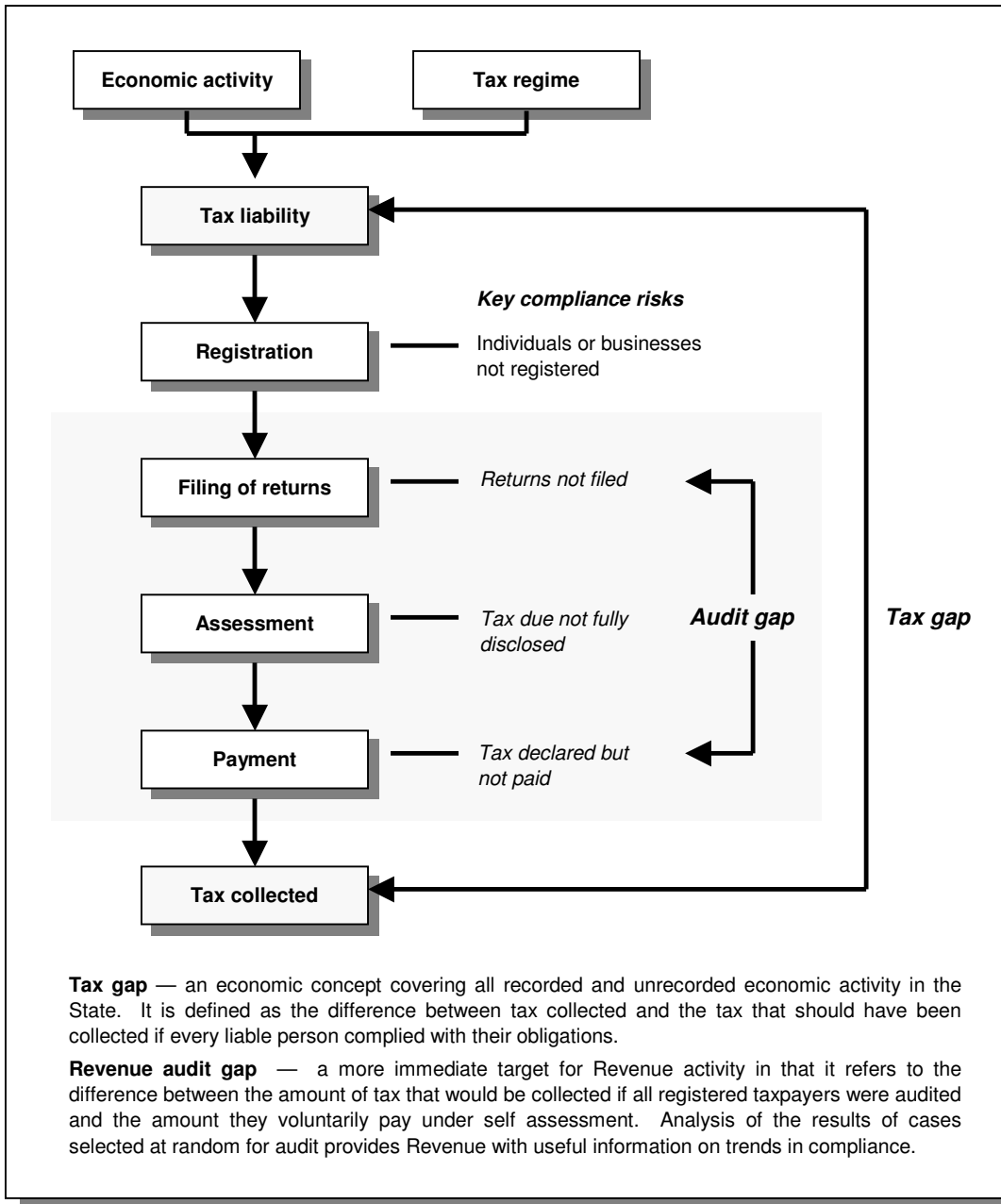


10 Increasing Tax Compliance

10.1 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 10.1). 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 10.1 Tax Compliance Framework — Self Assessment



- 10.2** In order to manage taxpayer compliance effectively, the Revenue Commissioners 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, so that there is a clear deterrent effect.

This chapter reviews Revenue's approach to monitoring and managing taxpayer compliance in those key areas.

