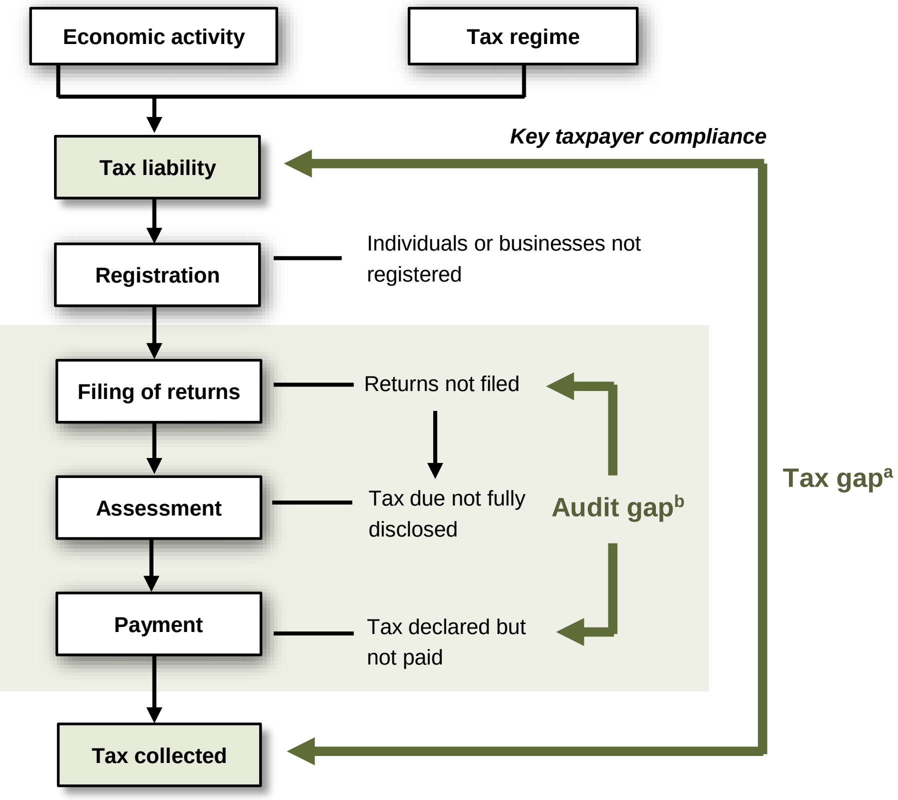
# 20 Ensuring taxpayer compliance

**20.1** Timely compliance by all taxpayers with their due taxation liabilities is important if the tax system is to be equitable and to avoid distortion of trade and business. In a tax system that is based on self-assessment, there are certain risks that tax may not be fully collected (see Figure 20.1). Those risks include

- **registration risk** — taxpayers do not register for tax when required to do so
- **filing risk** — registered taxpayers do not file required returns or submit returns late
- **assessment risk** — tax returns filed do not fully disclose income or taxes due
- **payment risk** — declared taxes are not subsequently paid.

**20.2** This framework of tax compliance provides a basis for defining the **tax gap** — focused on the difference between tax collected and the tax that should have been collected; and the **audit gap** — the difference between the amount of tax that would be collected if all registered taxpayers were subject to a full comprehensive audit and the amount they voluntarily pay under self-assessment.

**Figure 20.1 Tax compliance framework**




Source: Office of the Comptroller and Auditor General

Notes: a Tax gap — an economic concept covering all recorded and unrecorded economic activity in the State. It is defined as the difference between tax collected and the tax that should have been collected if every liable person complied with their obligations.

b Audit gap — the difference between the amount of tax that would be collected if all registered taxpayers were subject to a full comprehensive audit and the amount they voluntarily pay under self-assessment.

**20.3** In order to manage taxpayer compliance effectively, the Revenue Commissioners (Revenue) need to

- understand the underlying extent of non-compliance among taxpayers
- design and implement cost effective activities to detect non-compliance
- ensure taxes due are collected and penalties imposed on those who are non-compliant, so that there is a clear deterrent effect.

**20.4** This report reviews Revenue's approach to monitoring and managing taxpayer compliance in those key areas. It focuses on the measures Revenue has in place to assess, detect and deter non-compliance by taxpayers.

## Assessing taxpayer compliance

### *Estimating the tax gap*

**20.5** There is an evolving academic and professional body of literature about the concept of the tax gap, and about how best to measure it.[1] Based on this, the general definition of the tax gap comprehends an assessment of the liabilities that should accrue on undeclared 'shadow economy' activity by unregistered economic actors who are completely outside the tax net, as well as under-declared economic activity by those who are registered with the relevant tax authorities.

**20.6** A number of revenue authorities in other jurisdictions produce and/or publish estimates of the tax gap in respect of their functions. For example,

- The United States Internal Revenue Service (IRS) has retrospectively estimated that just under 85% of federal taxes owed in respect of 2021 were paid on time (the 'voluntary compliance rate'). Even after IRS enforcement activity, only an estimated 86% of the taxes owed were ever paid (the 'net compliance rate'). This implies a 'gross' tax gap of just over 15%. (The IRS statistics are published on a provisional basis, and are liable to be updated as better economic data become available.) As well as a formal report, the IRS publishes a useful summary 'map' of the tax gap statistics. The map for 2021 is reproduced in Annex 20A.
- The Australian Taxation Office (also retrospectively) publishes tax gap estimates for individual revenue categories. It distinguishes between the gross tax gap, and the net tax gap after the impact of the Tax Office's compliance activity. It also states for each estimate its broad assessment of the reliability of the estimation method used (high, medium or low reliability). For example, for the fiscal year 2021 – 2022, the Tax Office estimates (with an assessed high reliability) a gross tax gap of 1.7% in respect of fuel excise, which was not reduced by the Office's compliance activity. In contrast, the (medium reliability) estimated gross tax gap on 'goods and services tax' was 11.2%, reducing to an estimated net tax gap of 3.6% following compliance activity. (Annex 20B summarises the Office's tax gap estimates for the more significant revenue streams for 2020 – 2021, or 2021 – 2022 where available.)

**20.7** As part of this examination, national audit offices in other European Union member states and the United Kingdom (UK) were surveyed to identify how many of their revenue administrations estimate the tax gap. In response, some noted that they calculate the tax gap for certain individual taxes (e.g. VAT, income tax or corporation tax) but not the overall tax gap.[2] Of the 17 responses received, five indicated that their revenue authorities calculate the overall tax gap, but only two of those (Estonia and the UK) make their estimates publicly available.

