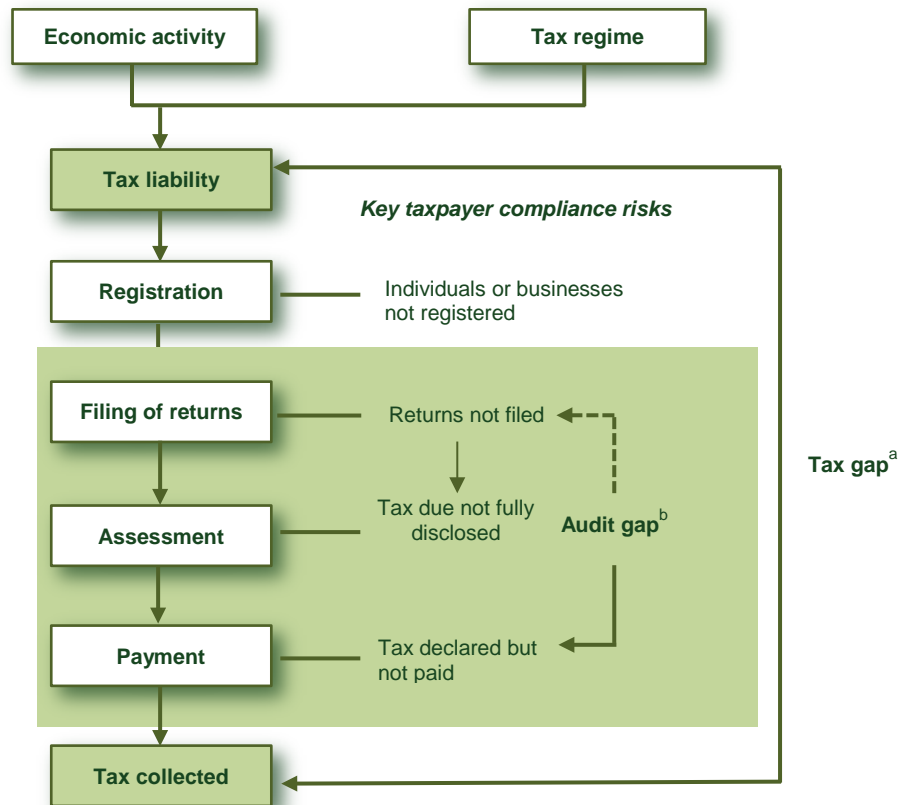


# 15 Taxpayer Compliance

15.1 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 (Figure 15.1). Those risks include

- registration risk - taxpayers do not register for tax when they are required to do so
- filing risk - 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.

Figure 15.1 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** - a more immediate target for Revenue activity in that it refers to the difference between the amount of tax that would be collected if all registered taxpayers were properly audited and the amount they voluntarily pay under self-assessment. Analysis of the results of cases selected at random for audit provides Revenue with useful information on trends in compliance.

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

- know 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.

**15.3** This report reviews Revenue's approach to monitoring and managing taxpayer compliance in those key areas.<sup>1</sup> The examination included

- a review of Revenue's performance information in relation to its audit work
- an analysis of the database used by Revenue to record audit activity, and
- a review of trends in the numbers of taxpayers prosecuted and the related outcomes.<sup>2</sup>

## Assessing taxpayer compliance

### Estimation of tax gap

**15.4** Revenue does not estimate the tax gap because it has concerns both around accuracy of estimation, and about the usefulness of a tax gap estimate at an operational level. Revenue considers that the science of estimating such a gap is insufficiently developed to provide a useful reliable estimate of tax non-compliance levels.

**15.5** Revenue conducts regular research analysis on the economic environment and investigation of the potential effects of changes on tax collection. Recent examples include published reports analysing the unexpected increase in corporation tax receipts in 2015 and a summary of a random sampling programme of fuel traders that assesses compliance in the oil market.<sup>3</sup> Quarterly outlook reports are also produced for senior management examining trends between relevant economic indicators and tax collected. This research is aimed at understanding Revenue's operating environment and possible related compliance trends but is not intended to identify specific non-compliant cases.

**15.6** Revenue states that a wide variety of compliance measures are used by Revenue and by tax administrations in other countries. Gap analysis represents only part of the toolkit available. While the audit gap may inform or form part of the tax gap calculation, Revenue is not aware of its usage as a standalone measure by any tax administration. Revenue further notes that an OECD report on tax administration in 2015 reported that the majority of countries do not conduct gap analysis and less than a quarter of those that do, publish their gap results.<sup>4</sup>

**15.7** The UK HM Revenue & Customs (HMRC) annually publishes a report on measuring tax gaps. In its 2015 report HMRC estimated the UK tax gap in 2013-2014 (the latest year) to be £34 billion, which is 6.4 per cent of total theoretical tax liabilities.<sup>5</sup> This indicates that more than 93 per cent of the tax estimated to be due to HMRC in 2013-2014 was collected. Figure 15.2 shows the tax gap as a percentage of UK tax liabilities over the period 2009-2010 to 2013-2014.