- 10.3** The examination included a review of Revenue's performance information in relation to its audit and assurance work and an analysis of the database used by it to record audit activity. Trends in the numbers of taxpayers prosecuted and the outcomes were also reviewed. Individual taxpayers' files were not examined. Reports prepared by the Organisation for Economic Co-operation and Development (OECD) and HM Revenue and Customs were also reviewed to establish how taxpayer compliance is monitored in other jurisdictions.

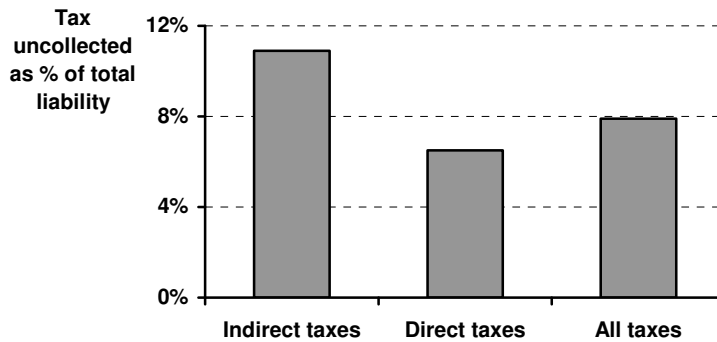
Assessing Taxpayer Compliance

- 10.4** The primary measures of taxpayer compliance are the tax gap — the difference between tax collected and the tax that would have been collected if every liable person complied with their obligations — and the revenue audit gap — the difference between the amount registered taxpayers pay under self-assessment and the amount that would be collected if all registered taxpayers were audited. Delay in compliance is also a factor, since there may be an economic benefit to taxpayers by delaying payment for as long as possible after the due date for payment.

Estimating the Tax Gap

- 10.5** Revenue collection authorities in many developed economies attempt to quantify the tax gap.¹ For example, HM Revenue and Customs has calculated the tax gap in the UK in order to monitor the effectiveness of its compliance programme and to gauge the effect on Revenue collection of changes in tax rules and in general environmental conditions. Their estimates show that the overall tax gap in the UK was about 8% for the 2009/2010 tax year (see Figure 10.2). The value of uncollected tax was found to be higher for indirect taxes (including VAT and Excise Duty) than for direct taxes.
- 10.6** The Accounting Officer stated that Revenue has reviewed methods used elsewhere to estimate the tax gap and the shadow economy. Revenue concluded that due to issues around accurate estimation of the tax gap and concern about its usefulness to Revenue in increasing tax compliance, it has not attempted to measure the tax gap. She noted
- There is no agreed method for measuring the tax gap and significant questions remain about its accuracy in those countries which produce estimates.
 - A range of factors determine changes in the tax gap, many of which are beyond the control or influence of the relevant tax administration. It is a high level outcome measure and can be informative for that purpose. However, it does not provide information at an operational level which would inform Revenue's approach to increasing compliance.

¹ OECD Forum on Tax Administration – Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2010).

Figure 10.2 Estimated United Kingdom Tax Gap Rates 2009 to 2010

Source: HM Revenue and Customs *Measuring Tax Gaps, (2011)*

Notes: a Indirect taxes include VAT and Excise Duty.

b Direct taxes include Income Tax, Corporation Tax and Stamp Duty.

- 10.7** The Accounting Officer has stated that, while the Revenue Commissioners do not assess the size of the tax gap in Ireland, trends in economic variables across all the major tax heads are examined at a strategic level. In addition, Revenue's economic staff identify key areas of the economy or economic developments that potentially impact on compliance. She noted that current projects include an analysis of the compliance implications of business indebtedness and access to credit difficulties, and a research project examining in detail the contributory factors to changes in Income Tax revenue in 2012.
- 10.8** She noted that, at an operational level, research has focused on a variety of topics that provide a more detailed understanding of Revenue's taxpayer base and the implications for compliance. These include profiles of all the major tax heads, analysis of Revenue's register and detailed sectoral analysis.
- 10.9** Revenue has completed some preliminary research in linking economic variables to changes in tax collection and explored methods for tracking VAT changes over time and against trends in other variables. However, the Accounting Officer noted that while comparisons of national accounts or other Central Statistics Office data with Revenue data can be useful in identifying trends and divergences, they do not serve as indicators of tax compliance.

