

VOTE 9. - OFFICE OF THE REVENUE COMMISSIONERS

6. Revenue Account

Basis for Audit

An account showing all revenue received and paid over to the Exchequer by the Revenue Commissioners is furnished to me annually. I am required under Section 3 of the Comptroller and Auditor General (Amendment) Act 1993 to carry out such examinations of this account as I consider appropriate in order to satisfy myself as to its completeness and accuracy and to report to Dáil Éireann on the results of my examinations. The results of my examinations have been generally satisfactory except for the matters referred to in paragraph 7.

I am also required under Section 3 of the Comptroller and Auditor General (Amendment) Act 1993 to carry out such examinations as I consider appropriate in order to ascertain whether systems, procedures and practices have been established that are adequate to secure an effective check on the assessment, collection and proper allocation of the revenue of the State and to satisfy myself that the manner in which they are being employed and applied is adequate. Paragraphs 13 and 15 to 18 refer to matters arising from this examination.

Revenue Collected

Revenue collected under its main headings was as follows

	1996 £m	1995 £m
Income Tax	4,579	4,129
Value Added Tax ^a	3,109	2,890
Excise	2,304	2,115
Corporation Tax	1,428	1,148
Stamps	332	286
Customs	162	201
Capital Acquisitions Tax	82	60
Capital Gains Tax	84	44
Residential Property Tax	14	12
Agricultural Levies	1	1
	£12,095m	£10,886m

The amount paid into the Exchequer was £12,087m leaving a balance of £2m owing to the Exchequer compared to a balance of £6m prepaid at the end of the previous year.

^a Extra-statutory repayments were made during the year of Value Added Tax £451,171 in respect of diplomatic privilege. These repayments were placed on a statutory footing with effect from 1 December 1996.

7. Taxpayer Remittances

Payments from taxpayers to the Revenue Commissioners are processed in the Office of the Collector General which is located in Limerick. At present, between 6,000 and 16,000 cheques are received and processed each day depending on the time of year.

The following matters were noted during the course of an audit carried out in the Office and were drawn to the attention of the Accounting Officer

- Totals of cheques received in the post room and despatched for processing were not recorded and reconciled to totals of cheques processed through the accounting records.

The Accounting Officer considered that the carrying out of such a reconciliation would impede productivity and seriously delay lodgments to the Exchequer. A balance had to be struck between the timely processing of payments and the extent of the checking and recording procedures and he was generally satisfied that the current supervisory controls and procedures in the post room and accounting procedures were adequate. However, an internal review of procedures in the Office was nearing completion and depending on the outcome of this review the Commissioners would give further consideration to the matter.

- Envelopes addressed to individual tax officials, even if they contained cheques, were for reasons of operational efficiency, sent unopened to the officials concerned who arranged for the lodgment of the cheques to the Commissioners' bank account and the processing of the transactions through the accounting records.

The Accounting Officer informed me that procedures had recently been revised and that all post was now opened in the post room and that cheques not processed immediately were logged so that their subsequent processing could be verified.

- The control over post-dated cheques was weak as no record was maintained of the receipt and subsequent processing of such cheques to ensure that they were all accounted for.

The Accounting Officer stated that with the expansion of the tax clearance scheme in recent years and the improved collection systems, there had been a significant increase in the number of post-dated cheques received which had placed a considerable strain on the existing largely manually based system. He recognised the deficiencies in the current arrangements and a new computer system is scheduled for delivery later in the year to address these deficiencies. He was satisfied that, in the short term, pending the introduction of the computer system, the supervisory controls in the area were generally adequate to ensure that all post-dated cheques were accounted for. The policy is to eliminate the use of post-dated cheques as far as possible and to secure maximum payment via direct debit.

- Cheques which for a variety of reasons cannot be processed directly on the automated processing systems are referred to a unit specifically set up to deal with such cases. The records maintained in this unit were not capable of showing whether or not all cheques referred had been or were in the process of being dealt with.

The Accounting Officer informed me that the format of the records had now been revised to ensure that all cheques were being accounted for.

- A number of instances were noted where the referencing to source documents was deficient giving rise to poor audit trails and difficulty in verifying the correctness and completeness of transactions in the accounting records. For example, there were no source or number references to journal vouchers authorising adjustments relating to moneys received from individual taxpayers, which made the tracing of transactions from the taxpayer records to prime documents and the test checking and review of the transactions by management extremely difficult.

The Accounting Officer acknowledged that the current systems had deficiencies and for these and other reasons a major new computer system was being developed which would eventually incorporate all taxes in an integrated processing system. One of the major benefits would be the provision of an audit trail for all amendments to taxpayer records. He also stated that pending the development of the new computer system, and taking account of the need to use resources as cost effectively as possible, the existing checking procedures were adequate to ensure the integrity of the taxpayer records, but that the matter would be considered further in the light of the outcome of the internal review.

- Computer control reports are produced of the various accounting transactions which have been posted to the individual taxpayer accounts for checking by the sections in the Revenue Commissioners having responsibility for these transactions. However, no reconciliations were completed between the totals of the transactions of the control reports after checking and the totals of transactions posted to the individual taxpayers' accounts which would have ensured the completeness of the data checked and provided additional assurance on the correctness of data posted to the individual taxpayer accounts and on the correctness of the individual balances on these accounts.

