

## **Chapter 16**

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**Revenue**

**Revenue Repayments**



## Revenue Repayments

16.1 Revenue repayments in 2009 amounted to €8.1 billion. Repayments to Revenue customers represented 20% of the receipts for the year. Over 98% of those repayments related to Income Tax, VAT and Corporation Tax.

16.2 Repayments arise in three main ways and as well as cash repayments (€3.2 billion) and refunds (€4.16 billion) they can also arise by way of offset (€0.78 billion) against liabilities. The nature of repayments is outlined in Figure 85.

**Figure 85 Types of Revenue Repayments**

Type	Circumstance of Repayments
Repayments	Repayments principally arise in relation to VAT and Relevant Contracts Tax. In the case of VAT they reflect the differences between VAT on purchases and sales.
Repayments in the nature of refunds	Refunds arise in instances where tax has been overpaid and the client is due a refund in circumstances where <ul style="list-style-type: none"><li>the preliminary tax paid exceeds the total tax payable</li><li>the taxpayer is entitled to reliefs or allowances not known or not allocated in sufficient time to allow computation and payment of the appropriate tax.</li></ul>
Offsets	Offsets occur where tax overpaid is less than cumulative underpaid tax across a number of years or taxheads. Revenue set these overpayments against other tax liabilities – no cash transfers arise in these cases.

16.3 Entitlement to refund and repayments is statutorily underpinned<sup>124</sup>. Since 2003, repayments are subject to a valid claim being made to Revenue within four years from the end of the period to which the claim relates. This four-year limit replaced previous limits, the longest of which was ten years.

16.4 The repayment under each tax heading over the past five years is set out in Figure 86.

**Figure 86 Repayments by Revenue 2005 - 2009**

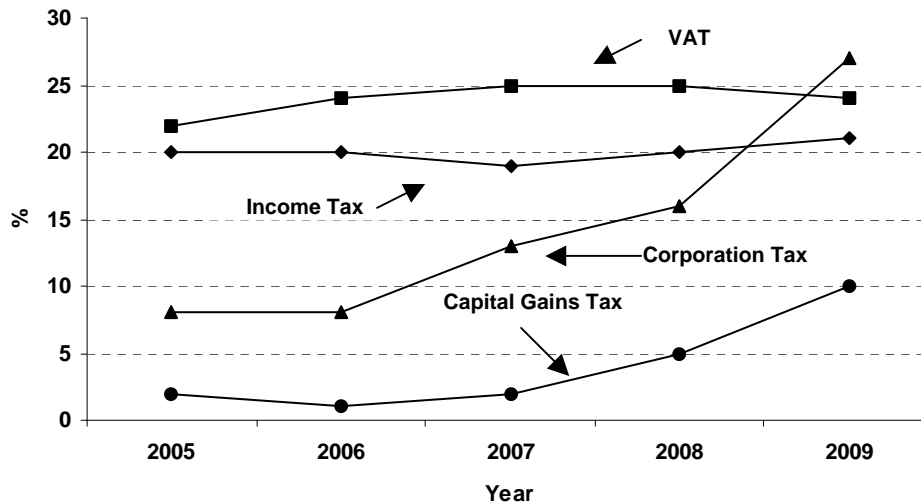
<b>Payments</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>	<b>€m</b>
Income Tax	2,837	3,075	3,206	3,398	3,229
VAT	3,465	4,358	4,729	4,560	3,325
Corporation Tax	500	586	936	975	1,445
Capital Gains Tax	34	35	64	70	62
Stamp Duties	20	42	65	49	23
Customs Duties	8	6	7	15	4
Capital Acquisitions Tax	12	12	6	8	12
Excise	158	138	124	103	48
<b>Total</b>	<b>7,034</b>	<b>8,252</b>	<b>9,137</b>	<b>9,178</b>	<b>8,148</b>
<b>% of Gross Yield</b>	<b>15%</b>	<b>15%</b>	<b>16%</b>	<b>18%</b>	<b>20%</b>

16.5 Overall, in the last five years, repayments as a percentage of gross yield have shown a steady rise, from 15% in 2005 to 20% in 2009.

### **Audit Focus – Level of Repayments**

In the light of the high level of repayments and the fact that the decline in gross yield in recent years has not been matched by an equivalent reduction in repayments, the audit analysed the factors giving rise to an increase in the level of repayments as a proportion of the gross yield.

16.6 Figure 87 displays the relationship of tax repayments to gross receipts over the period 2005 to 2009 in respect of the taxes where the greatest change in repayment activity occurred.