Estimating the Audit Gap

- 10.10** Effectively, the revenue audit gap relates to tax liabilities unpaid by persons who are duly registered for tax purposes. Revenue has operated a random audit programme since 1993, with around 400 random audits of individual taxpayers and businesses completed annually.² Analysis of the outcomes of a well designed random audit programme potentially provide Revenue with a sound basis for valuation of the revenue audit gap.
- 10.11** The outcome of the random audit programmes for 2007 to 2011 as at 31 March 2012 is shown in Figure 10.3. This indicates that additional taxes were levied as a result of random audits in about one third of cases, and that this rate has fluctuated very little over the period reviewed.

² Pay as you earn (PAYE) taxpayers are excluded from selection for audit under the random audit programme.

Figure 10.3 Proportion of Random Audits Resulting in Additional Yield 2007 to 2011

	2007	2008	2009	2010	2011
Number of audits completed	397	397	389	370	326
Number of audits that yielded additional tax	130	119	134	128	106
Yielding cases as % of completed cases	33%	30%	34%	35%	33%

Source: Office of the Revenue Commissioners

- 10.12** Random audits review tax returns for a particular year termed the base year.³ However, the behaviour giving rise to the under-declaration in the base year may also apply to other years so audit yield may also arise in respect of other years. The reported results distinguish between audit yield in the base year and in other years (see Figure 10.4).

Figure 10.4 Audit Yield from Random Audits 2007 to 2011

	2007	2008	2009	2010	2011
Base year yield (€000)	808	1,171	1,010	818	389
Yield for other years (€000)	1,188	1,448	1,280	1,228	377
Total yield (€000)	1,996	2,619	2,290	2,046	766
Average yield for all audits completed	€5,000	€6,600	€6,000	€5,500	€2,300
Average yield in yielding audits	€15,400	€22,000	€17,000	€16,000	€7,200

Source: Office of the Revenue Commissioners

- 10.13** The random audit programme for 2011 has not yet been completed. The experience in previous years has shown that the average yield from random audits increases as more audits are completed, indicating that higher value cases take longer to complete. The results of the 2007 to 2010 programme show that

- the average yield from all audits completed was between €5,000 and €6,600
- when non-yielding cases are excluded, the average yield varied between €15,400 and €22,000.

- 10.14** The additional yield from random audit cases cannot be put in the context of the overall tax liability of the cases included in the sample, because this has not been previously captured by Revenue. Consequently, the percentage revenue audit gap is not known. Revenue began capturing this data in July 2012.

Timeliness of Compliance

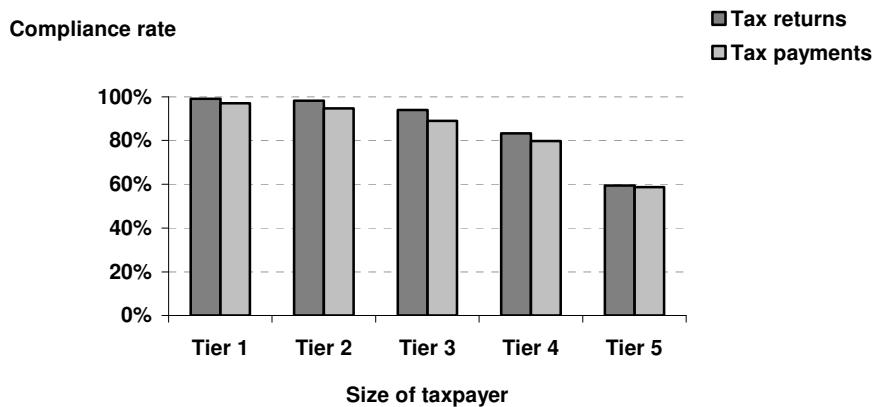
- 10.15** Revenue currently monitors taxpayer compliance rates using a composite indicator that measures the proportion of taxpayers that have submitted either a required tax return or a due payment. This is measured at two points in time

- 'due month compliance' means returns submitted and/or payments received in the due month
- 'due month plus one compliance' means returns or payments received by one month after the due month.

³ The audits completed as part of the 2011 programme focused on a review of 2009 tax returns.

