

Chapter 10 Revenue

Revenue Collection

Revenue Collection

10.1 This Chapter examines

- Revenue's collection performance in 2008
- the extent of tax written off in 2008
- the amount of tax outstanding at 31 March 2009
- the risk to collection in the current environment
- the results of the audit of the Revenue Account.

Revenue Collection and Repayment

10.2 The gross amount collected by Revenue in 2008 totalled €60.1 billion. When the amounts collected on behalf of other Departments and agencies are excluded, €50.1 billion of the gross collection was attributable to the core revenue of the State.

10.3 €9.2 billion was repaid to taxpayers in 2008. These repayments represented 18% of gross taxes and duties collected. Repayments occur mainly on two taxheads.

10.4 In the case of VAT they arise where the VAT on a trader's purchases exceeds that on his sales. Some traders can be permanently in a repayment situation in cases where their sales are at the reduced rate or zero rated but they are being charged VAT on some or all of their purchases - for example some food businesses. It can also occur when a trader increases stock or purchases an expensive item of equipment in a period.

10.5 The other heading where there is a high level of repayments is Income Tax. In this case, as well as repayments under the different components of Income Tax, the repayment figure includes payments of tax relief for mortgage interest and medical insurance. Of the total Income Tax repayments of €3,398 million in 2008, €1,026 million is accounted for by payments to mortgage and insurance providers in respect of tax relief at source.

10.6 The total collection amounts attributable to other agencies and repayments are summarised in Figure 29.

Figure 29 Collection and Repayment of Revenue

	2007		2008	
	€m	€m	€m	€m
Gross Collection		66,148		60,061
<i>Less attributable to other Departments and Agencies</i>				
PRSI ^a	(9,292)		(9,612)	
Health Levy	(188)		(166)	
Tobacco Levy	(168)		(168)	
Environmental Levy	(22)		(26)	
Other	(7)	(9,677)	(6)	(9,978)
Gross Taxes and Duties Collected		56,471		50,083
Less Repayments of Taxes and Duties		(9,137)		(9,178)
Net Taxes and Duties Collected		47,334		40,905^b

Notes:

- a Net receipts of PRSI were €9,541 million (€9,217 million in 2007) after taking account of repayments of €71 million.
- b Includes some €76 million collected as part of the various special investigations being carried out by Revenue (see Chapter 11).

10.7 The gross collection, repayments and net collection for each taxhead in 2007 and 2008 are set out in Figure 30 together with the percentage change in net receipts in 2008.

Figure 30 Tax Collected and Repaid by Taxhead

Taxhead	2008	2008	2008	2007	Percentage Change
	Gross Receipts	Repayments	Net Receipts	Net Receipts	
	€m	€m	€m	€m	
Income Tax	16,593	3,398	13,195	13,582	3%
Value Added Tax	17,992	4,560	13,432	14,519	8%
Excise	5,535	103	5,432	5,835	7%
Corporation Tax	6,046	975	5,071	6,393	21%
Stamp Duties ^a	1,812	49	1,763	3,244	46%
Custom Duties	260	15	245	273	10%
Capital Acquisitions Tax	351	8	343	391	12%
Capital Gains Tax	1,494	70	1,424	3,097	54%
Total	50,083	9,178	40,905	47,334	14%

Note:

- a The Finance (No. 2) Act, 2008 provided for an incentive scheme to encourage the presentation of instruments for stamping that had not been presented to Revenue within the required time limits. Provided such instruments were presented for stamping and the duty and interest due were paid within 56 days from the passing of the Act, no further penalty was payable. The deadline was 17 February 2009 and by that date 3,687 instruments had been presented to Revenue resulting in the collection of €57.6 million (including interest of €11 million). Most of this amount was received in 2009.

10.8 Repayments of Income Tax, Corporation Tax, Capital Acquisitions Tax and Capital Gains Tax have increased despite the fall in gross receipts for those taxheads. Gross Income Tax receipts fell by €195 million (1%) while repayments increased by €192 million (6%).

10.9 Revenue has stated that this is due to

- an increase in payments of tax relief at source for mortgages and medical insurance
- increases in repayments to PAYE taxpayers which is most likely to be explained by more taxpayers claiming their entitlements to credits and reliefs as a result of Revenue's campaign to encourage taxpayers to claim and arising from financial necessity caused by the economic downturn
- increased repayments of self-assessed Income Tax probably as a result of taxpayers overestimating their tax liability when paying preliminary tax.

