PAC-R-1880 Correspondence 3C.1 – Meeting 166 2/7/2015

Ms. Margaret Falsey,

Committee Secretariat,

Committee of Public Accounts,

Leinster House,

Dublin 2.

26 June 2015

Dear Margaret,

I refer to your letter of 6 of May 2015 and I enclose the up-to-date position on all of the recommendations contained in Chapters 15 and 16 of the 2013 Annual Report and Appropriation Accounts of the Comptroller and Auditor General.

I also attach:

- The 2014 expenditure outturn figures for Revenue and the 2015 Estimate
- A soft copy of the 2014 Annual Report of the Revenue Commissioners

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

Yours sincerely

_____

Niall Cody

Accounting Office

Vote 9
Office of the Revenue Commissioners

2014 Expenditure Outturn/2015 Estimate

		2014 Provisional Outturn €000	2015 Estimate Provision €000
I.	Salaries, wages and allowances	285,655	299,666
II.	Travel and subsistence	3,606	3,500
III.	Training and development and incidental expenses	19,899	18,975
IV.	Postal and telecommunications services	9,928	9,700
V.	Office equipment and external IT services	46,503	52,450
VI.	Office premises expenses	6,882	7,100
VII.	Consultancy services and value for money and policy reviews	43	45
VIII.	Motor vehicles and equipment maintenance	2,481	2,400
IX.	Law charges, fees and rewards	9,868	11,285
X.	Compensation and losses	429	516
		385,294	405,637

Update on the 4 Recommendations in Chapter 15 Local Property Tax

Recommendation 15.1 [Paragraph 15.72]

In order to ensure that the property register is up-to-date and that information is recorded accurately as ongoing maintenance work is carried out, Revenue should review the level of controls over the inputting and updating of information. One control that should be considered is regular comparisons of the register with Revenue's other systems.

Response –

Part agreed. The focus during the first year of implementation of LPT was to establish a property register and to refine the register on foot of large volumes of information received from property owners. This resulted in the alteration of many property records. Further adjustments to the register were required for the household charge project.

Systems and processes for the ongoing maintenance of the register are continuing to evolve. As Revenue moves to the post-implementation phase and as the LPT systems are fully developed, it will be possible to allocate a resource to review the tranche of properties that have not yet been connected to liable persons. This review will include the examination of any records deactivated in error.

The comparison of the LPT register with Revenue's other tax registers is useful only where taxpayers use their property addresses for correspondence and where that address is up-to-date. Most PAYE taxpayers do not have any reason to correspond with Revenue on a regular basis and on-line filers have little reason to update their correspondence addresses. For these reasons, their records may not be up-to-date in this regard.

Update -

Work on refinement of the LPT Register has continued since the launch of LPT. Progress on this work has been assisted by a number of factors:

- An automatic update between Revenue's online e-Stamping system and the LPT register was implemented in October 2013 resulting in the Register being updated at the same time as stamp duty transactions are input.

- The level of Register related work items (600,000 have been processed since March 2013) has resulted in amendments to the Register where appropriate
- Cross checking of information between the LPT Register and other Revenue Registers also takes place on a case by case basis.

Recommendation 15.2 [Paragraph 15.73]

Property owners are required to estimate the value of their properties every three years for LPT purposes. Revenue should consider requiring information on basic characteristics of properties to be included in these returns.

Response -

Not agreed. Collection of data about individual properties was given serious consideration by Revenue at the LPT design stage and was decided against for a variety of reasons.

In addition, post-returns, Revenue has developed a process to assess and review valuation compliance and it is not clear that having this additional information on properties would offer significant assistance to the process.

Revenue is considering on an on-going basis options to improve the valuation model by capturing or collecting additional information from different sources that would place less burden on property owners. One option might be to seek information from Sustainable Energy Authority of Ireland (SEAI), which receives detailed property characteristics information through the Building Energy Rating (BER) certification process.

Update -

As regards the valuation process for 2016, Revenue is awaiting the outcome of Dr Don Thornhill's current review and details of any changes that the Government brings forward to the valuation process.

