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Patterns across debt and debtors to government

Connections between debt to
IR, MSD, and MoJ



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Integrated Data Infrastructure disclaimer

These results are not official statistics. They have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ. For more information about the IDI please visit <https://www.stats.govt.nz/integrated-data/>.

The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data’s ability to support Inland Revenue’s core operational requirements.

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Understanding debt to government

Debt is an established feature of many countries' financial systems where it plays an important role in smoothing household expenditure. However, debt can also become a significant problem for individuals or families where servicing it becomes either unaffordable or burdensome.

In New Zealand, around three quarters of a million people (762,460) owe debt to the government, with a combined total debt in excess of \$4.68 billion. Although this is only a small proportion of all household debt¹, debt to government can arise in ways that are very different from private debt. This means that considerations of affordability, hardship, problem debt, or debt management may apply differently to debt to government than to private debt.

Policy decisions about debt and debt management are in many ways decisions about debtors and debtor experience. Making these decisions without sufficient understanding of debt or of people with debt increases the risk that such decisions will be ineffective, counter-productive, or harmful. Therefore, it is important that work focusing on debt to government is informed by the information the government already holds.

Previous work by the Social Wellbeing Agency² used debt data from 2018 to examine debt owed by individuals to two government agencies: Ministry of Social Development (MSD) and Inland Revenue (IR). The key insights were:

- Of the people with debt to at least one of MSD or IR, 12 percent (around 88,000) owe debt to both.
- Whether people with debt to IR also have debt to MSD varies with the type of IR debt. People with child support or Working for Families (WfF) tax credit debt to IR are much more likely to also have debt to MSD than people with income tax debt.
- There are large differences in the financial circumstances and demographics of people who owe different types of debt to MSD or IR. For example, people with income tax debt are older and have higher material wellbeing compared to people with child support debt.
- People's debt to the government shows significant persistence. We observed 68 percent of people with debt to MSD and 39 percent of people with debt to IR had at least one debt that had lasted more than three years.

This report builds on our previous analysis and describes results from further analysis using debt records through to September 2020. We examined several areas where additional investigation was identified as worthwhile. Like our previous work, the results from this analysis are not intended to aid debt recovery, but to fill gaps in our understanding about the nature and characteristics of debt and debtors.

¹ Statistics published by the Reserve Bank of New Zealand show that in 2019 New Zealand households owed private (non-government) debt that included \$196 billion in housing loans, \$7 billion in credit card loans, and \$9 billion in other short-term consumer loans.

² Understanding debt and debtors to government – Focus on MSD and IR debt, 2022 working paper.

We analyse the main types of debt in detail

A key difference between this work and our previous analysis is the addition of debt type for debt owed to MSD and the inclusion of debt to the Ministry of Justice (MoJ). While we consider overall debt to each of IR, MSD, and MoJ, we also provide specific analysis for the six debt types that are most common and for which we have the most robust information. These are described in Table 1.

Table 1: Types of debt and their origins

Debt type	Agency	Description
Income tax debt	IR	Occurs when people do not meet their obligations to pay income tax by the due date in the corresponding tax year.
Liable parent child support debt	IR	Occurs when a parent or carer applies to IR to collect child support payments from a child's parent(s) and these payments are not made in full or on time.
Working for Families (WfF) tax credit debt	IR	Occurs when people receive more WfF tax credits during the year than an end-of-year calculation shows they were entitled to.
Benefit overpayment debt	MSD	Occurs when people receiving financial assistance from MSD receive payments they were not entitled to, or more of a payment than they were entitled to, most often as a result of changes in circumstances (such as starting work, changes to hours worked, or changes in living arrangements).
Recoverable assistance debt	MSD	Occurs when people receive one-off recoverable grants to cover immediate, essential, or emergency expenses (such as car repairs or emergency medical treatment). Also includes advance payment of benefits to cover such costs.
Fines debt	MoJ	This covers both infringement and court fines. Infringement fines come from issuing authorities such as local councils and the Police. They become fines if they are not paid on time. Court fines arise when a judge or Justice of the Peace assigns them after a person has been found guilty of an offence.

In addition to the debt types in Table 1, several other debt types are included in our data: overdue student loan³, receiving carer child support, GST, employment activities, donation tax credits, other debt to IR, and Family Court Contribution Order (FCCO) debt to MoJ. Together these seven debt types make up less than 10 percent of all debt and include less than 5 percent of all debtors. While we do not report on these debt types in detail, they are included when we consider total debt owed to each agency.

Summary of findings

The key insights from the analysis below may be summarised as follows:

- A total of 762,460 New Zealand residents owe \$4.68 billion of combined debt to MSD, IR, and MoJ.

³ Only the overdue component of Student Loan debt has been included in this work. This is deliberate as Student Loan debt is expected to be long-term debt that creates an asset (via higher qualifications) in a way that debt described in Table 1 is not.

- Of these people, more than a quarter (28%) owe debt to two or more agencies, and 6 percent owe debt to all three.
- More than half of the debt owed to IR, MSD, and MoJ is by people with debt to more than one agency. The 6 percent of people with debt to all three agencies, owe 17 percent of the total debt.
- The distribution of debt is skewed: 47 percent of debtors owe less than \$1,000 and only 13 percent owe more than \$10,000.
- There are overlaps between different types of debt.
 - » Benefit overpayment and recoverable assistance debt to MSD overlaps with child support and WfF overpayment debt to IR, and fines debt to MoJ.
 - » Fines debt to MoJ overlaps with debt to MSD, and child support and WfF overpayment debt to IR.
 - » Income tax debt to IR overlaps with child support debt to IR.
- There are significant differences in the demographic characteristics of people with different types of debt.
 - » Males are over represented among people with income tax debt and liable parent child support debt to IR, and among people with fines debt to MoJ.
 - » Females are over represented among people with benefit overpayment and recoverable assistance debt to MSD, and among people with WfF overpayment debt to IR.
- Several debt types show evidence of persistence, with upwards of 70 percent of debtors being in debt for more than twelve months.

There are limitations to consider before using this work

The data available for this analysis and decisions made during the course of it, mean that our results are suited for some purposes but not for others. Overall, the methodology and patterns are consistent with previous findings, but exact numbers may differ due to changes in time periods and refinements in the methodology.

The key limitations are:

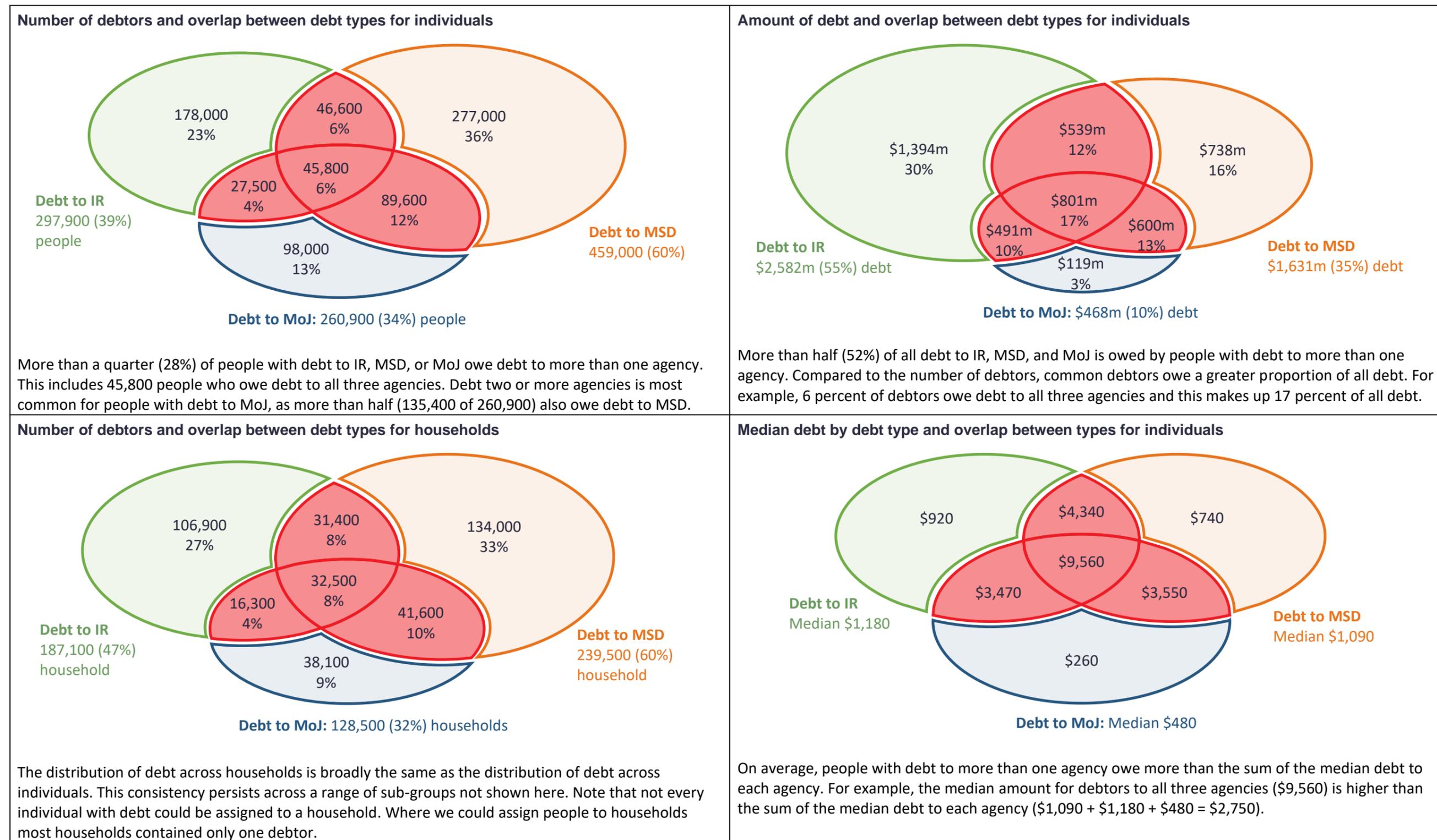
- Our analysis is limited to debt owed by individuals to IR, MSD, and MoJ who were residents in New Zealand during 2020. This means we exclude debt owed by firms and debt owed by people who are overseas. This is most significant for liable parent child support and overdue student loan debt where upwards of half of this debt is owed by people who are overseas.
- In addition to fines and FCCO debt, MoJ also manages Legal Aid debt with \$170 million owed by 50,000 individuals. This is approximately one-quarter of all debt owed to MoJ. However, data on this debt was not available for our analysis and hence is omitted.

