Opening Statement of Niall Cody, Revenue Chairman,

to the Committee of Public Accounts on

8 December 2022

Thank you, Chairman, for the opportunity to make my opening statement.

I understand that today's meeting is to focus on the 2021 Account of the Receipt of Revenue of the State, the 2021 Appropriation Account, Chapter 15: Collection of VAT on e-commerce, Chapter 16: Revenue's suspension of periodic reviews of tax clearance certificates, Chapter 17: Overstatement of certain unallocated tax deposits and Chapter 4: Reallocation of voted funds.

I am accompanied today by Commissioner Ruth Kennedy, Dermot Donegan, Principal Officer, VAT Legislation and Angela O'Gorman, Principal Officer, C&AG and Committee liaison.

In the context of today's discussions, I draw the Committee's attention to section 851A of the Taxes Consolidation Act 1997 and my obligation to uphold taxpayer confidentiality.

Account of the receipt of Revenue of the State 2021

In 2021, Revenue collected total gross receipts of €96.6 billion, including €17.5 billion in non-Exchequer receipts collected on behalf of other Government Departments and Agencies.

The net Exchequer receipts of €67.5 billion were up by 20% or almost €11.3 billion on 2020. The net receipts for Corporation Tax were €15.3 billion (up 29%), Income Tax €26.7 billion (up 18%) and VAT €15.4 billion (up 23%).

Up to the end of November this year, the net Exchequer receipts collected by Revenue were over €76 billion, some €15 billion or 25% more than the same period last year.

Revenue's Appropriation Account 2021

Revenue's gross expenditure in 2021 was €489 million compared with €467 million in 2020, an increase of over €21 million or 5% overall. The increase in 2021 over 2020 primarily relates to ICT expenditure and pay.

Revenue had 6,535 staff serving at the end of 2021, with €340 million of Revenue's €489 million expenditure related to pay. The other main item of expenditure was on ICT, which accounted for some €73 million in 2021.

Collection of VAT on e-commerce

In Chapter 15 of the Report on the Accounts of the Public Services 2021, the Comptroller reviewed Revenue's management of the capture and collection of VAT due on e-commerce. e-Commerce is an integral part of the economy and integral to the trade of most businesses. In 2014, at the start of the Base Erosion and Profit Shifting (BEPS) project, the OECD Task Force on the Digital Economy (TFDE) issued an interim report which considered the tax challenges raised by the digital economy and stated that it would be difficult, if not impossible, to ring-fence it from the rest of the economy for tax purposes. This is a view shared by the European Commission and Member States who have been very active in bringing in legislative changes that have transformed the VAT compliance landscape for e-commerce cross-border transactions.

Revenue has been centrally and actively involved in developing responses to the evolving e-commerce trade for over 20 years at both domestic and international level. Those innovative responses improved compliance, increased tax revenues, reduced VAT fraud, simplified the administrative burden for businesses involved in cross border trade and allowed EU businesses to compete on an equal footing with their non-EU competitors.

eCommerce is now an integral part of business particularly having regard to changed consumer behaviour arising from the UK's departure from the EU and Covid-19. Next week, the EU Commission will present new legislative proposals on the 'VAT in the Digital Age' package to Member States. This will further enhance the modernisation of the EU VAT system to respond to the challenges of e-commerce and we will continue to engage at EU level on these. In our submission to the Commission on Tax and Welfare we've highlighted the need to modernise the VAT reporting system to reflect changes in business and accounting systems.

I am satisfied that the integrated risk management approach by Revenue together with the wide-ranging legislative changes outlined to combat cross border fraud and abuses significantly mitigate the risks associated with e-commerce. However, there is always more to be done, our compliance management strategy is not fixed and is something we keep under continuous review.

Suspension of periodic reviews of tax clearance certificates

In Chapter 16, the Comptroller reviewed Revenue's suspension of periodic reviews of tax clearance certificates.