<sup>1</sup> A similar report was published in 2013, looking at Revenue's compliance activity in 2012. Report on the Account of the Public Services 2012 – Chapter 25 Taxpayer Compliance.

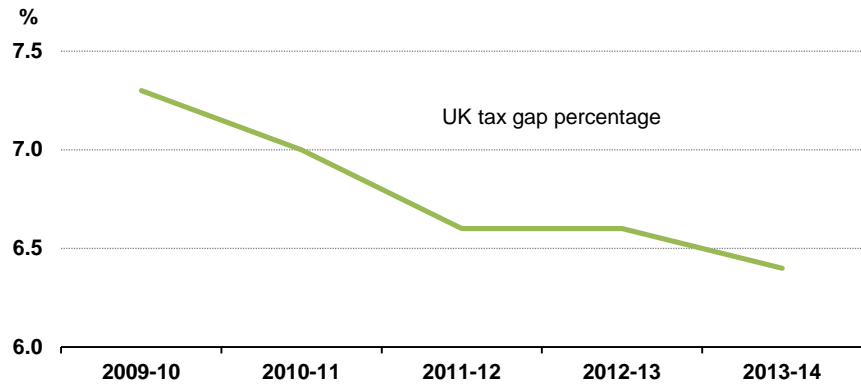
<sup>2</sup> Individual taxpayers' files were not examined.

<sup>3</sup> See also Chapter 12 Tackling Fuel Laundering.

<sup>4</sup> OECD's Tax Administration 2015 Comparative Information on OECD and Other Advanced and Emerging Economies Report.

<sup>5</sup> HM Revenue and Customs *Measuring tax gaps 2015*.

**Figure 15.2 Tax gap estimate as percentage of UK tax liabilities, 2009 to 2014**



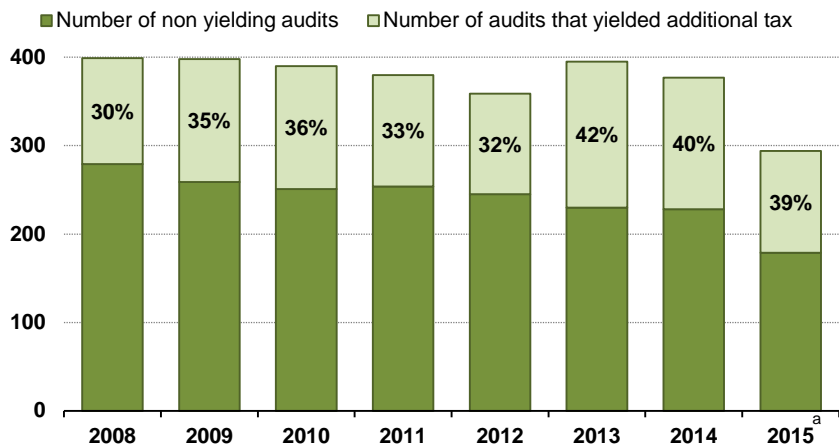
Source: HM Revenue & Customs – *Measuring tax gaps 2015*

**Estimation of the audit gap**

**15.8** 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 provide Revenue with a sound basis for valuation of the overall audit gap. Revenue operates a random audit programme with around 400 audits of randomly selected individual taxpayers and businesses commenced annually.<sup>1</sup> Certain complex audits may take a number of years to complete.

**15.9** The outcome of the random audit programmes for 2008 to 2015 is shown in Figure 15.3. Additional taxes were levied as a result of random audits in around 40% of cases on average over the period 2013 to 2015. This reflects an increase in the percentage of random audits that were ‘yielding’ – by comparison an average of around one third of random audits in the period 2008-2012 resulted in an additional tax yield.