- We have used administrative data from the Integrated Data Infrastructure (IDI).⁴ This allows for the linking of data together at the individual level, for example, to understand the situations of people who owe debt to all three government agencies: IR, MSD, and MoJ. As linking is an imperfect process, some identities could not be linked and debt relating to these identities have not been included in our analysis. This has negligible effect on MSD and IR debt records, but up to 8 percent of MoJ identities could not be linked to the spine.
- The classification of debt owed to MSD into overpayment debt and recoverable assistance debt was done during our analysis using administrative records of recoverable assistance payments. While MSD were supportive of our approach and our totals are consistent with results from MSD, we have not been able to validate all the assumptions. While this is expected to have minimal effect on most of our work, caution is recommended when making conclusions that depend on how repayments and write-offs are divided between the two types of debt to MSD.
- Although MSD often reports innocent overpayment debt and (overpayment obtained by) fraud separately, we are not able to distinguish these two debt types. However, as only a small proportion of MSD debt cases are fraud, this is unlikely to bias our results.
- IR had a major change in IT system during 2019 and 2020 that include changes to the databases where debt records are stored. These changes, along with refinements to our methodology, mean that differences between the results in this report and our previous work should not be used to infer changes in debt over time.

⁴ The Integrated Data Infrastructure (IDI) is a large research database. It holds microdata about people and households, much of which comes from administrative government records. Stats NZ maintains and protects the IDI. More details are available on their website: <https://www.stats.govt.nz/integrated-data/integrated-data-infrastructure/>.

Common debtors and overlaps between debt types

A total of 762,500 New Zealand residents owe a combined \$4.68 billion debt to MSD, IR, and MoJ. The overlaps between different types of debt are significant for all three agencies.

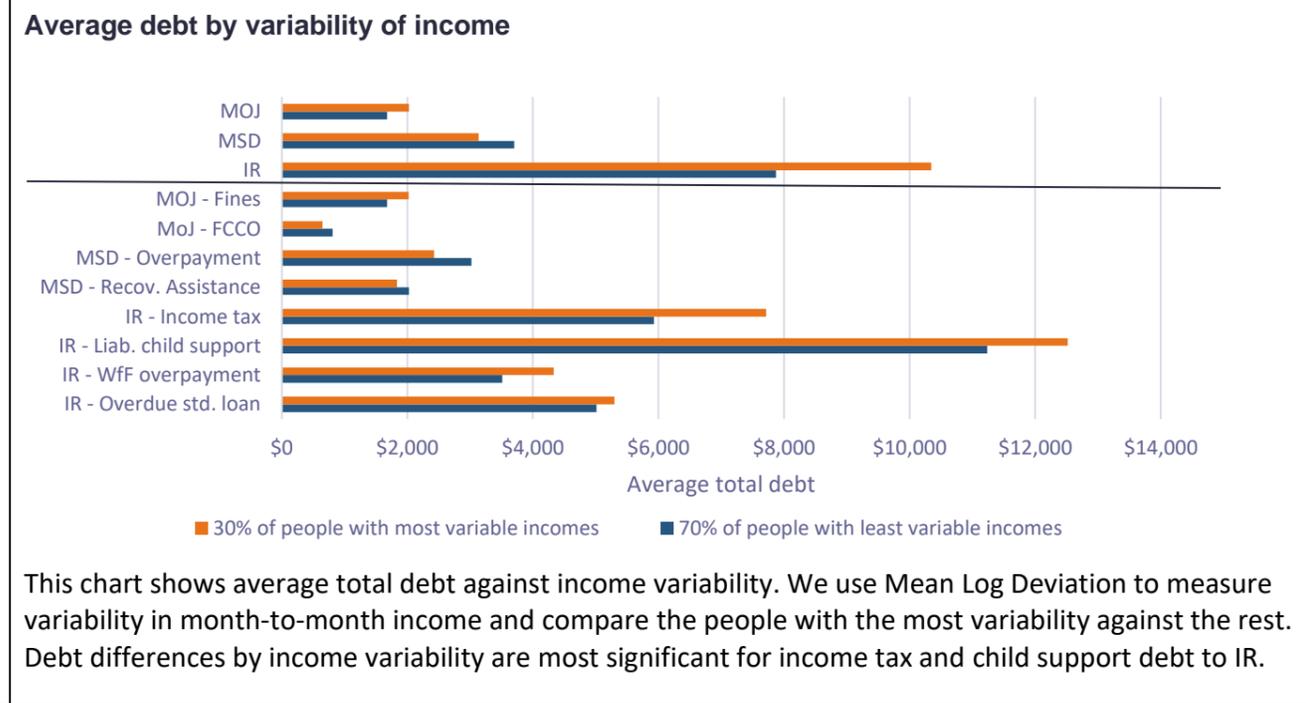
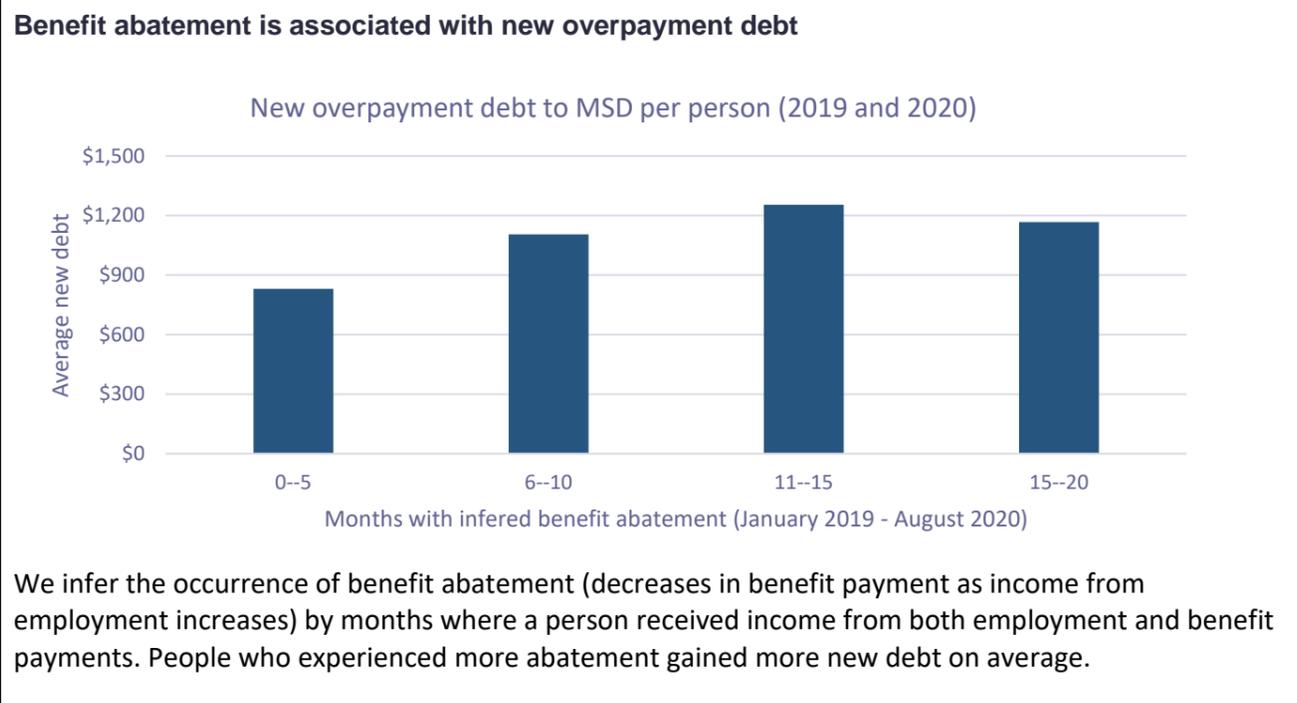
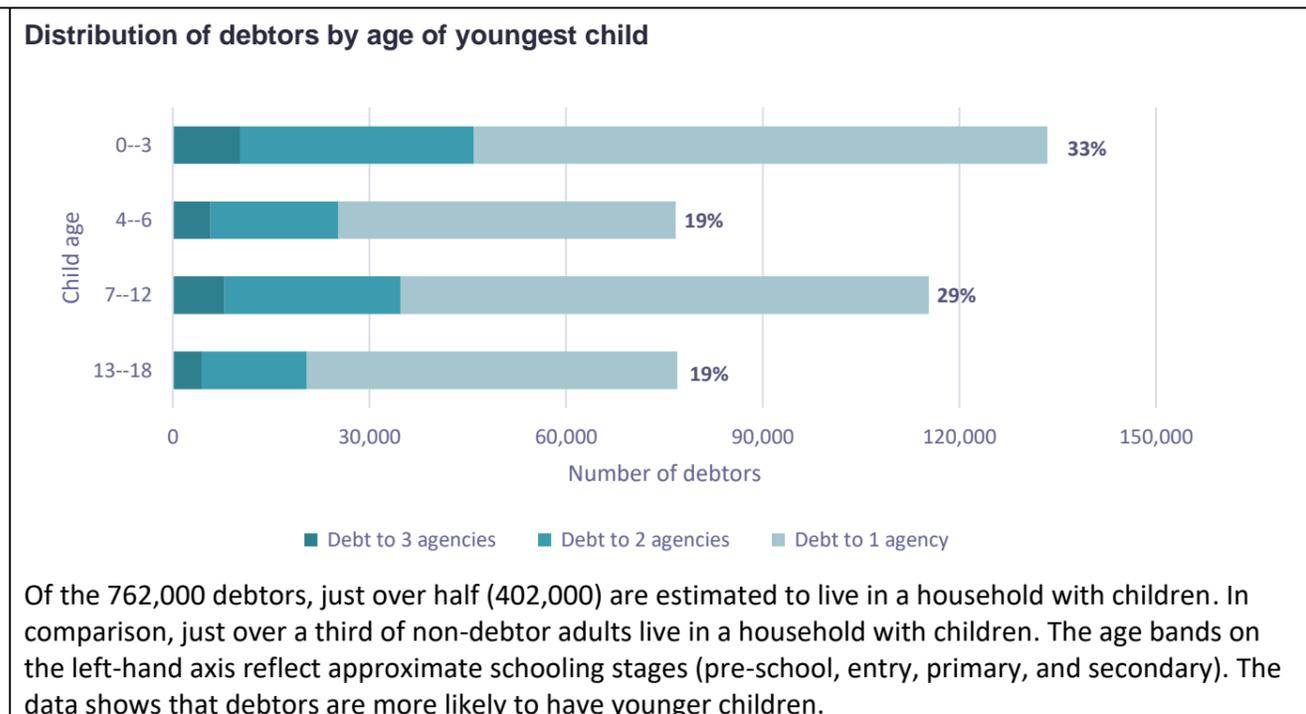
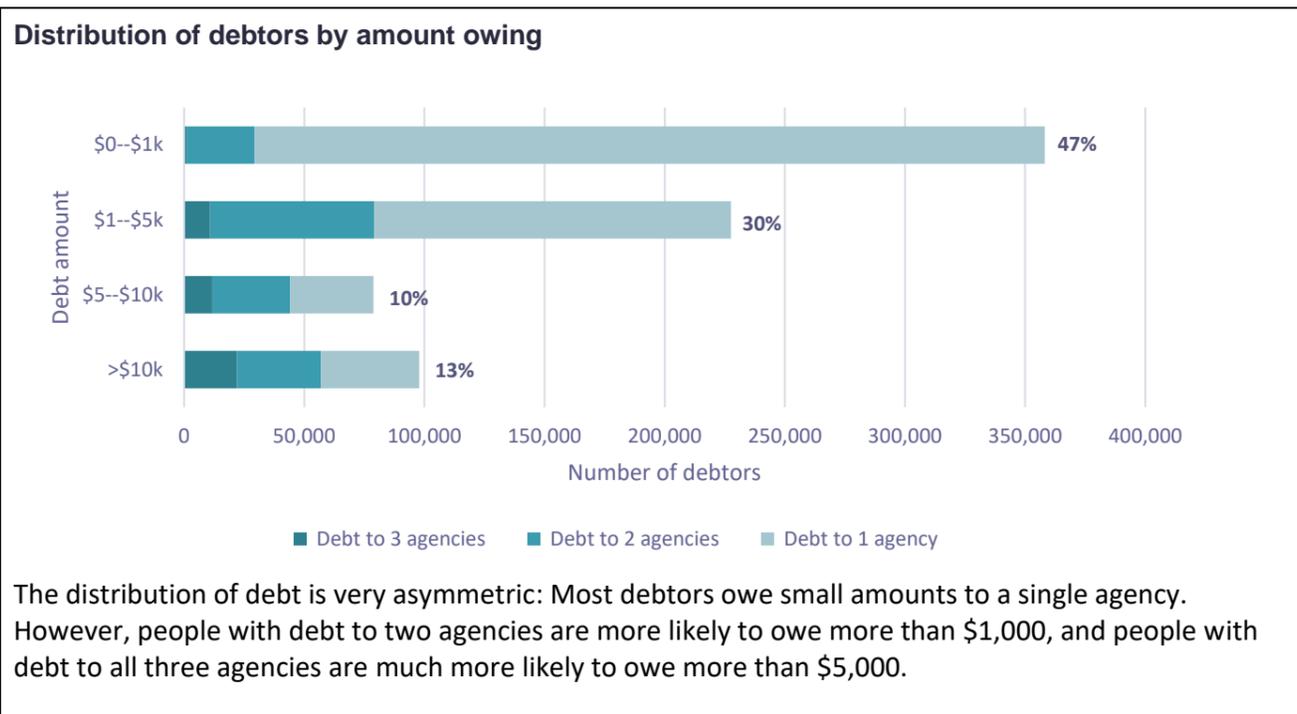