- 10.16** In practice, timely payment of taxes due is more important than timely filing of returns. For that reason, measurement and monitoring should focus on payment compliance rates.
- 10.17** For the purposes of this examination, Revenue's composite measure was disaggregated in order to identify separately the proportion of taxpayers who had filed a return and the proportion of taxpayers who had transmitted a payment to Revenue in relation to the relevant tax period. In practice, the individual compliance rates are quite similar. For example, 'due month plus one' compliance rates for VAT returns and payments due by 19 March 2012 were 74.1% and 71.6%, respectively. The composite compliance rate was 74.5%.
- 10.18** Figure 10.5 shows the deviation between 'due month plus one' compliance rates in respect of VAT returns and payments by size of taxpayers. Filing and payment were most timely for the largest taxpayers, at almost 100%. Timely compliance was least (at around 60%) for the smallest taxpayers.

Figure 10.5 VAT Due Month Plus One Compliance, for March 2012 VAT Returns and Payments, by size of taxpayer April 2012

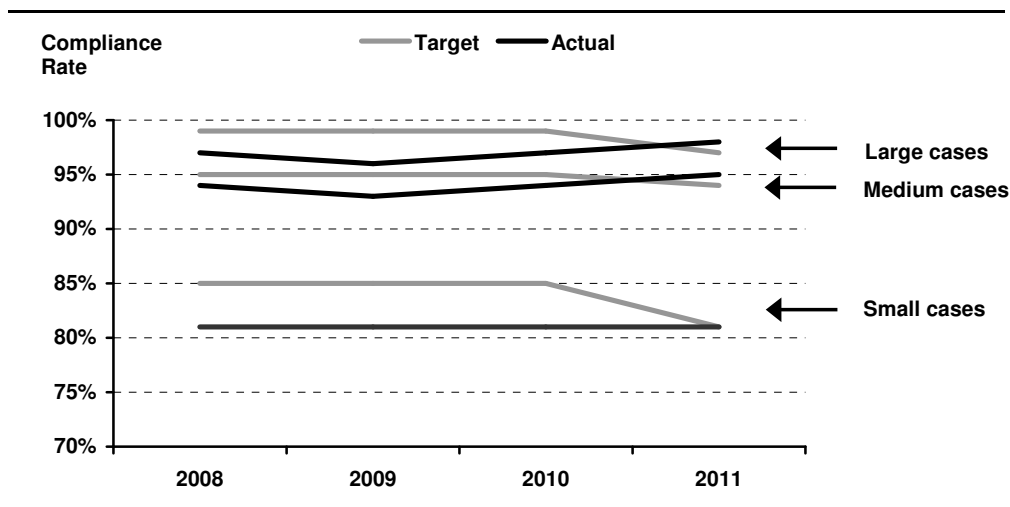


Source: Office of the Revenue Commissioners

Note: Revenue categorise cases into five tiers according to the size of the taxpayers average annual amount of tax paid ranging from Tier 1 for larger cases to Tier 5 for smaller cases.

Compliance Targets and Outturns

- 10.19** Revenue set annual targets in respect of the composite compliance measure against which performance is compared in a given year. Separate rates are set for large, medium and small cases (determined on a different basis to the tier structure referred to above). As Figure 10.6 indicates, compliance was below target for all case sizes from 2008 to 2010. In 2011, compliance rates equalled or exceeded the targets set for all case sizes, after Revenue reduced the targets to the 2010 actual compliance levels.

Figure 10.6 'Due Month plus One' Compliance Rates 2008 to 2011

Source: Office of the Revenue Commissioners

Detecting Non-Compliant Taxpayers

- 10.20** Revenue uses a number of procedures to identify registered taxpayers at risk of under-declaration of liability. These include
- automated screening of tax returns against sectoral and business norms
 - automated data matching of information held on Revenue's own records
 - matching with third party data.
- 10.21** Where instances of possible under-declaration are identified, they are investigated either by way of assurance checks — where supplementary documentation or information is obtained from the taxpayer — or through a more intensive audit of the taxpayers records by reference to the tax returns submitted. Assurance checks and audits are carried out at Revenue district level and by a special Large Cases Division. Special investigations focused on specific forms of tax evasion are also carried out from time to time.⁴
- 10.22** All the investigations may result in additional tax and interest on late payment being levied and in some cases the imposition of civil or criminal sanctions.
- 10.23** The Accounting Officer stated that the type of intervention undertaken in a particular case is that considered to be the most appropriate to target the specific risk or risks identified. She noted that a full audit is expensive for Revenue and is not always the appropriate intervention. She stated that Revenue optimise the use of resources while at the same time minimising the compliance burden by carefully selecting cases for intervention and carefully choosing the type of intervention.

⁴ Examples of special investigations are DIRT and off-shore funds investigations.