**Figure 87 Tax Repayments as a Proportion of Gross Revenue Receipts 2005 – 2009**

16.7 Repayments to customers in 2009 in the case of Income Tax and VAT represented approximately one-fifth and one-quarter respectively of the gross take under those taxheads. A noticeable increase in repayments occurred under two taxheads

- in the case of Corporation Tax where the percentage repaid was the equivalent of 27% of the 2009 gross yield by comparison with levels of 8% to 16% in the previous four years
- in the case of Capital Gains Tax the proportion of the gross receipts repaid has increased by a factor of five from 2005 levels.

16.8 The sectors that account for the Corporation Tax and Capital Gains Tax repayments in 2009 are set out in Figure 88.

**Figure 88 Sectoral Repayments, 2009<sup>a</sup>**

Sector	CT	CGT
	%	%
Real Estate, Renting and Business Activities	18%	40%
Wholesale and Retail Trade	13%	7%
Construction	7%	2%
Financial Intermediation	34%	2%
Manufacturing	22%	-
Agriculture, Hunting and Forestry	-	15%
Other Community, Social and Personal Service Activities	-	1%
Transport, Storage and Communications	2%	1%
Other	4%	32%
<b>Total Value</b>	<b>€1,325m</b>	<b>€54m</b>

Note:

- a The value of repayments treated as offset against other taxheads is not included in this Figure.

16.9 Four sectors accounted for 87% of all Corporation Tax repayments in 2009. These were Manufacturing, Financial Intermediation, Real Estate, Renting and Business Activities and Wholesale and Retail Trade.

16.10 While there is a considerable proportion of Capital Gains Tax repayments that Revenue has categorised under 'Other', it is clear that the Real Estate, Renting and Business Activities sector is the largest source of claims for repayment at 40%. Agricultural based activities account for a further 15% of repayments of Capital Gains Tax.

16.11 I asked the Accounting Officer for her observations on the trend in repayments generally and the particular factors at play in the case of Corporation Tax and Capital Gains Tax.

### ***Views of the Accounting Officer***

16.12 The Accounting Officer pointed out that repayments are an integral part of the workings of the tax system. Revenue's success in recent years in raising taxpayer's awareness of entitlements has increased the numbers seeking repayments. Businesses are also claiming repayments as often as they can for cash flow reasons. She said that while VAT and Income Tax account for by far the largest amount of repayments, the strongest driver of the overall increase in repayments as a proportion of gross yield has been the increase in Corporation Tax repayments.

16.13 The Accounting Officer stated that it can reasonably be assumed that overpayments of preliminary tax by companies that did not forecast the extent of the downturn and the pace at which the Irish economy was weakening was a major factor in explaining the high level of Corporation Tax repayments in 2007. The further increase in 2009 is a reflection of the impact of the recession with significant payments arising as a result of companies setting off losses incurred against profits of the previous period. She said that overpayments of preliminary Capital Gains Tax may explain some of the significant growth in repayments as a proportion of gross yield for that taxhead.

### **Audit Focus – Repayment Controls**

Each year my audit of the Revenue Account examines the controls in place in relation to repayments and examines a sample of repayments. For 2009, a computer scan of the major taxheads where repayments occur was conducted and samples of matching records and possible duplicates were examined. While the audit found that a reasonable level of check had been carried out on repayments, it noted a number of overpayments and a decreased level of compliance checks in relation to payments of Tax Relief at Source.

### **Overpayments**

16.14 A computer matching exercise carried out during the audit brought to light 15 cases where taxpayers who had dual registration for Income Tax and PAYE received a repayment for the same tax period under both registrations – a total of 30 payments. The duplicate amounts in question ranged from €1,040 to €7,800 and totalled €53,451.

16.15 The cases identified in the audit were only those that resulted in cash repayments in respect of the same circumstances under two tax headings. Since many computations are likely to be finalised without repayment in cases where the expenses are allowed in the course of computations, there is a risk that a much larger sum has been refunded by Revenue.

16.16 Payment is made automatically to a taxpayer where the amount to be paid falls below a certain limit<sup>125</sup> ('Autoapproval'). In most cases supporting documentation is only sought if the claim is selected for checking, either due to failing one of the system checks or random selection. Eight of the 30 payments exceeded that limit.

16.17 In one case a VAT registered trader received a repayment. The income from the trade was assessed on the spouse's Income Tax return. At the time of the repayment, there was Income Tax outstanding on the spouse's record.

16.18 As the circumstances underlying these cases suggested weakness in Revenue controls over repayments I sought the views of the Accounting Officer in relation to

- the circumstances giving rise to the repayments
- the controls in place to prevent such overpayments
- the controls in place to prevent repayments to taxpayers who have outstanding tax liabilities
- the extent of overpayments generally.

