22 November 2019

Mr. Pat Fannin,
Committee Secretariat,
Committee of Public Accounts,
Leinster House,
Dublin 2.

Dear Mr. Fannin,

I refer to your letters of 4 and 15 November 2019 and invitation to attend a meeting on 28 November to assist the Committee in its examination of Revenue’s Appropriation Account 2018, the Account of the Receipt of Revenue of the State 2018 and Chapters 17 and 18 of the 2018 Annual Report of the Comptroller and Auditor General.

Both of the Comptroller’s recommendations in Chapter 17, on Tax compliance interventions, are agreed and my responses to them have been reflected in full in the Comptroller’s report, which was published on 30 September 2018.

I attach, as requested, a briefing paper covering the Revenue Account 2018, tax compliance activity, the administration of film relief, and Revenue’s Appropriation Account 2018 at Appendix 1.

For the information of the Committee, I also enclose links, at Appendix 2, to certain publications by Revenue this year and to the Revenue guidelines on the administration of the tax relief on film production under the new self-assessment regime.

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

Yours sincerely,

Niall Cody,
Chairman.
Briefing paper for the meeting of the Committee of Public Accounts

on 28 November 2019

Introduction and the Revenue Account

Against a backdrop of continued strong growth in the Irish economy, in 2018 Revenue collected total gross Exchequer receipts of €77.27billion, including €14.1billion in non-Exchequer receipts collected on behalf of other Government Departments and Agencies. Net Exchequer receipts for 2018 was €54.6billion, representing an increase of €4.04billion or 8% over 2017 figures. Up to the end of October this year, Exchequer receipts have exceeded €44billion, some €3billion more than the equivalent period last year. Voluntary compliance rates continue to improve, underpinned by Revenue’s ongoing programmes of modernising and investing in our tax and duty systems, including debt-collection. Revenue works closely with the Minister and the Department of Finance who determine fiscal policy and engages actively across Departments at many different levels, including in preparation for the withdrawal of the United Kingdom from the European Union. Revenue continues to enjoy high levels of satisfaction in taxpayer surveys and being highly rated internationally as a leading tax and customs administration.

The following table shows the breakdown of receipts for 2018:

<table>
<thead>
<tr>
<th>Category</th>
<th>2018 €m</th>
<th>2017 €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax, Income Levy &amp; USC</td>
<td>23,470</td>
<td>22,076</td>
</tr>
<tr>
<td>Value-Added Tax</td>
<td>19,340</td>
<td>17,903</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>11,442</td>
<td>9,347</td>
</tr>
<tr>
<td>Excise</td>
<td>5,476</td>
<td>5,902</td>
</tr>
<tr>
<td>Stamp Duties</td>
<td>1,525</td>
<td>1,220</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>1,023</td>
<td>842</td>
</tr>
<tr>
<td>Capital Acquisitions Tax</td>
<td>527</td>
<td>466</td>
</tr>
<tr>
<td>Customs</td>
<td>327</td>
<td>335</td>
</tr>
<tr>
<td>Local Property Tax</td>
<td>0¹</td>
<td>482</td>
</tr>
</tbody>
</table>

¹ Changes introduced by The Water Services Act 2017 provide that, with effect from 1 January 2018, LPT receipts are no longer transferred to the Exchequer but to the Local Government Fund which is managed by the Department of Housing, Planning & Local Government. LPT receipts of €488million in 2018 are therefore included in non-Exchequer receipts.
<table>
<thead>
<tr>
<th>Non-Exchequer Receipts Collected on behalf of other Departments and Agencies</th>
<th>14,137</th>
<th>12,383</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>77,268</strong></td>
<td><strong>70,956</strong></td>
</tr>
</tbody>
</table>

**Tax compliance interventions**

**Overview**
Ireland has a self-assessment tax system. It is a fundamental principle of self-assessment tax systems that returns filed by compliant taxpayers are accepted as the basis for computing tax liabilities. Revenue promotes voluntary compliance with the tax system by making it as easy as possible for taxpayers to pay the right amount of taxes and duties at the right time. Through its 'service for compliance' approach, Revenue's focus is to provide more user-friendly ways to enable taxpayers to meet their tax and duty obligations, including through digital channels. Revenue strives to prevent non-compliance by the minority of people who choose not to comply with their obligations by pursuing those who do not file returns, by auditing selected returns and by taking appropriate action against tax and duty evaders up to and including investigation and prosecution.