1 See, for example: Richard Murphy, *Reappraising the Tax Gap* in: ***Combating Fiscal Fraud and Empowering Regulators – Bringing Tax Money Back into the COFFERS***. Edited by Brigitte Unger, Lucia Rossel, and Joras Ferwerda, Oxford University Press (2021).

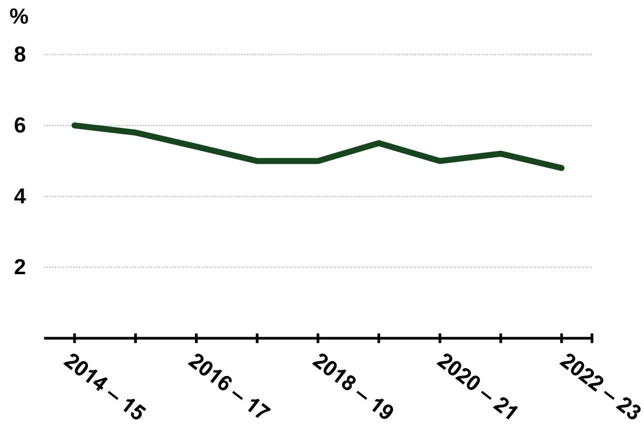
2 Separately, the European Commission publishes a report each year on the VAT gap in EU member states. The report aims to support tax administrations in monitoring their VAT tax gap using a standardised methodology which allows for comparisons over time and with other member states. The 2023 EU VAT tax gap report which was published in October 2023 is available here.

**20.8** The latest tax gap estimate for Estonia is 3.15% of the total estimated tax liability for 2022. This indicates an overall taxpayer compliance rate of 96.85%.

**20.9** In the UK, HM Revenue and Customs (HMRC) publishes a report annually on its measurement of tax gaps. While HMRC notes that the tax gap is not sufficiently timely or precise to set annual targets or to manage detailed operational performance, it considers that the exercise provides important information that helps HMRC to understand its long-term performance. HMRC considers that the tax gap also provides the public with important information on UK tax compliance, creating greater transparency in the tax system.

**20.10** In its 2024 report, HMRC estimated the UK tax gap in 2022 – 2023 to be £39.8 billion, which is 4.8% of estimated total theoretical tax liabilities (see Figure 20.2).[1] This indicates that more than 95% of the tax estimated to be due to HMRC in 2022 – 2023 was collected.

**Figure 20.2 Tax gap estimate as percentage of UK tax liabilities, 2014 – 2015 to 2022 – 2023**




Source: HM Revenue and Customs, Measuring tax gaps 2024 edition: tax gap estimates for 2022 to 2023 (see here)

**20.11** Revenue does not estimate tax gaps for the Irish taxation system. It has concerns regarding the methodological approaches available, the accuracy of the tax gap estimates that would be produced in an Irish context, and their potential usefulness at an operational level. Revenue's overall view is that tax gap estimation for Ireland would require significant investment in resources and data and that the benefits are likely to be limited.

**20.12** Revenue does, however, periodically estimate the quantum of uncollected tax on certain activities or segments of the economy where compliance issues are identified e.g. research on where smokers source cigarettes; analysis of deposit interest retention tax receipts; and analysis of tax compliance trends in the construction sector. Revenue considers that this type of analysis is more useful, in terms of better targeting its response to compliance risks, than measurement of the overall tax gap.

**20.13** Revenue monitors and assesses developments in tax gap methodologies and is participating in the Tax Administration EU Summit tax gap measurement project.[2] It is also a member of the OECD's tax gap 'community of interest' which was formed in 2022.[3]

1 *Measuring tax gaps 2024 edition: tax gap estimates for 2022 to 2023*, HM Revenue and Customs, June 2024 (see here).

2 The Tax Administration EU Summit (TADEUS) is a forum for the heads of tax administrations in EU member states. Its aim is to improve cooperation and to explore solutions for similar issues being faced by tax administrations. A Revenue official is a member of the TADEUS working group on VAT e-commerce which was launched in November 2020.

3 The OECD tax gap 'community of interest' expands on the former OECD Advanced Tax Gap Community of Practice, which was set up in March 2019 by a select group of countries that have significant experience in tax gap estimation.

### *Estimating the audit gap*

**20.14** The audit gap relates to tax liabilities unpaid by persons who are registered for tax purposes.

**20.15** Analysis of the outcome of a well-designed random audit programme of sufficient scale potentially provides a sound basis for valuation of the overall audit gap. Revenue operates a random audit programme as an indicator of the effectiveness of its risk-based approach but it does not use the results to estimate the overall audit gap.

**20.16** A survey of European countries conducted as part of this examination found that three of 17 national tax administrations estimate the audit gap, but none make the figure publicly available.

*Revenue's random audit programme*

**20.17** Random audits across the entire taxpayer base should ensure that every self-assessed taxpayer has an equal chance of being selected for audit. The audits focus initially on a particular tax year, termed the base year. However, where non-compliance is discovered, Revenue may also review tax returns for years outside the base year, and additional audit tax yield may arise in respect of those years.

**20.18** Up to 2017, Revenue's random audit programme involved the fully randomised selection of around 400 cases annually for audit from its live taxpayer case base which totalled around 920,000 cases. There was no screening carried out, so all of the selected cases were audited. In 2016 and 2017, around 40% of the cases audited resulted in some additional yield.

**20.19** Since 2017, the operation of the 'random' audit programme has changed a number of times. For 2018, the audit programme was redesigned, with 1,300 cases selected from a taxpayer population of approximately 760,000.[1] For the base year 2016, 100 cases were subject to audit by Revenue's Border Midlands West region, while the remaining 1,200 cases were distributed evenly to the other three regions and appraised by caseworkers to determine the type of intervention, if any, that was required. The three regions were requested to select approximately 75 cases each from a specific NACE code and a further 75 cases each from a particular sector (e.g. lawyers, online traders), segment (e.g. PAYE landlords) or third party source (e.g. merchant acquirers or 'automatic exchange of information' cases).[2,3]

**20.20** Of the 1,300 cases selected for inclusion in the 2018 audit programme

- 671 cases were closed with no further action required as no risks were identified
- 626 cases were escalated to an intervention, of which 228 cases (18% of the cases which have been finalised) yielded just over €2 million in tax, interest and penalties
- three cases remained open at the end of June 2024.

1 The population from which the cases were randomly selected changed for the 2018 programme. From the total live taxpayer case base of 920,000, approximately 160,000 taxpayers were excluded e.g. certain large corporate cases and Form 11 filers (pensioners/PAYE taxpayers with net investment income over €5,000).

