# Annual Report 1997

**Contents:**

***To the Minister for Finance***

We have the honour to submit our seventy-fifth annual report, for the year ended 31 December 1997.

1997 was a successful year for Revenue in very many respects. Tax receipts have continued to grow, and at £13,963 million net, were considerably ahead of forecast. Revenue's Customer Service and Compliance Programmes have together improved the timeliness of return filing and of payments, and our debt management programmes have made significant inroads into the Revenue debt, especially in the elimination of old uncollectible arrears. Revenue's Euro Changeover Plan - focused at this stage mainly on the business sector - is on target. We have also made very satisfactory progress in preparing our systems for the Year 2000 - eliminating the so-called "millennium bug" - which remains nonetheless a major challenge and priority.

Among the highlights of 1997 was the enactment of the Taxes Consolidation Act, the product of a novel joint venture arrangement with the private sector. The preparation and subsequent enactment of this legislation was a very significant achievement by any standard and has been widely welcomed. 1997 can also be singled out as the year in which our integrated strategy to bring illegal tobacco sales under control, involving legislation, intelligence-gathering, enforcement activities and co-operation with our EU partners, was extremely successful.

1997 was the first year of Revenue's Statement of Strategy 1997-1999, our second Corporate Plan and the strategies we adopted are showing results. In our Plan, published in November 1996, we foresaw the need to adopt a tougher stance on tax evasion, Black Economy activity and avoidance, and we put appropriate strategies in place. As events have unfolded, we have prioritised these strategies even further, and reallocated resources to ensure that they are progressed as a matter of urgency. Revenue is actively pursuing all aspects of tax evasion arising from the McCracken Tribunal Report, as well as more recent disclosures, and is co-operating fully with the Moriarty Tribunal. We are also participating with the Department of Finance in a review of Revenue powers to consider whether they are adequate in the light of practical experience and emerging developments.

During the year, Revenue continued to play its part in the Government's Strategic Management Initiative, both in terms of implementing SMI initiatives in the Office and in contributing to the work of the SMI at central level. We are appreciative of the fact that you, Minister, have approved the continuing application of our Corporate Plan as Revenue's Strategy Statement in accordance with the Public Service Management Act 1997. It was laid before the Houses of the Oireachtas on 30 April 1998. You also agreed that Revenue's Annual Report will be the formal reporting vehicle under the Act. The first such formal report will be required in respect of 1998. However, even this year, we have already begun to adapt our Report to fulfil this role and this Annual

Report therefore begins the process of reporting on our Strategy Statement. The strategies we have adopted are underpinned by a process of detailed business planning which has been in place throughout Revenue for some years.

Revenue is now 75 Years old. To mark the occasion we have recently had the honour of a visit from Uachtaran na hEireann, Mrs. Mary McAleese. The President graciously accepted the first copy of a book which we have published to mark 75 years of achievement by the Revenue organisation and by Revenue staff in serving the Irish people. The achievements of those 75 years, comes down ultimately to the commitment, diligence and hard work of thousands of staff who have worked in Revenue over the years and who work in Revenue now. We wish to pay tribute to the service which Revenue staff have delivered in the past , and continue to deliver to-day.

Reflecting on 75 years of achievement, it is clear that a core strength of Revenue as an organisation has been its ability to be flexible and to respond to changes in its operating environment, changing demands from Government and the changing expectations of its customers. We have successfully taken on new tasks, new taxes and new technologies; we have shed unnecessary and outmoded practices and reformed others; we have been to the forefront in building consultative structures with key customer groups. This success gives us the confidence to say that we will go on flexibly and responsively in meeting the further challenges ahead and in delivering our mission of service to the community.

| C.C. Mac Domhnaill | D.B. Quigley | F.M. Daly |
|---|---|---|
| Chairman | Commissioner | Commissioner |

30 June 1998

# Chapter 1

# Review of Performance

## Analysis of Yield

1997 was another good year for Revenue with overall receipts exceeding Budget estimates by some £998 million. As the table below shows, gross receipts reached record levels in excess of £18 billion.