■ People with debt to more than one agency



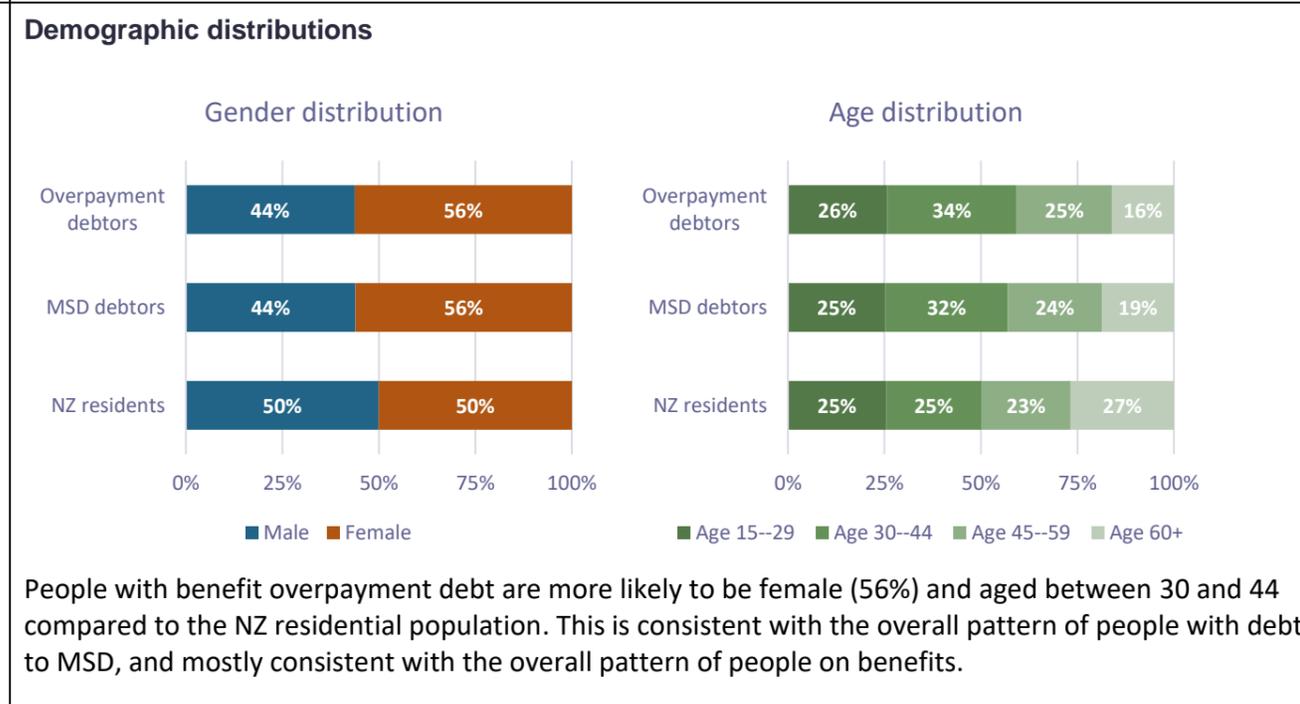
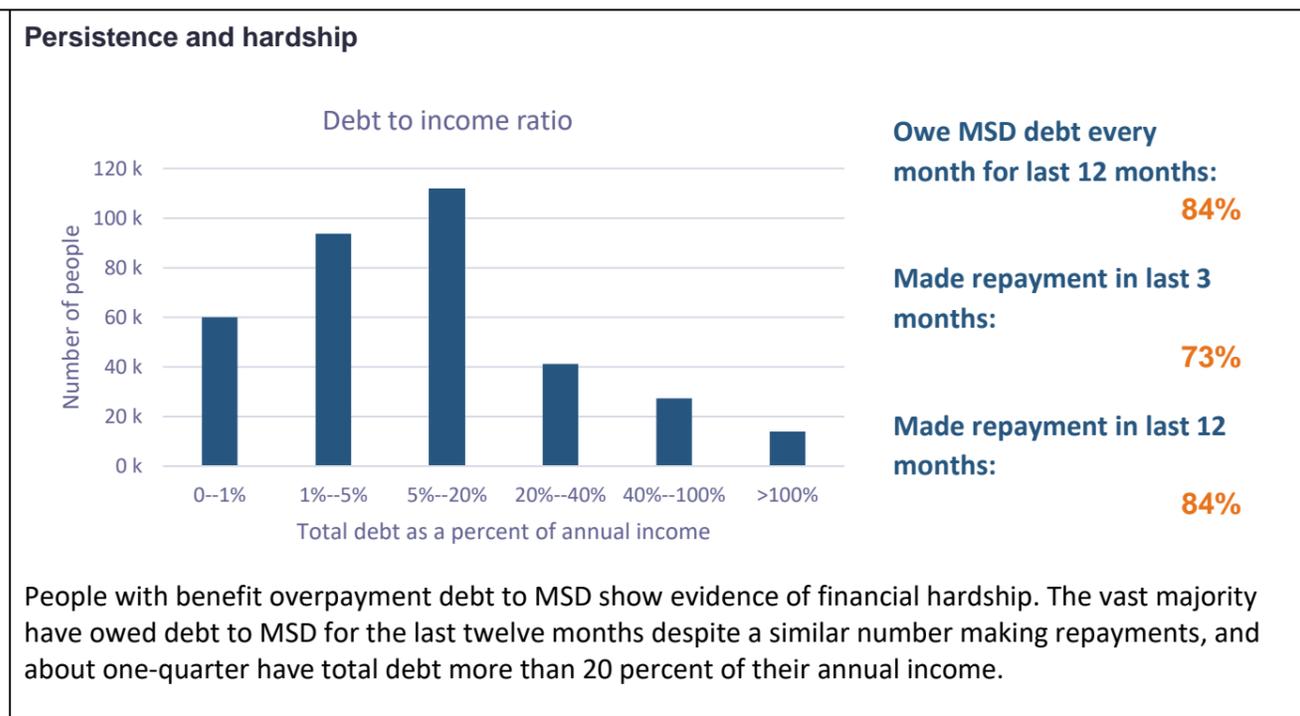
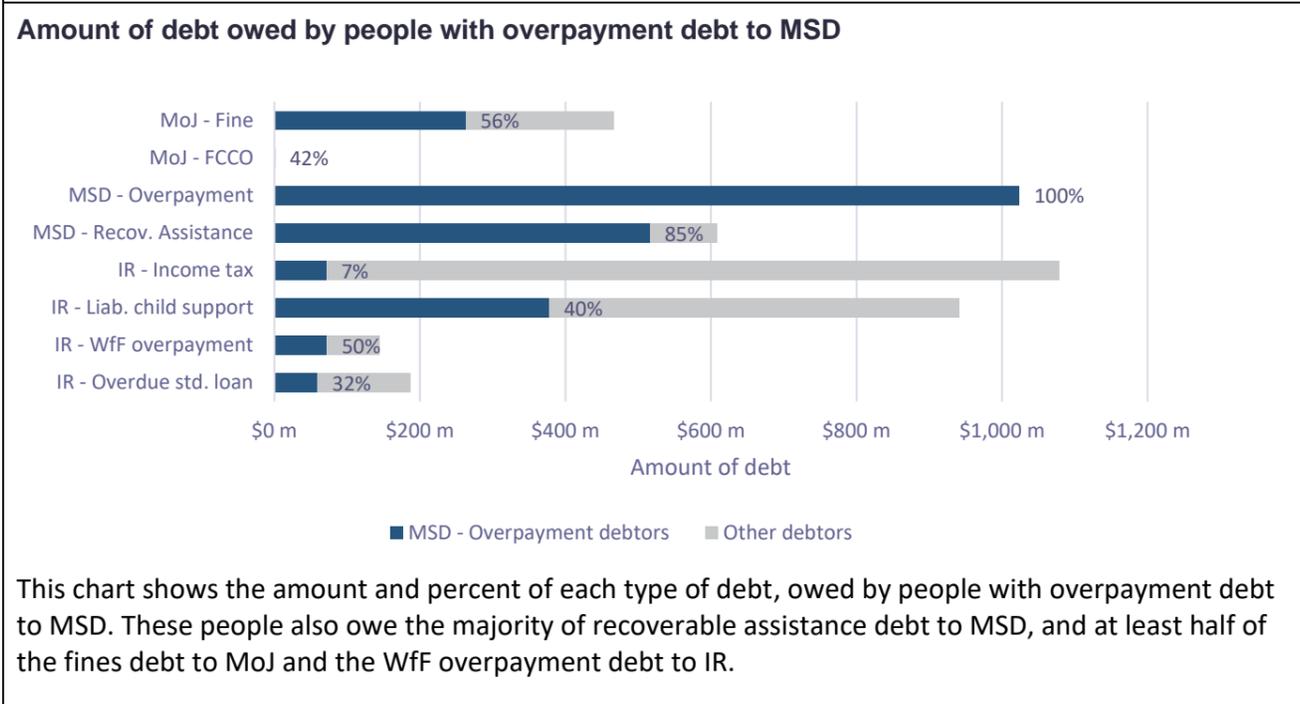
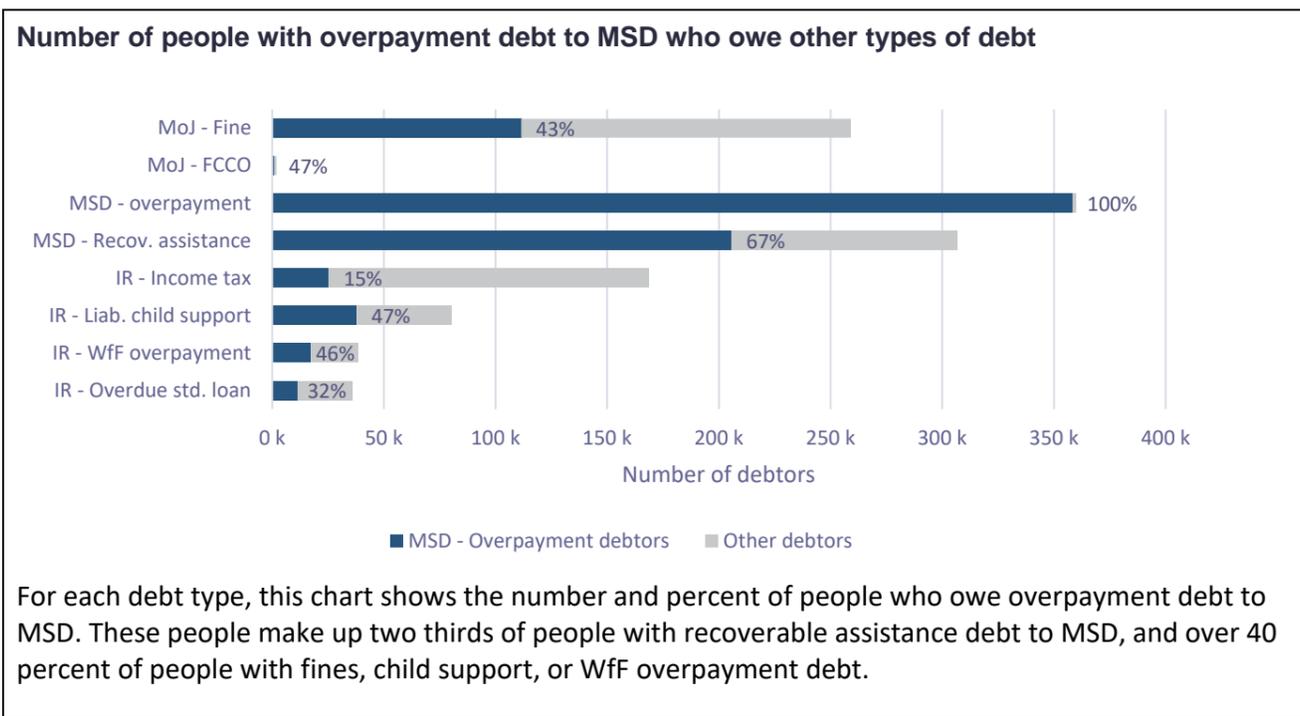
Debt amounts and dynamics