**Figure 15.3 Outcome of random audits, 2008 to 2015 (up to March 2016)**



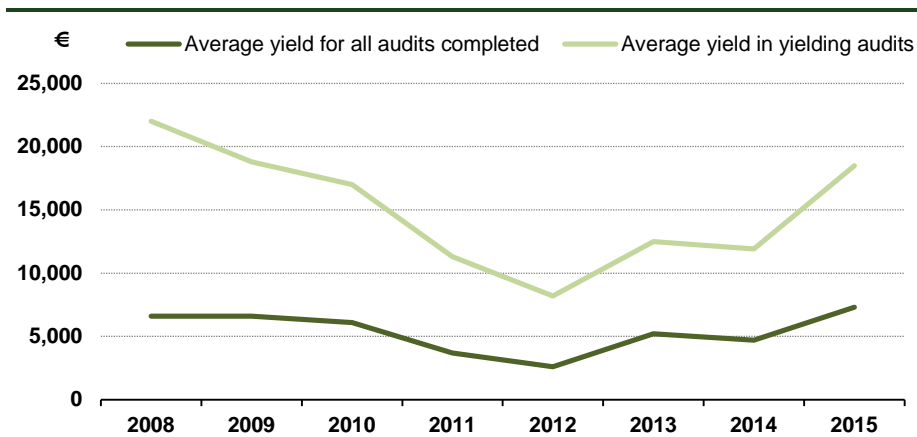
Source: Office of the Revenue Commissioners

Note: a At March 2016, 74% of the 2015 audits had been completed.

<sup>1</sup> In general, pay as you earn (PAYE) taxpayers are excluded from selection from audit under the random audit programme

- 15.10** Random 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 earlier years and audit yield may also arise in respect of these. The audit yield from yielding random audits from 2008 to 2015 is included in Figure 15.4.

**Figure 15.4 Audit yield<sup>a</sup> from random audits, 2008 to 2015 (up to March 2016)**

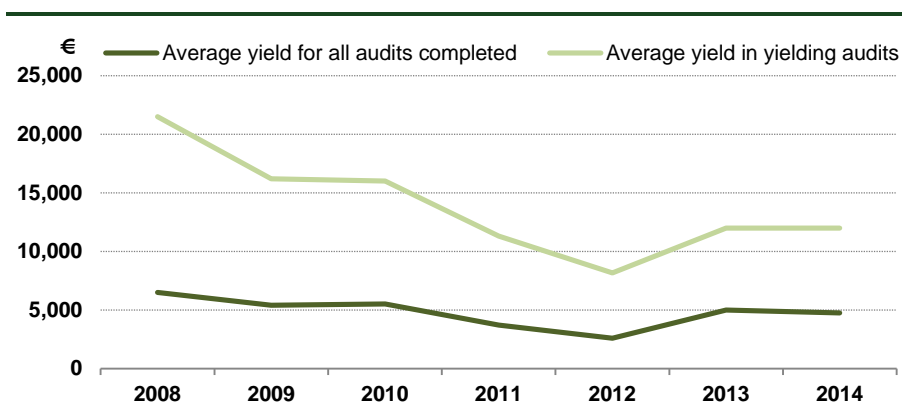


Source: Office of the Revenue Commissioners

Notes: a Yield includes tax, interest, penalties and surcharges.

- 15.11** At end March 2016, the random audit programme for 2015 was just under 75% complete. The experience in previous years has shown that the average yield from random audits increases as more audits are completed, because those that take longer to complete generally include higher value yielding cases.
- 15.12** Figure 15.5 shows the outcome for the 2008 to 2014 random audit programmes at the same stage in the cycle i.e. 15 months after the end of the programme year.

**Figure 15.5 Random audit programme, 2008 to 2014 (audit yield<sup>a</sup> at 15 months after programme year)**



Source: Office of the Revenue Commissioners

Note: a Average yield refers to mean yield and includes tax, interest, penalties and surcharges.

- 15.13** In order to estimate the audit gap, the examination compared the original declared liability with the audit tax yield for the 371 completed audits from the 2014 random audit programme (see Figure 15.6). The main results of the analysis are that
- 40% of taxpayers selected randomly had underpaid their taxes
  - the audit gap for the base year (2012) was an estimated 2% of the final assessed liability.

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**Figure 15.6 Taxpayer compliance rates based on 2014 random audit programme**

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	<b>Total Base year 2012</b>
Number of cases completed	371
Total assessed taxpayer liability in base year	33,107,932
Of which tax in base year as a result of audit <sup>a</sup>	675,360
Proportion of tax undeclared	2.04%

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Source: Office of the Revenue Commissioners

Analysis: Office of the Comptroller and Auditor General

Note: a Additional tax in the base year excludes interest and penalties.

- 15.14** The audit gap has been estimated using cases where audits had been completed and therefore may change upon completion of the audits in the remaining cases in the programme. Regular estimation of the audit gap would indicate whether the level of undeclared income is changing over time.
- 15.15** Revenue has not extrapolated or estimated the audit gap using the results of the random audit programme. In order to estimate the gap, the additional tax yield from random audits needs to be compared with the original liability declared by the taxpayer. Revenue confirmed that it had commenced recording this information as part of a response to a tax compliance review in 2012.<sup>1</sup> Revenue states that in the development of the new Revenue Case Management system (RCM), launched in July 2015, it was not feasible in the time available to capture details of the original declared liability. Revenue will, however, review how this information might be recorded in future releases of RCM.