2 A NACE code is a number that is assigned to a business according to its economic activity.

3 Automatic exchange of information is the cross-border sharing of information in a systematic way between tax administrations without the receiving country having to request it.

**20.21** In 2019, following an organisational realignment within Revenue, the audit programme was redesigned again and renamed the compliance assurance programme. In that year, a total of 150 cases (with a base year of 2017) were selected for inclusion in the programme. 100 of those cases were selected at random from two specific NACE codes and the other 50 were randomly selected from data received under the automatic exchange of information.

**20.22** Of the 150 cases in the 2019 programme

- 47 were closed, following caseworker appraisals, with no risks identified and no further action required
- 96 were escalated to an intervention and are now closed, of which 30 cases (21% of the cases which have been finalised) yielded almost €190,000 including interest and penalties
- seven cases were escalated to an intervention and remained open at the end of June 2024.

**20.23** In December 2019, 500 cases (with a base year of 2018) were selected for inclusion in the 2020 compliance assurance programme. 440 of those cases were randomly selected from the case base and appraised by Revenue caseworkers to determine the type of intervention, if any, required. A further 50 cases were selected randomly from non-filer data (a mandatory audit is required in these cases) and the remaining ten cases were selected randomly from the charities sector.

**20.24** In line with public health restrictions relating to Covid-19, Revenue suspended its onsite compliance work from March 2020 and decided that the 2020 compliance assurance programme would run into the following year and operate as a combined 2020/2021 programme.

**20.25** Of the 500 cases selected in December 2019 and then included in the 2020/2021 programme

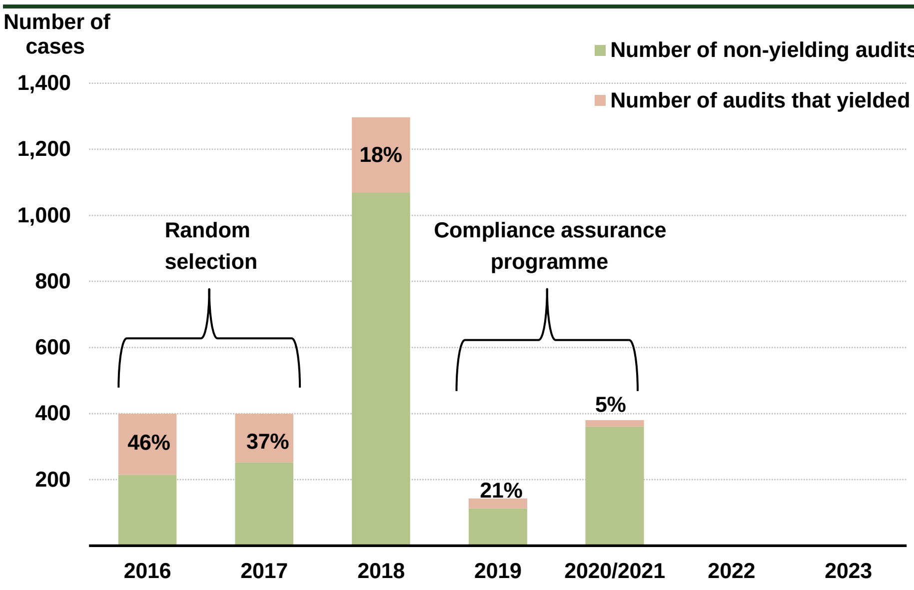
- 101 (20%) case reviews of 2018 tax liabilities have not yet commenced
- 307 cases were closed following an appraisal by a caseworker, with no risks identified and no further action required
- 73 cases were escalated to an intervention and are now closed, of which 19 cases (5% of the cases which have been finalised) yielded almost €48,000 including interest and penalties
- 19 cases were escalated to an intervention and were still open at end June 2024.

**20.26** Compliance assurance programmes did not run in either 2022 or 2023. Revenue is currently working on redeveloping the programme approach. Revenue stated that its Large Corporates Division, High Wealth and Financial Services Division and Medium Enterprises Division are structured to facilitate close oversight of the risks in their case bases. As a result, Revenue does not consider that random interventions are appropriate for those divisions. It is planned that the redesigned compliance assurance programme will focus on the Business and Personal divisions where the size of the case bases does not support similar close risk oversight. It is expected that this work will be completed by the end of 2024, with the new programme to be operational for 2025.

**20.27** The outcomes of the random audit programmes implemented since 2016 are summarised in Figure 20.3. The proportion of the selected cases that were 'yielding' in the years for which the programmes are substantially complete ranged from 46% in 2016 down to 21% in 2019.[1] However, the comparability of the figures over the period is limited due to the lack of consistency in how the audit programme has operated since 2018 and the differing stages of completion of the programmes.

**20.28** The average yields (including interest and penalties) from the audit programmes since 2016 are shown in Figure 20.4.

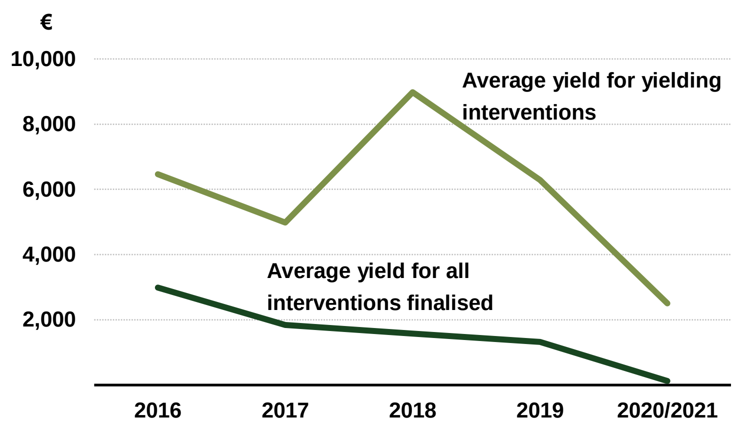
**Figure 20.3 Outcome of Revenue's audit programmes, 2016 to 2023[a,b]**




Source: Revenue Commissioners

Notes:
a Compliance assurance programmes did not run in either 2022 or 2023.
b From 2018, not all selected cases automatically proceeded to an intervention. Instead, cases were appraised to decide if an intervention was required. The percentage of yielding cases since 2018 has been calculated as a proportion of all cases selected for assessment, not just those where an intervention was carried out.

**Figure 20.4 Audit yield from Revenue's audit programmes, 2016 to 2021[a,b]**




Source: Revenue Commissioners

Notes:
a Yield includes gross tax (net of refunds), interest and penalties.
b Nearly one quarter of the cases in the 2020/2021 programme are still open or have yet to commence. Compliance assurance programmes did not run in either 2022 or 2023.