The Accounting Officer stated that due to the wide dispersal of input stations for non-money transactions, a central reconciliation was not carried out. He stated, however, that he was satisfied that the arrangements in operation throughout the organisation for the checking of edit lists in respect of these transactions generally ensured the accuracy and security of the transactions inputted.

- With the exception of excise duties, customs duties and taxes on imports, the vast bulk of remittances from taxpayers are received and processed in the Collector General's Office and recorded in individual accounts maintained in respect of each taxpayer. The recording of the receipts in the general financial ledgers from which the figures for the annual Revenue accounts are extracted is performed in the Accountant General's Office from information supplied from the Collector General's Office. While there were procedures for ensuring that the daily amounts notified by the Collector General to the Accountant General were correct, no reconciliations were carried out on a monthly or annual basis between the totals of the receipts recorded in the Accountant General's Office and in the Collector General's Office. Such reconciliations would strengthen the assurance that all receipts had been processed correctly in both offices and that accounting errors or irregularities, in the event of any occurring, would be detected.

The Accounting Officer stated that there were procedures currently in place for verifying and reconciling on a monthly basis all taxes and duties collected by the Commissioners. However, he also stated that, as part of an ongoing review of procedures, working groups had been set up early in 1997 to review accounting and reporting arrangements for Inland Revenue, Customs and Excise duties and VAT at point of entry. To ensure a consistent approach to these issues, the working groups report to a project director and steering group, and consultants have been

engaged to help with this work and to advise on best practices. The question of carrying out the suggested additional reconciliations had been identified as one of the issues to be considered by the working groups.

8. Write-Offs in 1996

The Revenue Commissioners have furnished me with details of taxes written off during the year ended 31 December 1996. The total amount £90,733,258 is made up as follows

Tax	1996		1995	
	No. of Items	Amount £'000	No. of Items	Amount £'000
VAT	2,560	38,244	2,242	34,561
PAYE	2,835	29,998	2,506	29,594
Corporation Tax	992	12,237	897	11,014
Income Tax	2,326	8,781	969	4,730
Other Taxes	167	1,473	84	609
	8,880	90,733	6,698	80,508

The distribution according to the grounds of write-off is :-

	1996		1995	
	No. of Items	Amount £'000	No. of Items	Amount £'000
Liquidation/Receivership/Bankruptcy	1,562	43,501	2,474	53,824
Ceased Trading - No Assets	5,794	37,940	3,300	22,309
Cannot be traced/Outside Jurisdiction	1,049	6,101	771	3,326
Compassionate Grounds	467	2,643	147	893
Examinership	8	548	6	156
	8,880	90,733	6,698	80,508

I have made a test examination of the cases and I am satisfied with the action taken.

It should be noted that the amount written off may overstate the actual liability as some of the items included in the arrears represent estimated assessments.

9. Proposed Change in Write-Off Procedures

Outstanding tax (including PRSI) in respect of all tax years up to 1994/95 amounted to £1,431m at 31 December 1996. The collectability of this tax is affected by a number of factors *viz*:

- £587m of the arrears relates to periods prior to the introduction of self assessment for Income Tax, is now more than 10 years old and has been the subject of the collection and enforcement cycle but nevertheless remains uncollected. The lapse in time, the reliability of the records and the basis on which assessments were raised can give rise to doubts as to its collectability.
- The rate of recovery from post-self assessment arrears of £246m for the period 1988-1991 is extremely low. The response to the post-1993 amnesty campaign shows that only some £30m has been discharged from the record as a result of that amnesty. With the very favourable terms on offer in the 1993 amnesty, this response suggests to the Revenue Commissioners that the possibilities for collecting tax for these years have been more or less exhausted.
- Estimated tax included in the overall arrears is £488m. Owing to the unsound nature of many of the pre-1991 VAT estimates raised, estimates raised for these years are regarded by the Revenue Commissioners as speculative rather than as quantified assessments. Similarly, they are of the view that pre-self assessment estimates for Income Tax may be overestimated.
- £401m is due from cases which have been cancelled by Inspectors of Taxes. A major share of this element of the arrears is uncollectable as the bulk of cancelled cases will have ceased trading.

The outstanding tax shown in the books of the Revenue Commissioners is therefore much greater than that which will be ultimately recovered. The Commissioners' very strict guidelines on the write-off of tax debts, which necessitates arrears being individually reviewed and other criteria being satisfied before amounts can be deleted from the records, also contribute to the high level of outstanding tax on the books.

As the Commissioners felt that there was no realistic chance of recovering much of the outstanding tax, they decided in early 1997 that the commitment of the level of resources necessary to pursue this tax would not be justified. They therefore proposed to revise their write-off procedures so that much of these old uncollectable arrears would be deleted from the records. The main changes included the use of automation to write off small amounts, enhanced efforts to be put into the task of reviewing doubtful debt, and the write-off of cases involving company liquidations at the beginning rather than at the end of the liquidation process.

The Commissioners informed me that they are hopeful that these measures will result in a significant reduction in the level of old book arrears and will provide a greater focus on the collection of current taxes and collectable arrears and lead to a more planned approach to debt management.