10.10 These increases were partially offset by

- reduced repayments of Relevant Contracts Tax arising from the contraction in the construction sector and
- the ending of the SSIA scheme, payments in respect of which were previously included in income tax repayments.

10.11 In response to my enquiries Revenue have stated that they were examining the reasons for the increases in repayments in the following tax heads

- Corporation Tax where repayments increased by €39 million (4%) despite a fall of €1,283 million (18%) in gross receipts
- Capital Gains Tax where repayments increased by €6.5 million (10%) and gross receipts fell by €1,667 million (53%).

The results of this examination are not yet available.

Payover to the Exchequer

10.12 The net revenue payable to the Exchequer from taxes and duties for the year was €40.9 billion. €40.8 billion was paid to the Exchequer²⁶ in 2008.

10.13 The 2008 Budget day Exchequer target for tax revenues was €48.9 billion. Accordingly, a tax revenue deficit of €8.1 billion was experienced in the year. A breakdown of the net shortfall by individual taxhead is provided in Figure 31. Over 80% of the shortfall is accounted for by VAT, Corporation Tax, Capital Gains Tax and Stamp Duty.

²⁶ The amount paid to the Exchequer over time takes account of suspense balances in cases where a taxpayer has paid taxes but they are not allocated. The amount prepaid at 31 December 2008 was €200 million (€329 million at 31 December 2007).

Figure 31 2008 Tax Revenue Paid to Exchequer Compared to Forecast

Taxhead	Forecast	Payments to Exchequer	Excess/ (Shortfall)	Percentage Reduction
	€m	€m	€m	
Income Tax	13,900	13,177	(723)	5%
Value Added Tax	15,550	13,430	(2,120)	14%
Excise	5,989	5,443	(546)	9%
Corporation Tax	6,700	5,065	(1,635)	24%
Stamp Duties	2,855	1,651	(1,204)	42%
Custom Duties	300	248	(52)	17%
Capital Acquisitions Tax	405	332	(73)	18%
Capital Gains Tax	3,210	1,430	(1,780)	55%
Total	48,909	40,776	(8,133)	17%

10.14 Revenue has stated that

- the shortfall in VAT is explained by the downturn in the economy and its effect on consumer spending, particularly in construction and the motor industry
- the impact of the downturn in the global economy on corporate profits, particularly in the financial sector, is the most likely cause of the shortfall in Corporation Tax
- Stamp Duties, Capital Gains Tax and Capital Acquisitions Tax have been negatively impacted by the downturn on the property and shares markets.

Sectoral Performance

10.15 As can be seen from Figure 30 net receipts in 2008 were €6.4 billion less than 2007. Revenue's internal management information captures collection activity by sector using codes to identify the primary economic activity of the taxpayer. However, a sectoral breakdown of receipts is not available for VAT on imports, Excise, Stamp Duties, Customs Duties and Capital Acquisitions Tax. A decline in receipts of Stamp Duty and Capital Acquisitions Tax accounted for €1.5 billion or 23% of the fall of €6.4 billion.

10.16 Revenue's management information is capable of classifying receipts by sector for the following taxheads which account for 74% of the net receipts shown in Figure 30.

- domestic VAT (90% of VAT receipts)²⁷
- Income Tax paid through the PAYE system and by the self employed (89% of Income Tax receipts)²⁸
- Corporation Tax
- Capital Gains Tax.

10.17 Receipts from these taxes in 2008 fell by an estimated €4.6 billion by comparison with 2007, accounting for 72% of the total fall in receipts of €6.4 billion. PRSI receipts which increased by €53 million in 2008, can also be classified by sector. When PRSI is taken into account, the total reduction in receipts for which an analysis by sector is feasible is approximately €4.3 billion.

²⁷ The balance of VAT receipts arises from VAT on imports.

²⁸ An analysis by sector is not available for the other elements of Income Tax such as Deposit Interest Retention Tax, Professional Services Withholding Tax and Dividend Withholding Tax.