Assurance Checks

- 10.24** Assurance checks may arise as a result of screening of tax returns submitted, anomalies picked up by Revenue's risk analysis system or the receipt by Revenue of a suspicious transaction report.⁵
- 10.25** Rather than proceeding immediately to costly audit processes in all cases, Revenue first seeks assurance that the customer is broadly compliant in the areas that are the subject of the check. Assurance checks can result in the levying of additional tax as a result of enquiries, or in escalation of the case to a full audit. In 2011, about 1% of assurance checks conducted proceeded to a full audit.
- 10.26** The numbers of assurance checks conducted in 2011 and the proportion of checks resulting in additional audit yield is shown in Figure 10.7. In practice, the number of non-compliant cases is higher than that shown because identified non-compliance does not always result in additional yield. For example, assurance checks identified an overall non-compliance rate of 11% in 2011, but additional tax was levied in only 6.4% of cases.

Figure 10.7 Revenue Assurance Checks and Outcomes 2011

	Revenue districts	Large Cases Division	Total
Number of checks carried out	536,500	10,000	546,500
Proportion of checks with yield	6.5%	3.5%	6.4%
Average yield per yield case	€1,600	€75,700	€2,300

Source: Office of the Revenue Commissioners

Risk-Based Audits

- 10.27** A Revenue audit involves examining tax returns, declarations of liability, repayment claims and the compliance of a taxpayer with tax legislation. Revenue target cases for audit in a number of ways.
- It seeks to target high-risk cases using its Risk Evaluation Analysis Profiling system (REAP) which ranks taxpayers relative to one another, based on a number of specified risk factors.⁶
 - Each year, Revenue targets specific sectors within the economy. In 2011, it set a target to focus 50% of audits on higher-risk cash businesses such as bars, nightclubs, restaurants and wholesalers.
 - Selection of cases for audit also takes account of local information.
- 10.28** REAP is not specifically designed around the types of cases dealt with by Large Cases Division and there are limitations in its use in relation to large scale operations and group structures. Instead Large Cases Division select cases for audit based on profiling and screening which includes a review of accounts and returns submitted taking account of emerging non-compliance issues.⁷

5 Under the Criminal Justice Act 1994 (as amended) designated bodies are required to report to An Garda Síochána and Revenue where they have a suspicion that a money laundering offence may have been committed. These reports are known as suspicious transaction reports.

6 REAP (Risk Evaluation Analysis Profiling system) 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 the Environment, Community and Local Government and the Taxi Regulator.

7 Revenue is currently investigating the development of a specific Large Cases Division REAP system.

- 10.29** Revenue aims to concentrate its district office audit activity on the highest risk cases as assessed through REAP. It has set a target that at least 60% of all cases audited will come from the highest risk category. In 2011, the outturn was slightly below target, at 58%.
- 10.30** Revenue carried out 10,560 audits in 2011 yielding a total of €437 million (see Figure 10.8). 238 audits were conducted as part of Revenue's special investigations or by its Investigations and Prosecution Division and the associated yield was €33 million.

Figure 10.8 Revenue Audit Activity and Outturn 2011

	Revenue Districts	Large Cases Division	Special investigations ^a	All audits
Audits carried out ^b	10,020	300	240	10,560
Proportion of audits with yield	73%	67%	92%	73%
Total yield (€ million)	300	104	33	437
Average yield per yield case ^c	€39,500	€343,500	€153,700	€50,600

Source: Office of the Revenue Commissioners

Notes: a Includes special investigations and audits completed by Revenue's Investigations and Prosecutions Division.

b Excludes Stamp Duty and Capital Acquisitions Tax audits and audits completed under Revenue's Random Audit Programme.

c Average excludes results of three outlier cases (one in a Revenue district and two in Large Cases Division) where the yield in each case was in excess of €10 million.