In response to a request by the Accounting Officer for my views on the Commissioners' proposals I stated that I was in broad agreement with the action proposed but pointed out the following

- The key risk associated with any widening of the write-off policy is that tax which is capable of being collected may be written off and therefore be lost to the State. The obvious aim should be to minimise if not eliminate that risk by designing control procedures for the different categories of arrears. There are a number of ways of classifying arrears. At one level a

distinction should be made between arrears which arise as a result of unsubstantiated estimated assessments and those which represent real liabilities. In the latter category a distinction would have to be drawn between tax which is uncollectable by virtue of the financial status of the individual or company and tax which is uneconomical to pursue.

- Having regard to the sharp initial increase in write-offs, internal audit be given a role in reviewing a defined percentage of cases for adherence to procedures and the increase will also call for a more extensive examination of write-offs by my staff.
- The Revenue policy of reinstituting collection action on written-off tax arrears should continue where circumstances change to an extent that the debt can be satisfied.
- It is important that the write-off procedures are not seen as giving the message that if Revenue demands are ignored for long enough they will go away. It will therefore be necessary to devise new headings under which write-offs can be classified to ensure that Revenue's actions are, and are seen to be, fair, equitable and reasonable. These are to be agreed with my Office with a view to facilitating their inclusion in my Report.

I noted that the proposals provided for the documentation of write-off procedures and the keeping of records for audit examination.

10. Outstanding Taxes and Levies

Table 1 was prepared on the basis of information furnished by the Revenue Commissioners and reflects the activities and transactions in the twelve month period ended 31 May 1997 - the latest date for which data was available at the time of finalising my Report.

Table 1 - Outstanding Taxes and Levies

	Balance at 31 May 1996 ^a	Charges/ Estimates Raised ^b	Paid	Dis- charged	Balance at 31 May 1997	Estimate of amount likely to be collected £m
	£m	£m	£m	£m	£m	£m
Income Tax (Excluding PAYE) ^c	720	996	952	91	673	244
VAT (Declared Liabilities Net of Repayments)	170	2,957	2,968	-	159	58
VAT (Estimates) ^d	281	39	148	-	172	25
PAYE (Declared Liabilities)	141	3,606	3,624	-	123	74
PAYE (Estimates) ^d	90	90	109	-	71	13
PRSI (Declared Liabilities)	167	1,875	1,899	-	143	64
PRSI (Estimates) ^d	64	67	80	-	51	9
Corporation Tax	268	1,600	1,478	159	231	42
Capital Gains Tax	69	116	116	13	56	15
Residential Property Tax	3	17	14	-	6	2
Capital Acquisitions Tax	3	83	82	1	3	2
Abolished Taxes	2	-	-	-	2	1
Total	1,978	11,446	11,470	264	1,690	549^e

Notes:

- The increase of £28m between the closing balance in the 1995 report and the opening balance for 1996, is accounted for by the inadvertent omission of outstanding balances due from certain VAT traders who operated the direct debit payment system or the annual remitter scheme.
- Net of write-offs.
- Includes Deposit Interest Retention Tax, Withholding Tax, PRSI for the self-employed, Health Contributions and Levies.
- Net of discharged estimates.
- The estimate of the amount likely to be collected takes into account factors such as:
 - ▶ anticipated reductions of estimated amounts included in balances brought forward from previous years.
 - ▶ the level of liquidations and business closures.
 - ▶ historical collection patterns.

11. Sheriffs and other Enforcement Measures

The Revenue Commissioners have supplied the following information regarding the collection of taxes from recalcitrant taxpayers in 1996 :

Sheriffs

Tables 2 and 3 summarise the results of enforcement action taken by Sheriffs on foot of certificates issued under Section 485 of the Income Tax Act 1967.

Table 2 - Certificates

		No. of Certificates	
		1996	1995
On hands of Sheriffs at 1 January		40,293	38,423
Referred to Sheriffs during the year		82,234	76,672
		122,527	115,095
Returned Paid	20,664		
Certificates withdrawn - alternative arrangements agreed with Revenue	16,895		
Returned unaccompanied by Payment	49,871 ^a	87,430	74,802
On hands of Sheriffs at 31 December		35,097	40,293

^a *These arise where*

- *tax returns or claims for repayment are later submitted*
- *companies have ceased trading or have left the address*
- *no distrainable goods are available*

Table 3 - Analysis under Tax Heads of Certificates on Hands

	No of Certificates	Value £m
VAT	14,336	64
PAYE/PRSI	11,443	50
Income Tax	8,200	28
Corporation Tax	1,079	6
Others	39	1
	35,097	£149m

The amount paid over to the Collector-General in 1996 by the Sheriffs was £60m compared to £75.8m in 1995. The Commissioners attribute the lower return to an increase in the number of taxpayers who responded to contact from the Sheriff by paying the Collector-General directly.

Solicitors

Two firms of solicitors are retained by the Revenue Commissioners to pursue cases which are deemed unsuitable for sheriff enforcement. In 1996 a total of 3,893 items (7,213 items in 1995) were referred to the two firms and the yield was £8.6m (£9.7m in 1995). The Revenue Solicitor also

pursues certain cases for recovery of tax. 112 items (89 items in 1995) were so referred in 1996 and the yield was £0.3m (£1.2m in 1995).