1 The low percentage of yielding cases (5%) for the 2020/2021 programme is impacted by the fact that 24% of cases were still open or had yet to commence at end June 2024.

**20.29** Regular estimation of the audit gap using a consistent methodology would indicate whether the level of undeclared income is changing over time. Revenue has not extrapolated or estimated the audit gap using the results of the random audit programme it operated up to 2017, and the changes in the programme from 2018 make it more difficult to extrapolate the results in a meaningful way.

**20.30** Revenue stated that its current organisational structure, in place since 2019, supports a tailored compliance approach to different segments of its case base and as such, there are limitations to the potential usefulness of any estimated audit gap. In light of this, and its view that no sufficiently robust methodology has been developed to support a full 'bottom-up' development of an audit gap using a random audit programme, Revenue does not consider that such an approach is justified.

## Detecting non-compliant taxpayers

**20.31** Self-assessment of tax liabilities by individuals and companies is an important feature of the operation of tax and duties administration in Ireland. Taxpayers are required to file complete and accurate returns and to make associated tax payments in accordance with statutory deadlines. Taxpayers may also claim tax repayments on a self-assessed basis.

**20.32** Revenue's general approach is to promote voluntary compliance with tax system obligations in the first instance and, where necessary, to follow up with the intervention most appropriate to the tax risk identified.

**20.33** Revenue promotes voluntary compliance in a number of ways including through online services, providing advice to taxpayers on their tax obligations, pre-populating tax returns, providing real-time engagement and offering taxpayers opportunities to voluntarily correct potential mistakes. Revenue also operates a co-operative compliance framework which is a voluntary programme that aims to promote and facilitate tax compliance by large corporate entities managed by either the Large Corporates Division or the High Wealth and Financial Services Division.

**20.34** Alongside supporting voluntary compliance, Revenue operates a risk-based approach to compliance management. In 2018, Revenue undertook an organisational realignment which supports its targeted approach to case-base management, allowing operational divisions to apply sectoral knowledge when profiling risk within identifiable segments of Revenue's case base. Revenue stated that these structural changes, together with the allocation of significant resources to manage the case base segments associated with the highest tax risk, has assisted it in gaining a greater knowledge of its case base and a deeper understanding of sectoral risks.[1] It also enables close oversight of risk as the full case bases of these divisions are subject to regular appraisal.

**20.35** Revenue aims to carry out interventions in a manner that minimises the cost to both the taxpayer and Revenue. Historically, cases were selected using various risk-driven methodologies e.g. Revenue's electronic risk and analysis system (REAP).[2] In recent years, REAP has mainly been used by caseworkers to assess cases that have already been selected for review, rather than as a case-selection tool. Revenue stated that REAP is actively used to complement a wide range of other tools and data sources used by the different operating divisions when selecting cases for compliance intervention e.g. various internally developed risk appraisal tools, real-time PAYE data, VAT real-time risk framework and information received from other jurisdictions.

1 Large Corporates Division, High Wealth and Financial Services Division and the Medium Enterprises Division are responsible for managing 2.5% of Revenue's overall case base. The entities managed by those divisions paid 77% of overall tax receipts in Ireland in 2023. In addition, 71% of the total yield arising from compliance interventions completed in 2023 were associated with entities managed by those divisions.

2 REAP is a risk analysis system that risk-rates Revenue's customer base across all the main taxes and duties. It analyses data, including third-party data that Revenue has on tax and duty cases and attributes a score based on the level of risk posed.

**20.36** Revenue stated that its approach to taxpayer compliance management is developing to make more use of third-party data, advances in technology which enhance data analytic capabilities and the increasing availability of real-time data which will continue to be used to identify indicators of potential risk. Where risks are identified and it is deemed appropriate, compliance interventions are initiated by Revenue. In addition, Revenue carries out regular case-base reviews of sectoral risks.

### *Compliance activity commenced up to April 2022*

**20.37** Revenue's risk-based compliance regime has also changed in recent years. Up to April 2022, compliance activity involved

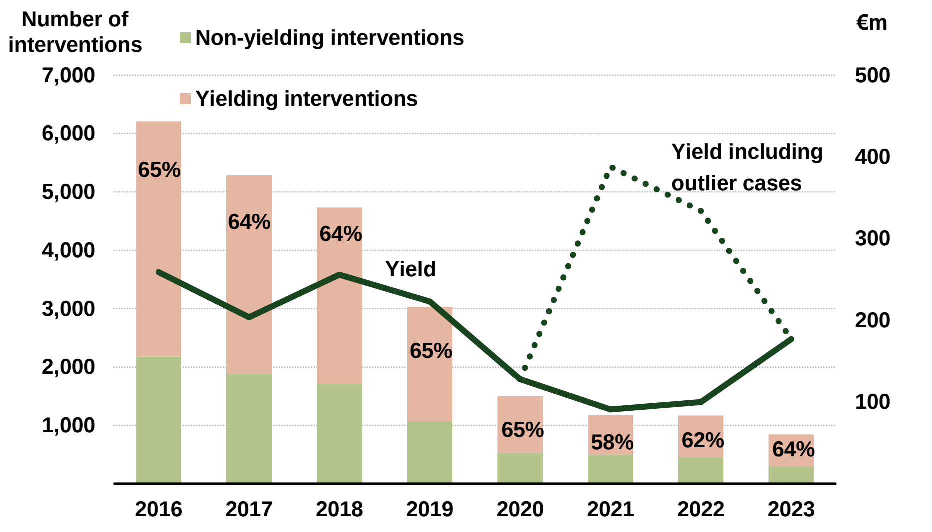
- ***audit interventions*** — audits or investigations conducted mainly on the basis of risk and, in the majority of cases, involving a full examination of an entity's books and records
- ***non-audit interventions*** — less intrusive interventions, generally instigated on the basis of a specific identified risk, and consisting mainly of assurance checks, aspect queries and profile interviews.

#### *Outcome of audits and investigations*

**20.38** Figure 20.5 sets out the number of audits and investigations finalised between 2016 and 2023. It also shows the proportion of yielding cases and the amounts yielded.

**20.39** Since 2016, there has been a steady reduction in the annual number of audits and investigations finalised. Revenue has stated that a number of environmental factors have contributed to this decrease, including the retirement of a number of long-serving staff and the suspension of certain on-site compliance activity during the period affected by Covid-19 public health restrictions.[1] Revenue stated that another reason for the decline is the targeted risk-based approach to case base management in operation since the organisational realignment in 2018.

