

Debt to government: Summary of Findings



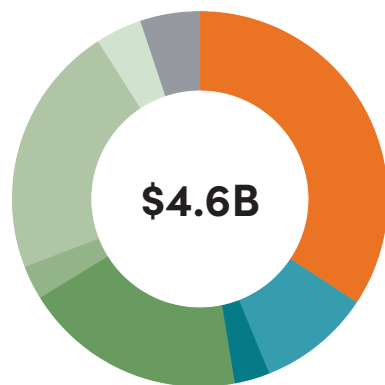
This A3 summarises our analysis of debt owed to the government. Using the Integrated Data Infrastructure (IDI) we investigated groups of people that hold debt to the Ministry of Social Development, Ministry of Justice, and Inland Revenue, or to two, or all of these agencies. This analysis has informed advice from the cross-sector group of government agencies on an ongoing work programme.

Throughout this A3, we use consistent colours for each debt type: **Orange for benefit debt to MSD**; **Blue for fines debt to MoJ**; and different shades of **Green for debt to IR**.

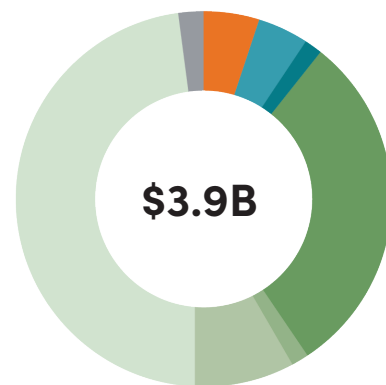
Debt to government affects one in five adults in New Zealand:

- ▶ **713,000 NZ residents and 270,000 overseas debtors owe debt** to one of three government agencies (Inland Revenue (IR), Ministry of Justice (MoJ), Ministry of Social Development (MSD)).
- ▶ Together these debtors owe **\$8.5 billion**.
- ▶ **Debt to government indirectly affects 300,000 children in New Zealand.**

DEBT OWED BY NZ RESIDENTS



DEBT OWED BY NON-RESIDENTS



Benefit debt | Fines | Legal aid | Child support | Working for Families | Income tax | Overdue std. loan | Other debt

Government debt arises for four main reasons:

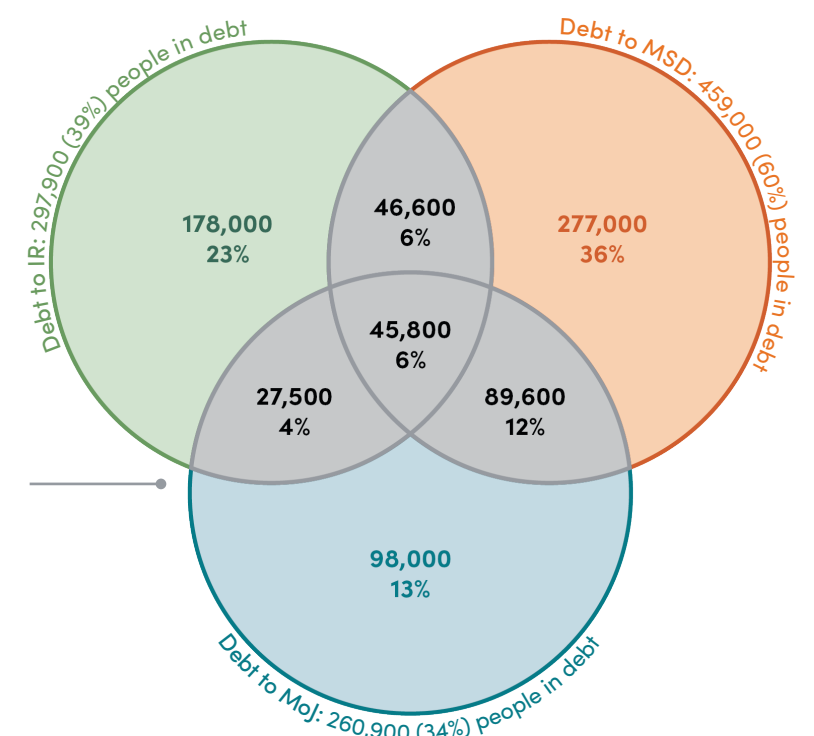
Overpaid entitlements	Unmet obligations	Loans	Penalties
<ul style="list-style-type: none"> ▶ Overpayment of benefits (MSD) ▶ Overpayment of Working for Families tax credits (IR) 	<ul style="list-style-type: none"> ▶ Income tax (IR) ▶ Child support (IR) ▶ Overdue student loans (IR) 	<ul style="list-style-type: none"> ▶ Recoverable grants (MSD) ▶ Legal aid (MoJ) ▶ Court contribution orders (MoJ) ▶ Student loans (IR) 	<ul style="list-style-type: none"> ▶ Court & local body fines (MoJ) ▶ Reparations to victims of crime (MoJ) ▶ Admin penalties