10.18 The preliminary information supplied by Revenue, which is still subject to its internal validation work²⁹ indicates that tax receipts fell in all but three³⁰ of the 18 sectors with the following six sectors accounting for over 90% of the fall in tax receipts

- Agriculture, Hunting and Forestry — comprises the activities of growing crops, raising animals, harvesting timber, and harvesting other plants and animals from a farm or their natural habitats
- Real Estate, Renting and Business Activities — as well as real estate activities this category includes renting of goods and the provision of a wide range of services, mainly to businesses
- Construction — includes general construction, specialised construction and building installation and completion
- Financial Intermediation — this category includes insurance and pension funding and activities auxiliary to financial intermediation
- Wholesale and Retail Trade — includes the wholesale and retail trade of any type of goods as well as the repair of motor vehicles, motorcycles and personal and household goods
- A residual sector that includes businesses where the sector of operation is not classified.

10.19 The preliminary results suggest that in absolute terms

- Domestic VAT receipts had fallen most in the Wholesale and Retail Trade sector and in the Real Estate, Renting and Business Activities sector
- Employment Taxes which comprise PAYE and PRSI, reduced in five of the 18 sectors – the largest reduction was in the Construction sector
- Taxes on profits which comprise Corporation Tax and Income Tax paid by the self-employed, dropped most in the Financial Intermediation sector, the Construction sector and the Real Estate, Renting and Business Activities sector
- Capital Gains Tax reduced substantially in the Real Estate, Renting and Business Activities sector.

Conclusions – Collection Performance

Taxes on capital gains reduced in yield by 54% over 2007. Stamp duties fell by 46% while Corporation Tax reduced by 21%.

Preliminary sectoral figures suggest that while most sectors showed a fall across all taxheads, the collection was markedly reduced in Agriculture, Construction, Real Estate, Renting and Business Activities and Financial Intermediation. In addition, there were considerable differences between sectors in the extent to which Domestic VAT, Employment Taxes, Taxes on Profits and Capital Gains Taxes were affected.

Revenue has undertaken to supply validated sectoral data which will be the subject of a separate report under Section 11 of the Comptroller and Auditor General (Amendment) Act, 1993.

²⁹ The sectoral outturns, and in particular the Agriculture, Hunting and Forestry sector, are subject to review by the Revenue Commissioners.

³⁰ These were the Education sector, the Public Administration and Defence sector and the Health and Social Work sector.

Write-Offs of Tax and PRSI

10.20 Details of tax and PRSI outstanding are set out below. Where Revenue is unable to collect outstanding amounts or where Revenue considers the cost of collection to be disproportionate, the amounts are written off. The outstanding tax remains on the taxpayer's record but a write off marker is placed on the computer record of the case which has the effect of halting further collection activity. Lists of all cases proposed for write off are formally submitted to the Revenue Chairman for approval. Should the circumstances in a case change, the write off marker is removed and collection efforts can recommence.

10.21 €129 million of taxes and PRSI was written off during the year ended 31 December 2008. €4.1 million, relating to 239,909 cases with balances of less than €1,000 which were considered uneconomic to pursue, was written off on an automated basis in 2008. The balance was assessed for write off on a case-by-case basis. A breakdown by taxhead of the total amount written off is shown in Figure 32. Of the €129 million written off in 2008, €18 million or 91% was in respect of fiduciary taxes.

Figure 32 Taxes Written Off

Tax	2007 €000	2008 €000
Value Added Tax ^a	46,195	57,710
PAYE	24,009	19,831
PRSI	21,899	25,438
Relevant Contracts Tax	14,796	12,581
Income Tax	6,219	5,310
Corporation Tax	1,496	3,016
Capital Gains Tax	479	985
Automatic Write Offs	2,544	4,125
Total	117,637	128,996

Note:

- a The increase in the amount of VAT written off is mainly due to an increase in the amount of tax, including VAT, written off in liquidation cases.

10.22 Revenue records the reason for write off in each case and Figure 33 gives details of the number of cases and the amount written off for each category. Over €13 million of the amount written off arose in cases where businesses had ceased or encountered difficulties. The balance of €5 million relates to cases where the amount outstanding was not collected due to factors such as an inability to locate the taxpayer, a decision by Revenue that the amount outstanding did not warrant the committing of resources to its collection and compassionate grounds.