1997 saw an increase in yield in virtually all taxes and duties over the 1996 figures. Net receipts, having taken repayments into account, amounted to £13,963 million, or some £1,868 million higher than the corresponding amount collected in 1996. Net receipts exceeded expectations across most individual taxheads, with an increase of £531 million in overall Direct Taxes, £308 million in Indirect Taxes and £152 million in Capital Taxes over the Budget estimates.

This reflects the even more buoyant than expected economic conditions prevalent during 1997 but is also continuing evidence of the fruits of Revenue's policies for promoting voluntary compliance and streamlining collection and enforcement procedures.

**Table 1 - Total Amount Collected/Gross Receipts**

| **Duties, Taxes and Levies** | **1997 £m** | **1996 £m** |
|---|---|---|
| Customs | 190 | 181 |
| Excise | 2,523 | 2,304 |
| Value-Added Tax | 4,822 | 4,092 |
| Capital Acquisitions Tax | 97 | 84 |
| Capital Gains Tax | 134 | 86 |
| Stamp Duties | 435 | 333 |
| Residential Property Tax | 4 | 15 |
| Corporation Tax | 1,770 | 1,496 |
| Income Tax | 5,688 | 5,013 |
| PRSI and Health Contributions and Employment and Training Levy | 2,365 | 2,160 |
| **Total** | **18,028** | **15,764** |

**Table 2 Total Revenue / Net Receipts**

| **Duties, Taxes and Levies** | **1997 £m** | **1996 £m** | **+Inc/-Dec £m** |
|---|---|---|---|
| Customs | 179.7 | 162.0 | +17.7 |
| Excise | 2,522.6 | 2,304.3 | +218.3 |
| Value -Added Tax | 3,706.8 | 3,109.3 | +597.5 |
| Capital Acquisitions Tax | 88.7 | 81.7 | + 7.0 |
| Capital Gains Tax | 132.4 | 83.7 | + 48.7 |
| Stamp Duties | 424.3 | 332.3 | + 92.0 |
| Residential Property Tax | 3.1 | 14.3 | - 11.2 |
| Corporation Tax | 1,697.1 | 1,428.2 | + 268.9 |
| Income Tax: | | | |
| PAYE | 4,356.5 | 3,894.4 | +462.1 |
| Income Tax from Self-Employed and certain other non-PAYE sources **:** | | | |
| Direct payments | 643.6 | 527.3 | + 116.3 |
| Less other non-PAYE repayments | 46.8 | 47.4 | + 0.6 |
| Net Yield**:** | 596.8 | 479.9 | + 116.9 |
| (see footnotes) | | | |
| Deposit Interest Retention Tax | 147.8 | 125.0 | + 22.8 |
| Withholding Tax | 106.5 | 78.7 | + 27.8 |
| Income Levy | 0 .7 | 1.3 | -0 .6 |
| **Total:** | **13,963.0** | **12,095.1** | **+1,867.9** |

**Footnotes on Table 2**

**The VAT receipts in 1997 are composed of £4,382.6 million on internal VAT, £439.5 million collected on imports, less refunds of £1,115.3 million.**

**Income Tax from the Self-Employed: The net yield from Income Tax under this heading takes into account tax *repayments* made to non-liable individuals, charities and pension funds for tax deducted at source under covenant arrangements or tax credits attaching to company distributions. Such tax repayments are not related to the tax paid directly by the self-employed but they have the effect of reducing the net yield from that sector. Some of the tax thus repaid was initially collected under PAYE or as Advance Corporation Tax and the gross figures for direct payments included in the table provide a more complete picture of the direct yield from the self-employed. Tax repayments in respect of BES and other investment incentives have already been taken into account in the direct payments figure. The direct payments figure includes tax payments made in respect of back-duty settlements.**

**Deposit Interest Retention Tax: This represents tax deducted from interest arising on bank and building society deposits.**

**Withholding Tax: This is tax deducted under the provisions of Chapter I, Part 18, Taxes Consolidation Act 1997.**

## Customs Duties and CAP import charges

Customs Duties and Common Agricultural Policy (CAP) import charges are collected on a wide range of goods imported from most non-European Union countries, 90% of the amount collected being paid to the EU as part of the Irish contribution to the EU Budget known as "Own Resources". The remaining 10% is retained by the State as collection expenses.

