for collection action

	DC1	DC2	IR Team
% of cases	39%	39%	22%

Implication 2: Cannot make use of absolute counts and absolute amount as measures

- Absolute counts (e.g. number of debtors who paid) and absolute dollar values (e.g. \$ collected) are misleading if used for comparison
- Absolute counts and amounts do not take into account the uneven distribution of debt cases among DCA1, DCA2 and the IR Team

Remedy 2: Calculate and use ratios as measures

- Collection rate ($\text{\$value collected} / \text{\$ value allocated}$)
- Efficiency of collection (e.g. $\text{\$ spent} / \text{\$1 collected}$)

Issue 3: More complicated cases sent to IR

	DC1	DC2	IR Team
Average debt value	\$5563	\$5562	\$6227
Average debt age	3 years	3 years	4 years

Implication 3: Differences in performance may be due to the uneven distribution of difficult cases

- Are the differences in the outcome attributable to the efforts of the groups or are the differences a result of the IR team getting more complicated cases?

Remedy 3: Match cases

- Match DC1, DC2 and the IR Team cases using variables that affect payment of debt (outcome of interest)
- Can only match on observed variables though

Remedy 3: Match cases

Debt Age	Agency	Debt Value			Total
		Less than \$1,000	\$1,000 to less than \$5,000	\$5,000 to less than \$20,000	
3 months to less than 1 year	DC1	2%	2%	1%	5%
	DC2	2%	2%	1%	5%
	IR Team	1%	1%	1%	2%
1 year to less than 2 years	DC1	1%	3%	2%	6%
	DC2	1%	3%	2%	6%
	IR Team	1%	1%	1%	3%
2 years to less than 5 years	DC1	4%	7%	10%	21%
	DC2	4%	7%	10%	21%
	IR Team	2%	4%	6%	12%
5+ years	DC1	1%	2%	4%	7%
	DC2	1%	2%	4%	6%
	IR Team	0%	2%	3%	5%
Total		20%	35%	45%	100%

Remedy 3: Match cases

Debtor type	Collection rate
Debtors allocated to either DC1, DC2 or the IR Team	x
Debtors who received a pre-allocation letter but were not allocated to any of DC1, DC2 or the IR Team	1.5x

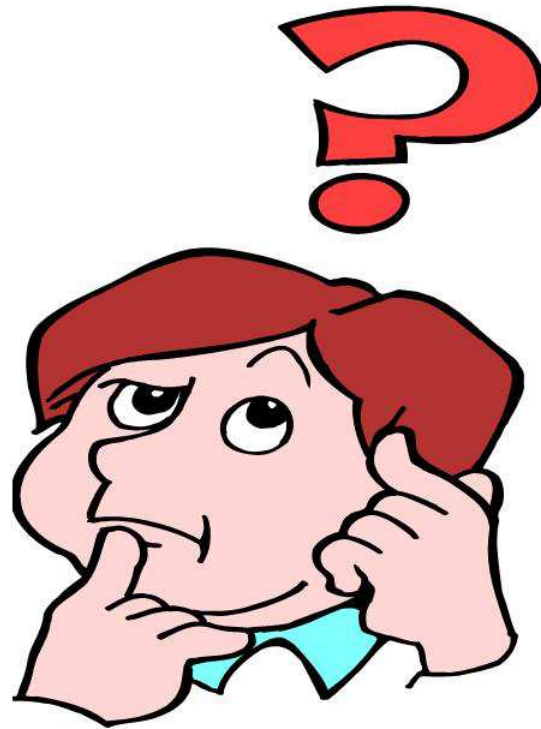
Remedy 3: Match cases

- There seem to be debtors who are more likely to pay than others
- The DDFS implementation focused on debtors who are less likely to pay
- Thus the data suggest that DC1, DC2 and the IR Team are comparable across observed and unobserved variables that are relevant to tax debt getting paid

Summary

Issue	Remedy
No comparative group set-aside to determine if DDFS is better than BAU	Get a comparable group from another time period
Unequal allocation of cases among DC1, DC2 and the IR Team	Calculate and use ratios as measures
More complicated cases sent to IR	Match cases

Questions and discussion



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