



Micro Business and Not for Profit

Takapuna  
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New Zealand

25 August 2021

Dear [REDACTED]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 21 July 2021. I have responded to each of your questions below.

**Question 1:** For the three years 2017/18, 2018/19 and 2019/20, can you please provide the breakdown of tax debt written off in each of these categories, i.e. how much tax debt was written off as a result of:

- Bankruptcies
- Liquidations
- Taxpayers suffering serious hardship
- The tax debt being uneconomic to collect

Financial year (June - July)	2017/18	2018/19	2019/20
<b>Insolvency write-offs (Includes liquidation and bankruptcy) (\$m)</b>	191.8	245.7	151.4
<b>Uneconomic to pursue (\$m)</b>	213	163.7	82.1
<b>Serious hardship (\$m)</b>	62.1	40.9	39.2
<b>Total (\$m)</b>	<b>466.9</b>	<b>450.3</b>	<b>272.7</b>

**Question 2:** If possible, for the same years, can you also let me know how many taxpayers (individuals, companies etc) are in each of these groups, i.e. how many taxpayers had debt written off from:

- Bankruptcy
- Liquidation
- Serious hardship
- When the debt was uneconomic to collect

Financial year (June - July)	2017/18	2018/19	2019/20
<b>Insolvency write-offs (includes liquidation and bankruptcy)</b>	11,872	11,336	16,301
<b>Uneconomic to pursue</b>	128,168	145,711	28,254
<b>Serious hardship</b>	15,459	12,406	13,936
<b>Total</b>	<b>155,499</b>	<b>169,453</b>	<b>58,491</b>

**Question 3:** How many bankruptcies and liquidations were initiated by Inland Revenue in 2017/18, 2018/19 and 2019/20?

Bankruptcies	2017/18	2018/19	2019/20
<b>Applications</b>	359	227	119
<b>Discontinued</b>	81	49	24
<b>Dismissed</b>	1	3	0
<b>Granted</b>	<b>277</b>	<b>175</b>	<b>73</b>

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<b>Insolvencies</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Applications</b>	780	557	281
<b>Discontinued</b>	327	218	103
<b>Dismissed</b>	13	1	0
<b>Granted</b>	<b>440</b>	<b>338</b>	<b>141</b>

**Question 4:** *What is the success rate of debt recovery when Inland Revenue starts bankruptcy or liquidation proceedings, i.e. on average, what proportion of tax debt is collected?*

As part of her strategy for protecting the integrity of the tax system, the Commissioner of Inland Revenue applies to liquidate insolvent companies and bankrupt individuals in the High Court. Companies and individuals that trade whilst insolvent generate uncollectable tax debt and create an unfair commercial advantage that harms compliant taxpayers.

As well as terminating these trading entities, bankruptcy and liquidation set in motion governance provisions that allow incompetent directors to be removed from the trading community or held personally liable for breach of their duties.

Where a business is viable and facing temporary difficulties, a bankruptcy or liquidation application can be resolved. In these situations, the Commissioner has various options to assist taxpayers, including tax relief and instalment arrangements. Inland Revenue does not keep specific statistics on outcomes where bankruptcy or liquidation is initiated. Inland Revenue does not keep statistics on insolvency recoveries. The official receiver will know the value of dividends paid to Inland Revenue. Total liquidation recoveries annually are estimated generally to run at between 3-5% of sums written off.

**Question 5:** *Does Inland Revenue have Standard Operating Procedures with regard to bankruptcies and liquidations? If these exist, can I be provided with a copy please?*

Inland Revenue does not have specific operating procedures for commencement of insolvency proceedings for bankruptcies or liquidations, as these actions are determined on a case-by-case basis, depending on a range of variables and considerations.

When commencing insolvency proceedings, Inland Revenue makes case by case judgements, and considerations include (but are not limited to): value of debt; tax type; age of debt; integrity risk and customer type (salary/wages or trading entities); and possible entitlement to relief provisions.

Before proceedings are commenced, Inland Revenue allows all system automated actions and notifications to run their course and in most cases staff attempt to contact the taxpayer directly. If the taxpayer does not engage following these attempts, then insolvency actions can be commenced. In some cases, when customer engagement is successful, legal proceedings are withdrawn if a successful resolution is achieved.

Alternatively, if a successful resolution cannot be found - despite customer engagement and negotiations - legal action may still commence and/or continue in order for the Commissioner to protect the integrity of the tax system.

Legal action may also commence for taxpayers who have had audit assessed debt and have been charged shortfall penalties due to either evasion or an abusive tax position, and debts cannot be repaid.

**Question 6:** *In what situations is tax debt typically uneconomic to collect?*

Debt is written off as uneconomical to pursue if it is deemed that pursuing recovery would be an inefficient use of Inland Revenue's resources.

Common situations where Inland Revenue will often write off debt:

- Low-value debts where both automated and proactive actions have been unsuccessful and collection is unlikely,
- Customers who generally have low incomes, and payment would generally place them in hardship,
- Customers who are missing or overseas (and there is no ability to recover debt).

Inland Revenue's systems automatically write off low-value debts less than \$50.

**Question 7:** *In each of the three years 2017/18, 2018/19 and 2019/20 has the Criminal Proceeds (Recovery) Act 2009 been used to assist with debt recovery?*

Ordinarily the Commissioner will apply available recovery procedures under the designated Revenue Acts she is responsible for administering, rather than through the Criminal Proceeds (Recovery) Act 2009. The Commissioner of Police has sole responsibility for administration of the Criminal Proceeds (Recovery) Act 2009.

During the period in question, the Commissioner has on occasion sought assistance from the Commissioner of Police with recovery activity via application of the Criminal Proceeds (Recovery) Act 2009.

Yours sincerely



Richard Philp  
**Customer Segment Leader, Micro Business**