Figure 33 Reasons for Write Off

Reason	2007	2007	2008	2008
	Number of Cases	€000	Number of Cases	€000
Business Cessation/Difficulty				
Liquidation/Receivership/Bankruptcy	704	41,798	728	78,041
Ceased Trading – No Assets	1,196	46,423	709	26,633
Uncollectable due to Financial Circumstances of Taxpayer	191	4,678	134	3,752
Examinership	10	2,275	24	4,839
Deceased and Estate Insolvent	80	834	26	355
Other Reasons				
Cannot be Traced/Outside Jurisdiction	325	9,763	199	6,491
Uneconomic to Pursue ^a	8,498	9,735	240,445	7,404
Compassionate Grounds	122	1,827	101	1,323
Unfounded Liability	53	304	32	158
Total	11,179	117,637	242,398	128,996

Note:

- a Includes 239,909 cases written off automatically (7,641 in 2007). The increase in the number of cases arises from an adjustment to the automatic write off computer programme which resulted in the write off of a large number of cases with balances of less than €1 that had not previously been identified for write off.

10.23 The largest single amount written off in 2008 was €9.9 million in respect of Employer's PAYE/PRSI and VAT owed by a liquidated company in the security industry. There were eight other cases where the amount written off was greater than €1 million.

10.24 The Internal Audit Branch in Revenue undertakes an annual examination of tax write offs. Its 2008 audit examined a sample of 207 cases, representing 41% (€1 million) of the value of non-automated write offs (€25 million). Internal Audit was satisfied that all amounts were written off in accordance with the criteria prescribed. Internal Audit also examined the results of the five automated write off runs in the year and confirmed the correct application of the authorised selection criteria for each run.

Taxes and PRSI Outstanding

10.25 Tax is regarded as outstanding from the date the liability is placed on the taxpayer's record - usually as a result of the receipt of a return or the raising of an estimate. Figure 34 reflects activities and transactions in the twelve-month period to 31 March 2009, prepared on the basis of data furnished by the Revenue Commissioners.

10.26 The amount of tax outstanding at the end of March 2009 has increased by €75 million to €1,861 million. The outstanding liabilities have increased by 45% over the amount outstanding at March 2008. Figure 34 also shows that of the amount outstanding, €628 million is the subject of an appeal by the taxpayer and, while the appeals are being disposed of, Revenue is prevented from seeking to collect it. This is an increase of €237 million or 61% over the amount under appeal twelve months previously. The balance of €1,233 million which is available for Revenue to collect, has increased by €38 million or 38% over the March 2008 amount.

Figure 34 Outstanding Taxes and PRSI

Balance at 31 March 2008	Tax or Levy	Net Charges Raised	Paid	Written Off	Balance at 31 March 2009	Analysis of Balance at 31 March 2009	
						Under Appeal	Available for Collection
€m		€m	€m	€m	€m	€m	€m
242	VAT	12,358	(12,082)	(57)	461	109	352
130	PAYE	11,879	(11,846)	(13)	150	7	143
169	PRSI	9,363	(9,302)	(18)	212	2	210
313	Income Tax (excluding PAYE)	2,928	(2,872)	(6)	363	87	276
–	DIRT	648	(648)	—	—	—	—
219	Corporation Tax	6,080	(5,932)	(3)	364	273	91
190	Capital Gains Tax	1,094	(1,032)	(1)	251	141	110
3	Capital Acquisitions Tax	343	(343)	—	3	—	3
8	Abolished Taxes	—	—	(3)	5	—	5
12	Relevant Contracts Tax ^a	7	45	(12)	52	9	43
1,286	Total	44,700	(44,012)	(113)	1,861	628	1,233
2.7%^b	Debt as % of net charges raised				4.2%	1.4%	2.7%

Notes:

- a The RCT net charges raised of €7 million comprises assessments and declarations relating to principal contractors of €769 million, less claims of €762 million from sub-contractors. The net repayment of €45 million comprises €721 million received from principal contractors and €766 million repaid to sub-contractors (or offset against other tax liabilities).
- b Net charges raised in the year to March 2008 were €47,220 million.

10.27 Figure 35 sets out an aged analysis of the balance outstanding at 31 March 2009. At 31 March 2009, 30% of the amount outstanding related to the most recent tax period (2008). In March 2008, the amount outstanding for the then most recent period (2007) represented 26% of the total outstanding. Some 55% of the amount outstanding relates to tax periods prior to 2007.

