



Oifig an Chathaoirigh  
Chairman's Office

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

12 February 2014

Dear Niamh,

I refer to your letter of 15 October 2013 and enclose as requested a briefing paper in relation to Chapters 23 to 27 of the 2012 Annual Report and Appropriation Accounts of the Comptroller and Auditor General.

The briefing includes:

- Revenue Headline results 2013
- 2013 expenditure outturn figures for Revenue and the 2014 Estimate
- the up-to-date position on all of the recommendations in the above Chapters and,
- an up-date, where relevant, on the statistical Tables (updated statistics are in red for ease of comparison with those in the Report)

If you require any further information please do not hesitate to contact me.

Yours sincerely

Josephine Feehily  
Accounting Officer

Revenue  
Cáin agus Custaim na hÉireann  
Irish Tax and Customs

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## Revenue Headline Results 2013

### Exchequer Tax Receipts

The table below shows the Exchequer Tax Receipts for the period January to December 2013

TAX HEAD	Jan - Dec
	€m
Income Tax	15,758
VAT	10,336
Excise	4,891
Corporation Tax	4,270
Stamps	1,340
Capital Gains Tax	369
Local Property Tax	318
Capital Acquisitions Tax	279
Customs	246
<b>Total</b>	<b>37,806</b>

Any apparent discrepancies are due to rounding.

### Local Property Tax

Payment Year	2013
Property Returns Received	1.6m
Compliance Rate	91%
Collected	€242m

In addition, payments of €76m received in respect of 2014 Local Property Tax

### Relevant Contracts Tax – Summary Statistics

		% Change on 2012
No. of Contracts Notified	263,668	↑ 26%
Value of Contracts Notified	€23,053m	↑ 19%
No. of Payment Notifications	679,175	↑ 14%
Value of Payment Notifications	€8,311m	↑ 17%

### Contacts

Service	Contacts
1890 Telephone Service	1,602,288
Correspondence	1,750,858
Electronic Contacts	5,150,504
<b>Total</b>	<b>8,503,650</b>

### Returns/Payment Timely Compliance

Case Size	
Large cases (annual tax* liability > €500,000)	97%
Medium cases (annual tax* liability . €75,000, < €500,000)	95%
All Other cases	82%

\*Weighted mixture of 'fiduciary' taxes (VAT, Employer PAYE/PRSI, RCT) and corporate/personal income tax

### Collection Enforcement

Enforcement Type	Number of Cases	Yield €m
Solicitor	5,266	33.9
Sheriff	28,981	134.3
Attachment	4,122	43.2
<b>Total</b>	<b>38,369</b>	<b>211.4</b>

### Anti-Avoidance

	Number
Section 811 Notices of Opinion	36
Avoidance Cases settled	14
Protective Notifications received	136
Avoidance Cases being worked	1,328



### Compliance Interventions Completed including Audit

Interventions	Numbers	Yield €m*
Comprehensive Audit	4,787	206.4
Single Tax/Duty Audit	1,874	51.3
Multi Tax/Duty Audit	853	32.2
Single Issue/Transaction Audit	523	23.4
Risk Management Interventions	217,377	188.4
PAYE Compliance Interventions	45,464	30.6
Assurance Checks	355,697	19.6
<b>Totals</b>	<b>626,575</b>	<b>551.9</b>

\*Tax, interest and penalties. 485 audit settlements were published in the Quarterly Defaulters lists in 2013

### Oils

Auto and Marked Fuel Oil – Interventions and Seizures/Detections	Number	Volume (L)
Number of Warning letters issued	533	-
Number of Stations shut down	25	-
Marked Fuel Oil – Commercial seizures	67	771,232
Marked Fuel Oil – Laundry Detections	9	103,650
Marked Fuel Oil – Detections	1,310	-
Marked Fuel Oil – Vehicle Seizures	174	-

### Other Seizures/Detections

	Number	Volume	Value €m
Cannabis (Herbal & Resin)	724	600 kg	11.3
Cocaine, Heroin	116	51 kg	4.5
Amphetamines, Ecstasy & Other Drugs	5,690	341 kg	5.0
Cigarettes	5,797	40 million	18.9
Tobacco	1,085	4,453 kg	1.8
Other Seizures*	2,067	-	2.8
<b>Total</b>	<b>15,479</b>	<b>-</b>	<b>44.3</b>

