

Tax Administration

Background

1. The first part of this paper reviews the general area of Revenue Powers following on from the work of the Revenue Powers Group and in the light of events and views expressed since the Report was published in February 2004. It also looks at more recent issues that arise in a consideration of Revenue Powers and their current contextual background. The second part of the paper looks at recent initiatives aimed at simplifying and lightening the administrative burden involved in claiming the most common reliefs, as well as measures designed to lighten the burden on SMEs.
2. The issue of tax evasion is a sensitive public policy matter. The need for balance in this area between the rights of taxpayers as citizens and the prerogative of the State to enforce tax compliance is widely recognised.

Revenue Powers Group

3. The Revenue Powers Group Report was published in February 2004. It made recommendations in the general area of Revenue Powers. Since the publication of the report a number of the Group's recommendations have been implemented through legislation.
 - 3.1. A provision was included, in a different form to that proposed by the Group, to allow Revenue access information held by a non-resident entity over which a domestic financial institution has control.
 - 3.2. The publication limit for settlements with tax defaulters was increased from €12,700 to €30,000 with provision for the limit to be automatically revised every five years in line with the CPI to a rounded figure of the next €1,000.
 - 3.3. The interest rate on underpaid tax was reduced to a daily simple interest rate equivalent to 10% for non-fiduciary taxes.
 - 3.4. The 2% per month interest charge for 'fraud and neglect' and the 200% tax-geared penalty for fraud were repealed.
 - 3.5. An enabling provision was introduced to facilitate automatic reporting. The provision allows the Revenue Commissioners to make regulations with the consent of the Minister of Finance requiring financial institutions and State bodies to make an annual return of the names, addresses and PPS Numbers of customers and others resident in the State to whom interest or other profit payments are made. Consultations are currently taking place with the financial institutions on draft regulations implementing this provision.
4. Other recommendations of the Group have been administratively implemented by the Revenue Commissioners. These include:

- 4.1. Revenue and the Office of the Director of Corporate Enforcement signed a Memorandum of Understanding governing information exchange between the two bodies which largely meets the Revenue Powers Group's concerns.
 - 4.2. There has been significant progress in the targeting of audits through greater focus on risk.
 - 4.3. Regional 'Powers Officers' have been appointed within Revenue to manage the use of powers in each Region.
 - 4.4. Compliance costs are reduced where possible and are taken into account when considering the introduction of new powers.
 - 4.5. Revenue will aim to examine records at the taxpayer's premises where the removal of records would prevent the business carrying on in an orderly manner.
 - 4.6. Revenue gives more prominence to the External Reviewers and appointments will be made using the Public Appointments Commission.
5. A number of other issues within the general area of Revenue Powers which did not arise from the recommendation of the Revenue Powers Group were addressed—
- 5.1. Power to allow Revenue to pursue prosecutions against persons who engage in tax evasion or who facilitate tax evasion.
 - 5.2. Powers to allow Revenue to inspect records held by an insurance company where they have reason to believe tax evasion has taken place

Finance Act 2007

6. Measures introduced in Finance Act 2007
- 6.1. Power for Revenue to apply to the District Court for a search warrant specifically targeted at the investigation of a criminal Revenue offence
 - 6.2. Power for Revenue to require third party information to be returned in electronic format
 - 6.3. Power for Revenue to require Public Bodies that make payments in the nature of rent or rent subsidy to include the PPSN of the landlord in their returns to Revenue

Simplification Measures

7. The Revenue Commissioners have in recent years taken a range of measures to simplify the administration of taxes and duties for individuals and businesses. The reason for these measures was to make it easier for individuals to claim their tax reliefs and reduce the compliance burden on businesses.

PAYE Sector

8. In 2001 Tax relief at Source for medical insurance was implemented and this was extended in 2002 to mortgage interest.
9. Most recently, in the context of Budget/Finance Bill 2007, a series of measures were announced to make it easier for PAYE employees to receive their entitlements. These included
 - **Operation of DIRT Free accounts for those over 65 years or permanently incapacitated** - The rules relating to such individuals were changed to enable them notify their financial institution of their status so as to allow the institution to pay the interest on their account free of DIRT.
 - **Age-related tax credits** - These are now credited automatically to the taxpayer where a verified date of birth can be established through Revenue or Social Welfare records.
 - **Drugs Payment Scheme** The Health Service Executive holds expenditure data at individual level on prescribed drugs under the Drugs Payment Scheme. This data will be processed by Revenue and where appropriate, a tax refund will issue. These refunds will issue towards the end of 2007 in respect of 2006 expenditure.
 - **The removal of the thresholds of €125 and €250 that previously applied in relation to claiming relief on medical expenses.**
10. For 2008 work is being progressed, where possible, to introduce the following measures:
 - **Tax Credit where Medical Insurance is paid by employer** - Revenue is making arrangements to have the necessary medical insurance details provided by employers on the annual P35 employer return and Revenue will apply the appropriate tax credit automatically.
 - **Hospital expenses and certain Tuition fees (amounts paid on approved courses in certain colleges)** - Revenue is making arrangements to assemble details of relevant expenditure and, where appropriate, to make automatic repayments.
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 - **Credit on Trade Union subscriptions** - Revenue is working with the Trade Union movement to advance a scheme that would, if implemented, significantly increase the number of trade union members who are in receipt of the appropriate tax credit.

SME Sector

11. A number of recent measures aimed at reducing the compliance burden on businesses have included in 2006 allowing employers whose annual PAYE and PRSI payments do not exceed €30,000 to return their PAYE and PRSI on a quarterly basis, rather than on a monthly basis. In 2007, other significant measures aimed at SMEs were introduced, i.e.
 - **VAT registration thresholds** for small businesses were **increased** from €27,500 to €35,000 in the case of services, and from €55,000 to €70,000 in the case of goods.

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Conclusion

21. The TSG is invited to discuss the various issues raised by this paper.