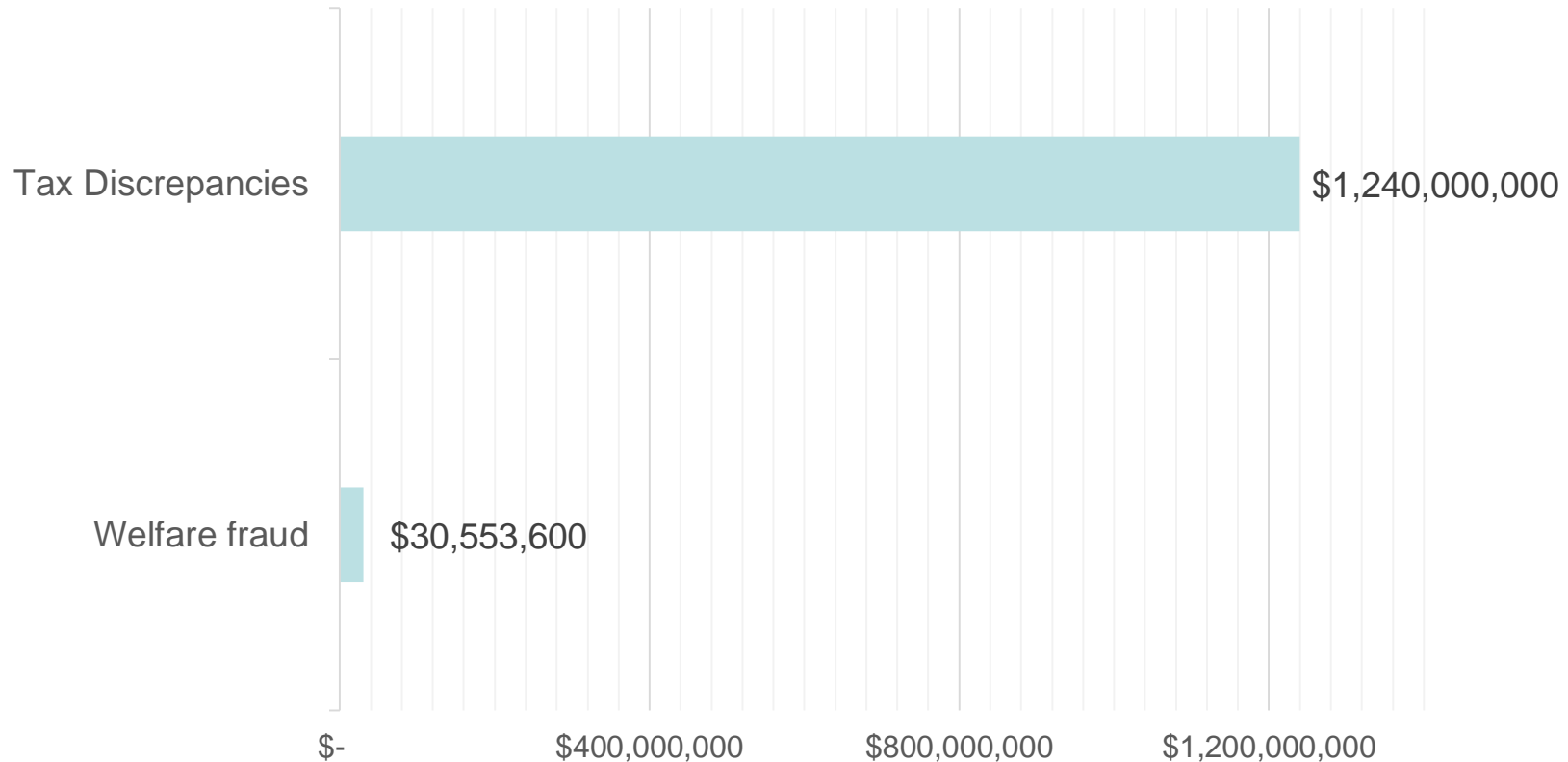


Child Poverty and Social Justice: Not All Are Equal in New Zealand

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The Size of the Issue (NZ\$) 2014



Investigations & Prosecutions

- Investigations: approx 5% of beneficiaries per annum vs 0.01% of taxpayers
- Prosecutions: 800-1,000 per annum for welfare fraud vs 60-80 for tax evasion

Sentencing

- Tax evasion: average offending \$229,000 – 18% receive prison sentences
- Welfare fraud: average offending \$77,000 – 67% receive prison sentences

Explanations for these differences?

- Different treatments of conceptually similar offences
- Why might this be?
 - Legislation
 - Attitudes
 - ‘Giving’ vs. ‘Taking’
 - Status...?
- What happens when there is no crime?