**Figure 20.5 Outcome for audits and investigations, 2016 to 2023[a,b]**




Source: Revenue Commissioners

Notes: a In May 2022, Revenue transitioned to a compliance intervention framework (CIF). The audit and investigations for 2022 and 2023 are those commenced prior to the introduction of CIF and closed in 2022 and 2023.

b The yield value includes any interest and penalties.

1 While no new compliance cases were opened, Revenue continued to progress open compliance interventions in the Large Corporates Division and the High Wealth Individuals Division (now the High Wealth and Financial Services Division).

**20.40** Two extreme outlier yielding cases heavily influence the value of yield reported for 2021 and 2022 (see Figure 20.5 above). These related to one case with a yield of €297 million in 2021, and another with a yield of €234 million in 2022.

### *Outcome of non-audit interventions*

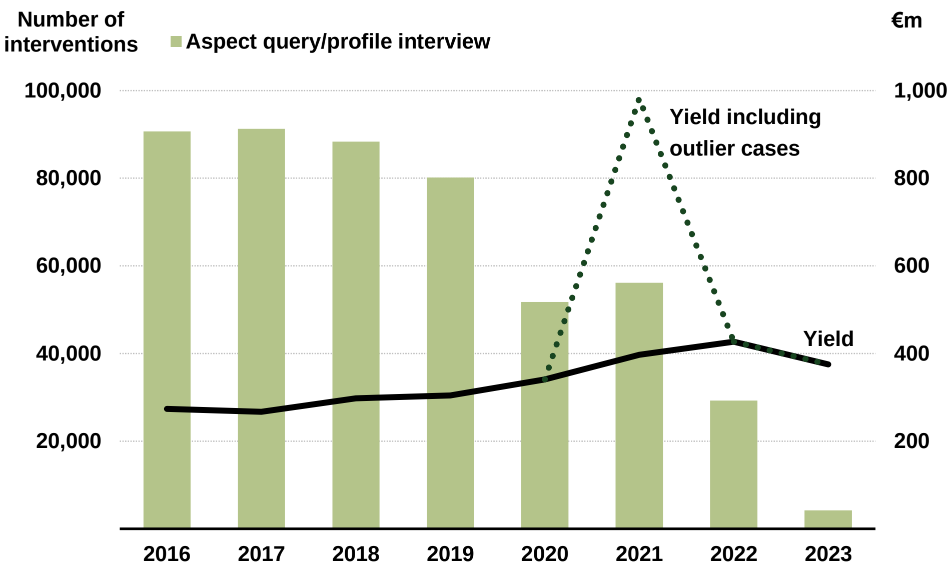
**20.41** Non-audit interventions are carried out to address specific risks identified, and where it is deemed more efficient in terms of time and resources than carrying out a full audit. Non-audit interventions can involve, for example, profile interviews, verifying the accuracy of repayment claims and following up on issues arising from suspicious transaction reports.[1] Issues identified during non-audit interventions may warrant escalation to an audit or investigation.

**20.42** Over 65% of the cases selected for appraisal in 2023 came from the VAT and PAYE real-time risk interfaces, suspicious transaction reports and tax registration checks.[2]

**20.43** A significant number of appraisals carried out each year were closed with no identified requirement for further action i.e. no compliance intervention. (Where cases are escalated to a compliance intervention e.g. risk review or audit, any resulting yield is recorded against that intervention type.)

**20.44** Of the aspect queries and profile interviews finalised between 2016 and 2021, around one case in every five was a yielding intervention. In 2021, yield from non-audit interventions spiked very significantly, to almost €1 billion. Two non-audit intervention cases concluded in 2021 had combined yields totalling €585 million. When these outlier cases are excluded, the annual yield from non-audit interventions demonstrates a moderate upward trend over time, and averaging around €400 million in recent years (see Figure 20.6).

**Figure 20.6 Outcome for non-audit interventions, 2016 to 2023[a]**




Source: Revenue Commissioners

Note: a The yield value includes any interest and penalties.

1 See also *Report on the Accounts of the Public Services 2020*, chapter 13, [Revenue's management of suspicious transaction reports](Revenue's management of suspicious transaction reports).

2 The Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 introduced the requirement for designated persons to submit suspicious transaction reports where they have suspicions of terrorist financing or money laundering, including the laundering of the proceeds of tax evasion.

### *Compliance intervention framework — commenced from May 2022*

**20.45** In May 2022, Revenue introduced a new compliance intervention framework (CIF) to provide a consistent, graduated response to taxpayer behaviour.[1] The responses within the CIF range from providing taxpayers with opportunities to voluntarily correct potential mistakes in their tax affairs, thereby experiencing the minimum level of penalty, to progressively responding to taxpayers that do not comply voluntarily or who change their behaviour leading to tax non-compliance. Under the CIF, there are three levels of compliance interventions — the first focuses on supporting compliance while the other two focus on confronting non-compliance.

- **Level 1** — aimed at **supporting and assisting taxpayers** in being voluntarily compliant by reminding them of their obligations and providing them with the opportunity to correct potential errors without a more in-depth inquiry. Interventions include issuing reminder notifications of outstanding tax returns, requests to self-review, engagement with businesses under the CCF and profile interviews. A level 1 intervention may identify issues that warrant the initiation of either a level 2 or level 3 intervention.
- **Level 2** — **risk-based reviews or checks** on data provided by taxpayers in their tax returns, ranging from examination of a single issue within a return to comprehensive tax audits. Level 2 interventions are carried out using a risk review or an audit.
- **Level 3** — a **Revenue investigation**, focuses on tackling high-risk practices and cases involving risks of suspected fraud or tax evasion.

#### *Outcome of CIF interventions*

**20.46** The interventions opened since the introduction of the CIF in May 2022 that had been closed by December 2023 resulted in the identification of additional tax yield of €200 million (see Figure 20.7).

**Figure 20.7 Outcomes of compliance intervention framework, May 2022 to end 2023[a]**

| Intervention type | Number of interventions | Yield[b] €m | Percentage of yielding cases |
|---|---|---|---|
| Level 1 | 66,821 | 163 | 12% |
| Level 2 | 2,707 | 35 | 46% |
| Level 3 | 8 | 2 | 100% |
| **Total interventions** | **69,536** | **200** | |
| **Appraisals with no further action** | **68,434** | **—** | |

Source: Revenue Commissioners

Notes: a Appraisals are required to determine if an intervention is necessary. Appraisals do not result in a yield. If a risk is identified, the appraisal is escalated to an intervention, and any resulting yield is recorded under the specific intervention.

b The yield value includes any interest and penalties.