Recommendation 15.3 [Paragraph 15.74]

In order to address the risk that property owners in a location may generally return values that are lower than the market value of their properties, Revenue should consider how it can use up-to-date technologies, including mapping tools, to compare valuations with actual sales prices of properties and other macro-economic data available to it. Revenue should also consider carrying out in-depth, on-site reviews, on a sample basis, of properties in designated areas, in order to validate the valuations submitted by property owners.

Response

Agreed. Given the uncertainty in the property market on 1 May 2013, it is probable that site reviews are more likely to be relevant for one-off properties.

Revenue will be using a range of tools and data sources to assist with its evaluation for valuation compliance. This will include:

1. macro-economic assessment of valuations returned against third party sources of information to validate overall levels of valuations returned,
2. engagement with experts in this area (such as the Valuation Office) to ensure knowledge of any best practice in the field,
3. use of geographic information / systems driven analysis of returned valuations based on data that are geo-coded at the level of individual properties and grouped by locality (neighbourhood, small area, local authority, etc.),
4. comparing returns for a property against those of its nearest neighbours and the average for the location of the property using a reporting tool developed by Revenue's Information Communications Technology and Logistics Division, in consultation with its Economic Research Branch that readily identifies properties where the return valuation differs from the neighbourhood average (this tool can be refined to identify only those furthest from the average).

Update -

Valuation Compliance

Revenue initially focussed LPT compliance activity on return and payment compliance. Compliance level percentages in the high 90s have been achieved.

Property valuations have been challenged on an ongoing basis as a result of the clearance requirement for sale/purchase of properties. To date (June 2015) 448 property valuations have been rejected for clearance purposes.

Declared valuations have also been reviewed, by LPT Branch staff, in the course of processing correspondence and handling phone-calls. Since mid-2013, a total of 7,800 declared valuations have been adjusted upward. The bulk of these valuations were increased by three bands or less.

General Comment

Analysis to compare the valuations returned against third party data sources shows that self assessed valuations are broadly in line with expected levels. There is no evidence of widespread non-compliance in valuations, supporting the view that the majority of taxpayers made reasonable efforts to honestly and accurately value their properties.

Use of up to date technologies/mapping tools

The majority of Revenue's LPT properties has been geo-coded and mapped down to individual-property level. Once mapped, it is also linked to publicly available information such as Google Maps and Google Streetview, to further assist case workers in profiling potentially non-compliant valuations.

Revenue has also developed a reporting tool that compares returns for a property against those of its neighbours. Outlier cases can be then profiled, based on other Revenue or third party information, to identify any potential reasons for their differing valuations.

Recommendation 15.4 [Paragraph 15.78]

Revenue should examine the validity of exemptions claimed under the unfinished housing estates category. Revenue should also consider what additional review of other exemptions claimed should be carried out.

Response

Agreed. Revenue has already engaged in the process of compliance checks on exemption claims and will continue to do so across the various exemptions on a risk basis as is appropriate for a self-assessed tax. The onus is on the property owner to declare their liability to, or exemption from, LPT. The LPT Act provides for the application of penalties for false declarations. A dedicated exemption/deferral team has been established in Revenue's LPT Branch for the purpose of assessing and reviewing claims for exemption. To date, a total of 22,700 reviews of claims for exemption have been completed. It is estimated that approximately 14% of reviews relate to the unfinished housing estate category.

Work is on-going on the review of exemptions and the household charge project has brought additional scrutiny to the unfinished housing estates category. It is also clear that property owners can be confused with regard to this exemption where neighbouring properties are exempt, and some were exempt for household charge but are not exempt for LPT. As a result, contact has been made with a number of local authorities to confirm and clarify the full extent of unfinished housing estates within their catchment areas. The exemption team is currently focusing attention on a small number of large estates where the delineation between exempt and non-exempt properties is unclear.

Update –

Properties located in 'unfinished' housing estates must be included on a 'prescribed list' that is approved by the Minister for the Environment, Community and Local Government in order to qualify for an exemption from LPT. Revenue has no input to the compilation of the ‘prescribed list’. The number of ‘unfinished housing estate’ properties identified by the Department of the Environment as exempt is 5,100

In excess of 4,900 ‘unfinished housing estate’ exemption claims have been received. Approximately 1,800 cases have been reviewed and contact has been made where there was doubt over entitlement to the exemption. Approximately 600 cases have had the exemption claim refused. The findings of the Exemption Team indicate that in ‘mixed estates’ where the delineation between exempt and non-exempt properties is unclear, up to 40% of claims submitted were invalid. However, apart from ‘mixed estates’, there is no evidence of the submission of invalid claims for the ‘unfinished housing’ estate exemption.