Re-auditing of Yield Cases

- 10.31** A re-audit programme provides a means of measuring the impact that Revenue interventions have on taxpayers behaviour and in highlighting trends in the rate of non-compliance recidivism.
- 10.32** Revenue operated a re-audit programme up to 2002. Results from that programme suggested that 60% of non-compliant taxpayers examined continued to be non-compliant four years later and in 20% of those cases the yield was higher in the later audit.
- 10.33** In 2003, Revenue carried out a review of the re-audit programme, and concluded that a re-audit programme in association with other indicators is useful in estimating compliance levels. The review recommended that the objectives of the re-audit programme needed to be clearly defined and that an adequate sample that takes account of all previously audited cases would need to be examined. It also recommended central monitoring and quality assurance of cases audited under the programme. However, the programme was discontinued, mainly to allow time to determine the effectiveness of the REAP system.
- 10.34** A re-audit programme was activated again in March 2011. 400 cases that had previously been audited in 2009 were randomly selected from the highest risk REAP category and sent to each of the tax regions for profiling and determination of appropriate intervention. The Accounting Officer stated that as a result of difficulties in implementing the programme, it had been temporarily paused for review of its operation. She confirmed that the review is ongoing and is being conducted in conjunction with an analysis of all audits between the years 2009 and 2011 inclusive. The Accounting Officer anticipates that another re-audit programme will be implemented in January 2013 and will include a sample of 400 cases randomly selected from cases audited in 2010.

- 10.35** Revenue anticipates that the 2013 programme will allow it to assess the impact of audit by monitoring the subsequent compliance of taxpayers. It also expects the programme to provide assurance that audit settlements are not clawed back by taxpayers in subsequent years.

Deterring Non-Compliance

- 10.36** 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 to reflect the time value of money. 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

- 10.37** 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 civil 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.
- 10.38** In some cases, additional amounts due in audit cases are quantified by the taxpayer by way of a 'qualifying disclosure'. This involves voluntary disclosure of non-compliance, with tax requirements, details of the nature of the tax offence, quantification and payment of the total tax and interest due.⁸ Where the taxpayer furnishes a qualifying disclosure, a lower level of penalty applies. Even where a qualifying disclosure is not made, Revenue may grant a reduction in penalties charged where a taxpayer co-operates fully during the course of an audit.
- 10.39** Where the tax liability has not been quantified in a qualifying disclosure, the Revenue auditor quantifies the undercharge in respect of tax, interest and penalties (if any) and invites the taxpayer to submit a written settlement offer and to pay the liabilities so quantified. These settlement offers are subject to approval. The Board of the Revenue Commissioners has delegated authority to regional and district staff to approve settlement offers within certain parameters.
- 10.40** Revenue has stated that the concept of a monetary settlement in audits has an important role to play in its overall compliance programme. It notes that the use of appropriate monetary settlement procedures is consistent with efficient management of the tax system and best use of Revenue resources.
- 10.41** 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.

⁸ Such disclosures can be prompted where Revenue have notified the taxpayer of its intention to conduct an audit or unprompted where the disclosure is furnished voluntarily to Revenue.

- 10.42** Previously, Revenue did not record the full value of additional taxes that were assessed as being due during audits. As a result, it was unable to estimate the amounts written off as part of audit settlement agreements. Since July 2012, Revenue have commenced recording this information.

Loss Relief Restriction

- 10.43** Revenue has estimated the future tax impact of losses restricted as a result of audits conducted in 2011 at €16 million (€127 million in 2010).
- 10.44** In addition, the Taxes Consolidation Act 1997 provides for restrictions on the use of losses where returns are not filed on time (within nine months of the end of the company's accounting period). The tax value of the losses in the case of filing delay is not forgone but is postponed to a later claim period.
- 10.45** Where the return is filed up to two months after the due date, loss relief is restricted by 25% with a maximum restriction of €31,740. Where the return is filed more than two months after the due date, loss relief increases to 50% with a maximum restriction of €158,715.

Publication of Defaulters' Details

- 10.46** Details of audit settlements are published where Revenue accept a specified sum in excess of €33,000 in settlement of any additional liability for tax, interest and penalties. Cases are not published where a qualifying disclosure is accepted or the settlement is less than €33,000 or the penalty does not exceed 15% of the tax ultimately due.
- 10.47** Figure 10.9 sets out the total amounts of tax, interest and penalties in published cases settled between 2007 and 2011.

Figure 10.9 Cases of Non-Compliance Published 2007 to 2011

Year	2007	2008	2009	2010	2011
Number of cases	555	401	356	305	366
Total yield €m	144	75	97	68	76

Source: Office of the Revenue Commissioners

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

Civil Penalties

- 10.48** 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 2011 is shown in Figure 10.10.
- 10.49** Penalties were imposed in just over half of the cases where audits resulted in yield liabilities being determined. Between 2008 and 2011, the penalties applied as a result of audit represented about 10% of the total tax audit yield.