In 1997 the amount collected on Customs Duties and CAP import charges came to £179.7 million as compared to £162.0 million in 1996.

## Excise

Excise receipts of £2,522.6 million increased by £218.3 million or 9.5% on 1996 reflecting growth in consumer spending, as well as the impact of the Budget increases in the duties on petrol, auto diesel and tobacco.

Once again Motor Vehicle Registration Tax (VRT) receipts in 1997 exceeded forecast, this time by £21.9 million or 5.8%. Gross receipts for VRT amounted to £454.3 million, while repayments under the various repayment schemes amounted to £58.5 million. These figures reflect a record year for new car registrations which numbered almost 137,000.

The temporary £1,000 VRT scrappage repayment scheme accounted for £27.1 million of the 1997 repayment but contributed to the overall buoyancy of revenue. Since the commencement of the scrappage scheme on I July 1995, more than 60,000 cars have been scrapped.

The scrappage scheme was initially due to end on 31 December 1996 but was extended by the Minister for Finance for a further year to 31 December 1997. It is widely acknowledged to have been an outstanding success, with the level of take-up exceeding even the most optimistic forecasts. The scheme has been very beneficial in several ways - for the Exchequer, the environment, the motor trade and the consumer.

## VAT

VAT receipts for 1997 amounted to £3,706.8 million. This figure was substantially up on the 1996 yield by £597.5 million or 19.2%, reflecting continuing consumption buoyancy and strong underlying growth in the economy.

## Capital Acquisitions Tax

Capital Acquisitions Tax comprising inheritance tax, gift tax, discretionary trust tax and probate tax produced an overall yield for 1997 of £88.7 million. This compares with £81.7 million in 1996, representing an increase of around 9%. The improvement is mainly attributable to the general rise in asset values experienced during the period.

## Capital Gains Tax

The yield of £132.4 million from Capital Gains Tax in 1997 was up by £49 million on the 1996 outturn. Some £32 million of the excess can be attributed to the once-off effect of a number of large settlements and the balance to increased activity.

## Stamp Duties

In 1997 the yield from Stamp Duties was £424.3 million, an increase of £92 million on 1996. The yield from property transfers increased by some 30% to around £253 million and the yield from share transfers increased by some 80% to nearly £74 million. These increases reflect the improvement in the property market in 1997 and the positive general economic conditions that prevailed.

## Residential Property Tax

The yield from Residential Property Tax, which was abolished with effect from 5 April 1997, amounted to £3.1 million. This compares with £14.3 million in 1996, the last full year the tax was in operation.

## Corporation Tax

The yield from Corporation Tax in 1997 was up by almost £269 million or almost 19% on the 1996 performance. The growth is attributable mainly to a general increase in the taxable profits of companies.

## Income Tax

The net receipts from Income Tax (including Income Levy) in 1997 were up some £629 million or 13.7% on the 1996 figure. An ongoing sizeable increase in numbers at work, increased employee remuneration, an increase in tax payments by self-employed taxpayers and an increase in DIRT receipts were the main factors which influenced the outcome.

**Chart 1 - Indirect Tax receipts**

A total of £6,229 million was collected in VAT and Excise receipts in 1997.