1 Code of Practice for Revenue Compliance Interventions.

## Deterring non-compliance

**20.47** Those taxpayers who may consider delaying their tax returns or not paying their due taxes are likely to be deterred from doing so only if the perceived likely consequences outweigh the more immediate (and more certain) benefits. Consequently, for a credible deterrent effect to exist, there needs to be a high risk of the non-compliance being detected by Revenue in a timely way, and prompt collection of any outstanding taxes plus an interest charge. In appropriate cases, penalties for breaches of obligations under the tax code, including criminal prosecution in more serious cases, may add to the overall deterrent effect. Publication of the names and addresses of tax defaulters (as required by law for certain categories of default) is an additional deterrent.

### *Recovery of detected unpaid taxes*

**20.48** The finalisation of a Revenue intervention can result in the levying of additional amounts in respect of under-declared tax, interest on late payment and various penalties. The total amount collected, or deemed to be collectable, from the taxpayer is referred to as the audit yield or tax settlement amounts.

**20.49** Audit settlements can be

- paid in full when the audit is concluded
- paid over a phased basis where the taxpayer has limited access to liquid funds but continues to generate income
- unpaid at the conclusion of the audit — where this is the case, the liability will be pursued using Revenue's normal debt collection processes
- unpaid and deemed uncollectable where Revenue accepts a taxpayer's claim of inability to pay e.g. where a taxpayer has been declared bankrupt or is the subject of a personal insolvency.

### *Civil penalties*

**20.50** As required by tax legislation, a tax-geared penalty shall apply where a taxpayer deliberately or carelessly files an incorrect tax return or fails to make a return by the due date.[1]

**20.51** The number and value of civil penalties imposed in 2019 and 2023 is shown in Figure 20.8. In 2023, penalties totalling €14.6 million were imposed in 19% of the interventions that resulted in a yield being determined.

1 Section 1077(F) of the Taxes Consolidation Act 1997 provides for penalties for deliberately or carelessly filing incorrect returns or failing to file a return. Certain legislative exclusions apply, for example, where the liability is less than €6,000 or where technical adjustment has been accepted by Revenue as the reason for the default.

**Figure 20.8 Civil penalties imposed in non-compliance cases, 2019 and 2023**

| | | Audits[a] | Non-audit interventions | Total |
|---|---|---|---|---|
| Number of cases | 2019 | 1,093 | 2,019 | **3,112** |
| | 2023 | 615 | 1,517 | **2,132** |
| Value of civil penalties imposed (€m) | 2019 | 11.3 | 8.4 | **19.7** |
| | 2023 | 8.7 | 5.9 | **14.6** |
| Average civil penalty imposed (€) | 2019 | 10,366 | 4,153 | **6,335** |
| | 2023 | 14,183 | 3,919 | **6,879** |

Source: Revenue Commissioners
Note: a This refers to audits, investigations and level 2 risk reviews carried out under CIF.

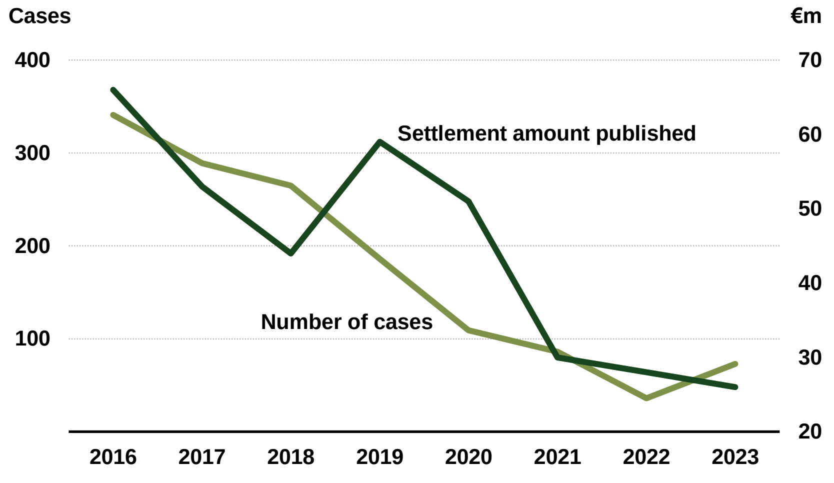
**20.52** Where a taxpayer does not agree liability to a penalty or does not pay an agreed penalty, it is then a matter for a relevant court to determine whether that person is liable to a penalty.

### *Publication of defaulters' details*

**20.53** Details of serious tax default cases are published quarterly. Publication occurs where Revenue accepts a settlement with a tax element exceeding €50,000 and an associated penalty exceeding 15% of the tax due. The current threshold (€50,000 tax) applies to all settlements accepted on or after 1 January 2022 (lower thresholds applied for previous periods).[1] Case details are not published where these criteria are not met, where a case does not attract a penalty or where a disclosure either prompted or unprompted is accepted by Revenue as meeting the qualifying criteria as specified in legislation.

**20.54** As shown in Figure 20.9, the number of published cases declined steadily between 2016 and 2022. The number of cases rose in 2023, notwithstanding the increase in the threshold level for publication applicable from 1 January 2022.

**Figure 20.9 Accepted settlements published on the tax defaulters list, 2016 to 2023[a]**




Source: Revenue Commissioners
Note: a Figures relate to settlement amounts rather than sums collected.

1 Prior to 1 January 2022, publication was required where the aggregate of tax, interest and penalties exceeded €35,000 and the penalty as a percentage of the tax was greater than 15%. The intention of the change in criteria was to remove the requirement for publication of lower yielding cases.

### *Investigation and prosecution for tax evasion*

**20.55** Potential prosecution cases are referred to Revenue's Admissions Committee by the relevant operational division to assess whether there is sufficient prima facie evidence that an offence may have been committed under the relevant legislation.[1,2] The Admissions Committee appraises each case and decides if it is suitable for referral to Revenue's Investigation and Prosecution Branch 1 (IPB1) for criminal investigation. The IPB1 investigates taxpayers that are suspected of serious tax and duty evasion or fraud, with a view to having them prosecuted on indictment. The decision on whether a prosecution will be brought in a particular case is a matter for the Office of the Director of Public Prosecutions.

**20.56** It can take several years before a case is presented in court. As a result, at any point in time, Revenue has a number of serious evasion cases at various stages of the investigation and prosecution process (see Figure 20.10). The total number of open cases has been declining steadily since 2019 which reflects the reduction in the annual number of audits and investigations finalised since 2016.