### **Detecting non-compliant taxpayers**

- 15.16** Revenue states that a key corporate objective is to maximise voluntary compliance from taxpayers. Revenue's overall strategy is to seek to prevent non-compliance arising in the first place through a range of specific measures. The preventative measures include
- conducting real-time reviews of taxpayers' compliance records
  - pre-populating tax returns with third party income and data
  - real-time risk assessment as transactions are processed
  - 'designing' in taxpayer compliance when new taxes or reliefs are introduced.

<sup>1</sup> Report on the Account of the Public Services 2012 – Chapter 25 Taxpayer Compliance.

**15.17** For those who do not comply, however, Revenue runs a comprehensive programme of targeted interventions aimed at detecting non compliant taxpayers. This includes

- developing predictive models using advanced analytics to detect patterns of non-compliant behaviour from the extensive sources of taxpayer and third-party data available
- enhancing capacity to manage higher risk cases by further developing the organisational district structures
- continuous high-level profiling of the taxpayer register providing managers with a good overview of the make-up of their casebase, categorised, amongst other things, by trade sectors, income ranges, employee numbers and net worth
- conducting a dedicated programme of interventions for tax return and payment compliance amongst the smallest taxpayer casebase.

**15.18** Cases at higher risk of under-declaration are examined either by way of non-audit checks, through to a more intensive audit of the taxpayer's records by reference to the tax returns submitted or by way of a special investigation.<sup>1</sup> Any of these may result in additional tax and interest on late payment being levied and, in some cases, the imposition of civil or criminal sanctions.

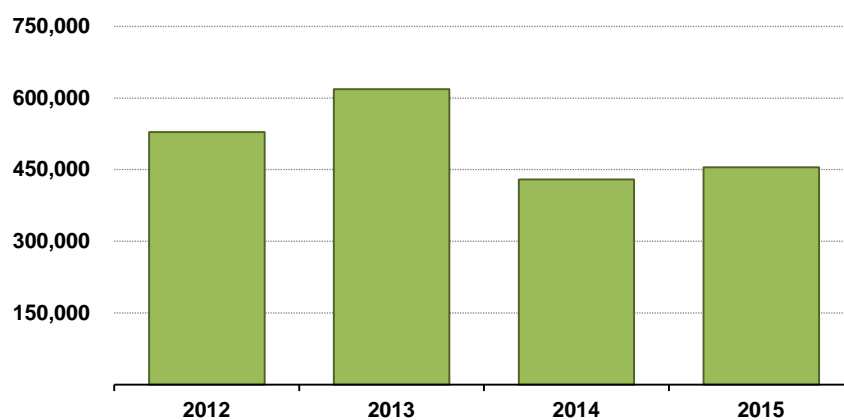
### ***Non-audit interventions***

**15.19** Rather than proceeding immediately to costly audit processes in all cases where it has identified a risk of undeclared liabilities, Revenue first seeks assurance that a customer is broadly compliant through the use of non-audit interventions. Non-audit interventions involve verifying documentation and requesting additional information in order to address a specific risk identified by Revenue. They can include

- the examination of customs declarations
- verifying the accuracy of VAT repayment claims
- following up on issues arising from suspicious transaction reports
- verifying PAYE tax credit and repayment claims and checks on potential non-declaration of additional income sources
- eligibility checks for disclosure schemes.

**15.20** Non-audit interventions can result in the levying of additional tax, interest and penalties as a result of enquiries, or in escalation of the case to a full audit. The numbers of non-audit interventions conducted in the years 2012 to 2015 are shown in Figure 15.7. The proportion of those resulting in additional yield is shown in Figure 15.8.

<sup>1</sup> DIRT and off-shore funds investigations are two examples of special investigations.

**Figure 15.7 Number of non-audit interventions carried out by Revenue, 2012 to 2015**

Source: Office of the Revenue Commissioners

**Figure 15.8 Revenue non-audit interventions and outcomes, 2012 and 2015**

	2012	2015
Number of non-audit interventions carried out	528,755	454,973
Proportion of interventions with yield	7%	15.5%
<b>Total yield</b>	€133m	€313m
Average yield per yielding case	€3,585	€4,438

Source: Office of the Revenue Commissioners

- 15.21** Revenue states that the reason for the reduction in the number of non-audit interventions for the years 2014 and 2015, is that only what were termed as “no further action” appraisals were reported, whereas for the years 2013 and prior, all appraisals were counted.<sup>1</sup> This meant that the initial appraisal was counted as well as any intervention actually carried out on the case. A decision by senior management, aimed at improved reporting and more consistent performance measurement across Revenue regions, also led to a significant reduction in the number of assurance checks reported for 2014.