Attachment Orders

In 1996, power to attach amounts owed by third parties to tax defaulters was successfully used in 148 cases (199 cases in 1995) resulting in a yield of £1.4m (£2.5m in 1995).

12. Taxpayer Compliance with Self Assessment Requirements

The rate of taxpayer compliance with the requirements of the self assessment system in terms of returns submitted up to 31 May 1997 was :

Year ended 5 April				
Income Tax	1992/93	1993/94	1994/95	1995/96
No. of Returns issued	226,291	241,353	258,046	266,163
% Received 31/5/94	87%	*	*	*
% Received 31/5/95	96%	82%	*	*
% Received 31/5/96	98%	92%	79%	*
% Received 31/5/97	98%	96%	91%	84%

Year ended 31 December				
Corporation Tax	1992	1993	1994	1995
No. of Returns issued	67,180	69,047	71,671	73,131
% Received 31/5/94	69%	*	*	*
% Received 31/5/95	77%	70%	*	*
% Received 31/5/96	81%	79%	73%	*
% Received 31/5/97	83%	82%	79%	74%

* - not applicable

Details of prosecution action in 1996 for failure to file Income Tax and Corporation Tax returns is as follows :-

Court Cases	Income Tax	Corporation Tax	Total
Cases awaiting court hearing 1 January 1996	170	72	242
Legal proceedings instituted	<u>642</u>	<u>132</u>	<u>774</u>
	812	204	1,016
Cases heard	<u>319</u>	<u>43</u>	<u>362</u>
Cases awaiting court hearing 31 December 1996	493	161	654

Fines were imposed in all cases heard to a total value of £170,500 in 1996.

13. Revenue Audit Programme

An effective tax system must incorporate procedures for verifying the validity of the returns submitted by taxpayers. This involves the desk checking of returns for completeness, accuracy and reasonableness and on-the-spot inspection or audit of documents and records.

The majority of audits carried out by the Revenue Commissioners are specific to taxheads, like VAT and PAYE, but a significant number of comprehensive audits are also carried out which may focus on all or any taxes payable but in practice are primarily aimed at Income Tax, Corporation Tax and Capital Gains Tax. There is also a body of work which comes under the general category of Revenue audit arising out of the activities of the investigation and anti-avoidance branches.

Revenue audit activity is a key element of the tax collection system and in this context I noted that the number of audits completed by Revenue had fallen from 23,294 in 1995 to 19,767 in 1996 while there was a reduction in the tax yield from £148m to £141m. The outcome of the Revenue audit programme is summarised in Table 4.

In response to my inquiries regarding the factors underlying the reduction in the number of audits my Office was informed by Revenue that:

- The scope and extent of the audit programmes, in general, reflects Revenue's professional assessment from year to year of where tax is most at risk and where resources might therefore be devoted to best effect.
- The reduction in the overall number of Revenue audits in 1996 (as compared with 1995) is due primarily to a change in strategy under which
 - ▶ some resources were switched from single taxhead audits in the VAT and PAYE areas to comprehensive audits
 - ▶ audit resources were moved to larger cases which take more time to audit — this has led to a higher yield on average per case.
- Additional training reduced the number of available audit days during 1996.
- The involvement of more staff in local collection meant a shift of some staff resources from audit during 1996.
- In 1995 and 1996 approximately 6-7% of the relevant taxpayer base (338,000 individuals and companies) had their returns examined under at least one of the audit programmes. However, as the focus of the audit programmes is on the larger cases, it means that proportionately a higher figure than 6-7% of the larger cases are audited.
- The reduction in the yield from anti-avoidance work reflects
 - ▶ the long-term nature of challenging avoidance schemes and the size of tax loss associated with each scheme
 - ▶ the strengthening of anti-avoidance legislation in recent years which leaves less scope for avoidance.

- ▶ the clearing of a backlog of small low-yielding cases in the Anti-Avoidance Unit.
- ▶ the Anti-Avoidance Unit's role in advising Audit Districts on issues which should be addressed by Auditors.
- The reduction in the number of Capital Acquisitions Tax audits is mainly due to a greater emphasis on high risk cases.

Table 4 - 1996 Revenue Audit Programme

(i) Audits Completed

<i>Audit Type</i>	1996		1995	
	No. of Audits Completed	Yield £m	No. of Audits Completed	Yield £m
Comprehensive Audits	3,969	69.21	4,058	53.1
VAT	8,424	33.04	10,351	37.3
PAYE Employers	5,358	19.54	6,437	22.0
Capital Acquisitions Tax	315	2.60	446	2.5
Relevant Contracts Tax	1,582	7.99	1,820	10.3
Investigation Branch	90	5.95	144	14.4
Anti-Avoidance	29	2.42	38	8.4
Total	19,767	£140.75m	23,294	£148.0m

(ii) Comprehensive Audit Results

As part of the self assessment system comprehensive audits are carried out following review of returns made for Income Tax and Corporation Tax purposes. The result of this audit activity is as follows:

Audit Activity	Total		Income Tax Returns		Corporation Tax Returns	
Audits in progress at 1/1/1996	2,313		1,374		939	
Audits initiated in 1996	<u>3,550</u>		<u>2,347</u>		<u>1,203</u>	
Total		5,863		3,721		2,142
Returns accepted	981		590		391	
Cases closed with additional liability	<u>2,988</u>	3,969	<u>2,003</u>	2,593	<u>985</u>	1,376
Referred to Investigation Branch		20		9		11
Audits in Progress at 31/12/1996		1,874		1,119		755