Revenue intervenes against non-compliance for a variety of reasons:
- To protect the Exchequer
- To assure as to the accuracy of self-assessment returns
- To influence compliance behaviour
- To provide a level playing field for all taxpayers
- To minimise the distortive effects on legitimate business caused by the shadow economy.

The type of intervention to be undertaken in any particular case is the one considered to be the most appropriate to target the specific risk or risks identified, and to influence the compliance behaviour of the taxpayer. By carefully selecting the cases for intervention, and carefully choosing the type of intervention, Revenue maximises the use of resources and minimises the compliance burden on compliant taxpayers.

**Compliance Strategy**
Revenue has made a strategic shift in recent years to increase the number of less-intrusive non-audit interventions. By increasing the focus on non-audit interventions, coverage of potential risk can be increased and resources can be focussed more effectively on the biggest risk cases. Non-audit interventions involve the verification of documentation and
requesting additional information in order to address specific risks whereas, in the majority of cases, audit interventions involve an in-depth examination of the taxpayer's books and records. Revenue continuously assesses the appropriateness of interventions.

Revenue's organisational structure was further developed during 2019 to ensure that the alignment of resources with risk is optimised and a high-quality service to support taxpayer compliance is delivered. Revenue moved from a single Large Cases Division and four geographically-based Regions to a new structure that is based on a nationally segmented customer base – five new national Divisions are built around specific customer segments and every taxpayer is now managed by Revenue, from a service and compliance standpoint, by one of the new Divisions. The only impact for the purposes of a taxpayer's engagement with Revenue is that in certain instances, new teams or new individuals will be looking after that engagement on the Revenue side. As part of that structural realignment, the old Large Cases Division was divided into two distinct Divisions - Large Corporates Division and High Wealth Individuals Division – with the aim of providing customer services and conducting targeted, risk-based, compliance interventions in respect of the tax and duty affairs of the State's large corporates and HWIs, regardless of geographic location, and identifying and challenging avoidance schemes. In relation to the High Wealth Individuals Division, Revenue carried out a comprehensive review of the case-base which included a recommendation to lower the threshold to a wealth of greater than €20m for inclusion in the category of taxpayer to be managed by that Division. The recommendation, which was agreed by Revenue's Board, was implemented and resulted in an additional 475 cases being managed by the Division.

Revenue has recently developed a new statement of strategy for 2020 to 2022. In it, Revenue commits to developing further its compliance frameworks to make it easier for taxpayers to comply and reduce further any opportunities for non-compliance. The use of data analytics and intelligence will be strengthened to better target tax and duty evasion, fraud, organised crime, drugs and other illicit trade and smuggling. Priorities for 2020 include building on the real-time reporting regime brought about by the recent modernisation of the PAYE system by expanding real-time reporting to Dividend Withholding Tax and scoping options and timelines associated with Value-Added Tax.

Compliance Activity

During 2018, Revenue achieved 98% return and payment compliance rates for medium-sized businesses while debt available for collection as a percentage of gross receipts fell. A
total of 580,757 compliance interventions were carried out in 2018, resulting in a yield of €572.1m, with a total of 21 cases of serious tax and duty evasion being criminally convicted. The following table illustrates intervention activity for 2018 and 2017:

<table>
<thead>
<tr>
<th>Type of Intervention</th>
<th>Completed 2018</th>
<th>Yield €m</th>
<th>Completed 2017</th>
<th>Yield €m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Audits</td>
<td>2,896*</td>
<td>119.5</td>
<td>2,978*</td>
<td>111.2</td>
</tr>
<tr>
<td>Multi Tax/Duty Audits</td>
<td>648</td>
<td>27.8</td>
<td>775</td>
<td>28.1</td>
</tr>
<tr>
<td>Single Tax/Duty/Issue/Transaction</td>
<td>1,391</td>
<td>108.3</td>
<td>1,533</td>
<td>64.5</td>
</tr>
<tr>
<td>Audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Audit Interventions</td>
<td>4,735</td>
<td>255.6</td>
<td>5,288</td>
<td>203.8</td>
</tr>
<tr>
<td>Aspect Query</td>
<td>83,266</td>
<td>278.5</td>
<td>87,340</td>
<td>247.2</td>
</tr>
<tr>
<td>Profile Interview</td>
<td>5,078</td>
<td>19.2</td>
<td>3,943</td>
<td>20.2</td>
</tr>
<tr>
<td>Appraisal (no further action)</td>
<td>96,704</td>
<td></td>
<td>110,320</td>
<td></td>
</tr>
<tr>
<td>Assurance Checks</td>
<td>366,813</td>
<td>7.2</td>
<td>416,662</td>
<td>7.9</td>
</tr>
<tr>
<td>PAYE Checks</td>
<td>34,161</td>
<td>11.6</td>
<td>32,006</td>
<td>12.6</td>
</tr>
<tr>
<td>Total Non-Audit Investigations</td>
<td>576,022</td>
<td>315.5</td>
<td>650,271</td>
<td>288.1</td>
</tr>
<tr>
<td>Total Interventions</td>
<td>580,757</td>
<td>572.1</td>
<td>665,557</td>
<td>491.9</td>
</tr>
</tbody>
</table>

To the end of October 2019, Revenue has completed 2,560 audits and investigations and 385,173 non-audit compliance interventions, which have yielded a total of €408.9m.

**Tax relief on film production**

Tax relief on film production is available to film producer companies on particular expenditure on qualifying films, provided certain conditions, as laid out in statute and regulations and as specified in the film certificate, are met. The relief is provided by section 481 of the Taxes Consolidation Act, 1997 (TCA) and is calculated at 32% of (a) the lowest of eligible expenditure, (b) 80% of the total cost of production of the film or (c) €70million. The relief may be claimed against a producer company’s corporation tax liabilities. Where the relief due is greater than the tax due, a payment of the excess relief will be made by Revenue. An increased percentage of relief of between 34% and 37%, depending on the year of claim, is available until 31 December 2022 in respect of films which are produced primarily in certain regions; this is referred to as the “Regional Film Development Uplift”.

Revenue's administration of Film Corporation Tax Credit has changed significantly during 2019 due to the introduction of self-assessment. Up to 27 March 2019, claims submitted by production companies were reviewed and approved by Revenue. Revenue would only approve applications which had received authorisation from the Minister for Culture, Heritage and the Gaeltacht. Following commencement of the Finance Act 2018, applications for relief after 27 March 2019 were brought under the self-assessment regime and Revenue is no longer directly involved in the application process; instead, claims under section 481 are subject to Revenue's Code of Practice for Revenue Audit and other Compliance Interventions. This Code is a set of guidelines outlining the processes that must be followed by Revenue, taxpayers and tax practitioners when Revenue is conducting enquiries and it provides for possible penalties and prosecutions where incorrect claims are made. Under the self-assessment basis, the administration of the film corporation tax credit has been separated into two steps: the first step involves the certification of a film as a 'qualifying film' by the Minister for Culture, Heritage and the Gaeltacht while the second step involves the producer company making a claim for credit relief through Revenue's Online Service (ROS). A 'qualifying film' is a film for which the Minister has issued a cultural certificate under section 481(2) of the TCA. In anticipation of the move to self-assessment with effect from 27 March 2019, section 26 of Finance Act, 2018 provided for certain transitional arrangements for applications already in progress at that date. Comprehensive Revenue guidelines on film relief were revised in October 2019 to include the transitional arrangements for existing applications and guidance on the self-assessment system for new applications.

In 2019, Revenue has approved €33million in film tax credit for 2018 in respect of 51 applications under the old regime; a further 47 cases have claimed relief for 2018 of €39million under self-assessment which, in the normal course, will be risk-assessed by Revenue to determine the appropriate level of any compliance interventions to be undertaken.