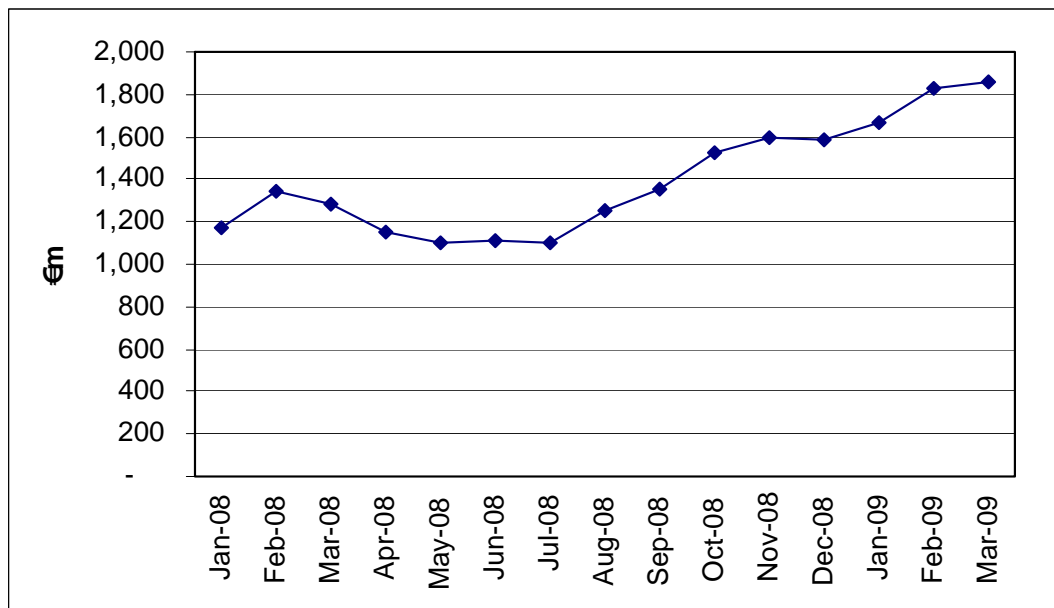
Figure 35 Aged Analysis of Debt at 31 March 2009

Tax	Total Tax Outstanding at 31 March 2009	Amounts Outstanding for 2008	Amounts Outstanding for 2007	Due for 2004 to 2006	Due for earlier periods (i.e. > 5years old)
	€m	€m	€m	€m	€m
VAT	461	249	43	98	71
PAYE	150	87	20	25	18
PRSI	212	140	32	26	14
Income Tax	363	3	103	93	164
Corporation Tax	364	60	11	218	75
Capital Gains Tax	251	2	58	52	139
Capital Acquisitions Tax	3	—	—	—	3
Abolished Taxes	5	—	—	—	5
Relevant Contracts Tax	52	18	9	19	6
Total	1,861	559	276	531	495
Comparator ^a	1,286	331	228	331	396

Note:

a These are the corresponding figures for the amount outstanding twelve months previously.

10.28 Figure 36 sets out an analysis of the debt each month from January 2008 to March 2009 and shows the increasing amount outstanding each month since the middle of 2008.

Figure 36 Monthly Tax Outstanding January 2008 to March 2009

Risks to Collection

10.29 Revenue's overall experience in 2009 has been that the effort involved in securing collection has increased. There has also been an increase in demand from business for more time to pay. The upward trend in the level of tax outstanding reflects the difficult economic circumstances. Revenue measures the extent to which taxpayers submit returns and make payments on time on a weighted basis for the main taxes. Revenue has stated that between 2007 and 2008, the compliance rate for large and medium cases remained at 92% and 86%, respectively, and the rate for all other cases increased from 68% to 72%³¹.

Views of Accounting Officer

10.30 The Accounting Officer stated that Revenue's main goal was to maximise taxpayer compliance with tax and duty obligations and was very conscious that the radically changed economic climate that the country was now experiencing posed a number of challenges and risks to tax collection. Even prior to this, in its Statement of Strategy for 2008 – 2010, published in February 2008, Revenue had recognised that slower economic growth was likely to present a greater challenge to its debt collection efforts and the achievement of targets for timely compliance rates. It did not, however, foresee the scale of the challenge and Revenue was now operating in a business environment where sales of goods and services, and profits, were declining in most, if not all, sectors of the economy.