(iii) *Yield from Comprehensive Audits*

Income Tax Returns		No.	As % of Total	Yield £	As % of Yield
Returns Accepted - No additional tax payable		590	23	-	-
<i>Agreed Settlements</i>					
£1 - £5,000	998		38	2,495,741	10
£5,000 - £50,000	891		34	11,671,599	48
£50,000 - £100,000	46		2	3,033,977	13
Over £100,000	<u>21</u>	1,956	1	6,057,683	25
<i>Referred to Collector General for enforcement action (a)</i>		27	1	674,000	3
<i>Settled by Restriction of Losses Carried Forward to Future Years (b)</i>		20	1	266,000	1
Totals		2,593	100	24,199,000	100

Corporation Tax Returns		No.	As % of Total	Yield £	As % of Yield
Returns Accepted - No additional tax payable		391	28	-	-
<i>Agreed Settlements</i>					
£1 - £5,000	362		26	1,038,816	2
£5,000 - £50,000	468		34	8,547,923	19
£50,000 - £100,000	61		4	4,428,205	10
Over £100,000	<u>47</u>	938	4	23,038,056	51
<i>Referred to Collector General for enforcement action (a)</i>		11	1	160,000	1
<i>Settled by Restriction of Losses Carried Forward to Future Years (b)</i>		36	3	7,805,000	17
Totals		1,376	100	45,018,000	100

- Where the inspector is unsuccessful in collecting the additional tax and interest arising on audit adjustments, the amounts are referred to the Collector General. It is likely that the amounts eventually collected by the Collector General will be significantly less than the full amounts shown.
- A number of audit settlements involve the restriction of losses available for carry forward against future years' profits, thereby providing higher tax yield in those years. The yield shown assumes that taxable profits in future years will fully absorb the losses. This may not always be the position and hence the yield figure may be less than the figure shown.
- The amount of the highest individual settlement in 1996 was £3,317,102 and arose in respect of a Corporation Tax audit.
- Interest charges of £6.65m and penalties of £2.99m are included in the yield from agreed settlements.

(iv) *Random Audits*

As part of the 1996 programme of comprehensive audits, a total of 52 random audits were completed. Additional liabilities of £68,860, including £17,760 in respect of penalty and interest charges, were assessed in 14 cases while the returns of the remaining taxpayers were accepted as originally submitted.

14. Investigation Branch Settlements

Where an investigation undertaken by the Revenue Commissioners reveals that a taxpayer has failed to disclose relevant information resulting in an underpayment of tax, legal proceedings may be instituted against the taxpayer. Alternatively, the Revenue Commissioners may agree to accept from the taxpayer a sum in settlement of the tax outstanding with the addition of interest and penalty charges.

The Revenue Commissioners have informed me that, during 1996, investigations were completed in 90 cases, 47 of which resulted in back-duty settlements amounting to £5,949,172 (144 cases in 1995 of which 85 yielded £14,426,294) becoming collectable inclusive of £1,043,743 (£1,013,618 in 1995) in penalty and interest charges.

Early in 1996 the Revenue Commissioners comprehensively reorganised the Taxes Investigation Branch, concentrating the preponderance of the staffing resource in pursuing a prosecution strategy in contrast to the previously prevailing policy of accepting monetary settlements in virtually all cases. The reduction in both the number of investigations completed and the yield therefrom is a direct consequence of this change in emphasis.

15. Management of the Collection of Outstanding Taxes

The Revenue Commissioners' management of the collection of outstanding tax was reviewed by my staff. The review established that the information available to management to monitor the level of the debt and the collection effort was deficient in a number of respects. Specifically

- Regular reports were not produced of the amount of debt dealt with under the various collection enforcement measures and the success achieved. The management information system could not show the proportion of the total debt that had been subjected to the various collection enforcement procedures employed by the Commissioners and the proportion of the debt that had not been pursued due to factors of time, cost, prioritisation of cases, or other reasons.
- While management reports were produced showing period to period reductions in arrears, in respect of specific tax years, they did not show the extent to which the reductions were due to debts having been paid rather than having been written off or discharged.
- The computation of the total tax arrears outstanding at any particular time required the manual computation of a large number of figures produced by computer and were only produced twice each year.
- An unquantifiable but apparently large amount of debt which had been processed by sheriffs or in the courts was shown as being under demand, which is the initial stage of the collection cycle, as there was no post-legal enforcement category for outstanding debt.

The Accounting Officer informed me that the current collection systems were old and were being replaced by a new system (Integrated Taxpayer Processing) which would eventually process all taxes in one integrated system and would replace the separate systems that operate at present for the different types of taxes. The project is the largest computer development ever undertaken by Revenue. He stated that management information systems, originally introduced to support these now ageing systems, were equally old and inflexible. To overcome the many deficiencies already

known with the current systems a separate management information system (Collection Information Facility) was being progressively developed and was currently used to provide management information on the debt on a monthly basis. While specific information may not have been readily available to plot the progress of individual arrears through the management information system, more general information on the levels of arrears currently at the various collection stages was readily available and was sufficient to allow management decisions to be taken.