### **Risk-based audits**

<sup>1</sup> Appraisals are interventions that take place before any contact is made with the taxpayer or agent.

<sup>2</sup> REAP is a computerised risk profiling system in use since 2008. It rates taxpayers, relative to one another, using information from Revenue’s other systems as well as information from third parties such as the Health Service Executive, the Department of Housing, Planning, Community and Local Government and the National Transport Authority.

- 15.22** A Revenue audit involves examining tax returns, declarations of liability, repayment claims and the compliance of a taxpayer with tax legislation.
- 15.23** In addition to its random audit programme, Revenue targets cases for audit in a number of ways including the use of its Risk Evaluation Analysis Profiling system (REAP) which ranks taxpayers relative to one another, based on a number of specified risk factors.<sup>2</sup> Cases may also be selected for other reasons including, for example, information provided by third parties or when a particular sector or scheme has been targeted for examination.
- 15.24** Revenue carried out 6,110 risk-based audits in 2015 yielding a total of €318 million (see Figure 15.9). Figure 15.10 sets out the levels of yielding risk based audits by region in 2015.

**Figure 15.9 Revenue audit activity and outturn, 2012 and 2015**

		Revenue districts	Large Cases Division	Special investigations	All audits
Audits carried out	2012	8,116	202	255	8,573
	2015	5,948	130	32	6,110
% of yielding cases	2012	69	62	95	70
	2015	69	52	91	68
<b>Total yield (€m)</b>	<b>2012</b>	<b>270</b>	<b>56</b>	<b>29</b>	<b>355</b>
	<b>2015</b>	<b>233</b>	<b>29</b>	<b>56</b>	<b>318</b>

Source: Office of the Revenue Commissioners

Analysis: Office of the Comptroller and Auditor General

**Figure 15.10 Yielding risk based audits by region 2015 – Revenue Districts**

Region	Number	No. of Yielding	% Yielding
Border Midlands West	1,722	1,270	74%
Dublin	1,488	971	65%
East/South East	1,609	1,056	66%
South West	1,129	788	70%
<b>Total</b>	<b>5,948</b>	<b>4,085</b>	<b>69%</b>

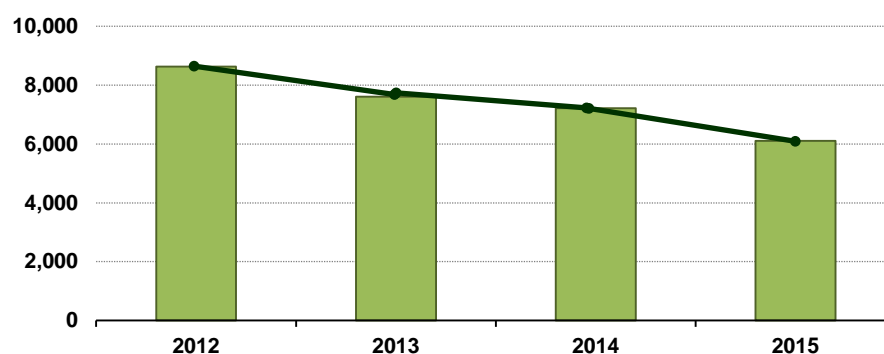
Source: Office of the Revenue Commissioners

Analysis: Office of the Comptroller and Auditor General

**15.25** There was a significant decrease in the number of audits undertaken between 2013 and 2015 (see Figure 15.11). Revenue states that one reason for the apparent reduction in audit numbers is a reclassification of Revenue's compliance interventions from mid 2012.<sup>1</sup>

**15.26** Revenue states that it continues to carry out a substantial compliance programme involving audits and other non-audit compliance interventions, notwithstanding the pressure on resources in recent years due to the loss of some senior auditing staff and the on-going rebuilding of audit capacity. While overall numbers have reduced, the yield from interventions, as reported in Revenue's annual reports, has increased from €492 million in 2012 to €642 million in 2015.