10.31 Apart from the importance to the Exchequer of timely compliance, the Accounting Officer pointed out that Revenue was also mindful of the unfair competitive advantage a business could achieve when persistent late payment or non-payment of tax put it in a position to undercut compliant businesses. For these reasons, Revenue expected businesses, notwithstanding the more difficult economic circumstances in which they were now operating, to maintain a clear focus and organise their financial affairs to ensure that tax debts were paid as they fell due. She said that Revenue could not become a banker of last resort.

10.32 Revenue recognises that many businesses are facing very considerable difficulties in relation to their cash flow, especially as access to working capital is now much more limited and, as a result, therefore, it can be more difficult for some businesses to meet their tax obligations on time. Revenue is happy to work with those businesses and taxpayers in an effort to find an agreed way through their difficulties and restore voluntary timely compliance. A key requirement for the success of this approach is that there is a positive, early and honest engagement with Revenue and that the fundamentals of the business are sound.

10.33 In regard to Revenue's debt management strategies, which are focused on prioritising compliance interventions on the higher risk cases – in terms of tax yield – the Accounting Officer stated that they remained valid notwithstanding the changed economic environment. The Collector General's Debt Management Units had been restructured to ensure that there was close monitoring of cases that posed the greatest risk to the Exchequer, were they to fall into non-compliance, and priority attention was given to taxpayers who do. Revenue's case management systems facilitated the identification of non-compliant cases and supported the assignment of those cases to teams of caseworkers, on the basis of risk rating.

10.34 The Accounting Officer said that the dilemma for Revenue was to distinguish between businesses that will not pay, businesses which could not and never would be able to pay, and

³¹ Notwithstanding this the balance outstanding increased from 2.7% of net charges raised to 4.2% in the year to 31 March 2009.

businesses which were viable but were unable to pay just now. Often, there were jobs and livelihoods at stake. Revenue has developed a framework to manage these cases, known as the Case Decision Escalation Framework, and has published material in relation to its approach to cases experiencing tax payment difficulties. This framework has been designed to allow for the speedy and appropriate referral of cases for a higher-level decision. Recognising that it is in everybody's interest to help otherwise viable businesses to remain tax compliant, Revenue has ongoing widespread discussions with tax practitioner bodies and representatives of business in relation to this issue.

10.35 Remedying late payment or non compliance is preferably achieved through engagement with the taxpayer, but where that engagement is only partially forthcoming, or perhaps not at all, the Accounting Officer said that Revenue would utilise measures such as the charging and collection of interest or the deployment of collection enforcement measures, including sheriff and solicitor referrals and attachment orders to secure payment of the tax debt and to encourage future voluntary timely compliance.

Conclusions – Outstanding Tax and Collection Risk

2008 saw an increase of €75 million in the amount of tax outstanding. Revenue has noted that the effort involved in securing collection has further increased in 2009. This underlines the challenge that Revenue faces in ensuring that the reduced tax take is not further eroded by taxpayers delaying payment or failing to pay their tax liabilities. It is important to ensure that all taxpayers pay their full liability on time both to ensure the equity of the tax system and to maximise Exchequer revenue.

The approach to those encountering difficulties as outlined by the Accounting Officer – identification of non-compliance in the higher yielding cases as early as possible, and providing a mechanism for viable business and personal taxpayers to manage liquidity problems – appears to be appropriate. However, the situation calls for ongoing vigilance in order to detect changing compliance trends and respond appropriately.

Audit of Revenue Account

10.36 Under the Comptroller and Auditor General (Amendment) Act, 1993 I am required 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
- examine the account of revenue received and paid over to the Exchequer by the Revenue Commissioners (the Revenue Account) in order to satisfy myself as to its completeness and accuracy and to report to Dáil Éireann on the results of my examination.

10.37 On a cyclical basis I examine Revenue's systems for the assessment and collection of tax.

10.38 I form an opinion on the completeness and accuracy of the Revenue Account on the basis of the examination and testing carried out by my Office on the various receipting, repayment and accounting systems within Revenue. I also take assurance from the systems work referred to above.

Overall Conclusions

The Revenue Account together with my opinion thereon is set out in Appendix B. I have given a clear report on that account.