**Appropriation Account 2018**

Revenue had 6,255 staff serving at the end of 2018 and €302.9 million of Revenue’s €425.5 million expenditure related to salaries. The other main item of expenditure was on ICT, which accounted for €56.83m in 2018.

In light of significant investments by Revenue in its ICT capability over the past decade, the Department of Public Expenditure & Reform undertook a value-for-money review of spending in 2018. The Department's report, which was published in July 2018, acknowledged the progress achieved by Revenue's in the digitalisation of its services and that by sharing its ICT experience, Revenue contributes to the wider eGovernment agenda
and the wider international agenda, for example, through the OECD Forum on Tax Administration.

With regard to procurement, the Statement on Internal Financial Control noted that Revenue did not comply with DPER procurement guidelines in respect of expenditure of €4.4 million.

The details of these payments are as follows:

- €527,260.79 relating to long standing contracts for telephonist services including €472,300 was paid to Eir during 2018 for the provision of telephonists. This historical contract covers the provision of telephonists for Government Departments. The telephonists were originally provided by the Department of Post & Telegraphs and the original contract dates back to the foundation of State. As the service provider changed from the P&T to semi-state (as Telecom Eireann) and into privatisation (as Eircom), the contract was rolled over. Eircom outsourced the provision of staff to Manpower in 2000, but Eircom (now trading as Eir) has continued to manage the service for Revenue and other Departments. Revenue has phased out the use of external telephonists with the outstanding contracts having been ceased with effect from 30 September, 2019.

- €2.141 million relating to security contracts. The delay in running mini competitions under a new Office of Government Procurement (OGP) framework arose due to the time required for Revenue to assess requirements on a national basis across multiple locations. The reason for running this assessment was to ensure efficient deployment of security for certain Revenue buildings and to replace, where possible, costly static security. It was necessary to carry out this exercise before commencing new contracts. New contracts, the tender-processes of which complied with DPER guidelines, were put in place in December 2018.

- €1.037 million relating to the contract for the operation of the State warehouse. A tender competition was held in 2018 by the OGP for a contract to supply operatives and to manage transportation and disposal in the State Warehouse. The OGP tendering process was unsuccessful in appointing a supplier and a new tender competition, run by Revenue, was successfully concluded and a new contract was put in place on 1 May, 2019. Due to the failure of the OGP tendering process, Revenue had no option other than to extend the existing contract. This extension was determined as non-compliant by the C&AG.

- €765,000 relating to various services including mobile telephony and fuel cards. A breakdown of the main items of expenditure is as follows:
• Fuel Cards – €179,328.60

In August 2019, Revenue signed up to a direct drawdown from an OGP framework for the supply of fuel. Prior to this, Revenue was sourcing fuel from a supplier under an expired OGP framework while the OGP put in place a replacement framework.

• Mobile Telephony Services (Primary and Secondary Service Providers) – €551,136.30

This relates to the rollover of contracts for both the primary (Three Ireland Ltd.) and secondary (Vodafone Ireland Ltd.) service providers. Revenue is in the process of completing a mini competition from an OGP framework to enter into a contract for mobile telephony services. It is expected that a new contract for mobile telephony services will be awarded in January 2020.

• Vehicle Maintenance Dublin area – €34,104.80

Revenue vehicles in the Dublin area were being serviced by the same company. Revenue has been using an OGP framework for servicing all official vehicles from 1 March 2019.

Revenue publishes details of all payments over €20,000 on a quarterly basis and these details are available at the following link: https://www.revenue.ie/en/corporate/statutory-obligations/procurement/payments-greater-than-20000.aspx
Appendix 2

Revenue publications

- Revenue’s Annual Report for the year ended 31 December 2018

- Report of Corporation Tax payments 2018 and returns 2017

- Report of VAT payments and returns

- Survey of Chargeable Persons

- Oil random Sampling Programme 2018

- Illegal Tobacco products research- Survey results 2018

- Tobacco products Survey Methodology note

Revenue guidelines

- Guidelines Section 481 Film Corporation Tax Credit