The distribution of debt owed to government is asymmetric and varies with people's circumstances.



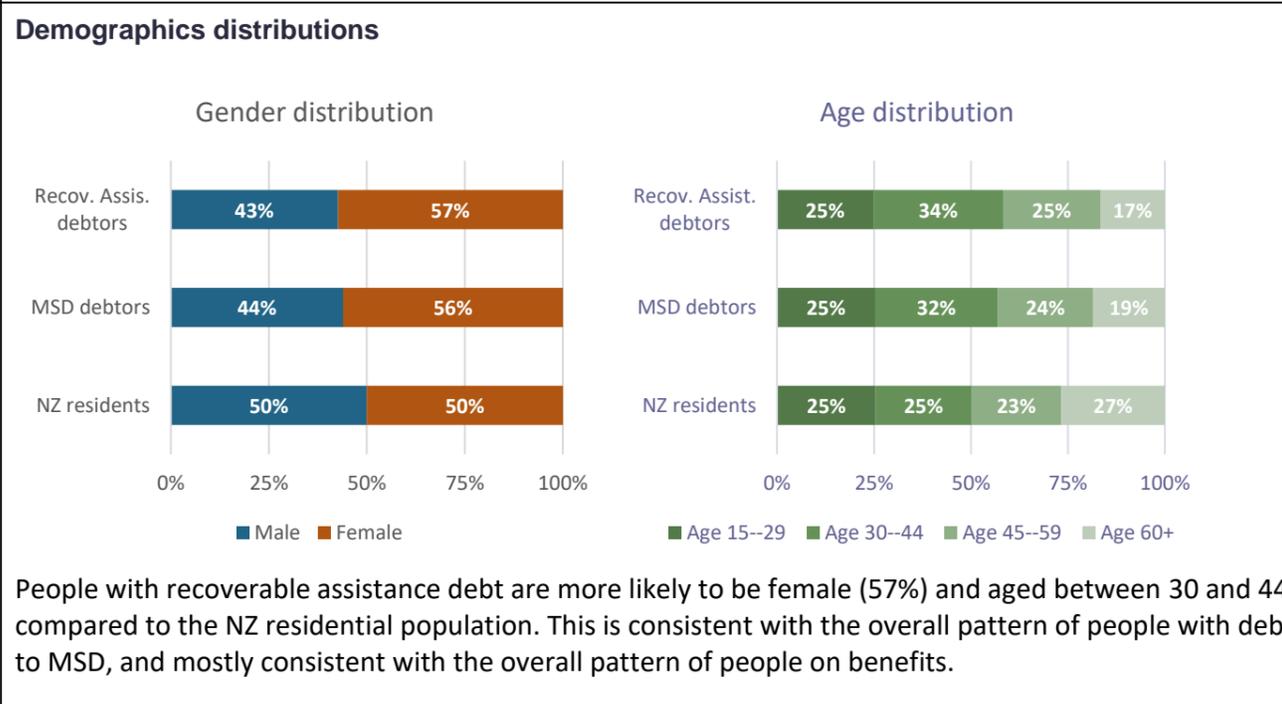
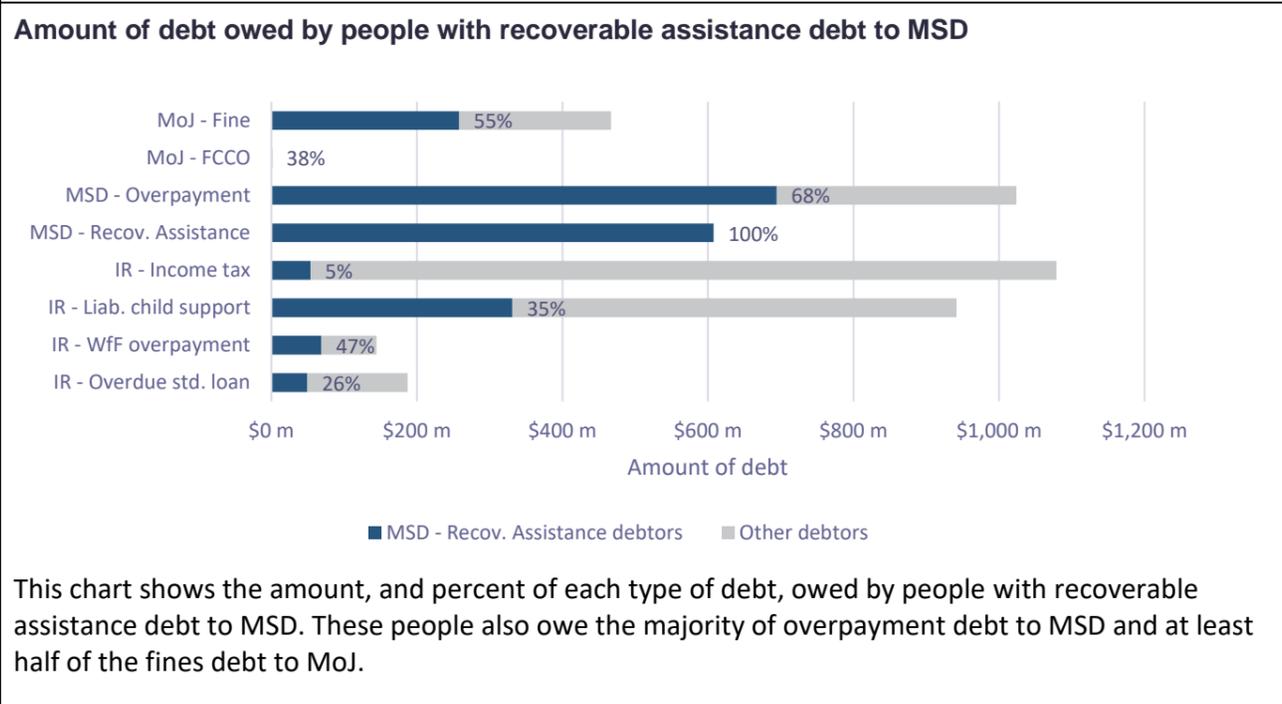
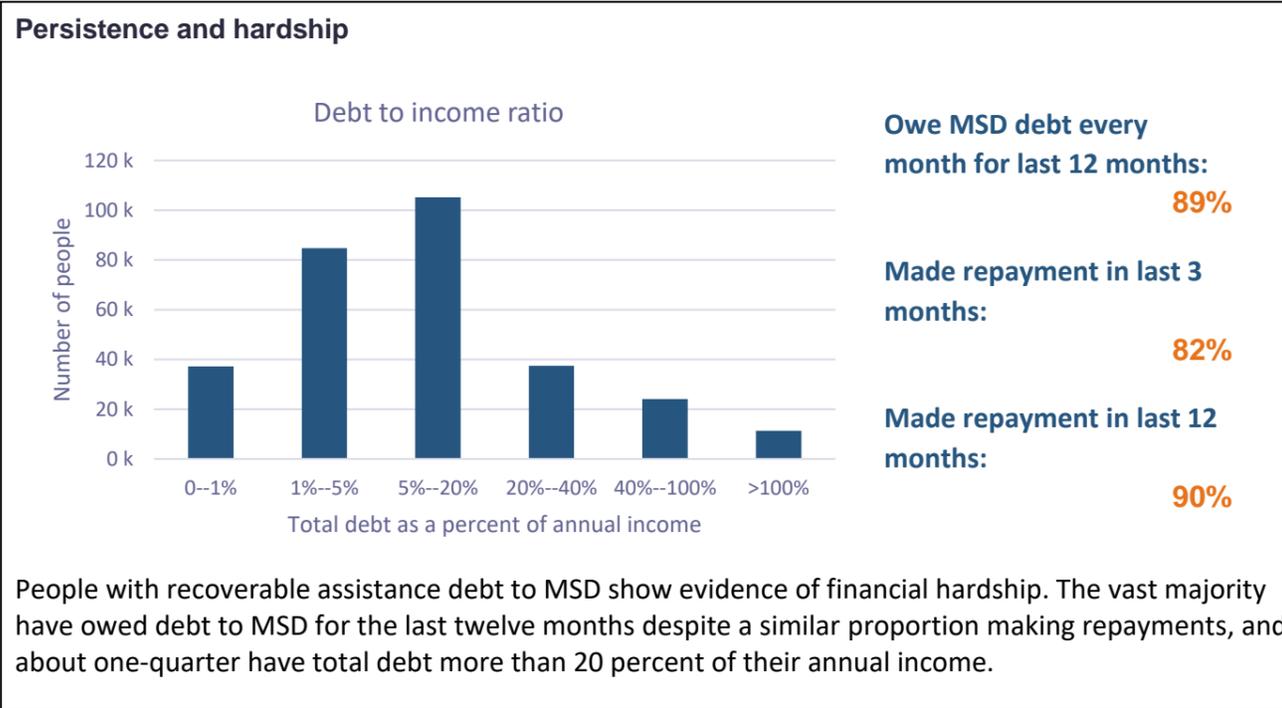
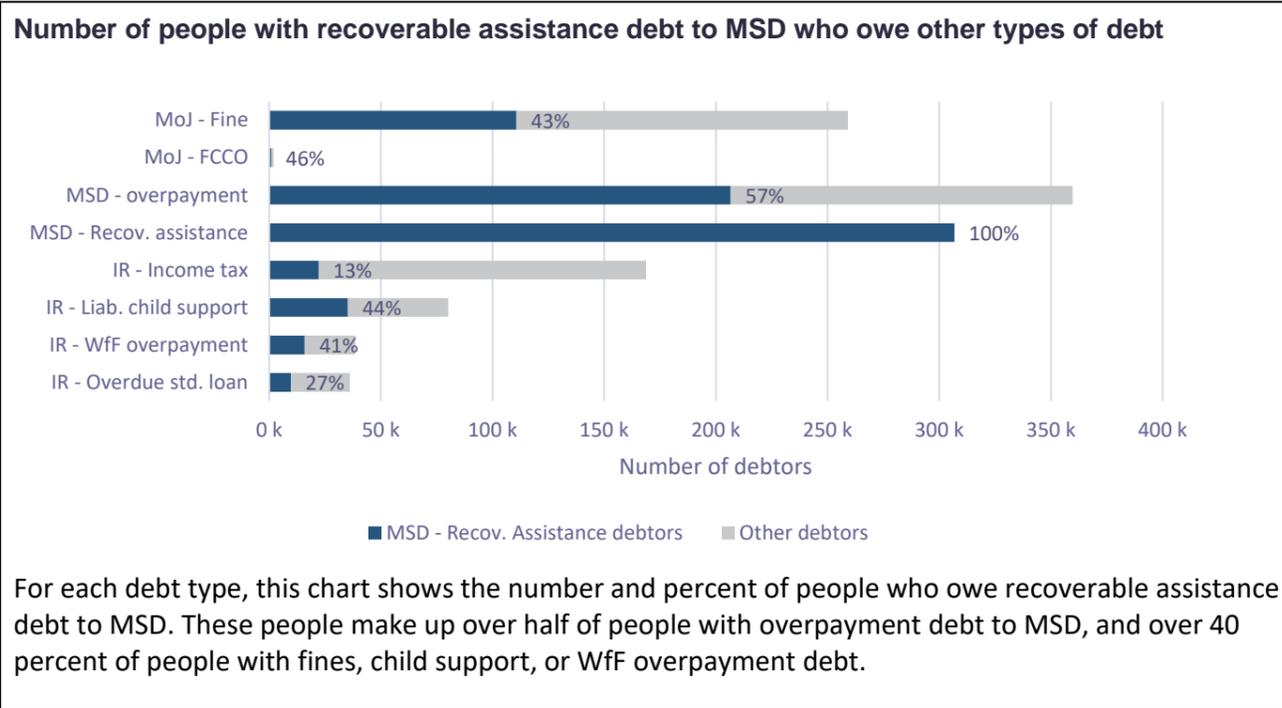
Benefit overpayment debtors to MSD

