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Chairman

Revenue

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Ms. Niamh Maguire,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.



1 May 2013

Dear Niamh,

I refer to your letter of 6 March 2013 and attach herewith a briefing update for the information of the Committee as requested.

Yours sincerely

Josephine Feehily
Accounting Officer

Vote 9

Office of the Revenue Commissioners

Update on Recommendations and Tables contained in Chapter 11, VAT on Intra-Community Trade, of the Comptroller and Auditor General's Report on the Account of the Public Services 2011 (Updated material in the Tables is in red for ease of comparison with original Tables).

Chapter 11 – VAT on Intra-Community Trade

This Chapter reviews the processes that the Revenue Commissioners have in place to manage the risks associated with VAT on intra-community trade.

There are four Recommendations in this Chapter: -

Recommendation 11.1 [Paragraph 11.62]

Revenue should adopt a clear policy and strategies in relation to the monitoring and management of traders' compliance with their obligations under VIES legislation.

Response: -

Agreed in part. Revenue's policy is to ensure maximum compliance with VIES legislation at least possible cost and administrative burden for businesses. The strategies are to make it as easy as possible for traders to comply with their obligations and to take proportionate measures where they do not do so. Revenue will review details of this approach in light of the findings of this audit report.

Update: -

Revenue districts have been given (since January 2013) a role in following up on unmatched VIES data in relation to the use of incorrect VAT numbers. Revenue will further review the details of its approach in the light of the findings and recommendations, if any, of the Public Accounts Committee.

Recommendation 11.2 [Paragraph 11.64]

Revenue should examine the results of the data matching project undertaken in the Waterford district, in terms of actual and expected audit yield, and consider the potential for extending the project to other districts.

Response: -

Agreed. Revenue will analyse the results of the Waterford district project and this analysis will inform its new real time risk programme for VAT.

Update: -

Based on the experience gained from the Waterford District project 2 VIES related real-time risk rules have been developed viz.,

- To identify any VAT trader where more than 5% of the VAT numbers submitted on the traders VIES return are incorrect
- A business rule to compare the level of VAT declared to the level of VIES activity

These rules have been input into Revenues Risk Analysis System (REAP)

Recommendation 11.3 [Paragraph 11.65]

Revenue should review the control measures in place in other member states and assess the case for their introduction here.

Response: -

Agreed. There is acceptance at EU level that a uniform approach to combating VAT fraud is required. Ireland, together with other members of EUROFISC, is participating in a project group that has been formed to identify best practice and produce an updated guide to cover operational aspects of dealing with intra-community fraud. The project group's report is due to be completed by 2013.

Update: -

EUROFISC is finalising its updated guide on dealing with intra-community fraud. The guide is expected to be launched in Spain this summer.

Recommendation 11.4 [Paragraph 11.67]

Revenue should use the enhanced automated system to repeat the commonality checking carried out for all VAT registrations processed during periods before the enhanced system was available, to ensure that all appropriate relationships have been identified.

Response: -

Agreed. Revenue will examine the feasibility of repeating the commonality checking carried out during the period before the enhanced system was available.

Update: -

Commonality checks were carried out on a representative sample of cases that were registered prior to the enhanced commonality system being introduced and, in all cases examined, the enhanced commonality systems identified all appropriate relationships.

A new Social Network tool is currently being explored to identify potential fraudulent business networks. It is expected that this tool will be developed in 2014 to further strengthen and enhance the registration commonality process.

Figure 11.2 Prosecutions for Non-Compliance in VIES Reporting
2007 to 2011 **2012**

Year	Number of prosecutions	Fines/Settlements
		€'000
2007	43	74
2008	29	49
2009	22	44
2010	13 ^a	33
2011	1 ^a	2
2012	0	0

Source: Revenue Commissioners

Note: a Prosecutions commenced during 2009.

In the period March to December 2012, 168 cases were considered for prosecution and were subject to the prosecution process, namely, the issue of a local warning letter followed by a penalty notice, a locally issued 21 day notice of opinion, a 21 days warning letter by the Revenue Solicitor's Office followed by court summonses. This led to the submission of returns by 165 cases and the status of the remaining 3 cases is:

- 2 are likely to be summonsed
- 1 case has ceased and is not suitable for prosecution.

Figure 11.3 Returns through Connect Direct, 2010 to 2011^a **2012**

	Returns			
	Number 2010 to 2011	Number 2012*	Value 2010 to 2011	Value 2012*
	'000	'000	€m	€m
All transactions	1,533	1,375	17,148	12,954
Incorrect VAT numbers				
First level check	141	17	550	70
Second level check	129	27	717	120
Total incorrect	270	44	1,267	190
% incorrect	17.6%	3.3%	7.4%	1.5%

Source: Revenue Commissioners

Note: a Due to a delay in the submission of returns, the figures included for one of the companies only cover up to the end of September 2011.

* 2012 is the current position. It contains all the first level checks and the second-level checks received from other Member States for quarters 1,2 and 3 of 2012 and some for quarter 4

Figure 11.5 Case Study - Waterford Revenue District VAT on Intra-Community Acquisitions Project

The intra-community acquisitions project conducted by Waterford Revenue district is focused on

- traders making acquisitions from traders in other EU member states, at a zero rate of VAT, to ensure that VAT is paid when the goods or services are released to market
- unregistered traders making intra-community acquisitions.

Revenue staff developed a template to identify cases with the highest risk of under declaration of VAT. District staff stated that the template enabled initial screening work to be carried out relatively easily by non-audit staff.

In total, approximately 600 cases were selected for review as part of the project conducted by Waterford Revenue district. About 500 cases were subsequently discounted, mainly on the basis of materiality. As at April 2012, 2013 the following results have been recorded in relation to the approximately 100 remaining cases

- 32 cases have been closed following correspondence with traders, yielding a total of €9,516.
- Seven (13) audits have been closed, yielding €63,217 (€817,334).
- The district anticipates that a further eight audits still in progress are likely to yield a total of €1 million. Six cases have been closed with a yield of €754,117. One case has assessments entered for tax and interest of €590,590 and Notices of Opinion are being prepared for penalties in the region of €442,000. One case is still ongoing with liability estimated in the region of €300,000.
- At least two further cases with potentially significant yields have been identified for audit, but work has not yet commenced. An audit is ongoing in one of these cases with the likely yield estimated to be in the region of €20,000. A profile interview will take place with the other case in the coming weeks.
- The balance of cases have yet to be finalised. The balance of the cases has been addressed through appraisal/aspect queries; where liabilities arose these were small. A significant output of working these and other cases is that the data is matched to the correct trader and subsequent REAP rules assess the correct data when assigning risk scores.

In relation to the sample of 25 cases reviewed for this examination, where Revenue had identified that Irish VAT numbers submitted on VIES returns made by companies in other member states were not valid, it was found that all of the cases in the sample had been considered for intervention. Twelve had subsequently been discounted because reasonable explanations for the anomalies were identified. The majority of the cases discounted related to situations where a sole trader had moved to company status but had purchased goods or services using the sole trader VAT number. Of the other thirteen cases, nine were being further examined by issuing queries to the trader and four had been selected for audit. Nine cases were closed because of director/company explanation. Three were Nil Yield and an audit is ongoing in the other case.