\*includes alcohol, criminal cash, VRT and other vehicle seizures and excise license detections. Does not include Marked Mineral Oil seizures and detections, see above

### Prosecutions

	Total
No of serious evasion and fraud convictions obtained	35
No of summary convictions obtained (including non-filers)	1,929
Fines resulting from summary convictions	€5.80m

At year end 150 Revenue investigations into serious evasion and fraud were on-going with a further 56 cases with the DPP or in the judicial system.

### Double Taxation Agreements

	Total
No of Double Taxation Treaties at end 2013	70

### Resources

Administrative Budget	No. of Staff
€m	31 Dec 2013
393.99	5,745

## Vote 9

### Office of the Revenue Commissioners

#### 2013 Expenditure Outturn/2014 Estimate

	<u>2013</u>	<u>2014</u>
	<u>Provisional</u>	<u>Estimate</u>
	<u>Outturn</u>	<u>Provision</u>
	<u>€000</u>	<u>€000</u>
I. Salaries, wages and allowances	287,564	283,103
II. Travel and subsistence	3,371	3,500
III. Training and development and incidental expenses	18,515	16,000
IV. Postal and telecommunications services	10,535	11,100
V. Office equipment and external IT services	52,620	49,950
VI. Office premises expenses	7,022	5,950
VII. Consultancy services and value for money and policy reviews	25	45
VIII. Motor vehicles and equipment maintenance	2,352	2,000
IX. Law charges, fees and rewards	10,437	13,600
X. Compensation and losses	437	481
XI. EU Presidency	156	—
	<u>393,034</u>	<u>385,729</u>



## Chapter 23 – Revenue Collection

This Chapter examines key trends in the amounts collected between 2008 and 2012.

### Collection and Repayment of Revenue, 2008 to 2013

	2008	2009	2010	2011	2012	2013	Change 2011 to 2012		Change 2012 to 2013	
	€m	€m	€m	€m	€m	€m	€m		€m	
Gross amount collected	60,061	50,744	47,559	48,427	50,175	51,937	1,748	3.6%	1,683	3%
Repayments of taxes and duties	(9,178)	(8,148)	(6,420)	(6,269)	(6,302)	(5,811)	33	0.5%	(491)	(8%)
Repayments of other charges	(71)	(82)	(86)	(58)	(67)	(47)	9	15.5%	(20)	(30%)
<b>Net amount collected</b>	<b>50,812</b>	<b>42,514</b>	<b>41,053</b>	<b>42,100</b>	<b>43,806</b>	<b>46,079</b>	<b>1,706</b>	<b>4.1%</b>	<b>2,204</b>	<b>5%</b>
Of which										
Income Tax	13,195	11,839	11,265	13,814	15,151	15,758	1,337	9.7%	607	4%
Corporation Tax	5,071	3,890	3,944	3,500	4,215	4,270	715	20.4%	55	1.3%
Capital Gains Tax	1,424	544	345	416	413	369	(3)	(0.7%)	(44)	(10.7%)
Capital Acquisitions Tax	343	256	237	244	283	279	39	16.0%	(4)	(1.4%)
<b>Total direct taxes</b>	<b>20,033</b>	<b>16,529</b>	<b>15,791</b>	<b>17,974</b>	<b>20,062</b>	<b>20,676</b>				
Value Added Tax	13,432	10,638	10,102	9,752	10,166	10,336	414	4.2%	170	1.7%
Excise	5,432	4,734	4,667	4,704	4,592	4,891	(112)	(2.4%)	299	6.5%
Stamp duties	1,763	1,001	962	1,383	1,426	1,340	43	3.1%	(86)	(6%)
Customs duties	245	208	229	240	242	246	2	0.8%	4	1.7%
Local Property Tax						318			-	-
<b>Total indirect taxes</b>	<b>20,872</b>	<b>16,581</b>	<b>15,960</b>	<b>16,079</b>	<b>16,426</b>	<b>17,131</b>				
<b>Exchequer Revenue</b>	<b>40,905</b>	<b>33,110</b>	<b>31,751</b>	<b>34,053</b>	<b>36,488</b>	<b>37,806</b>	<b>2,435</b>	<b>7.2%</b>	<b>1,319</b>	<b>3.6%</b>
Pay Related Social Insurance	9,707	9,207	9,110	7,857	7,081	7,621	(776)	(9.9%)	540	7.6%
Tobacco Levy	168	168	168	168	168	168	0	0.0%	0	0.0%
Insurance Compensation Fund Levy	—	—	—	—	46	45	46	100.0%	(1)	(2%)
Environmental Levy	26	24	19	16	14	14	(2)	(12.5%)	0	0.0%
Risk Equalisation Fund Levy						413			-	-
Other	6	5	5	6	9	12	3	50.0%	3	33%
<b>Non Exchequer Revenue</b>	<b>9,907</b>	<b>9,404</b>	<b>9,302</b>	<b>8,047</b>	<b>7,318</b>	<b>8,273</b>	<b>(729)</b>	<b>(9.1%)</b>	<b>955</b>	<b>13%</b>



