

22 Allocation of Encashment and Film Withholding Taxes

- 22.1** The Office of the Collector General of Revenue (Collector General) is responsible for the collection of the majority of Revenue's annual tax receipts. In addition, the Collector General deals with a number of specific functions such as tax relief at source (TRS), the charitable exemption/donations schemes and the management of unallocated tax deposits.
- 22.2** Unallocated tax deposits include payments made by taxpayers that, for the time being, cannot be associated with or allocated to the relevant taxpayer records by Revenue due to incomplete information, or payments made on account during tax audits and audit settlements. Such balances are transferred to the Exchequer as part of Revenue's legislative obligations.
- 22.3** *Public Financial Procedures* require the prompt transfer of revenues to the Exchequer.¹ In the course of the audit of the Revenue account for 2016, it was found that balances in relation to two categories of taxes – encashment tax and film withholding tax – had accumulated and were held in a Central Bank account at year end.

Encashment tax

- 22.4** Encashment tax is a standard rate income tax deduction that must be made by banks and stock broking firms, as authorised paying and collecting agents, when they pay or receive payment of
- certain public revenue dividends or
 - interest and dividends of certain non-resident entities.²

Encashment tax was introduced in 2012, and receipts are payable to the Collector General.

Film withholding tax

- 22.5** Under legislation, film withholding tax is applied to relevant payments made to visiting non-resident artists, from outside the EU, where artists are engaged by companies to appear in film and television productions made in the State.³ The legislation came into effect on 10 January 2015 and allows for a withholding tax on relevant payments made by companies who qualify for a film tax credit. The tax withheld is paid to the Collector General.

¹ *Public Financial Procedures*, Section C5, paragraph 13.

² Section 38, Finance Act, 2012

³ Section 25, Finance (No.2) Act 2013.

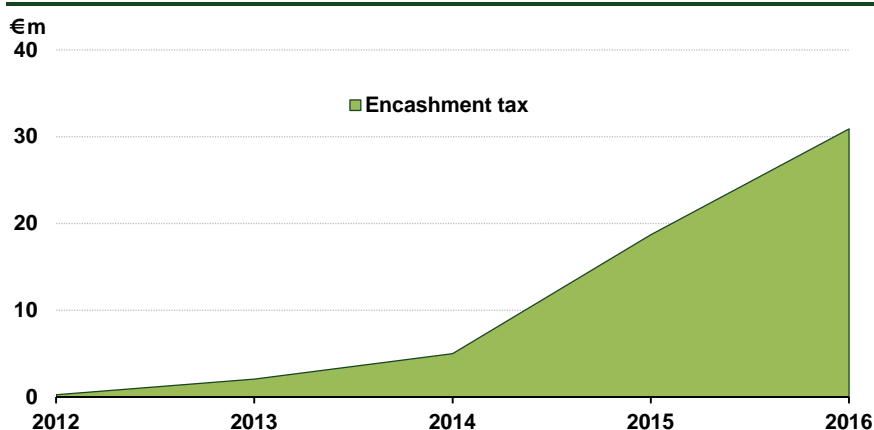
Revenue's allocation procedures

- 22.6** Payments made by taxpayers to the Collector General in respect of tax liabilities are transferred to a Revenue bank account held at the Central Bank for transfer each day to the Exchequer. Simultaneously, taxpayer records (maintained on Revenue's Integrated Taxation System) are updated as appropriate.
- 22.7** In cases where the Collector General is unable for technical reasons to allocate receipts to the appropriate taxpayer record(s), the amounts received are lodged to a Revenue 'unallocated tax deposits' bank account or holding account in the Central Bank. A similar procedure is applied in cases where the Collector General is unable to identify a taxpayer from the information provided at the time the payment is made. Revenue has an arrangement with the Central Bank to transfer funds out of the holding accounts each day to an Exchequer bank account.

