

Uffiċċju tas-Segretarju Permanenti

Office of the Permanent Secretary

MF 246/88/5/I

4 August 2020

Chairperson
Public Accounts Committee

UNCOLLECTIBLE ARREARS OF REVENUE

Further to previous discussions in the Public Accounts Committee on uncollectible arrears of revenue.

I am hereby enclosing a note on the matter together with a draft proposal on a possible way forward.

This note was prepared by this Ministry in consultation of the National Audit Office.

Kind regards,



Alfred Camilleri
Permanent Secretary

Encl 1.

Cc: Auditor General, National Audit Office

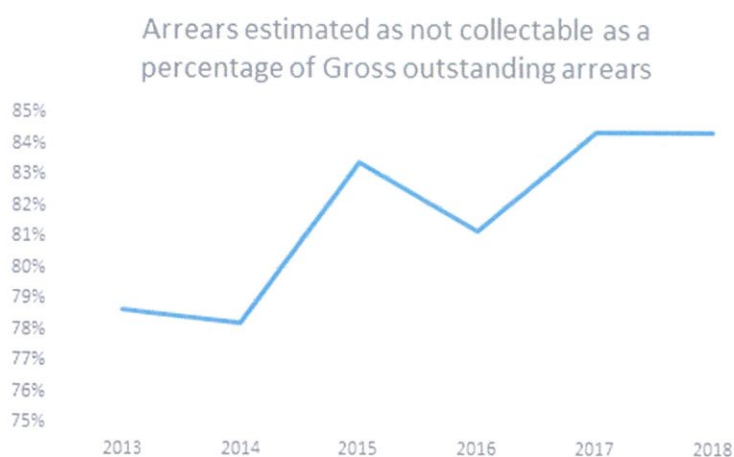
Background

The Ministry for Finance and Financial Services (MFFS) intends to start an arrears clearance exercise. Following discussions on the matter with the National Audit Office (NAO), the latter confirmed that it will be supportive of this initiative.

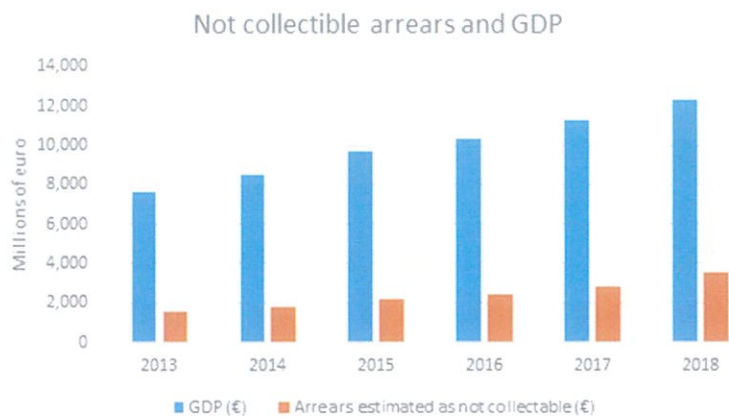
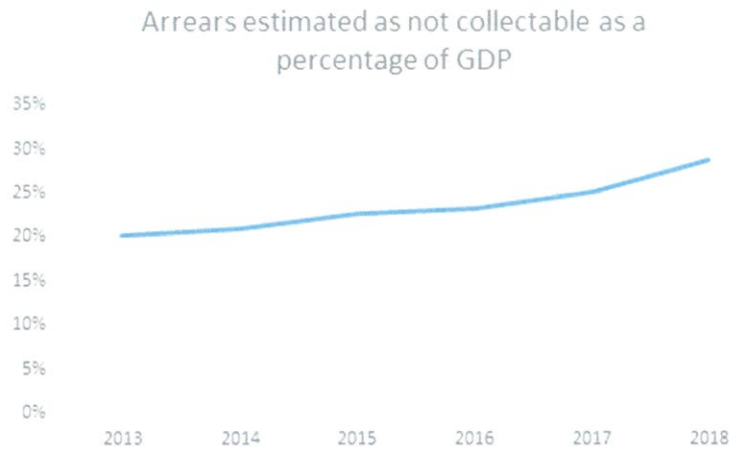
The table provides detail on GDP, gross outstanding arrears and arrears estimated as not collectable, in absolute amounts and in percentage terms, for the period 2013-2018. Clearly, as GDP increased over the years, so did gross outstanding arrears and arrears estimated as not collectable.

Year	2013	2014	2015	2016	2017	2018
GDP (€)	7,645,300,000	8,508,300,000	9,657,900,000	10,346,500,000	11,302,800,000	12,327,654,000
Gross outstanding arrears (€)	1,952,516,909	2,272,480,738	2,620,586,224	2,960,750,627	3,367,137,676	4,203,320,000
Arrears estimated as not collectable (€)	1,535,820,605	1,777,245,993	2,186,230,968	2,404,516,899	2,840,881,587	3,546,664,000
Gross outstanding arrears as a percentage of GDP	25.5%	26.7%	27.1%	28.6%	29.8%	34.1%
Arrears estimated as not collectable as a percentage of GDP	20.09%	20.89%	22.64%	23.24%	25.13%	28.77%
Arrears estimated as not collectable as a percentage of Gross outstanding arrears	78.66%	78.21%	83.43%	81.21%	84.37%	84.38%

As reported in the NAO's annual audit report for 2019, the proportion of uncollectible arrears then amounted to 84% of the gross outstanding arrears. As shown in the following chart, over the years, there has been an upward trend in uncollectible arrears as a proportion of gross outstanding arrears.



Over the years, the amount of arrears, deemed as uncollectable, also increased as a proportion of GDP as attested to by the following two charts.



The amount of uncollectible arrears is made up of:

- Estimations;
- Deceased persons or Defunct/Struck Off Companies;
- Companies in Liquidation;
- Contested (Objection, Administrative Tribunal or Law Courts)
- Time Barred to take recovery action & pre Y/A 1999 balances.

The Office of the Commissioner for Revenue (CfR) deems these arrears to be difficult to recover. By way of example and with reference to VAT estimations, historical data indicates that only 7% of the estimated amount are declared in the subsequent submission of returns, approximately, rendering the remaining 93% as uncollectable.

Proposed way forward for the clearance of uncollectible arrears

Due to the nature of these arrears, following extensive discussions and agreement between the two entities, the MFFS, in consultation with the NAO, is proposing the below way forward:

1. An analytical and reasoned report on the type and nature of the arrears that would be reckoned as uncollectible for various reasons would be compiled by the Department together with any recommendations on the proposed way forward;
2. This report is submitted to the NAO for review and control purposes;
3. When satisfied with the contents of the report, the NAO would compile its own reasoned opinion on this report and submit to Parliament;

4. The Department's report together with the audit report thereon by the NAO would be discussed within the PAC;
5. The Department, in full coordination with the NAO, would attempt to chart a policy, methodology and procedure for a structured and controlled clearance of any arrears of revenue, certified as uncollectible, in the report;
6. The uncollectible arrears clearance process would be carried out in accordance with the parameters set in paragraph 5 above over an extended period;
7. Arrears clearance would be carried out in a chronological order and on an account by account basis. Full documentation of all the work that would have been carried out on each account would be kept for review and audit purposes;
8. All arrears clearance would be reported individually to the NAO. The latter would publish such arrears clearance in its annual report.