A total of 358,300 New Zealand residents owe \$1.02 billion of overpayment debt to MSD and \$1.36 billion of other debt to MSD, IR, and MoJ.



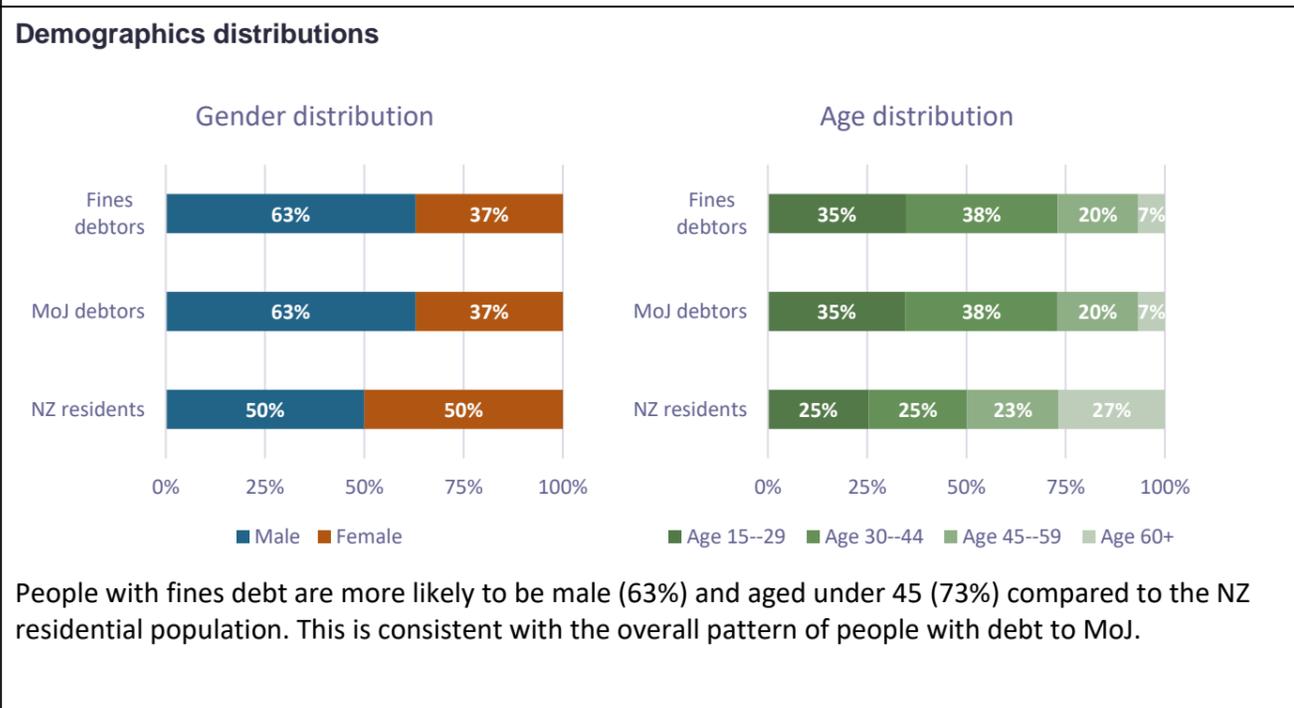
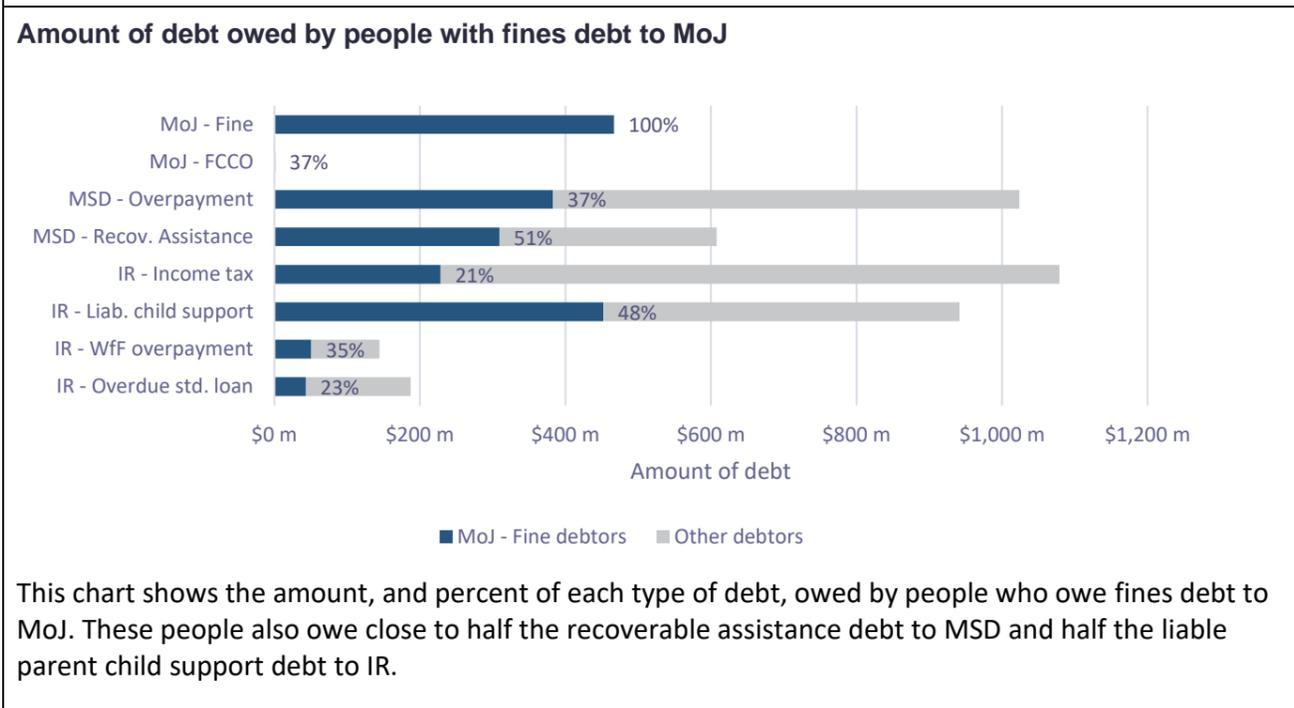
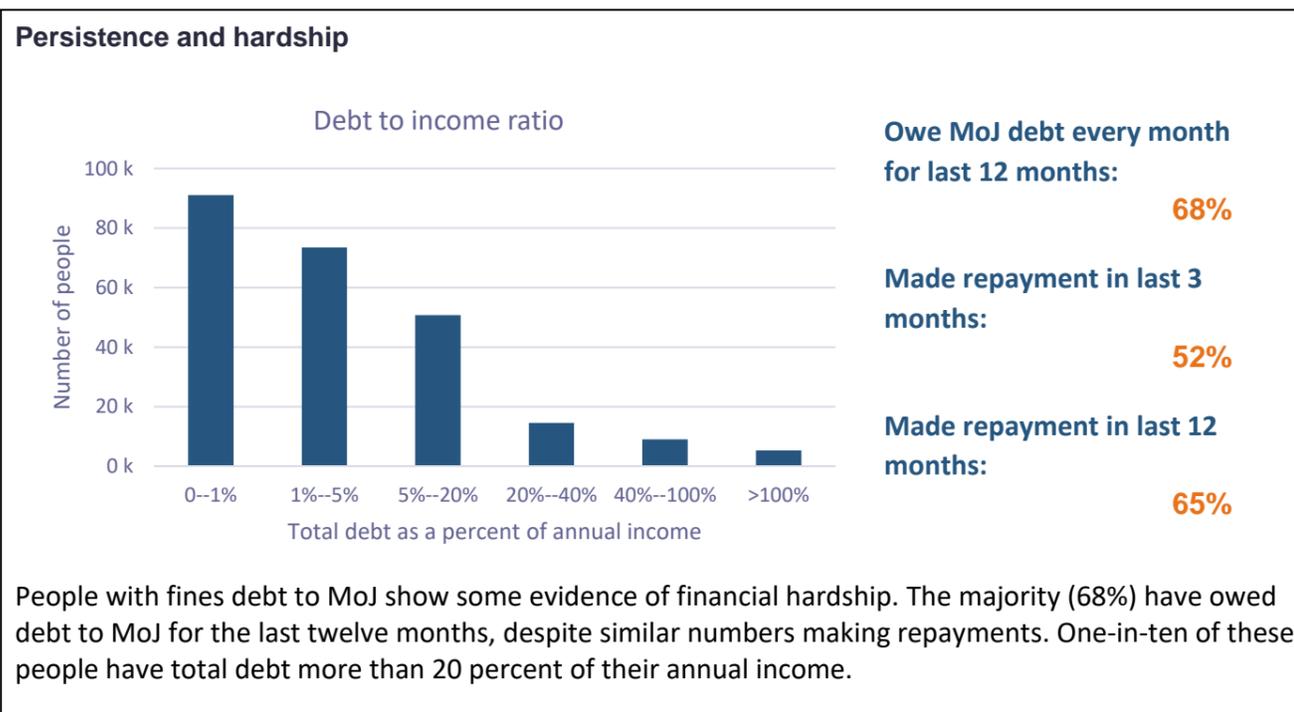
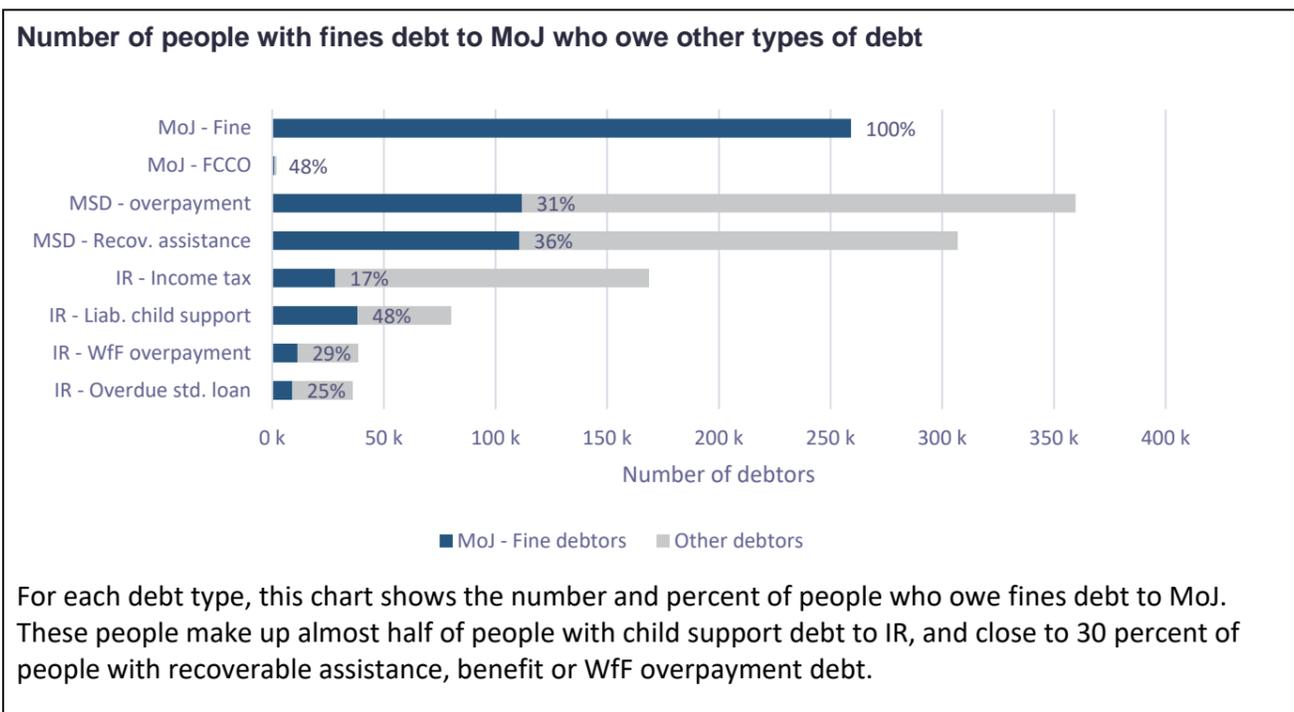
Recoverable assistance debtors to MSD

A total of 306,700 New Zealand residents owe \$0.61 billion of recoverable assistance debt to MSD and \$1.46 billion of other debt to MSD, IR, and MoJ.