## Chapter 24 – Management of Revenue Debt

This Chapter reviews Revenue's debt collection function including debts written off. There is one Recommendation in this Chapter: -

### Recommendation 24.1 [Paragraph 24.32]

*Revenue should use its improved management information to inform its target setting for the reduction of collectible debt. Targets should be realistic but challenging and should not be distorted by factors outside Revenue's control e.g. the proportion of debt under appeal.*

Response –

“Agreed. Revenue utilised the Arrears Case Analysis Tool to assist in formulating and reporting on the debt targets for 2013. Targets set relate to debt available for collection, which excludes debt under appeal and debt at insolvency. However, wider factors outside Revenue's control, such as available resources and the general economic environment continue to influence target setting”.

Update -

The 2013 target was set at €1,212m and the Outturn was €1,230m which is a variance of €18m or 1.5%

### Annex A Taxes written off, 2008 to 2012 2013

	2008	2009	2010	2011	2012	2013
	€m	€m	€m	€m	€m	€m
<b>Fiduciary taxes</b>						
VAT	58	102	134	149	130	118
PAYE	20	37	44	46	39	37
PRSI	25	47	61	60	50	37
Relevant Contracts Tax	13	17	22	20	14	9
	116	203	261	275	233	201
<b>Direct taxes written off</b>						
Income Tax	5	10	25	27	32	35
Corporation tax	3	4	8	10	5	12
Capital Gains Tax	1	3	4	8	16	13
	9	17	37	45	53	60
Automatic write-offs	4	2	1	1	1	2
<b>Total tax written off</b>	129	222	299	321	287	263

## Chapter 25 – Taxpayer Compliance

This Chapter examines the risks to timely tax compliance and the measures applied by Revenue to deal with them. There are no Recommendations in this Chapter.

**Figure 25.7 Revenue audit activity and outturn, 2012 2013**

	Revenue districts	2013	Large Cases Division	2013	Special investigations <sup>a</sup>	2013	All audits	2013
Audits carried out <sup>b</sup>	8,116	<b>7,326</b>	202	<b>122</b>	255	<b>174</b>	8,573	<b>7,622</b>
Proportion of audits with yield	69%	<b>70%</b>	62%	<b>61%</b>	95%	<b>98%</b>	70%	<b>71%</b>
Total yield (€m)	270	<b>242</b>	56	<b>50</b>	29	<b>18</b>	355	<b>310</b>
Average yield per yield case	€48,153	<b>€47,055</b>	€446,328	<b>€666,660</b>	€121,745	<b>€105,880</b>	€59,440	<b>€57,535</b>
Highest case yield (€m)	15.0	<b>7.4</b>	7.4	<b>24.33</b>	3.3	<b>3.92</b>		<b>24.33</b>

Source: Office of the Revenue Commissioners

Notes: a Includes special investigations and audits completed by Revenue's Investigations and Prosecutions Division.