Figure 10.10 Civil penalties imposed in non-compliance cases 2011

	Non-filing of P35 and VAT returns	Penalties applied as a result of audit	Total
Number of cases	724	4,004	4,728
Value of civil penalties imposed (€ million)	2.9	33	35.9
Average civil penalty imposed	€4,000	€8,240	€7,590

Source: Office of the Revenue Commissioners

Summary Criminal Proceedings

10.50 Summary criminal proceedings arise in relation to the non-filing of returns, and other tax and Customs and Excise offences. The total number of summary prosecutions finalised and the associated fines are shown in Figure 10.11.

10.51 In addition to the imposition of fines, custodial sentences are also imposed in some cases. For example, in 2011, custodial sentences were imposed in 32 of the 497 Customs and Excise cases where summary convictions were obtained. 19 of these sentences were suspended.

Figure 10.11 Summary prosecutions for tax offences 2008 to 2011

	2008	2009	2010	2011
Prosecution cases for				
Number of cases				
Failure to file returns	1,052	1,199	1,380	1,217
Customs and Excise offences	455	535	509	497
Tax offences	11	9	10	16
	1,518	1,743	1,899	1,730
Value of fines imposed in Court				
€ million				
Failure to file returns	2.3	3.0	4.0	2.8
Customs and Excise offences	0.6	0.8	1.1	1.1
Tax offences	— ^a	— ^a	— ^a	— ^a
	2.9	3.8	5.1	3.9

Source: Office of the Revenue Commissioners

Note: a Aggregate value of fines imposed less than €50,000 each year.

Prosecutions for Tax Evasion

- 10.52** 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. Within IPD, these cases are further evaluated before commencement of resource-intensive investigation work. The evaluation takes account of a number of factors, including
- the strength of the available evidence
 - how long ago the offence was discovered
 - the likely length and expense of a trial (on the principle that the cost of pursuing prosecution should not be disproportionate to the possible benefit to be obtained)
 - the degree of culpability, responsibility and experience of the alleged offender
 - the need for deterrence, both personal and general in relation to the particular offences
 - whether the alleged offender has made a full disclosure, has co-operated in reaching a settlement and has paid all of the tax interest and penalties that are due.
- 10.53** Over the five years 2008 to 2011, an average of around 40 cases a year were deemed suitable for investigation with a view to prosecution. It can take several years before a case is presented to Court. As a result, at any point in time, Revenue have a number of serious evasion cases at various stages of the investigation and prosecution process (see Figure 10.12).

Figure 10.12 Status of Prosecution Cases on Hand 2009 to 2012 (April each year)

Status of prosecution cases on hand	2009	2010	2011	2012
Under investigation	61	50	69	87
With the Revenue Solicitor's Office	11	14	12	23
Submitted to the DPP	10	9	3	1
Directions issued by DPP to prosecute	15	26	33	23
Before the court	13	17	34	48
Total open cases	110	116	151	182

Source: Office of the Revenue Commissioners

- 10.54** The numbers of convictions obtained in cases found to be suitable for prosecution between 2008 and 2011 and the associated penalties are shown in Figure 10.13.

Figure 10.13 Prosecution for Serious Tax Evasion 2008 to 2011

	2008	2009	2010	2011
Convictions obtained				
Tax evasion cases	15	6	7	16
Customs and Excise evasion cases	5	9	6	14
Total convictions	20	15	13	30
Penalties				
Value of fines (€ million)	1.2	0.5	— ^a	0.1
Suspended sentence	6 ^b	2	7	15
Imprisonment	1	4 ^c	1	8

Source: Office of the Revenue Commissioners

Notes: a The value of the fines imposed was €16,350.

b Seven suspended sentences were imposed in 2008, but one of these was successfully appealed.

c Prison sentences were imposed in five cases in 2009. One of these was successfully appealed and a €250 fine was imposed after a judicial review.

Penalty Rate

10.55 For the purpose of this examination, Revenue were asked to estimate the proportion of taxpayers who had a civil penalty applied or were pursued by way of a summary prosecution for non-filing of tax returns. The data provided showed that civil penalties were applied or summary prosecutions pursued in respect of

- less than half of one percent of taxpayers who did not file Corporation Tax, VAT or RCT returns
- 2% of taxpayers who had not filed Income Tax returns
- 3.3% of taxpayers who had not filed P35 returns.