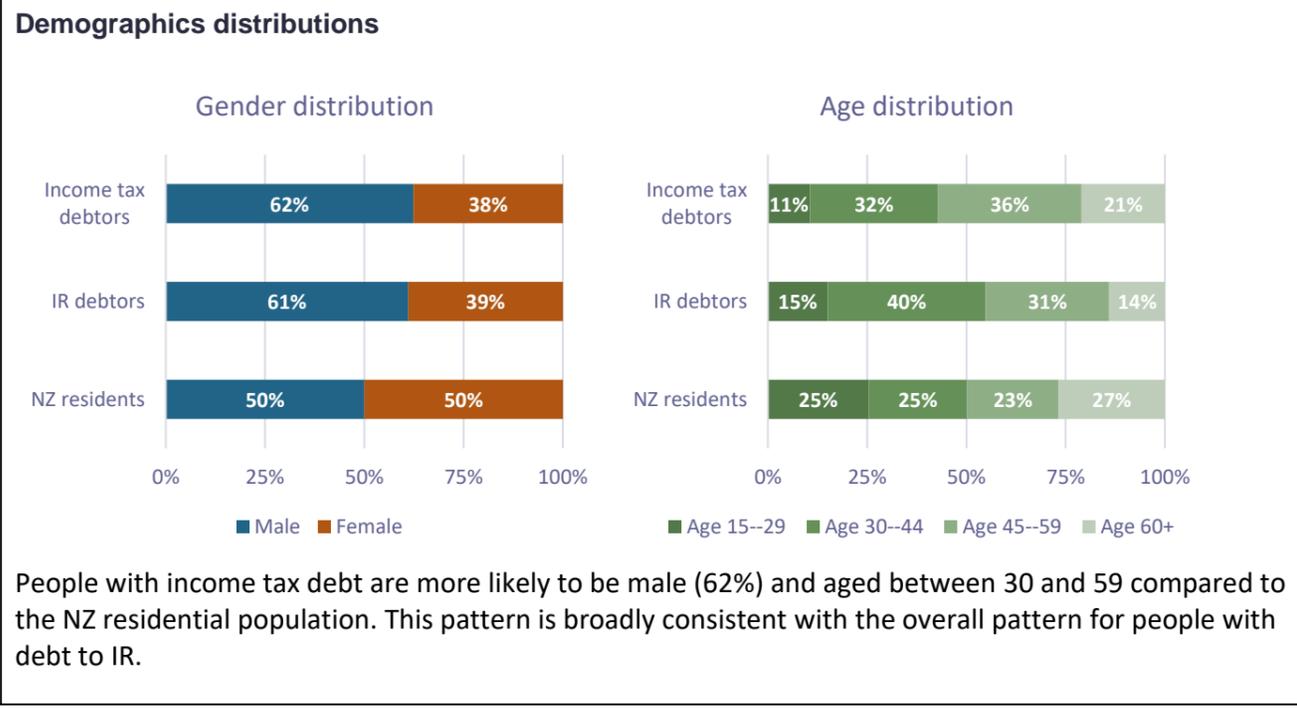
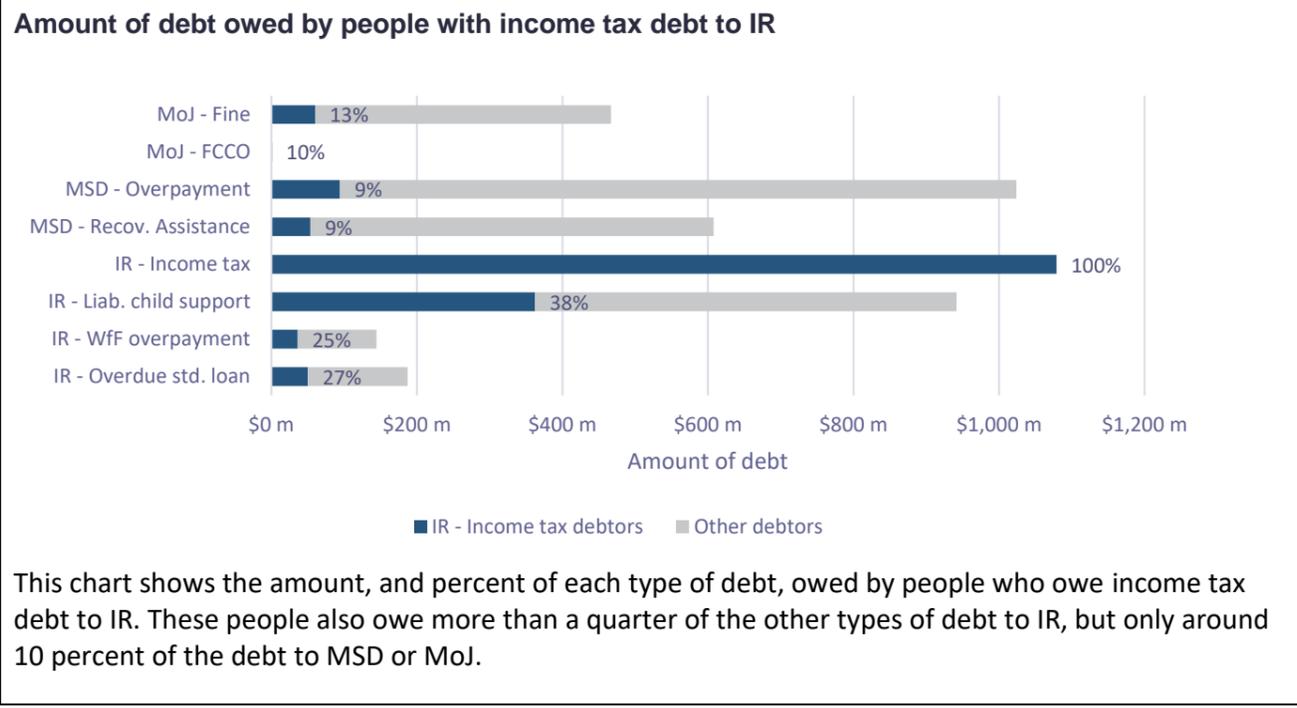
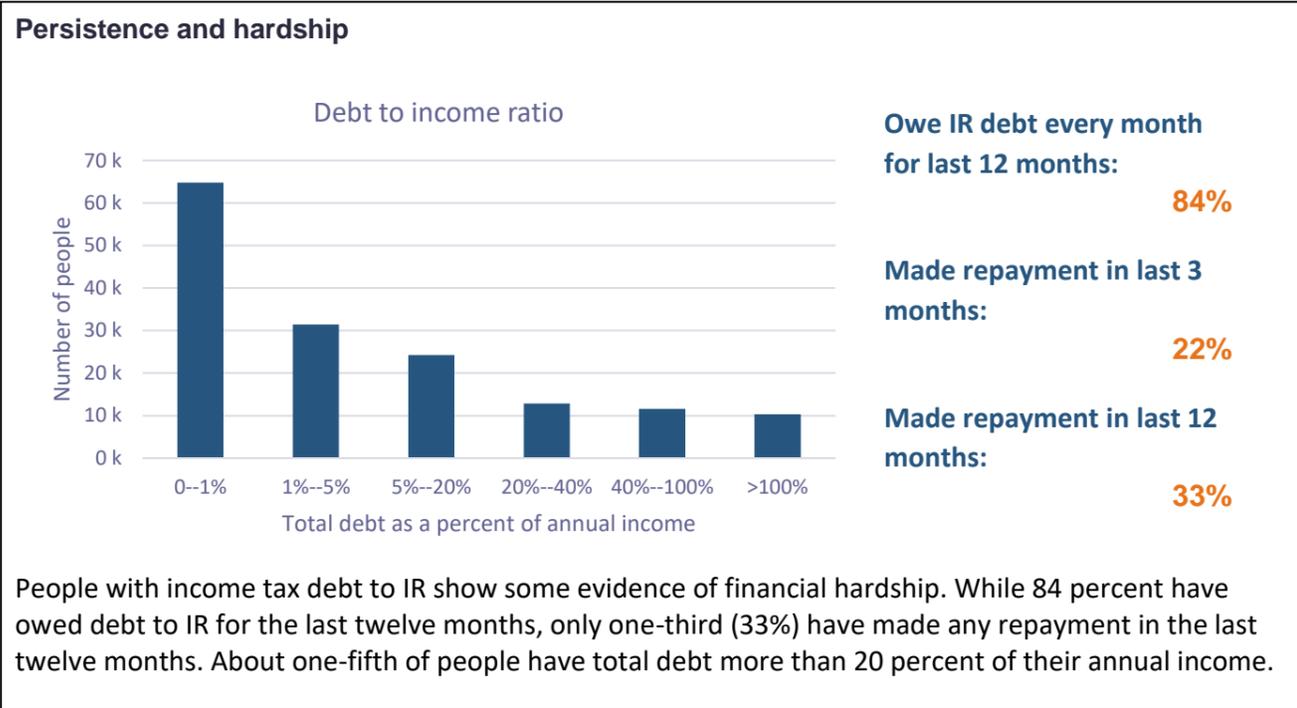
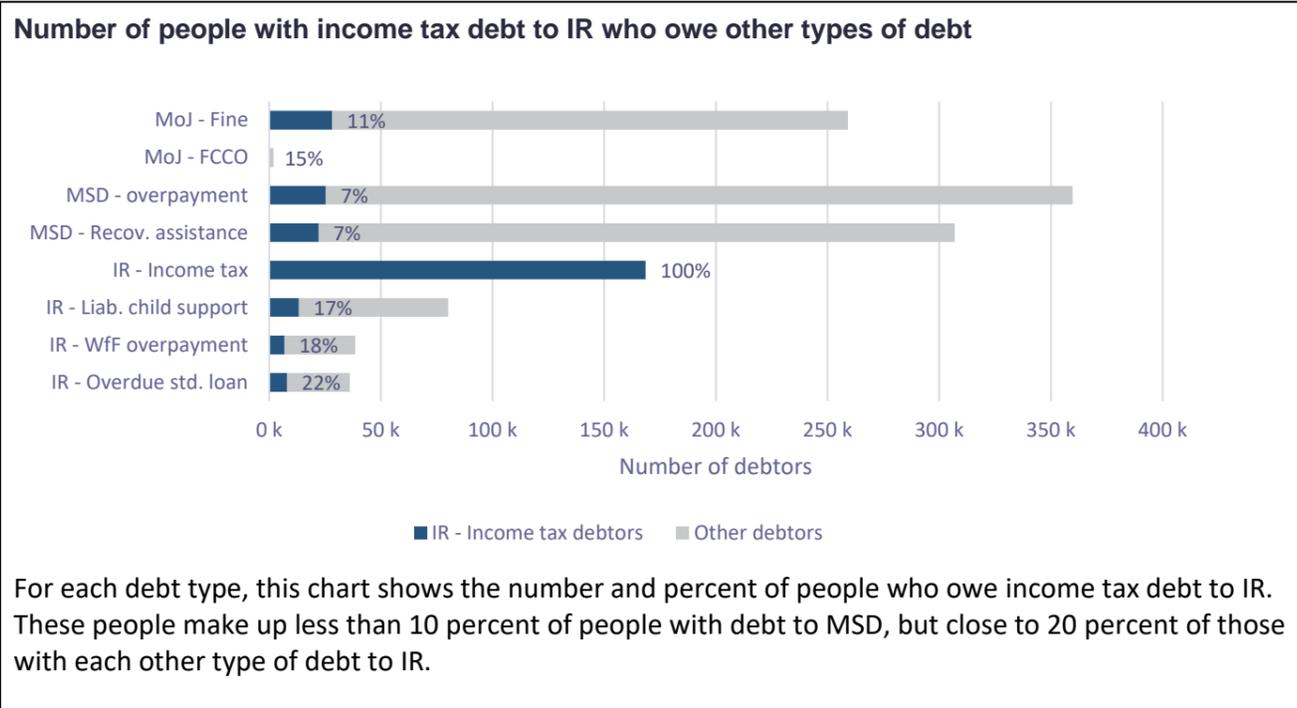
Fines debtors to MoJ

A total of 259,100 New Zealand residents owe \$0.47 billion of fines debt to MoJ and \$1.47 billion of other debt to MSD, IR, and MoJ.