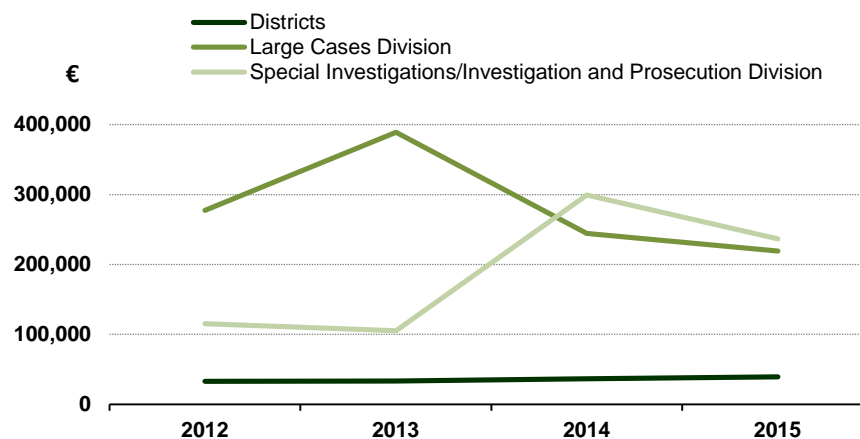
<sup>1</sup> Around this time, the concept of non-audit compliance interventions – namely aspect queries and profile interviews – was being developed and implemented. Compliance interventions that were traditionally classified as single issue or single tax head audits were re-classified in performance reporting data as an aspect query or possibly a profile interview. In addition, unprompted voluntary disclosures that were recorded as audits in the past are now more correctly regarded as aspect queries.

**Figure 15.11 Number of risk based audits undertaken, 2012 to 2015**

Source: Office of the Revenue Commissioners

15.27 Figure 15.12 sets out the average yield per case.

**Figure 15.12 Average yield per audit case, 2012 to 2015**



Source: Office of the Revenue Commissioners

Analysis: Office of the Comptroller and Auditor General

Note: 2015 Special Investigations figure excludes the highest yielding case which was a significant outlier.

### Deterring non-compliance

15.28 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 consequences outweigh the more immediate benefits. 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 is used as an additional deterrent.

### **Recovery of detected unpaid taxes**

**15.29** The finalisation of a Revenue audit can result in the levying of additional amounts in respect of under-declared tax, interest on late payment and penalties in relation to various offences (for example undisclosed sales, receipts income or capital gains). The total amount collected or deemed to be collectible from the taxpayer is referred to as the audit yield or tax settlement amounts.

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 where the taxpayer claims inability to pay.

### **Civil penalties**

**15.30** Revenue can apply civil penalties for failure to file P35 or VAT returns or for various tax offences discovered on audit. The number and value of civil penalties imposed in 2012 and 2015 is shown in Figure 15.13. Penalties applied as a result of audit in 2015 represented 7% of the total audit yield. This proportion was consistent with the average for previous years.

**15.31** In 2015, penalties were imposed in over 60% of the cases where audits resulted in yield liabilities being determined.

**Figure 15.13 Civil penalties imposed in non-compliance cases, 2012 and 2015**

		Non-filing of P35 and VAT returns	Penalties applied as a result of audit	Total
Number of cases	2012	717	3,438	<b>4,155</b>
	2015	722	2,606	<b>3,328</b>
Value of civil penalties imposed (€m)	2012	2.8	26.1	<b>28.9</b>
	2015	2.9	22.7	<b>25.6</b>
Average civil penalty imposed (€)	2012	4,000	7,590	<b>6,950</b>
	2015	4,017	8,711	<b>7,692</b>

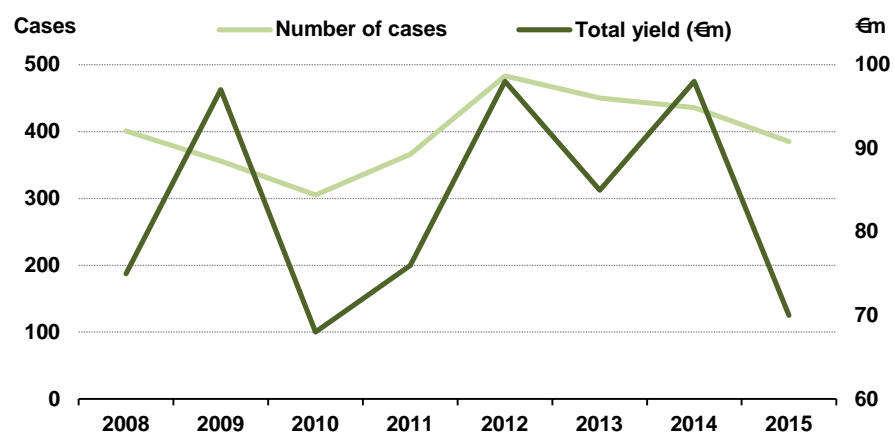
Source: Office of the Revenue Commissioners

### **Publication of defaulters' details**

**15.32** Details of audit settlements are published where Revenue accepts a specified sum in excess of €33,000 in settlement of any additional liability for tax, interest and penalties.<sup>1</sup> Cases are not published where a disclosure either prompted or unprompted is accepted or the settlement is less than €33,000 or the penalty does not exceed 15% of the tax due.