He was satisfied that while it was not possible to provide a definitive analysis of the tax arrears at post-enforcement collection stage, taking account of available resources, all arrears that had failed one method of enforcement were reviewed and referred for alternative means of enforcement, where necessary, and that the absence of a post-enforcement collection stage had not in any way prevented an effective follow up where tax charges were returned unenforced by an enforcement agency. He also stated that the Commissioners were satisfied that, notwithstanding the deficiencies in the present computer system, which are being addressed, there were no serious weaknesses in the collection process.

I also asked the Accounting Officer whether the high level of long outstanding tax debts - approximately £800m at the end of 1996 in respect of tax outstanding for more than five years - was in any way attributable to the lack of time standards for the completion of the various collection enforcement measures.

He assured me that all cases where tax arrears are outstanding were reviewed sufficiently frequently to ensure that no liability was overlooked for an extended period. He stated that the time taken to complete enforcement measures was monitored and any exceptional delays were investigated, and that procedures involving sheriffs were being tightened under a proposed new agreement with them on a revised remuneration package. He also stated that where civil action was employed specific deadlines were not practical as the pace of activity was largely determined by the Courts, but that cases which had been with the Commissioners' external solicitors for some time were being reviewed.

16. Enforcement Measures for Outstanding Taxes

There are a number of steps which the Commissioners can take against defaulting taxpayers in the event of action in the courts or by the sheriffs failing to secure collection. The exercise of a number of these options by the Commissioners was examined during the audit as follows

Judgment Mortgages

Where legal proceedings have been taken against a defaulting taxpayer and judgment issues in favour of the Commissioners, the judgment can be registered against the taxpayer thereby creating a Judgment Mortgage against specific land or property owned by the taxpayer. A Judgment Mortgage entitles the Commissioners to sell the land or property without the consent of the taxpayer. While 910 Judgment Mortgages were obtained in the years 1991 to 1993 only 96 were obtained in the years 1994 to 1996. I sought information from the Accounting Officer as to the circumstances in which Judgment Mortgages were obtained and enforced, the numbers enforced and the reason for the decrease in the numbers obtained.

The Accounting Officer explained that Judgment Mortgages were now sought in cases where the tax liability was of significant size, where there was property other than the family home in the name of the taxpayer, where it appeared that there was adequate equity of redemption in the property to cover

the tax liability, and where no other more direct method of enforcing collection was available. He stated that no execution orders had been sought to June 1997 from the courts in respect of Judgment Mortgages, but that it was the firm intention to seek such orders in the future in appropriate cases. He also stated that the use of Judgment Mortgages had resulted in a significant number of payments to the Commissioners (£1.75m in period May 1996 to April 1997). In relation to the decrease in the numbers obtained, he explained that the 1993 tax amnesties and related follow up work caused a slowdown in enforcement activity generally, and that this had an impact on the number obtained for the post-amnesty years 1994 to 1996. He also said that a reappraisal of their use showed that this method of enforcement may have been overused in the past (*e.g.* mortgages registered where the property concerned was already encumbered to its full value) and that a more stringent approach had been taken since 1994 with the adoption of the new criteria. He informed me that the position was regularly reviewed to ensure the most effective use of enforcement options, and that Judgment Mortgages would continue to play an important role in appropriate cases.

Bankruptcy Proceedings

The Commissioners may petition the High Court for the issue of a bankruptcy order in respect of a taxpayer who has failed to pay taxes legally due provided the sum owing is at least £1,500. I sought information from the Accounting Officer as to the circumstances in which bankruptcy proceedings are instigated and the numbers of bankruptcy proceedings initiated in the years 1992 to 1996.

He informed me that bankruptcy proceedings may be appropriate where all efforts to collect taxes owing have failed and the taxpayer has assets which can be realised by the Official Assignee and a dividend paid to the creditors, or where assets had been recently transferred in a family to avoid paying creditors. He also stated, however, that because of costs and the extent of the formalities involved it would never be likely to be considered in a large number of cases, but was nevertheless a useful sanction. He informed me that bankruptcy proceedings had been instituted in one case in the years 1992 to 1996.

Winding up of Companies

The Commissioners may petition the High Court to have a company wound up in the event of it having failed to pay taxes legally due of £1,000 or more. I sought information from the Accounting Officer as to the circumstances in which winding up of companies is sought and the numbers of companies put into liquidation as a result of petitions by the Commissioners in the years 1992 to 1996.

He informed me that the circumstances in which winding up petitions were presented were varied but that all other efforts to collect the debt would have failed and in many instances the debt would be continuing to grow, and that liquidation would represent the most effective option for ensuring that further tax liabilities did not accrue. He stated that the Commissioners had made 36 petitions to the Courts in the period 1992 to 1996 to have companies wound up and that action taken by the Commissioners to collect debts had precipitated liquidations in a large number of other cases, or forced companies into seeking examinership.

It was also noted during audit that 5,400 companies with book tax debts totalling £336m as at 31 May 1995 were in liquidation. I asked the Accounting Officer if the progress of the liquidations was kept under review and the number where the liquidations would not be completed due to lack of funding in the companies concerned. I also inquired as to the circumstances in which the Commissioners fund

the costs of liquidations in the event of no funds being available in the company and the numbers so funded in the years 1992 to 1996 and the outcome of the action.