### ***Views of the Accounting Officer***

16.19 The Accounting Officer informed me that system controls ensure that a repayment, other than an unemployment repayment, cannot automatically take place in respect of a PAYE registration if the case is also registered for Income Tax. However, the system does allow automatic repayments to an Income Tax registration even where the case is also registered as a PAYE employee. The circumstances of the duplicate repayments in the 15 cases were

- in eleven of the cases the PAYE repayment took place before the case was registered for Income Tax and the taxpayer did not disclose the details of the repayment when the Income Tax return was filed
- in two cases the Income Tax repayment was made before the PAYE repayment but the system control did not prevent the second repayment as in both cases the Income Tax registration commenced and ceased on the same date
- in one case a PAYE unemployment repayment was made to the taxpayer who did not disclose the details of the repayment when he subsequently filed his Income Tax return
- in a further case the system control was not active because the taxpayer was only assessed for Income Tax periodically<sup>126</sup>.

16.20 The Accounting Officer stated that Revenue is actively considering a development which would automatically record on the Income Tax record that a repayment had been made for the same year on the PAYE registration. This development is currently being costed and a decision on its implementation will be taken shortly. She added that in each of the cases identified, collection activity is underway to recover the amounts incorrectly refunded.

<sup>125</sup> Different limits exist for PAYE and self - assessed income tax.

<sup>126</sup> This is a taxpayer from whom an Income Tax return is not expected every year.

## Repayments to Taxpayers with Outstanding Liabilities

16.21 The audit also noted six cases<sup>127</sup> where repayments were made in circumstances where it appeared tax was due to Revenue from the taxpayer but no offset had taken place. The particular circumstances of these cases were

- in four cases there was tax outstanding on the taxpayer's record which had been written off. Revenue write off procedures place a marker on the computer record of the taxpayer that has the effect of preventing further collection efforts. Should the circumstances in the case change, the marker is removed and collection efforts recommence.
- in one case the taxpayer received a refund of Vehicle Registration Tax (VRT) while amounts were outstanding for other taxes
- in the final case a non-resident taxpayer received a refund in December 2009 even though Revenue were aware in November 2009 of a liability in respect of share options.

### *Views of the Accounting Officer*

16.22 In relation to the cases where repayments were made to taxpayers with outstanding tax liabilities, the Accounting Officer informed me that

- in the three cases where tax had been written off, the offset procedure does not take into account tax written off and in such cases manual intervention is required
- in the case involving a repayment of VRT, the regulations do not provide for offset against other tax liabilities in such cases

## Extent of Overpayments

16.23 The Accounting Officer said that calculation of a reliable estimate of the extent of overpayments would involve computer analysis and manual checking of cases and work has commenced on this. However, based on an examination of a sample of cases, a rough tentative estimate of such overpayments would be of the order of €1 million each year. This is in the context of annual Income Tax repayments each year of over €3 billion.

## Claims for Reliefs

16.24 All Revenue districts carry out assurance checking and verification programmes on claims as well as projects focusing on particular allowances and reliefs. Such claims may result in a repayment of tax or a reduction in the amount of tax payable. It was noted in the course of audit that PAYE reviews in Cork in 2009 found total underpayments of tax of €1.7 million, €0.4 million of this has been repaid with the balance being collected by reducing tax credits in future years. It was also estimated that a further €1.8 million would be recovered in 2010. Most of the cases reviewed related to claims for One Parent Family relief.

16.25 It was also noted that Revenue had investigated certain medical expenses claims in the Waterford District of the East South East Region in 2008. This investigation arose from intelligence that the District received in relation to spurious medical expenses claims by

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<sup>127</sup> Two other cases arose where outstanding tax was under appeal at the time repayments were made. Revenue has stated that there is no basis for offsetting a repayment against tax under appeal until the appeal is determined or the matter is settled by agreement.

employees of some specific businesses. A total of 556 taxpayers were asked to submit supporting documentation<sup>128</sup> for claims, and 239 or 43% of these were found to have insufficient or invalid supporting documentation. The amount overclaimed was found to be €679,588 and refunds of €188,023 were withdrawn.

16.26 I asked the Accounting Officer for her best estimate of the extent of unwarranted recourse to medical expenses refunds across the country in the light of the findings in the East South East Region and the extent of reviews such as those conducted in Cork together with the results of the review activity.

### ***Views of the Accounting Officer***

16.27 The Accounting Officer stated that Revenue systems select cases for manual checking with a focus on higher risk repayments but also with some selected at random. The rules for selecting cases are currently being reviewed to ensure that an appropriate level of checking is in place. Revenue has developed analytical techniques to detect unusual patterns and trends in tax credit claim behaviour.