**Figure 20.10 Status of prosecution cases on hand at year-end, 2019 to 2023**

| Status of cases on hand | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Under investigation | 61 | 60 | 57 | 31 | 20 |
| With Revenue Solicitor's Division | 23 | 12 | 13 | 11 | 8 |
| Submitted to Director of Public Prosecutions — awaiting direction | 2 | 3 | 1 | 1 | — |
| Directions issued by Director of Public Prosecutions to prosecute | 18 | 11 | 6 | 4 | 13 |
| Before the court | 17 | 27 | 33 | 28 | 18 |
| Bench warrants/European arrest warrants | 1 | 4 | 5 | 5 | 5 |
| **Total open cases** | **122** | **117** | **115** | **80** | **64** |

Source: Revenue Commissioners

1 The Admissions Committee comprises one representative from each of the five operational divisions within Revenue, the Collector General, Revenue Solicitor's Division and the Investigation and Prosecution Branch 1. The Committee is chaired by the Investigation, Prosecution and Frontier Management Division.

2 Section 1078 of the Taxes Consolidation Act 1997 and associated Acts specified under subsection 1.

**20.57** Between 2019 and 2023, the number of prosecutions actively before the courts varied between 17 (in 2019) and 33 (in 2021). In the same period, the number of convictions actually obtained varied from five (in 2021) to 16 (in 2023) (see Figure 20.11).

**Figure 20.11 Prosecution for serious tax and duty evasion, 2019 to 2023**

| | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Convictions obtained** | | | | | |
| Tax evasion cases | 8 | 9 | 5 | 3 | 13 |
| Customs and excise evasion cases | 2 | 2 | — | 3 | 3 |
| **Total convictions** | **10** | **11** | **5** | **6** | **16** |
| **Penalties** | | | | | |
| Value of fines (€000) | 8 | 1 | 5 | 22 | 50 |
| Fine only convictions | 4 | 1 | 1 | 2 | 4 |
| Custodial sentence imposed | 3 | 4 | 1 | 1 | 1 |
| No custodial sentence imposed[a] | 3 | 6 | 3 | 3 | 11 |

Source: Revenue Commissioners

Note: a Where no custodial sentence is imposed, the taxpayer received a fine, community service and/or a suspended sentence.

## Conclusions and recommendations

### *Assessing taxpayer compliance*

**20.58** The concept of a tax gap relates to the difference between tax actually collected and the tax that should have been collected if every liable person complied with their obligations. Preparing annual estimates of the tax gap could potentially assist tax authorities in understanding the reasons behind unpaid tax and in devising strategies to mitigate the risks impacting on tax compliance.

**20.59** A number of revenue authorities publish estimates of the tax gaps that arise in their respective jurisdictions. They also publish their estimation methodologies, explaining the limitations of the estimates produced, and where care needs to be taken in interpreting the results.

**20.60** Revenue does not estimate the tax gap for Ireland because it has concerns regarding the methodological approaches used, the accuracy of the estimates that would be produced, and their usefulness at an operational level. However, it does periodically estimate the quantum of uncollected tax on certain activities or segments of the economy where compliance issues are identified. Revenue monitors and assesses developments in tax gap methodologies and participates in the Tax Administration EU Summit tax gap measurement project. It is also a member of the OECD’s tax gap ‘community of interest’ which was formed in 2022.

**20.61** The audit gap relates to tax liabilities unpaid by persons who are registered for tax purposes. Analysis of the outcome of a well-designed random audit programme can potentially provide a sound basis for valuation of the overall audit gap. While Revenue operated a random audit programme in the past, it did not use the results to estimate the audit gap.

**20.62** Up to 2017, Revenue carried out sample-based audit programmes where taxpayers were selected randomly from across the relevant tax base i.e. each taxpayer had an equal chance of being selected for audit. While this was likely to result in a number of compliant taxpayers being audited, it did potentially allow for extrapolation of the results. From 2018 on, the methodology applied for Revenue's annual programmed audits has changed a number of times. While there is still some selection of cases on a randomised basis within certain segments of the case base, it does not appear that there is an equal probability for all taxpayers for a taxhead being selected. The succession of changes also prevent meaningful comparison of the programme's compliance outcomes over time.

**20.63** Revenue has stated that it is currently redeveloping its approach to random audits. It does not consider that a sufficiently robust methodology exists at this time for the full measurement of the audit gap through a random audit programme. Revenue is working on the redesign of an audit programme that is best suited to its organisational structure, whereby a number of its operational divisions have full case base coverage i.e. an effective 100% sample. A redesigned random audit programme will operate in those divisions that do not have full case-base coverage, namely the Business and Personal divisions. The objective of the random audit programme will be to provide a benchmark for the evaluation of Revenue's risk-based audit approach. Revenue expects the new programme to be operational in 2025.

### *Detecting non-compliant taxpayers*

**20.64** Revenue's general approach is to promote voluntary compliance with the tax system in the first instance and then, where necessary, follow up with appropriate interventions, including audits or investigations where appropriate.

**20.65** There has been a steady decline in the overall number of Revenue's risk-based audits and investigations since 2016 for a variety of reasons. However, the results of those interventions that have been completed each year indicate that Revenue's detection work is generally well targeted, with a high proportion of cases resulting in the identification of additional tax yield — ranging from 58% to 65% for the years 2016 to 2021.

**20.66** Excluding the impact of two individual very high-value compliance cases (one concluded in 2021 and another concluded in 2022), the reported value of additional tax yield identified from audits and investigations has been relatively steady over recent years. A similar trend occurs in relation to the value of additional tax yield identified from non-audit compliance interventions. These trends contrast with a rapidly increasing overall tax take over the same period. The impact on the annual yield levels of the compliance intervention framework (CIF) — in place since May 2022 — has not yet fully emerged.

**20.67** Revenue has stated that several factors contributed to the decrease in the number of compliance interventions, including the retirement of a number of long-serving staff, the suspension of certain on-site compliance activity during the period affected by Covid-19 public health restrictions and the targeted risk-based approach to case base management in operation since the organisational realignment in 2018 .

**20.68** An appraisal is often the first step in assessing whether a material tax and/or duty risk exists. It involves a caseworker establishing whether a further intervention should occur and if so, what type of intervention is the most appropriate. A significant proportion of appraisals are closed without a recommendation for further compliance-focused intervention as the presence of risk or a material level of risk is not identified.

**Recommendation 20.1**

Revenue should carry out a review of the case appraisals which result in no compliance intervention, to identify insights that may help to refine its risk-based case selection methodologies.

**Accounting Officer's response**

Agreed

Appraisals which result in no intervention do offer an opportunity to enhance our case selection methods and work is currently ongoing to analyse this data and apply the insights gained.