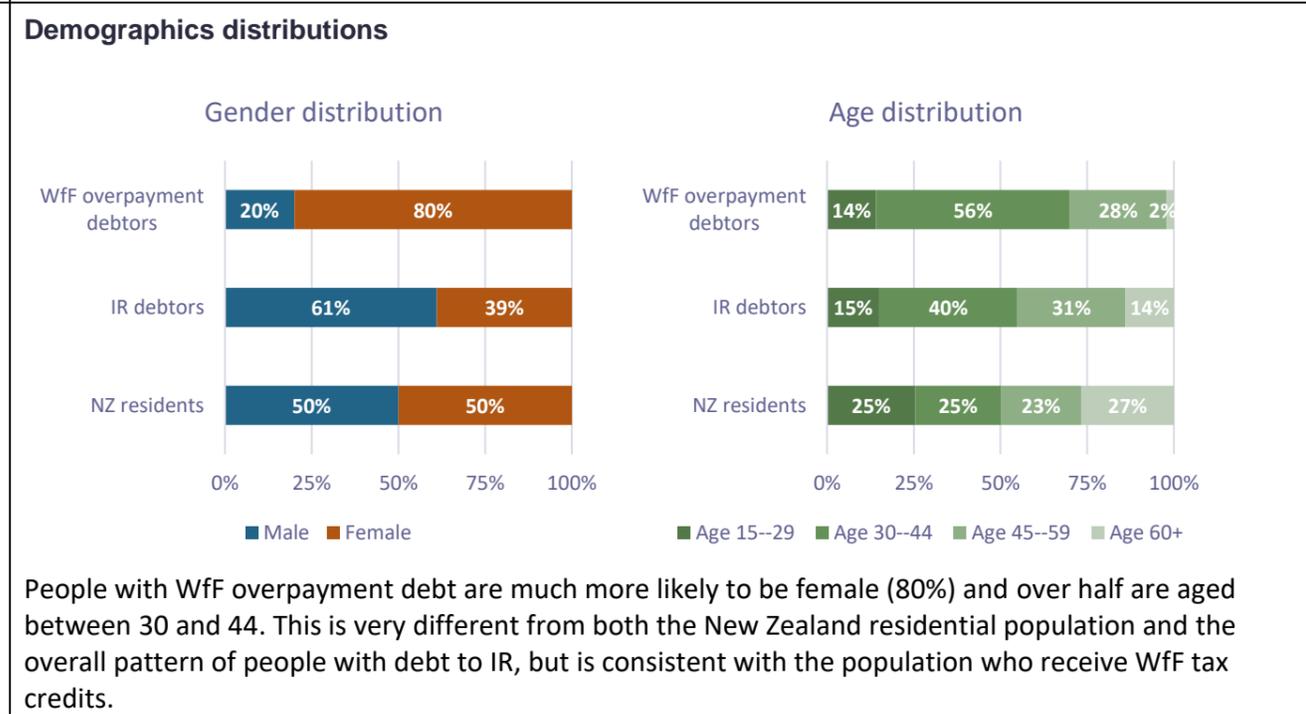
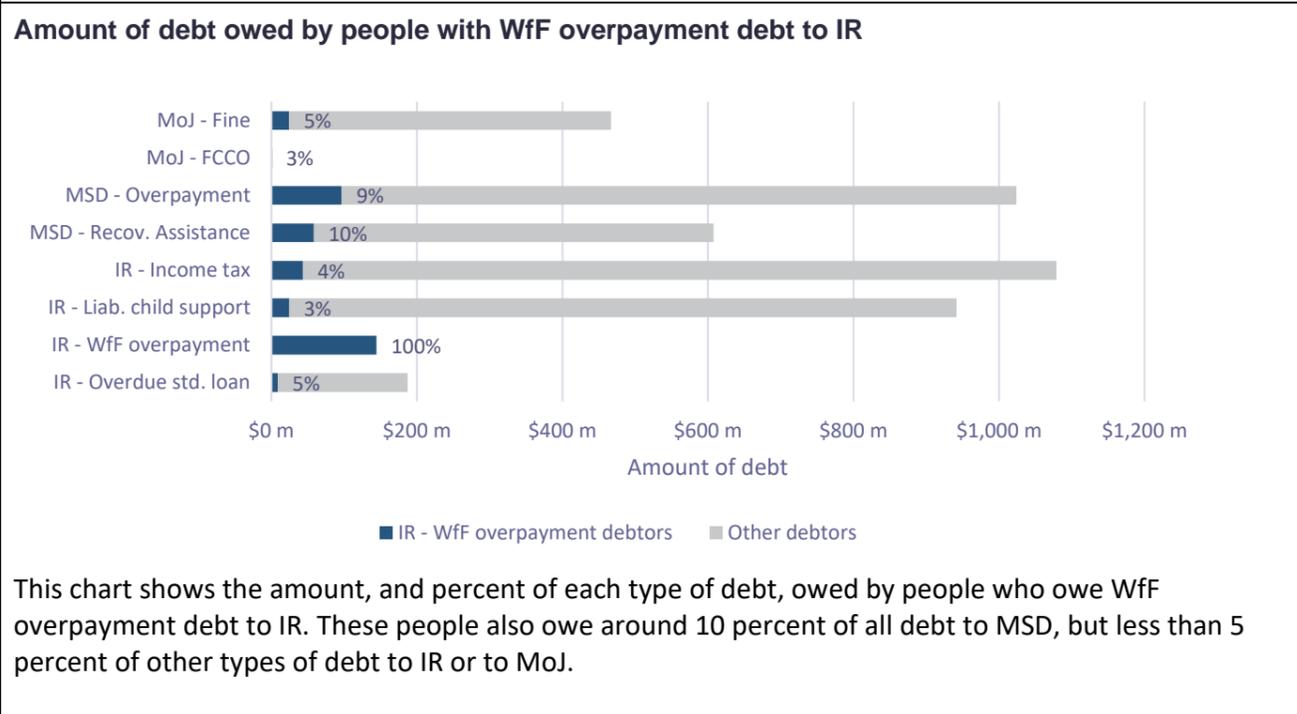
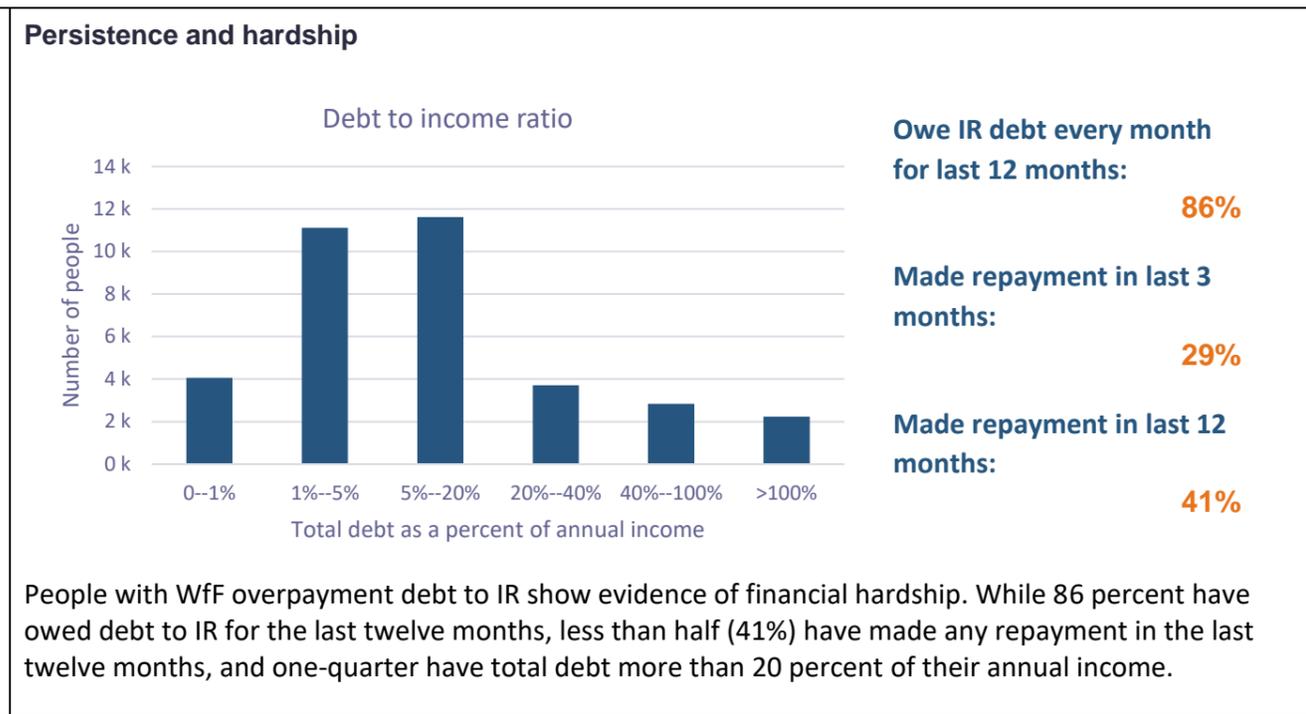
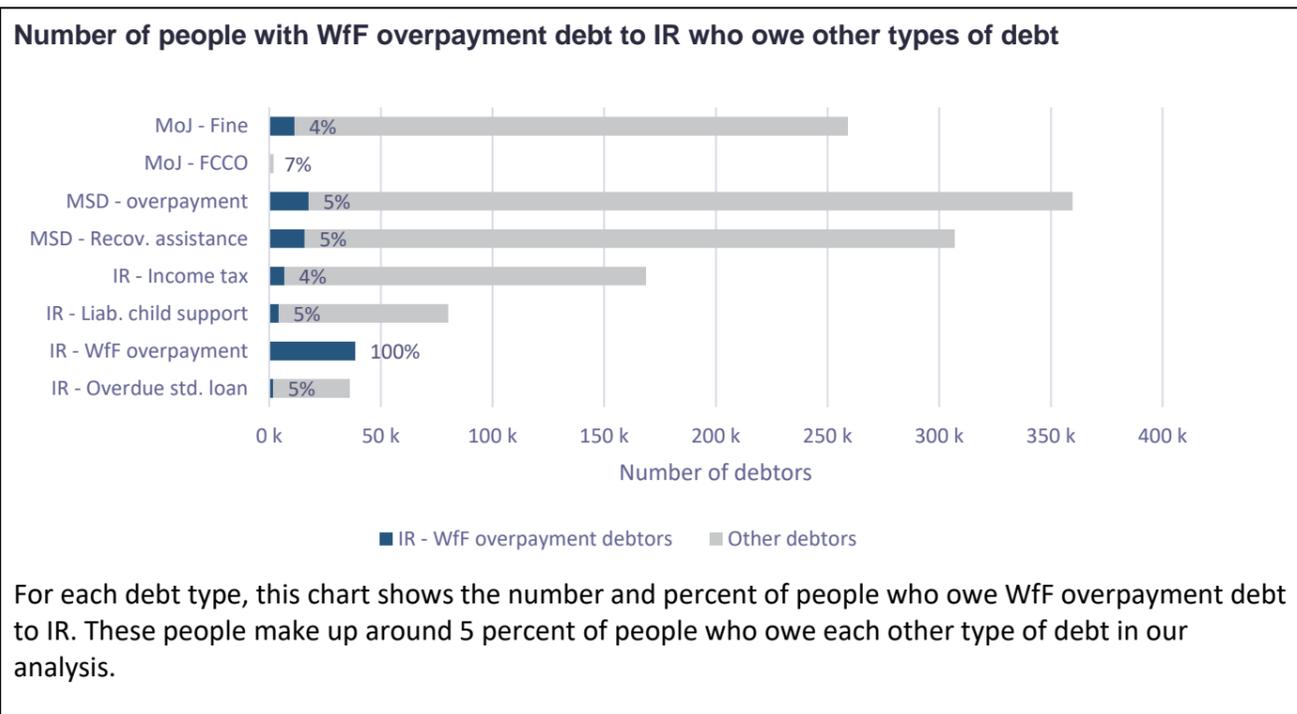
Income tax debtors to IR

A total of 168,500 New Zealand residents owe \$1.08 billion of income tax debt to IR and \$0.66 billion of other debt to MSD, IR, and MoJ.



Working for Families (WfF) overpayment debtors to IR

A total of 38,500 New Zealand residents owe \$0.14 billion of WfF overpayment debt to IR and \$0.26 billion of other debt to MSD, IR, and MoJ.



Liab parent child support debtors to IR

A total of 79,800 New Zealand residents owe \$0.94 billion of liable parent child support debt to IR and \$0.49 billion of other debt to MSD, IR, and MoJ.