**Figure 25.9 Civil penalties imposed in non-compliance cases, 2011 and 2012 2013**

	2012		2011	2013
	Non-filing of P35 and VAT returns	Penalties applied as a result of audit	Total	Total
Number of cases	717	3,438	4,155	4,728
Value of civil penalties imposed (€ m)	2.8	26.1	28.9	35.9
Average civil penalty imposed	€4,000	€7,590	€6,950	€7,590

**Figure 25.10 Cases of non-compliance published, 2008 to 2012 End quarter 3 2013**

	2008	2009	2010	2011	2012	End Q3 2013
Number of cases	401	356	305	366	483	<b>350</b>
Total yield (€m)	75	97	68	76	98	<b>71</b>

**Figure 25.11 Summary prosecutions for tax offences, 2008 to 2012 2013**

	2008	2009	2010	2011	2012	2013
<b>Number of prosecution cases for:</b>						
Failure to file returns	1,052	1,199	1,380	1,217	1,045	780
Excise and Customs offences	455	535	509	497	509	419
Tax offences	11	9	10	16	29	5
	1,518	1,743	1,899	1,730	1,583	1,204
<b>Value of fines imposed in Court for:</b>						
	€m					
Failure to file returns	2.3	3.0	4.0	2.8	3.1	2.0
Excise and Customs offences	0.6	0.8	1.1	1.1	1.0	0.9
Tax offences	—	—	—	—	0.1	0.05
	2.9	3.8	5.1	3.9	4.2	2.95

**Figure 25.13 Prosecution for serious tax evasion, 2008 to 2012 2013**

	2008	2009	2010	2011	2012	End 2013
<b>Convictions obtained:</b>						
Tax evasion cases	15	6	7	16	25	10
Customs and Excise evasion cases	5	9	6	14	25	25
Total convictions	20	15	13	30	50	35
<b>Penalties:</b>						
Value of fines (€m)	1.2	0.5	0.02	0.1	0.5	0.01
Suspended sentence	6 <sup>a</sup>	2	7	15	21	16
Imprisonment	1	4 <sup>b</sup>	1	8	19	6

## Chapter 26 – Corporation Tax Losses

There are no Recommendations in this Chapter.

**The potential risk from the build-up of CT losses relates to tax forecasting. The tax itself is not at risk.**

## Chapter 27 – Tax Audit Settlements.

**Figure 27.5** Payment of audit settlements

Year of settlement	No. of cases	Total settlement amount €m	Status per Revenue records					
			Paid €m	Written off €m	Outstanding €m	Not known €m	Under Review €m	
2012	46 <sup>bc</sup>	63	45	48	1	6	-	8
2011	25	86	58	73	—	2	-	11
2010	25	67	39	51	—	10	-	6
2009	21 <sup>c</sup>	73	71	72	1	—	-	-
2008	25	87	80	81	6	—	-	-
2007	25	136	135	136	—	—	-	-
<b>Totals</b>	<b>167</b>	<b>512</b>	<b>428</b>	<b>461</b>	<b>8</b>	<b>18</b>	<b>-</b>	<b>25</b>

Source: Revenue audit files and taxpayer records maintained by Revenue.

Notes: a The cases concerned are currently being reviewed by Revenue (September 2013).

b The 2012 cases include six cases that are common to both the sample of 28 cases reviewed in detail and, also, the sample of 25 reviewed for evidence of payment only.

c Cases where the audit yield was the disallowance of a repayment claim or a restriction of losses have been excluded.

There are 6 Recommendations in the Chapter

Recommendation 27.1 [Paragraph 27.85]

*Revenue should review the manner in which its interventions with taxpayers are recorded in order to ensure that the nature of an intervention is accurately recorded and that the yields from the different intervention types are appropriately classified in order to ensure more accurate targeting of scarce audit and investigation resources.*

Response –

Agreed. Improvements are in place since July 2012. With the assistance of new case management tools, Revenue has been refining the classification of interventions beginning in 2012. It is important to point out that while the appropriate classification of a tax intervention is important it has no effect on the quantum of tax paid over to the Exchequer.