**15.33** As shown in Figure 15.14 the number of published cases has been steadily declining since its peak in 2012.

<sup>1</sup> This limit applies to liabilities arising after 1 January 2010. For liabilities arising between 1 January 2005 and 1 January 2010 the limit was €30,000. For liabilities arising prior to 1 January 2005 the limit was €12,700.

**Figure 15.14 Cases of non-compliance published, 2008 to 2015**

Source: Office of the Revenue Commissioners

Note: Yield amounts are based on settlements, and do not represent amounts collected.

- 15.34** Revenue states that legislative changes in 2008 and 2011 allowed publication where court orders were obtained for cases where penalties were not agreed and where settlements were unpaid. This gave rise to an increase in the number of publications in 2012 - 2014. The numbers achieved for 2015 are more in line with normal expectations.

### ***Prosecutions for tax evasion***

- 15.35** Cases are referred to Revenue's Investigation and Prosecution Division (IPD) for investigation with a view to criminal prosecution where there is prima facie evidence of serious offences having been committed. These cases are further evaluated by an Admissions Committee before commencement of resource-intensive investigation work.
- 15.36** It can take several years before a case is presented to 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 15.15).

**Figure 15.15 Status of prosecution cases on hand, 2010 to 2016 (April each year)**

Status of prosecution cases on hand:	2010	2011	2012	2013	2014	2015	2016
Under investigation	50	69	87	101	106	122	107
With the Revenue Solicitor's office	14	12	23	41	43	32	23
Submitted to DPP	9	3	1	2	1	9	6
Directions issued by DPP to prosecute	26	33	23	17	16	11	15
Before the court	17	34	48	39	33	37	15
Bench warrants/European arrest warrants	—	—	—	1	1	2	1
<b>Total open cases</b>	<b>116</b>	<b>151</b>	<b>182</b>	<b>201</b>	<b>200</b>	<b>213</b>	<b>167</b>

Source: Office of the Revenue Commissioners

**15.37** The number of convictions obtained in cases found to be suitable for prosecution between 2008 and 2015 and the associated penalties are shown in Figure 15.16.

**Figure 15.16 Prosecution for serious tax evasion, 2008 to 2015**

	2008	2009	2010	2011	2012	2013	2014	2015
<b>Convictions obtained:</b>								
Tax evasion cases	15	6	7	16	25	10	16	17
Customs and Excise evasion cases	5	9	6	14	25	25	11	11
<b>Total convictions</b>	<b>20</b>	<b>15</b>	<b>13</b>	<b>30</b>	<b>50</b>	<b>35</b>	<b>27</b>	<b>28</b>
<b>Penalties:</b>								
Value of fines (€000)	1,200	500	20	100	500	101	57	5
Suspended sentence	6 <sup>a</sup>	2	7	15	21	16 <sup>c</sup>	13	15 <sup>d</sup>
Imprisonment	1	4 <sup>b</sup>	1	8	19	7 <sup>ce</sup>	4	11 <sup>e</sup>

Source: Office of the Revenue Commissioners

- Notes:
- a Seven suspended sentences were imposed in 2008, but one of these was successfully appealed.
  - b Prison sentences were imposed in five cases in 2009. One of these was successfully appealed, with a €250 fine imposed after a judicial review.
  - c The DPP appealed the leniency of two sentences in 2013, both increased following appeal.
  - d The DPP has appealed the leniency of sentence in two cases. In one case, the person convicted has appealed against the severity of the sentence.
  - e Two sentences reduced in 2013 and 2015 following appeals by the taxpayers.

## Conclusions and recommendations

### *Assessing taxpayer compliance*

**15.38** The Revenue random audit programme has consistently shown over the period 2008 to 2015 that at least one-third of taxpayers audited had under-paid their tax. Of those cases selected for audit in 2015, and where the process had been completed, 39% were found to have underpaid, and to owe a mean average of €18,500 in unpaid tax, penalties and interest.

**15.39** The audit gap measures revenue losses in a tax year as a result of non-compliance by individuals and businesses that are registered with Revenue. This Office analysed the most recent data available. The outcome of Revenue's random audits in 2014 indicates that the audit gap was around 2% of the total liability.

**15.40** Revenue itself does not produce estimates of the audit gap. This would be useful to allow Revenue to better assess and report on its effectiveness in managing taxpayer compliance.