Conclusions and Recommendations

- 10.56** A clear understanding of the level of non-compliance by individuals and businesses that are liable to pay tax (the tax gap) is a basic requirement for effective management of taxpayer compliance.
- 10.57** Revenue collection authorities in a number of other jurisdictions have developed methodologies for estimating the tax gap. Estimates compiled by the authorities in the UK suggest that the overall loss of revenue due to non-compliance was of the order of 8%. Due to issues around accurate estimation of the tax gap and concerns around its usefulness at an operational level, Revenue does not currently produce such estimates.
- 10.58** Some work is being done by Revenue in relation to the links between relevant economic variables and tax collected but this does not provide reliable indications of tax non-compliance levels.
- 10.59** The revenue audit gap is a more limited measure of taxpayer compliance. It measures revenue losses as a result of non-compliance by individuals (except PAYE taxpayers) and businesses that are registered with Revenue. Revenue does not have estimates of the scale of the audit gap, but it carries out a programme of random audits of taxpayers that has the potential to generate reasonably reliable estimates.
- 10.60** The random audit programme is restricted to a sample of up to 400 taxpayers each year. The consistent outcome of the audits over the period 2007 to 2010 is that around one third of the taxpayers examined were found to have under-paid their tax. Over the same period, the average yield per non-compliant case was around €17,500 (including tax, penalties and interest). Of this, around €7,400 related to the audit base year, which indicates the order of average loss per non-compliant taxpayer per year.

Recommendation 10.1: Revenue should develop the methodology underpinning its random audit programme to provide estimates of the revenue audit gap, and of the tax losses resulting from registered taxpayers being non-compliant. This should include the capture of information in relation to the value of the tax under-declared and the original liability. This would allow the results to be extrapolated to provide an estimate of the total tax under-declared for the entire population of registered taxpayers.

Accounting Officer's Response: Agreed in part. Since July 2012, the value of tax under-declared and the original liability is recorded in relation to all cases audited as part of the random audit programme. Revenue will consider this recommendation further.

- 10.61** Revenue has not operated a re-audit programme since 2002. Results from that programme indicate that 60% of taxpayers re-audited continued to be non-compliant four years later. A programme commenced in 2011 but was suspended for review of operations.

Recommendation 10.2: A re-audit programme with clearly defined objectives and outcome measures should be developed and implemented.

Accounting Officer's Response: Agreed. A re-audit programme will be implemented in 2013.

10.62 Delays in payment of tax liabilities impose costs on the State. The level of tax outstanding for payment has increased from €1.3 billion at March 2008 to just under €2 billion at March 2012. Revenue measures the timeliness of taxpayer compliance using a composite indicator of timely submission of tax returns or of payment. Disaggregating the rates into timeliness of returns and timeliness of payments indicators shows that returns are, on average, more timely than payments but that the rates are relatively close. Given the time value of money in the current fiscal situation, target setting and reporting in relation to timeliness of payment is more relevant.

Recommendation 10.3: Revenue should set targets in relation to timeliness of taxpayer compliance in terms of both payment compliance and filing compliance.

Accounting Officer's Response: Not agreed. Revenue consider that the differences in compliance rates as measured by the composite measure and that measured using separate payment and return compliance figures is not significant and would not merit a change in its compliance measurement system.

10.63 Revenue has developed risk-assessment systems to allow it to focus the bulk of its tax audit resources on the taxpayers at highest risk of default. In 2011, it carried out a total of over 10,000 targeted audits, which resulted in a total yield of €437 million. Excluding large case audits and special investigations, the average yield per audit was around €40,000. This was around 2.3 times the average yield from random audit cases in recent years. Combined with a non-compliance detection rate of 73% of cases selected for audit, this indicates that Revenue's risk assessment is relatively effective in targeting higher-risk cases. Less resource-intensive assurance checks of over half a million cases resulted in identification of a further €81 million in yield.

10.64 However, the overall rate of detection of non-compliant taxpayers is not known. Deploying additional resources to carry out audit and assurance work could be cost effective, but better information about the success rate in detecting non-compliance is required to conclude on this matter.

10.65 Revenue employ a wide range of measures designed to have a deterrent effect on individuals and businesses that might consider evading their tax obligations. However, without an estimate of the likelihood of detection of non-compliance, it is difficult to evaluate the effectiveness of the deterrent measures.