## Update –

As mentioned in the Chapter, Exchequer tax receipts are not affected by the classification issue. Classification of compliance interventions is not an exact science and judgement will always be involved. The current model has evolved and improved over time and will, in due course, be likely to be refined further. However, an operational instruction issued in July 2012 to all compliance staff defining the different intervention types and providing guidance in specific instances. There is now a much greater focus on the importance of the appropriate classification for interventions. In addition, other quality assurance initiatives that are underway or are due to start, will include this aspect.

## Recommendation 27.2 [Paragraph 27.88]

*Revenue should review the mechanisms it has in place to ensure that interest and penalties are quantified in accordance with legislation and its Code of Practice. It should consider putting in place a quality assurance system whereby a sample of files are reviewed and shortcomings that are identified are addressed. This could help to ensure consistency of interpretation and application of the legislation and the Code of Practice and provide assurance to Revenue that taxpayers are treated equitably.*

## Response –

Agreed. The nature of an audit, in particular when it comes to negotiating the audit settlement, varies significantly from case to case and while the legislation and the Code of Practice provide the auditor with a structure within which to operate, the auditor must use judgment to weigh up all of the facts and circumstances in a case to come to a fair and workable settlement. Several initiatives have been introduced since July 2012 to enhance the quality of the compliance intervention process. Enhancing the quality of our interventions will continue to be high on our agenda. The referral of audit settlements to Revenue's top management, on a random basis, introduced in July 2013, will considerably enhance our capacity to identify shortcomings in the process. In addition, a

programme of quality assurance checks of cases selected randomly will be implemented by the Planning Division by 2014 and will help to underpin this.

#### Update –

The various measures put in place over the past eighteen months are beginning to show results. Since the introduction of random referral of cases to Commissioners and Assistant Secretaries in July 2013, some 169 closed cases have been referred for approval. These cases are in addition to the 538 closed cases referred for approval to Commissioners and Assistant Secretaries in line with normal approval authority levels whereby all audits are referred by the auditor to at least one manager for approval. 4,468 audits were carried out in the period. It is also proposed to extend the random referral arrangements to other non-audit interventions as soon as the necessary technical developments can be carried out.

A further Quality Assurance initiative has commenced in the Dublin Region. So far, 100 cases that were closed by the Dublin Region in 2013 have been selected on a random basis for review. Initial findings from the Dublin Region cases examined show a good level of awareness among staff of the need for quality in case selection and in reporting and documenting of the audit. This initiative will be extended to the other Regions and Large Case Division 2014.

Additionally, the requirements for the development of a new case management system of compliance interventions are currently being scoped out, with a view to delivering the new Profiling, Intervention & Compliance (PIC) case management and recording system during 2015. The new system, which will replace the existing Integrated Case Management (ICM) system, will underpin all of the various aspects of the Quality Compliance Intervention Standards



Recommendation 27.3 [Paragraph 27.90]

*Revenue should*

- *review its approval process and consider setting up a settlement approvals committee for specified types of cases e.g. cases of high value, cases of technical complexity and cases with a high degree of risk*
- *where there is a difference between the estimate of liability and the settlement amount proposed, consider requiring approval at the level of the original Revenue assessment (including appropriate interest and penalties) in order to ensure the potential tax foregone is reviewed at the appropriate level.*

Response –

Agreed. Further consideration will be given to these recommendations. Revenue has in place a robust approval system requiring at least one approver at management level. Depending on the size of the settlement, approval at District Manager, Assistant Secretary and Commissioner level may be required. The standard conduct of a settlement negotiation involves regular internal consultation, as well as attendance by managers at meetings with taxpayers. In addition there are monthly management meetings chaired at Assistant Secretary level, or at the four-monthly results review meetings of the Assistant Secretaries, chaired by a Commissioner, where the level of sanctions applied to audit settlements is discussed in detail.

In July 2013, the case management systems have been modified to remind the approver to satisfy him/herself that the quality standards have been met in relation to the recording of the audit. Furthermore the systems also allow for the referral of a percentage of audit settlements, irrespective of the amount of that settlement (including nil settlements), to Assistant Secretaries and members of the Board, for approval. These initiatives are designed to raise the awareness of the importance of quality case working. In the same vein, the programme of checks referred to above will help to reinforce the quality intervention message.