Delayed transfer to the Exchequer

- 22.8** Encashment tax receipts of just under €31 million which accumulated over the period 2012 to 2016 remained unallocated to taxpayer records at the end of 2016 (see Figure 22.1). The balance was held in the Revenue Central Bank holding account and was not transferred to the Exchequer at year-end.

Figure 22.1 Accumulated encashment tax — 2012 to 2016



Source: Office of the Revenue Commissioners

- 22.9** Accumulated film withholding tax receipts of €1 million relating to 2015 and 2016 also remained unallocated to taxpayer records at the end of 2016. Similar to the encashment taxes, the receipts were held in the Revenue Central Bank holding account and were not transferred to the Exchequer at year-end.
- 22.10** Revenue has stated that the receipt of encashment and film withholding taxes from taxpayers had not been automatically linked with Revenue's taxpayer records system and so was outside the normal tax allocation procedures.¹ Receipts in respect of these taxes were lodged to the holding account in the Central Bank, and details in relation to the receipts were maintained on a separate database.

¹ Tax balances that have not been allocated to taxpayers records are recorded on the Revenue account balance sheet as amounts awaiting receipting and allocation (liability) and as a bank balance (asset).

- 22.11** While funds were transferred from the holding account to the Exchequer on a daily basis, amounts equivalent to the total unallocated encashment and film withholding taxes i.e. €32 million, were held back at the end of the year. This was achieved by reducing the Exchequer transfers by these amounts in the final days of 2016. This process was not conducted for other taxes processed through the Central Bank holding account.
- 22.12** Revenue has stated that it had not set up systems to automatically link encashment and film withholding taxes receipts to the relevant customer records due to the prioritisation of other IT developments. As a consequence, delays were experienced in the allocation of these receipts.
- 22.13** An online payment facility with full connectivity to the customer record has now been developed for these taxes. Revenue has stated that the encashment taxes balance of €31 million was allocated to taxpayer records and permanently transferred to the Exchequer in April 2017. The film withholding tax balance was permanently transferred to the Exchequer in June 2017.¹

Other technical developments

- 22.14** RevPay is an online payment facility introduced by Revenue in 2016. It is designed to allow taxpayers to make online payments in respect of a wider number of taxes both through ROS and myAccount than had previously been the case, including encashment and film withholding taxes. The introduction of RevPay should mean that taxpayers can make online payments for all major tax liabilities, which will simultaneously update the taxpayer record. This facility should help reduce the level of new unallocated tax balances arising.
- 22.15** For income tax, VAT and capital gains tax, where taxes continue to be paid by electronic funds transfer, the amounts will be updated to the taxpayer record when the taxpayer has been identified.

¹ The balance for unallocated film withholding tax was €1.7 million at 31 May 2017.

Conclusions and recommendations

- 22.16** There was a significant delay in bringing encashment tax and film withholding tax receipts to account. Revenue had the necessary information to allocate the receipts to the relevant taxpayers' accounts. Because priority was given to other projects, the allocation process for the two tax categories was not automated, and alternative manual allocation was not done.

Recommendation 22.1

Revenue should ensure that, in cases where new categories of taxes are introduced, the taxpayer records system is updated to allow the correct and timely allocation of tax payments received to the individual taxpayer record.

Accounting Officer's response

Agreed. Revenue accepts that that the required IT infrastructure for any new tax should be developed in a timely manner that supports the processing and recording of all associated returns and payments.

However, Revenue's development requirements, which can be very complex and diverse, are often driven by mandatory legislative or budgetary changes to the tax system that requires immediate prioritisation. This can be to the detriment of other IT requirements that are then delayed as a consequence.

Revenue takes prioritisation of its overall IT requirements very seriously and every effort is made to deliver high-quality products as quickly as possible. To ensure the most efficient use of scarce development resources, all major projects are evaluated and approved by an IT Executive, which includes a number of Assistant Secretaries and which is chaired by a Commissioner.