Debt Recovery

– Comparison using:

- The Inland Revenue Department (IRD): responsible for largest proportion of government revenue (91%)
- The Ministry of Social Development (MSD): responsible for largest proportion of government expenditure (37%)

IRD Debt

Debt type	2009/10 (\$M)	2010/11 (\$M)	2011/12 (\$M)
Debt under arrangement	\$937.7	\$1,146.6	\$1,176.3
Other collectable debt	\$2,548.6	\$2,663.5	\$2,582.7
Total collectable debt	\$3,486.3	\$3,810.2	\$3,759.0
Total non-collectable debt	\$1,664.3	\$1,711.9	\$2,157.4
Total debt	\$5,150.6	\$5,522.1	\$5,916.4
Penalties and interest	\$2,149.7	\$2,359.0	\$2,711.3
Penalties and interest (%)	41.7%	42.7%	45.8%
Customers in debt (cases)	363,814	389,947	408,606

MSD Debt: Recoverable Assistance Loans (\$M)

Year	Opening	Expenditure	Recovered	Write-off	Adjustment	Closing
2007/08	\$340.5	\$119.5	\$106.8	\$0.6	\$0.5	\$353.1
2008/09	\$353.1	\$157.5	\$132.3	\$1.3	\$1.6	\$378.6
2009/10	\$378.6	\$176.8	\$145.7	\$1.2	\$2.0	\$410.5
2010/11	\$410.5	\$162.7	\$158.7	\$1.7	\$1.5	\$411.3
2011/12	\$411.3	\$147.0	\$147.0	\$2.7	\$1.6	\$407.0

MSD Debt: Overpayments (\$M)

Year	Opening	Established	Recovered	Write-off	Adjustment	Closing
2007/08	\$429.6	\$176.4	\$134.3	\$11.8	\$13.4	\$446.5
2008/09	\$446.5	\$172.7	\$121.0	\$6.7	\$13.2	\$478.2
2009/10	\$478.2	\$207.5	\$145.6	\$8.5	\$12.0	\$519.6
2010/11	\$519.6	\$217.6	\$141.8	\$6.7	\$2.8	\$585.9
2011/12	\$585.9	\$208.0	\$140.0	\$6.0	Unknown	\$647.9

IRD and MSD

	IRD	MSD
Total Debt	\$5,916 M	\$1,054 M
Average debt per taxpayer/beneficiary in debt	\$14,479	\$2,523
Debt as a proportion of total tax revenue/total social welfare expenditure	10%	4.1%

Debt Management Processes: Inland Revenue

- Payment by instalment
- Deduction notices
- Bankruptcy / no asset procedure
- Writing-off outstanding debt
- Writing-off penalties and interest

Penalties, Interest and Debt IRD)

	2009/10 (\$M)	2010/11 (\$M)	2011/12 (\$M)
Penalties applied	\$343.0	\$346.2	\$451.6
Penalties collected	\$110.0	\$121.9	\$146.1
Penalties written off	\$198.6	\$193.0	\$244.3
Interest applied	\$500.7	\$263.2	\$280.9
Interest collected	\$412.1	\$147.2	\$158.1
Interest written off	\$104.4	\$120.1	\$130.5
% Penalties collected	32.1%	35.2%	32.4%
% Penalties written off	57.9%	55.7%	54.1%
% Interest collected	82.3%	55.9%	56.3%
% interest written off	20.9%	45.6%	46.5%
Debt written off	\$316	\$424	\$435
Debt written off as % of collectable debt	9%	11.1%	11.6%