In summary, in line with a policy decision in March 2020, at the start of the Covid-19 pandemic, tax clearance remained in place for taxpayers until formally rescinded by Revenue and no applicant for the State support schemes, whether EWSS, CRSS or BRSS, received a support payment in the absence of tax clearance. Equally, no payments were made after the rescinding of tax clearance.

In effect, what was delivered was not a suspension of tax clearance but rather an extension of the then existing tax clearance status as of a specific time in March 2020. This cohort of cases were tax compliant taxpayers at that point in time. I believe it is important to have regard to the fact that the Debt Warehousing Scheme provided for the non-payment of certain current taxes as they arose and the parking of those debts in the warehouse, initially on an interest free basis.

The retention of tax clearance status was, therefore, a pragmatic and administratively straightforward approach by Revenue that aligned fully with the provisions of the Debt Warehousing Scheme during the pandemic.

Overstatement of certain unallocated tax deposits

In Chapter 17, the Comptroller reviewed the 2021 Revenue account in respect of unallocated tax deposits or UTD.

As a result of the Comptroller's audit finding, we undertook a reconciliation project in early 2022 and the amount of €32.5 million for audit tax settlements has now been correctly reclassified to the appropriate tax heads. I can reassure the Committee that taxpayer records were not affected, and the funds were promptly transferred to the Exchequer as they were received.

The C&AG recommended that an automated solution would be implemented to prevent a reoccurrence. This recommendation was implemented in October 2022. This system development reduces the steps necessary for the allocation of monies into a one step process, streamlining the process and reducing the risk of manual intervention or error going forward.

Reallocation of voted funds

Chapter 4 of the Comptroller and Auditor General's Report examines a number of cases where there was a re-allocation of voted funding from one or more programme subheads to other subheads. Revenue is one of a number of examples provided in this chapter. The Secretary General of the Department of Public Expenditure and Reform (DPER) discussed these instances with the Committee at his appearance on 20 October 2022.

Revenue continues to engage with the DPER in relation to issues regarding the allocation of funds.

Covid 19 Expenditure

Revenue implemented a range of measures to support businesses that suffered cashflow or trading difficulties as a result of Covid-19. The Chapter in the Comptroller's Annual Report details payments of €395 million under the Covid Restrictions Support Scheme and the Business Resumption Support Scheme between March 2021 and February 2022.

Revenue implemented a range of Covid supports to business from March 2020 to April 2022 totalling over €10.2 billion.

In addition, there was just under €2.5 billion of **debt warehoused** at 30 November 2022.

Other issues

Chapter 14 of the Comptroller's Report examines the classification of workers for PRSI purposes and considers issues around the classification of employment/self-employment status. As the economy has come through the pandemic and employment has recovered strongly many sectors are having challenges recruiting workers. Our engagement with business through real-time payroll reporting and the implementation of the various subsidy schemes has given us valuable insights into business activity. While there continues to be strong levels of voluntary compliance for which I commend taxpayers and agents, I have a concern that there is a growing trend in shadow economy activity with a growth in 'cash only trades', off-books payments, irregular employment agency/sub-contractor practices, identity hi-jacking, etc., resulting in the non or partial operation of the tax and PRSI system. We already have and over the next couple of years we will continue to have a renewed focus on tackling these risks through the use of data, enhanced reporting requirements, increased compliance activity and the continued transition to real-time reporting to support legitimate business, their employees and the State.

The Committee have also expressed interest in the issue of tax on e-gambling for which I have provided briefing.

Conclusion

The last couple of years presented unprecedented challenges in how and where we work. Revenue staff have risen to these challenges. I would like to take this opportunity to thank Revenue staff for their resilience, commitment and professionalism. Their engagement and dedication enable Revenue to be an adaptable, responsive and a high performing organisation.

Finally, I will draw the Committee's attention to section 851A and my obligation to uphold taxpayer confidentiality. Subject to this constraint, I am happy to answer the Committee's questions.

Thank you.