

Welfare debt a bigger target than unpaid tax

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New research from Victoria University shows government agencies are more likely to write off unpaid tax than welfare debt—even though the outstanding tax bill is almost six times larger.

Research by Associate Professor Lisa Marriott from the School of Accounting and Commercial Law at Victoria Business School shows Inland Revenue (IRD) is more likely to write off unpaid [tax](#) in the short term, whereas the Ministry of Social Development (MSD) will often keep welfare debts on its books, sometimes until people die or retire.

"It's also interesting to note that greater resources are being applied to collecting welfare debt, despite the fact that outstanding tax debt, at nearly \$6 billion, is almost six times the amount of outstanding welfare debt," says Associate Professor Marriott.

"This links to my previous research, which indicated that tax non-compliance and welfare offending are likely to be treated differently in the [justice system](#), in terms of both prosecution and sentencing."

Associate Professor Marriot's latest research found that taxpayers can apply for financial relief from the IRD, but this is not an option for welfare [debtors](#). In the most recent period (1 July 2011 to 30 June 2012) IRD wrote off nearly 50 percent of interest and penalties applied to overdue tax, amounting to \$374 million. Furthermore, IRD wrote off \$435 million in core debt (11.6 percent of collectable debt) while MSD wrote off just \$8.7 million in core debt (2.1 percent of collectable debt).

Associate Professor Marriott says that in the 2011/12 period, the average value of outstanding tax debt was \$14,479 per taxpayer in debt, while the average value of outstanding welfare debt was \$2,523 per beneficiary in debt.

In addition, tax debt represented approximately 10 percent of total tax revenue while welfare debt amounted to 4.1 percent of total [social welfare](#) expenditure.

"There appears to be no basis for treating debtors to the two [government agencies](#) differently. However, these findings indicate that tax debtors get off more lightly," says Associate Professor Marriott.

"The more punitive approach to managing the debts of welfare recipients appears to reflect the underlying view of those on welfare as less deserving, while taxpayers—even those who do not pay their taxes—are viewed as providing a greater contribution to society and therefore worthy of preferential treatment."

Associate Professor Marriott says that MSD debt includes loans for essential living expenses that have not been paid back and overpayments to welfare beneficiaries.

IRD is responsible for collection of 91 percent of government revenue, and MSD is responsible for 37 percent of government expenditure.

Provided by Victoria University

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