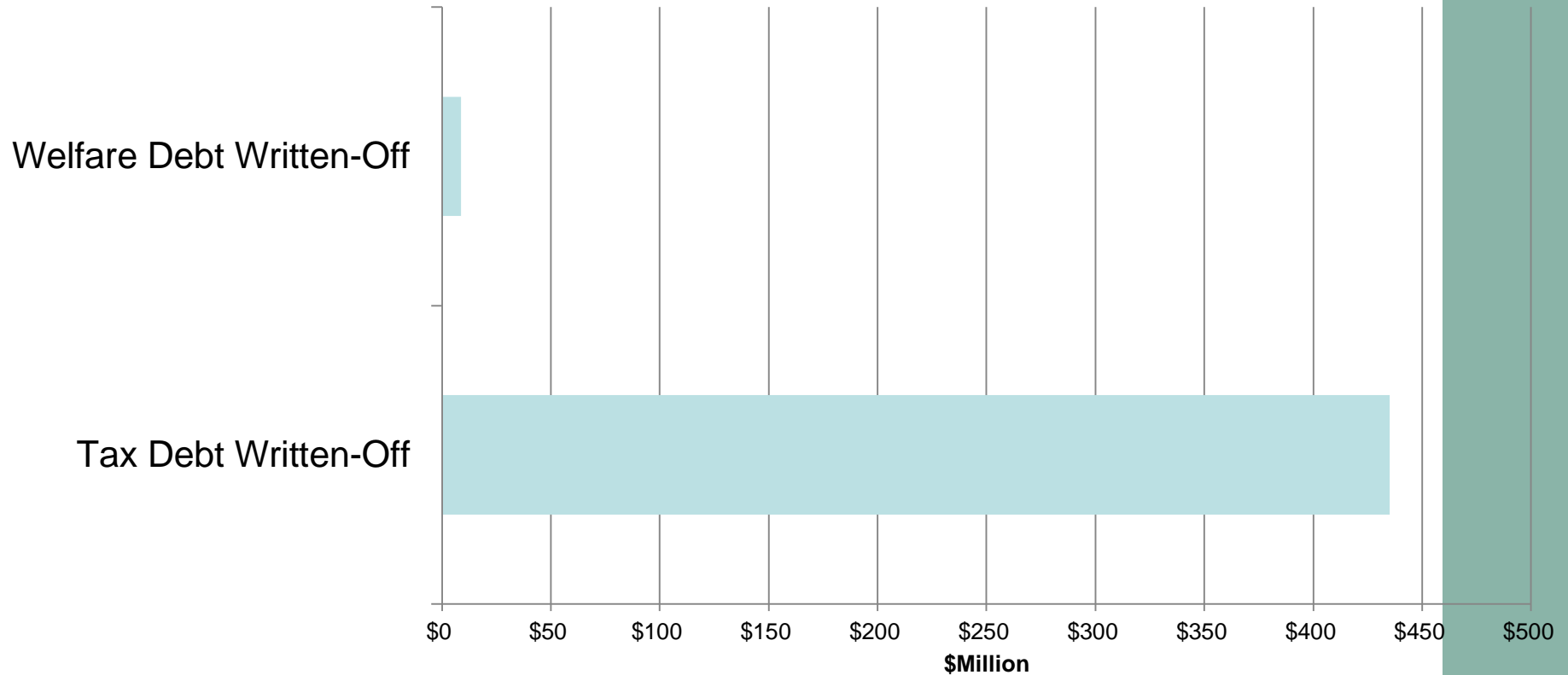
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Debt Management Processes: MSD

- Instalment arrangements (including deductions from NZ Superannuation)
- Deductions from current clients benefits
- Deduction notices
- Writing-off outstanding debt (\$8.7M in 2011/12)

Debts written-off (2011-12)



Hardship: for tax

- Significant financial difficulties that arise where:
 - the taxpayer or their dependant has a serious illness;
 - the taxpayer would be unable to meet: minimum living expenses estimated according to normal community standards of cost and quality; the costs of medical treatment for an illness or injury of the taxpayer or their dependant; the cost of education for the taxpayer's dependants;
 - or other factors that the Commissioner thinks relevant

Hardship: for welfare

- “*negotiating realistic repayment rates with debtors so that significant hardship is not caused*”
- “*hardship does not necessarily preclude recovery*”
- In “*exceptional circumstances*” payment may be temporarily deferred until a person’s financial circumstance improves in order that significant hardship is not caused

- Cost of debt recovery: \$17/\$100 (welfare)
\$2.86/\$100 (tax)
- 92 per cent of MSD current clients with outstanding payments are repaying these with average payments of \$14.32 per week
- 88 per cent of former clients commence repayment within 12 months, with repayments averaging \$23.27 per week
- IRD: 13 per cent are paying by instalment

A further issue...

- Amendments to the *Social Security Act 1964*
- Allows for:
 - Partners of people engaging in welfare fraud to be prosecuted for the crime
 - Partners of people engaging in welfare fraud to be jointly liable for the debt
- Where the partner 'knew, or ought to have known' of the fraud

- 330,000 people receiving a main welfare benefit
- 208 cases of relationship fraud (0.063%)
- No 'positive act' required – departure from general principles of criminal law
- Revenue negative (\$1.2M additional costs)
- Symmetry of treatment: no attempt to hold partners of those who engage in other forms of financial offending similarly liable (e.g. tax evasion)

Concluding comments

- The construction of crime / criminals
- Precedent for targeting vulnerable groups in society for more punitive treatment in the justice system?
- Changes result in no gain from an equity or economic perspective.

Thank you

Questions / Comments?

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