**Recommendation 15.1**

Revenue should calculate the estimated audit gap annually to allow it to better assess its effectiveness in managing taxpayer compliance.

**Accounting Officer's response**

Part agreed. Revenue will review the role that audit gap measurement, including the make-up of the current Random Audit Programme (RAP), could have in assessing the effectiveness of the taxpayer compliance programme.

Revenue's Random Audit Programme is not currently designed for the purpose of estimating the audit gap. If it were, the selection of cases would be different as this is crucial to ensuring a representative sample that can be used to extrapolate up to the full population. At present, the RAP is not representative of the full population.

The opportunity cost of additional representative sampling (in terms of targeted audits foregone) will have to be considered as part of this review. In addition to simply increasing the numbers, there would also have to be much more detailed analysis of the cases to understand the behaviour that results in yields.

- 15.41** Revenue does not estimate the tax gap - a broader measure than the audit gap – due to issues around accurate estimation of the gap and concerns about its usefulness at an operational level. Revenue considers that the science of estimating such a gap is insufficiently developed to provide a useful reliable estimate of tax non-compliance levels. However, tax gap analysis could assist in further understanding the reasons for tax losses and assist Revenue in devising its strategy to mitigate the factors impacting on tax compliance.

**Recommendation 15.2**

While it is acknowledged that the tax gap is challenging to measure reliably as there are many sources of uncertainty, Revenue should investigate the possibility of implementing analysis techniques designed to highlight gaps in tax compliance rates.

**Accounting Officer's response**

Part agreed. Accurate and robust estimates of the tax gap require investment in resources. However, the benefits of doing so are likely to be limited from an operational perspective. The concerns around gap analysis rest on two main issues.

The first is the robustness or accuracy of any figures. Given the data limitations and the assumptions that are needed, any figures will, at best, be estimates. The nature of the shadow economy means it can't be measured scientifically, regardless of whether top down or bottom up (e.g. using audit data) approaches are used.

The second is around how such estimates would be used. Gap analysis does not identify individual cases for targeting risk. Nor does it measure Revenue's effectiveness (gaps change for all sorts of reasons, Revenue's actions are only part of the cause).

For the above reasons, Revenue does not see value in putting resources into developing a full suite of tax gap measurement tools. However, the tax gap is composed of a range of behaviours and arises across a range of sectors. It is important to note that Revenue does perform critical analysis of compliance risks focused on particular sectors or activities. This provides us with information similar to that which would arise from gap research with the added benefit that these research projects focus on areas where the outputs can be readily used.

As the Comptroller and Auditor General notes, the results of the random audit programme are a useful indicator of compliance and Revenue continues to review results and issues arising on an ongoing basis from the audits.

In addition, Revenue has conducted recent studies of compliance in the following areas:

- Oil market (trend analysis published in 2014 and results of national sampling programme published in 2016)
- Tobacco (annual surveys of non-Irish duty paid consumption of cigarettes and 'roll your own' as well as detailed analysis of economic factors underlying tobacco consumption)
- Analysis of the rental and construction sectors using independent data sources to benchmark Revenue compliance outcomes.

Furthermore, in certain areas, gap analysis may prove useful where it provides indicators of trends (rather than point estimates which are likely to be inaccurate) that can be compared across countries. For example, Revenue continues to support the European Commission's annual estimate of the VAT gap for each member state. Notwithstanding concerns about the variability of the figures (which can change significantly year to year with new data or new assumptions), these estimates show Ireland's VAT gap is consistently below the EU average.

***Detecting non-compliant taxpayers***

**15.42** The results of Revenue's targeted audits indicate that its detection work is well targeted. In 2015, the proportion of risk-based audits resulting in audit yield was 68% compared with 39% for random audits. The average yield from risk-based audits is also considerably higher than for random audits. Following a change in strategy in 2012, Revenue has placed more emphasis on targeted non-audit interventions. Overall, compliance activity – comprising both audit and non-audit interventions – has resulted in an increased level of non-compliant yield being identified. It was noted however that the level of risk based audits undertaken by Revenue has fallen by almost 30% since 2012.

**Recommendation 15.3**

Revenue should consider increasing the level of risk based audits completed on an annual basis, as well targeted audits have consistently resulted in increased audit yields.

**Accounting Officer's response**

Part agreed. Essentially, the strategy now, as part of the case selection process, is for the case selector to recommend to the caseworker the type of intervention (including risk based audit) that is most appropriate to tackle the risks identified. It is also significant that the overall yield from compliance interventions is increasing year-on-year over the course of the period 2012-2015.

The numbers achieved also reflect the impact of the loss of key compliance resources through retirements, and the effects of a recruitment embargo, during the period under review.