**Timeline for implementation**

Work will continue in 2025 to evaluate how best to capture actionable insights from Revenue appraisals.

**20.69** Revenue's CIF was introduced in May 2022 with the aim of providing a consistent and graduated response to taxpayer behaviour.

**20.70** The aim of level 1 interventions under the CIF is to support and assist taxpayers in being voluntarily compliant. While it may be challenging to measure the impact of level 1 interventions, it will be important for Revenue to do so to assess whether they are having a positive effect on taxpayer behaviour e.g. are taxpayers self-correcting or submitting qualifying disclosures on foot of a level 1 intervention.

**Recommendation 20.2**

Revenue should develop appropriate metrics to measure the outcomes of CIF level 1 interventions and to inform assessment of what is generating these interventions and whether they are worthwhile and achieving their objectives.

**Accounting Officer's response**

Agreed

Revenue launched a revised *Code of Practice for Revenue Compliance Interventions* to support the roll-out of the CIF on 1 May 2022. In addition to interventions carried out under CIF, work on a significant number of interventions opened prior to the introduction of CIF needed to be completed. While this work is on-going, it is reducing and it is an opportune time for Revenue to further invest in the necessary systems development to support the measurement of the outcomes of Level 1 interventions in terms of both immediate response and ongoing taxpayer behaviour.

**Timeline for implementation**

The required system development to be prioritised in 2025.

### *Deterring non-compliance*

**20.71** Deterrents in place for taxpayers that may consider delaying their tax returns or not paying their tax due include the application of financial penalties, publication of the names and addresses of tax defaulters in certain cases, and criminal prosecution for more serious breaches.

**20.72** For 2023, civil penalties totalling €14.6 million were imposed by Revenue and details of 75 settlements totalling almost €26 million were published on the tax defaulters list. Since 2016, there has been a steady decline in the number of published cases (with the exception of 2023) and the number of open prosecution cases. This corresponds with the reduction in the annual number of audits and investigations finalised by Revenue during that period, but is in contrast with the constant additional yield value.

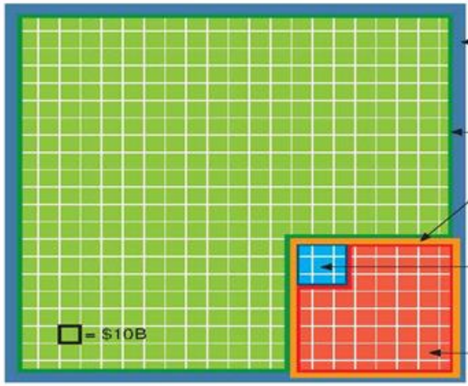
# Annex 20A

## Tax gap projections for tax year 2021, Internal Revenue Service (IRS), United States

# Tax Gap Projections for Tax Year 2021

(Money amounts are in billions of dollars. These figures will be updated as more complete compliance data become available.)

IRS Research, Applied Analytics & Statistics




**Estimated Total True Tax Liability***
**$4,565B**

Tax Paid Voluntarily & Timely
**$3,877B** 84.9% Voluntary Compliance Rate (VCR)

Gross Tax Gap
**$688B**

Enforced & Other Late Payments
**$63B**

Net Tax Gap (Tax Not Collected)
**$625B** 86.3% Net Compliance Rate (NCR)

**Calculating the Net Tax Gap**

Nonfiling
Underreporting
+ Underpayment

**Gross Tax Gap**
**– Enforced & Other Late Payments**

**Net Tax Gap**

| | Total True Tax Liability | Tax Paid Voluntarily & Timely | Gross Tax Gap: Nonfiling | Gross Tax Gap: Underreporting | Gross Tax Gap: Underpayment | Gross Tax Gap | Enforced & Other Late Payments | Net Tax Gap (Tax Not Collected) |
|---|---|---|---|---|---|---|---|---|
| Total | $4,565 | $3,877 | $77 | +$542 | +$68 | =$688 | – $63 | = $625 |
| **By Type of Tax** | | | | | | | | |
| Individual Income Tax | $2,721 | $2,201 | $67 | + $396 | + $57 | = $520 | – $45 | = $475 |
| | | | | Business Income $182; Non-Business Income $110; Credits $51; Income Offsets [1] $26; Filing Status $8; Other Taxes [2] $5; Unallocated Marginal Effects [3] $15 | | | | |
| Corporation Income Tax | $304 | $259 | # | + $40 | + $5 | = $45 | – $8 | = $37 |
| | | | | Large Corporations $19; Small Corporations $21 | | | | |
| Employment Tax | $1,455 | $1,337 | Employment Tax [4] $9 | + $105 | + $4 | = $118 | – $6 | = $112 |
| | | | | Self-Employment Tax $68; FICA & Uncollected FICA TAX $36; FUTA $1 | | | | |
| Estate Tax | $21 | $17 | $2 | + $1 | + $2 | = $4 | – $3 | = $1 |

NOTES:

* Totals include Excise Tax.

#—No estimate.

Detail may not add to totals due to rounding.

[1] Includes adjustments, deductions, and exemptions.

[2] Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported Social Security and Medicare taxes (which are included in the employment tax gap estimates).

[3] Is the difference between (1) the estimate of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and (2) the estimate of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.

[4] Self-employment tax only.

**Revised 10/2023**

Source: Internal Revenue Service, United States

## Annex 20B Annual tax gap findings, Australian Taxation Office

**Table 20B.1 Tax gap estimates for 2020 – 2021 (or 2021 – 2022 where available)**

| | Gross gap % | Net gap % | Reliability of estimates |
|---|---|---|---|
| **Transaction-based taxes (2021 – 2022)** | | | |
| Goods and services tax | 11.2 | 3.6 | Medium |
| Alcohol tax | 9.1 | 9.1 | Medium |
| Tobacco tax | 29.1 | 13.1 | Medium |
| Fuel excise | 1.7 | 1.7 | High |
| **Income-based taxes** | | | |
| Large corporate groups | 6.5 | 4.2 | High |
| High wealth | 8.1 | 7.1 | High |
| Medium business | 8.1 | 7.2 | Medium |
| Small business | 13.7 | 12.8 | Medium |
| Individuals not in business | 6.8 | 6.3 | High |
| Fringe benefits | 28.9 | 28.2 | Low |
| **Administered programs based taxes** | | | |
| Pay As You Go withholding | 2.3 | 1.7 | Medium |
| Superannuation guarantee | 6.2 | 5.1 | Medium |
| Fuel tax credits (2021 – 2022) | 4.0 | 2.6 | Medium |

Source: Australian Taxation Office