The Accounting Officer informed me that the progress of the liquidations is constantly kept under review and a new policy for writing off amounts was being implemented. Details of the numbers that would not be completed due to lack of funding were not readily available. He pointed out that while the responsibility for ensuring that liquidations were carried out in line with the terms of the Companies Acts lay with the Registrar of the Companies Office, Revenue always endeavours to conclude cases. He also stated that the circumstances where the Commissioners have funded liquidation costs in the absence of funding in a company were as follows

- Reckless or fraudulent trading involving directors
- Failure to keep proper books and records
- Disposal of assets for less than market value, or to directors or connected persons
- Fraudulent preference given to one creditor as against others

The Accounting Officer informed me that in the period 1992 to 1996 the Commissioners guaranteed funding in 47 cases, but that the guarantees were not called upon in 11 cases and in 2 cases the amounts had been reimbursed.

He stated that the liquidations had not been finalised in the majority of these cases. In the cases that had been finalised the outcome had varied as follows

- In 10 cases directors had been restricted or disqualified from acting as directors in future.
- In 1 case the directors had been made personally liable for all the debts of the company.
- In 1 case there had been a settlement out of court.
- In 1 case the directors had accepted liability for the costs incurred by the liquidator.

Criminal Prosecutions

A visible policy of prosecuting under the criminal law should be an effective deterrent against individuals evading or not paying their due taxes. Section 94(2)(f) of the Finance Act 1983 provides that a person who fails to remit VAT, or Income Tax deducted under PAYE Regulations, shall be guilty of an offence, punishable by a fine of up to £10,000 or imprisonment for up to 5 years. I sought information from the Accounting Officer as to the circumstances in which prosecutions under this provision would be instituted and the number of times individuals had been prosecuted under the provision in the years 1992 to 1996.

The Accounting Officer stated that the intention of the Commissioners was to pursue an active prosecution policy for cases involving serious tax evasion, as announced in their new corporate plan, and had been put in place in consultation with the Office of the Director of Public Prosecutions. He also stated that it was the view of the Commissioners that the provision should only be used against a limited number of taxpayers whose non-compliant attitude to the payment of tax was mirrored by a similar attitude to other requirements of the tax system. He pointed out that any proceedings under the provision required the approval of the Director of Public Prosecutions. He also informed me that no proceedings had been initiated under the section in the years 1992 to 1996 but that there were a number of cases currently being processed with a view to bringing prosecutions where charges under Section 94(2)(f) of the Finance Act 1983 might also be appropriate.

Charging of Interest on Overdue Taxes

The charging of interest for late payment of taxes can be an effective incentive to taxpayers to pay their taxes by the due date. I sought information from the Accounting Officer on the current policies in relation to the charging of interest on late payments and the amount of interest so charged in 1996.

The Accounting Officer informed me that the Commissioners had some years ago discontinued charging interest automatically on overdue taxes as it merely resulted in large amounts of uncollected interest charges being added to tax liabilities which were themselves often estimated and unreliable. Because the policy was ineffectual and open to legal challenge a new caseworking approach to non-compliant taxpayers had been adopted and was continuing to be developed to provide an effective and legally enforceable basis for charging interest and, as resources permitted, additional staff were being allocated to this work. He stated that charges of £12.35m were raised in 1996 in respect of interest on late payment of taxes.

General

The Accounting Officer stated that

- The Commissioners are satisfied that the progress in recent years, which has shown improved compliance trends and a significant reduction in the build up of arrears, is largely the result of improved collection techniques. The most significant changes introduced is the move towards caseworking and prioritising of defaulters and a move away from the process driven system.
- In regard to the overall strategy being followed in the aftermath of the 1993 amnesties as outlined in paragraph 9 arrangements are proceeding to implement the speedier and broader write-off policy which is needed to secure a clearer classification and more effective management of the debt.
- There are regular exchanges of information, primarily among EU member states, on methods of recovery and enforcement of overdue tax. There has also been an exchange visit by a member of the staff from the Office of the Chief Inspector of Taxes with the New Zealand Revenue authorities. These exchanges of information are very useful when planning future strategies on collection and enforcement. For example, preparatory work on the project to integrate the processing of taxes has taken account of the experience of other countries in integrating diverse taxation systems under a single corporate processing system. Nevertheless, the indications are that Revenue's operation is well up with best practice as reflected in methods and practices employed by other tax administrations.

17. Stamp Duty - Land and Property Transactions

In 1996, stamp duties to a value of £332m were collected, of which £194m related to land and property transactions. The duty on such transactions is payable by means of stamps impressed by special machines on documents presented at or posted to the Revenue stamping branch in Dublin. The stamp is the sole evidence that duty has been paid. Documents evidencing the transfer of land or property can only be registered in the Land Registry if they have been stamped with the appropriate amount of duty and a visual inspection is undertaken by Land Registry staff at the point of registration.

An audit by my staff in late 1996 pointed to the risk of relying on visual inspection as the only means of ensuring that all relevant documents are properly stamped, particularly where sophisticated forged stamps might have been used or where the security over the Revenue stamping presses might have been breached.