16.28 She said that it was not possible to make a national estimate based on the results of the project in the East South East Region as that project had a targeted approach. She informed me that an examination of medical expense claims in the South West Region based on a random selection of claims found that the number of invalid claims was 7%. Examination of medical expenses claims in the BMW Region resulted in 3% of claims examined being withdrawn while in the Dublin Region the level was 23%. Similarly, for One Parent Family credit the level of claims withdrawn in cases reviewed ranged from 9% in Dublin to 51% in Waterford. The Accounting Officer pointed out that care was needed in making comparisons between projects as they often have a different focus and some may be more intelligence driven than others. It also should be borne in mind that some taxpayers had their claims withdrawn by Revenue because they failed to respond to queries.

## **Tax Relief at Source**

16.29 Certain expenses are relieved from tax at source and the relief is processed by the institutions to whom the expenses are payable. This principally arises in the case of mortgage interest relief and medical insurance relief. Payments are made each month to mortgage and medical insurance providers who credit each taxpayer's account with the relevant amount of relief. Included in Income Tax repayments in 2009, is €486 million in respect of mortgage interest Tax Relief at Source and €589<sup>129</sup> million for medical insurance Tax Relief at Source.

16.30 Revenue procedures envisage a programme of compliance visits to mortgage lenders and medical insurers to ensure that they are fully compliant with the terms of the schemes. In 2009, compliance visits were carried out to four of the ten medical insurers, including the three major insurers. Two mortgage providers were visited in 2009 to resolve issues identified through routine monitoring with one of these being visited on four occasions. In 2008, the focus of compliance visits to mortgage providers was on local authorities and minor lenders with six being visited.

<sup>128</sup> Taxpayers are not required to submit supporting documentation with claims but are required to retain such documentation for six years.

<sup>129</sup> €216 million of this amount is in respect of age-related health insurance credit.

16.31 I asked the Accounting Officer the reasons why so few visits in relation to mortgage interest relief had been undertaken by Revenue in 2009 and only a limited level completed in 2008. I also asked her, in the light of the limited number of visits undertaken, how she obtained assurances that the institutions concerned were applying the reliefs in a proper manner.

### ***Views of the Accounting Officer***

16.32 The Accounting Officer informed me that compliance visits form part of the arrangements for monitoring and ensuring compliance by lenders with the operation of the Tax Relief at Source system. Ongoing monitoring and ensuring compliance with claims procedures is the responsibility of a liaison officer assigned to each lending institution and medical insurer.

16.33 Between 2005 and 2009, 53% of the main lender loan book was the subject of compliance visits. In 2008, it was decided to focus on local authorities and minor lenders, as these had not previously been the subject of specific examination. The 2008 compliance visits covered about 20% of the minor lender loan book.

16.34 The Accounting Officer stated that as a result of the changes to mortgage interest relief introduced in the Supplementary Budget in April 2009, it was necessary to review all 564,000 mortgage accounts to assess eligibility. The compliance assurance from this review together with the limited resources available for compliance work in 2009 meant that the intended programme of compliance visits was not feasible and in fact would not have been an efficient use of scarce resources.

16.35 In 2007, a compliance unit was established to examine the risks associated with mortgage interest relief at the individual mortgage holder level. Up to the end of 2009, just over 17,000 cases had been examined.

16.36 The Accounting Officer said that she was satisfied that in view of the need to implement the changes arising from the Budget and the need to target scarce resources, Revenue had obtained an appropriate level of assurance as regard the correct application of tax reliefs granted at source. She said that this was particularly so in relation to mortgage interest because of the overall coverage of the compliance visit programme between 2005 and 2009 and the checks on all accounts necessitated by the changes in the Supplementary Budget.

## **Conclusion**

The level of repayments as a proportion of gross receipts has increased from 15% in 2005 to 20% in 2009. While some changes in the relationship between repayments and receipts are to be expected in the current economic climate, it is important that Revenue identify the reasons for refunds.

A computer matching exercise identified instances of duplicate repayments. Follow-up work indicated that claims were being made for relief under both the Income Tax and PAYE systems. As the audit sample only extended to cases where identical amounts were paid more than once, the true level of incorrect claims may be higher. Arising from the overpayments identified on audit, Revenue has estimated that the overall level of such overpayments might be of the order of €1 million each year, though it would need to devise an evidence-based estimation method.

There appears to be scope for tightening up on repayments in instances where an existing liability simultaneously exists.

In addition, various Revenue reviews have identified invalid claims for reliefs which may not result in a repayment but in a reduced level of collection.

## **Chapter 17**

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**Revenue**

**Loss Reliefs**