Update on the 2 Recommendations in Chapter 16 Taxation of Rental Income

Recommendation 16.1 [Paragraph 16.54]

In order to enable it to identify the source of tax yield from audits, Revenue should consider requiring officers to record the yield under a number of broad headings (e.g. retail, professional services, rental income) and collate this data. This could assist Revenue in using the outcome of audits, including random audits, to inform its targeted interventions.

Response -

Agreed. Planning for the development of a new Revenue Case Management (RCM) system is too far advanced for the recommendation to be considered for the live release but Revenue will consider the recommendation in due course for possible inclusion in later phases of RCM. However, factors that need to be taken into account in considering the recommendation include

the clarity and reliability of the existing approach which is based on the universal NACE code system

the cost of implementing the necessary system changes versus the value added

the very wide variety of reasons for audit yield (the broad headings suggested would not appear to be granular enough to produce the desired results)

the additional overhead for caseworkers in providing the necessary level of detail required to contribute in a meaningful way to improved case targeting.

Update -

The first phase of the new Revenue Case Management (RCM) system goes live next week. The new system represents a significant upgrade to the current Integrated Case Management (ICM) system which has been in operation since 2005. Some related elements of the new system have already been released to case-workers and these have already assisted in improving both taxpayer and risk profiling. They include:-

- new Customer and Risk Profile screens;

- a VAT Summary Screen, consolidating all VAT data in spreadsheet format;
- a Data Query Tool that allows caseworkers to query underlying taxpayer data easily.

This major release of RCM that goes live next week is the first phase in a series of planned phases that will further enhance RCM over the course of 2016 and 2017. Depending on caseworker experience in using the new system and its enhanced features, Revenue will examine the effect it will have on targeting cases and on case-working in general. Part of that evaluation will include examining the need for officers to record yield under a number of broad headings as suggested by the Comptroller and Auditor General in his recommendation or, to consider whether similar information can be obtained from the new system without the additional overhead for caseworkers.

Recommendation 16.2 [Paragraph 16.55]

In order to enable it to match records from letting agents with its taxpayer records efficiently, Revenue should consider providing a facility for the electronic filing of returns from letting agents by way of the Revenue On-Line System (ROS).

Response -

Agreed. Revenue will consider providing the facility for the electronic filing of returns from letting agents via ROS. This particular return, Form 8-3, is one of a number of third party returns that are required to be filed annually. It seems practical, when considering the ROS filing approach, that Revenue consider a generic ROS filing option for all mandatory third-party returns. This will have resource implications both for ROS and for the systems where the data on these returns will be stored. The timeframe in which such a development can be delivered will be determined following a scoping exercise which will be carried out as soon as resources permit.

As always when considering a new development, Revenue will also examine whether the business process can be streamlined.

Update -

As previously indicated, Revenue agrees that the filing of third party returns by letting agents, using the Form 8-3, should be done electronically through ROS. However, the resources are currently not available to carry out the development work required to implement the proposal. In addition, Revenue anticipates that such a development could be extended to facilitate the filing of similar third party returns through ROS and this will require further business analysis to identify the additional opportunities.

Revenue, however, currently facilitates the electronic filing of the Form 8-3 by letting agents by providing a downloadable spreadsheet on the Revenue website which can be submitted using our secure email system. Completed forms are received centrally within Revenue's Planning Division, where they are collated and made available to Revenue Districts for viewing. In addition, Revenue has recently removed the paper version of the Form 8-3 from our website which ensures that the return form, where requested by an Inspector of Taxes, or where filed voluntarily by the letting agent, is now filed electronically.

In tandem with reviewing the range of third party returns that could be filed in the future through ROS, Revenue will also consider how the individual rental property details from the Form 8-3 can be integrated into Revenue's various risk systems.