Government debt is an important mechanism for enforcing social obligations but is a problem for individuals and families when:

1. **It is overlapping:** multiple types of debt are owed with no coordination & overlapping payment arrangements.
2. **It is persistent:** balances are too high or repayments too low to be addressed within a realistic time period.
3. **Repayments do not address debt or are disproportionately high** for a person's income.

More than one quarter of government debtors (28% / 210,000) owe debt to more than one agency

The average debt for those with overlap is \$11,600 per person. These people borrow \$1,900, repay \$1,100, and have \$450 of debt written off per year. So, on average, their debt increases by \$350 per year. Unless this pattern changes, they will never become debt free.



The 'typical' government debtor

A diverse range of people owe debt to two or more government agencies. However, the 'typical' government debtor is:

- ▶ Aged in their 30s and lives in a high deprivation area.
- ▶ Has a certificate qualification, but is not employed or studying consistently.
- ▶ Has low wellbeing across a range of domains: life satisfaction, family wellbeing, mental health, and material wellbeing.
- ▶ Earns \$25,000–\$40,000 per year
- ▶ Reports only just enough income and has missed bill payments in the last month.
- ▶ Owes \$5,000 debt to government. This debt has lasted at least six years.
- ▶ Made repayments in the last three months, but will take another five years to repay their debt.
- ▶ Also has at least one private debt – buy-now pay-later or an unsecured loan.

A significant proportion of debt to government is persistent, overlapping, and affecting peoples' wellbeing

Most debt to government persists beyond 2 years

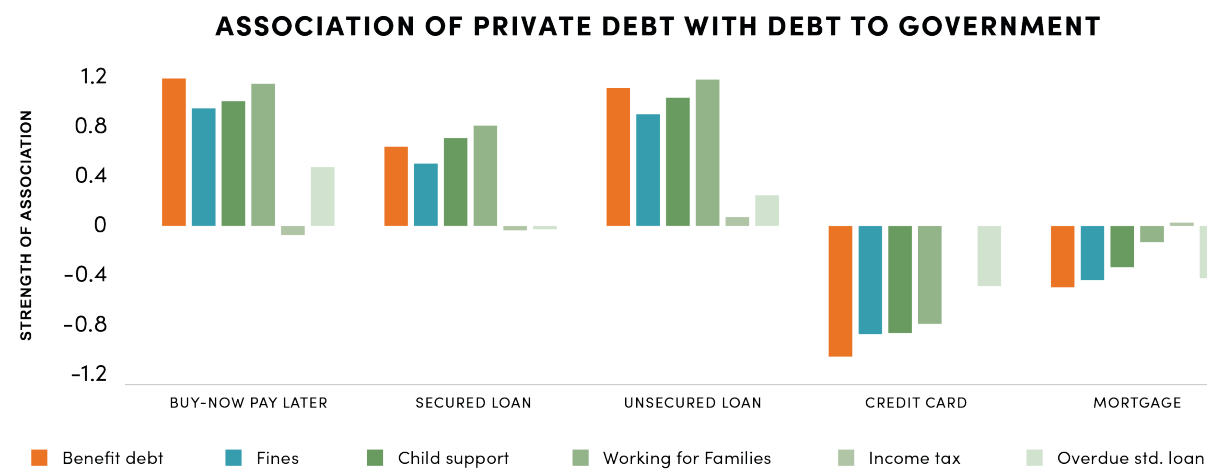
- ▶ More than half of debt to government persists beyond 1 year, with a third lasting beyond 4 years.
- ▶ This persistence is strongly linked to inadequate repayments.