Update –

The existing approvals process has worked very well and has been strengthened by the introduction of random referrals in 2013 as described above.. As a matter of routine, the results of an audit in a high value will fall to be approved at Assistant Secretary of Commissioner level. Fora already exist at District and Regional level and are used as required, depending on the experience of the auditor, for more difficult or complex cases. Complex avoidance cases are supported within a network of officers responsible for such cases.

Recommendation 27.4 [Paragraph 27.90]

*Where cases may be settled for materially less than the Revenue estimate of a taxpayer's liability, Revenue should consider (and document) the alternative outcomes that might be expected from litigation where this is the alternative course of action. It is acknowledged that significant judgment may be required and settlements may be complex. Matters to be considered include uncertainties about the possible outcome as well as the time, costs and risks involved in litigation. Decisions, and the rationale for them, should be fully and clearly documented before the file is submitted for approval.*

Response –

Agreed. The Quality Compliance Intervention Standards launched in May 2013 will support implementation of this recommendation and of that of 27.6 below.

Update –

The full implementation of the Quality Compliance Intervention Standards, including improved recording and documenting will effectively implement this recommendation in the vast majority of routine cases. The extent of documentation required for complex technical cases would be of a higher order but the evidence suggests that such cases are likely to be well documented. In light of experience, we will keep under consideration whether refinement or additions to the Standards is needed in a further edition.



Recommendation 27.5 [Paragraph 27.90]

*Where cases involve technical complexity, specialist staff within Revenue (and externally where this is considered necessary) should be consulted and their opinions documented and recorded on the file.*

Response –

Agreed. It is agreed that where it is necessary for an auditor to consult internally or externally, the specialist opinions should be documented and recorded on file.

Update –

As with Recommendation 27.3

Recommendation 27.6 [Paragraph 27.90]

*In regard to the negotiation of audit settlements, Revenue should consider*

- *putting in place detailed guidance and procedures for the conduct of settlement negotiations*
- *requiring those negotiating the settlements to put forward Revenue's highest estimate of the taxpayer's liability including the appropriate interest and penalties*
- *setting up an experienced negotiating team which would be available to all units in circumstances where significant sums are at stake.*

Response –

Agreed. All staff who participate in the audit training programme receive a module on settlement negotiations, where techniques are taught through a mixture of formal training, role plays and case studies. While the development of detailed guidance and procedures for conducting settlement negotiations will be considered, a strong emphasis is already placed on mentoring less experienced auditors through this phase of the audit process by having them attend meetings

with senior staff where settlement negotiations are taking place. In addition, where particular technical issues are involved or large amounts are under discussion, the audit manager, and in larger cases the District Manager, as well as technical support, attend meetings with taxpayers and agents. Further consideration, however, will be given to the proposals in this recommendation.

#### Update-

Revenue is satisfied that the emphasis placed on negotiating skills in current training and mentoring programmes is sufficient to enable caseworkers negotiate fair and workable settlements in the vast majority of cases. Rather than have teams available to carry out the negotiations on behalf of auditors, our approach has been to assign experienced and qualified staff to roles where more complex cases are likely to arise, and to mentoring roles to work with less experienced colleagues. District managers are also expected to manage their teams in a flexible manner.

In our Training Programmes, case workers are advised to present the audit findings to the customer and his/her agent, outlining the tests applied and the conclusions reached; to consider fair and reasonable arguments and not to rely on a theoretical maximum liability. The customer should be able to conclude that s/he has been fairly dealt with.

In technical and complex cases, the involvement of the audit manager and District Manager, where required, should ensure that an appropriate settlement is reached.

#### General Comments on Recommendations in Chapter 27

At least four major Quality Audit initiatives, including an enhanced settlement approval regime, have been introduced in 2013 alone. There is a need to allow time for these initiatives to settle down and their impact assessed. The roll out of a new Profiling, Intervention & Compliance case management system in 2015 will provide an opportunity for consideration of further initiatives.