The Accounting Officer acknowledged that potential risk but pointed to the nature of the stamping operation which was required to provide a fast and efficient over the counter service for solicitors and their clients whose documents need to be stamped. There was an obligation to provide a prompt retail service if business is not to be impeded and necessary controls must be consistent with this. On this basis, for the vast majority of instruments presented for stamping over the counter in the Stamp Duty public office, no records are maintained. The uniqueness and security of the stamping process, coupled with the design and security of source of the stamping dyes, have been relied upon to ensure the authenticity of the stamp impressed and, therefore, that stamp duty had been paid.

He added that responsibility for ensuring that documents are properly stamped before registration lies with the Land Registry. Within the past year, inspection by Land Registry staff has been supplemented by monthly test checking of stamped deeds in the Land Registry by Revenue.

He agreed that if the security on the Revenue stamping presses was itself breached, then clearly the detection of such fraudulently stamped documents would be extremely difficult. A system of records and reference numbers that could be used by the registering authorities to verify conclusively that stamp duty had been paid in respect of a specific instrument would clearly facilitate such detection. Revenue has already been considering how such a system might be put in place while maintaining the fast and effective service required by customers. In the light of recommendations made by their Internal Audit in a 1995 report on the Stamp Duty area regarding the need for an audit trail and ongoing management concern in the matter, tenders have been sought for a technological solution to the difficulties caused by the lack of transaction records and the absence of integration between the different processes in the stamping operation. The integration of the various processes and automatic balancing would minimise the minor discrepancies which arise from time to time and facilitate the investigation of any that do arise. Examination of tenders is at an advanced stage and a case will be put to the Department of Finance to secure the necessary computer capital funding. In the meantime, the introduction of a security chemical in the stamping ink, which would enable Revenue and the Land Registry to detect forgeries using a simple ultra violet light test, is under active consideration.

The Accounting Officer stated that the absence of records of over the counter transactions which represent 80% of transactions was a primary consideration in instigating the monthly monitoring of deeds lodged with the Land Registry. The adequacy of the level of the supervisory checks on postal cases which currently constitutes 1% of the annual total of some 70,000 postal documents received will be reviewed in the light of experience and practice elsewhere in Revenue. While acknowledging the desirability of checking the integrity of over the counter transactions, the Accounting Officer stated that supervisory checks of this nature would give rise to problems of practicability as, unlike postal cases, the documents involved are, by definition, not in the possession of the stamping branch for any length of time. The manner of how best such supervisory checks might be carried out with least disruption to customer service will be examined.

The Accounting Officer also referred to a fraud which was discovered in March 1997 by Land Registry staff and which apparently involved the forging of stamps by the use of a colour photocopier. Further enquiries revealed the existence of a substantial number of deeds with forged

stamps. The matter has been referred to the Garda Bureau of Fraud Investigation and the full extent of the fraud is not yet known.

He stated that both Revenue and Land Registry are working closely together to ensure that the stamping process is as secure as possible and that any problems are quickly identified.

18. Stamp Duty - Shares

Stamp duty is payable on the sale or transfer of shares of companies registered in the State. In 1996, £41m was collected in respect of stamp duty on share transactions. A new electronic system was introduced in 1996 for UK and Irish equity settlement and, under Section 105 of the Finance Act 1996, the Revenue Commissioners entered into an agreement with the UK company, which owns and operates the new system, for the collection and payment of Irish stamp duty.

Under the system, the stamp duty on a share transfer is due and payable on the date the electronic message advising the Registrar of a company to register the transfer of shares is generated. Participants, such as brokers and institutional investors, must have a contract with a payment bank which is obliged to guarantee payment to the seller's bank for shares transferred to their customers. The payment bank is also obliged to pay over the stamp duty to the operating company at the same time.

Under the agreement, the stamp duty moneys are lodged by the UK company to designated bank accounts in trust for the Commissioners and are transmitted by electronic funds transfer to the Central Bank each week. Prior to the transfers, the operating company forwards a daily breakdown of the stamp duty payments collected to Revenue. The receipt of payments is confirmed by the Central Bank.

A key element of the checking procedures was the testing of the system by Revenue before it went live in October 1996. This involved the checking of a range of individual transactions to ensure that the correct amount of Irish stamp duty would be calculated by the system.

A direct link with the new system is currently under development which will download relevant data from all electronic transactions to the Commissioners. When in place, the data will facilitate verification that the correct amount of duty is being paid over by the operating company and facilitate audit procedures. The agreement also gives the Commissioners the right to undertake a system audit on the operating company.

Receipts through the new system accounted for £4.5m of the £41m stamp duty under this heading in 1996.

For transactions not going through the new system, the onus is on the purchaser of Irish company shares to pay the stamp duty to the Revenue Commissioners directly, but companies are required to check that the stamp duty has been paid before registering the new owner by ensuring that the share transfer documents have been properly stamped.

As part of the Commissioners' stamps audit programme, a project has recently been undertaken, involving the checking of company registration office records, for a limited number of companies in relation to changes in share ownership, with a view to seeking sight of the share transfer forms from

the company registrars. Depending on the outcome of the exercise, consideration will be given to initiating a more systematic audit of company records.

Unless the share transfer relates to quoted shares or is clearly an arms length transaction between unconnected parties, a form must be completed which sets out the basis on which the share valuation is arrived at. Such cases are automatically examined to determine whether the valuation is acceptable.