Debt type	1+ years	4+ years	8+ years
Benefit debt (MSD)	304,250	178,500	103,500
Fines (MoJ)	131,500	81,250	43,500
Child Support (IR)	39,500	21,500	12,250
Working for Families (IR)	19,000	3,250	1,000
Income tax (IR)	76,750	9,000	3,250
Overdue student loan (IR)	22,500	8,250	3,500

This table gives the number of low income debtors (NZ residents) who have been in debt for consecutive years.

- ▶ For benefit, fines, and child support debt:
 - ▶ half of debtors have owed debt for at least 4 years,
 - ▶ a quarter have owed debt for at least 8 years.
- ▶ For Working for Families, income tax, and overdue student loan debt, persistence decreases rapidly after twelve months, likely due to when IR procedures write off debt that is not economical to collect.

Debtors to government are also likely to owe debt to private financial institutions



- ▶ People who owe debt to government are more likely to owe private debt too, and less likely to owe the kinds of private debt that is associated with financial capability (e.g. mortgage).

Repayments are not addressing debt

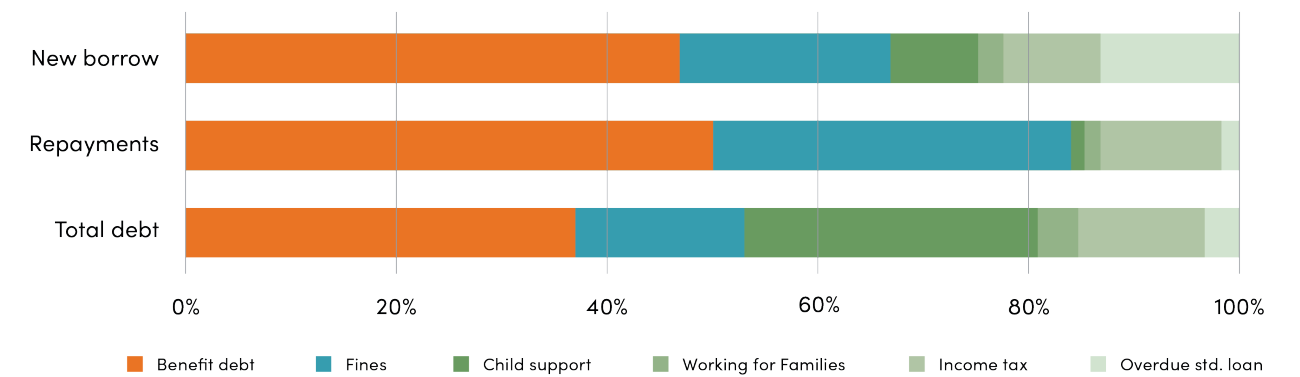
In 2020, NZ residents with low incomes and debt to two or more agencies owed \$1,620m debt to government. In the same year, these same people had:

- ▶ \$300m new borrowing (excl. interest & penalties)

- ▶ \$180m repayments (excl. write-offs & adjustments)

At the current rate, it will take them nine years to repay all their existing debt, assuming no new borrowing (and not accounting for private debt).

DEBT DISTRIBUTION FOR EXISTING BALANCES, NEW BORROWING, AND REPAYMENTS



This graph gives the distribution across debt types:

- ▶ Half of all debt is owed to IR but <20% of repayments are to IR.

- ▶ Repayments to MSD & MoJ are driven by automatic deductions from benefits.

The average repayments for benefit and child support debt are around \$20 per week per debtor.

Caveats

This overview combines results from five different analyses. Due to differences in data sources and methodology between analyses, small variations in reported numbers should be expected. Despite this, all five analyses show very consistent results and none of these variations are sufficient to change the overall pattern.

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.