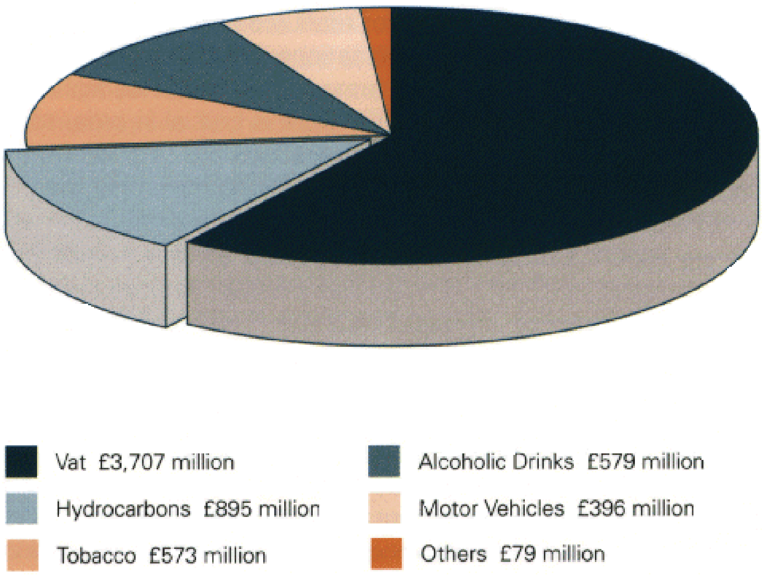
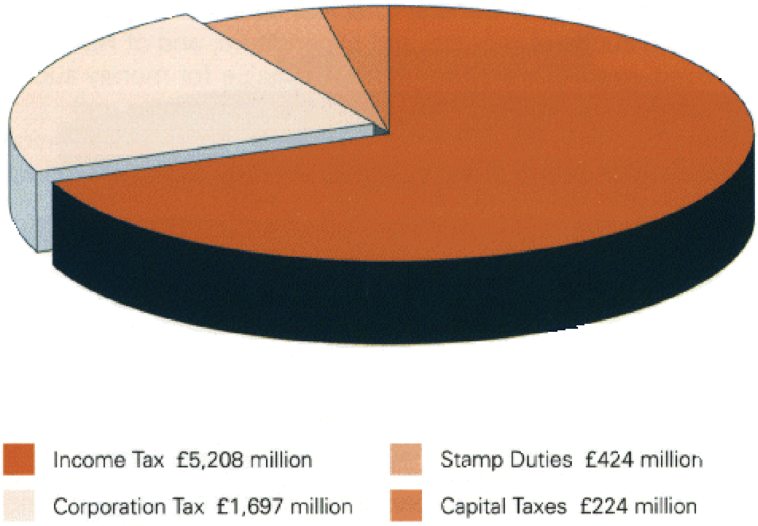



**Chart 2 - Direct & Capital Taxes receipts**

Direct and Capital Taxes collected a total of £7,553 million in 1997.




Income Tax comprises receipts from PAYE, Income Tax from the self-employed and certain other non-PAYE sources, Deposit Interest Retention Tax, Withholding Tax and Income Levy.

Capital Taxes includes receipts from Capital Acquisitions Tax, Capital Gains Tax and Residential Property Tax.

## Monitoring our performance

While tax yield is an essential indicator of our performance a multiplicity of customer service and compliance programmes lie behind the yield figures. Revenue is intent on professional management of performance and on the optimum use of resources. For this purpose we engage in monthly and annual examinations and comparisons of the various business programmes and measure performance against targets set out in our business plans. This work is crucial in order to improve the manner in which day-to-day operations are carried out, the services we provide to customers and, ultimately, to maximise the efficiency of the organisation.

### Internal Audit

In an organisation of Revenue's size and complexity the internal audit function is an essential element within the framework of delegated authority and accountability operating in the Office. The Internal Audit Branch operates as a service to the Board and senior management by checking compliance with management controls, examining and evaluating the adequacy and effectiveness of such controls and making recommendations for improvement where necessary. The findings of all audits carried out by the Branch are made available to the Comptroller and Auditor General.

The Branch is also involved in the auditing of EU Own Resources (Customs duty) in association with European Commission auditors.

## External monitoring of our performance

The Comptroller and Auditor General (C&AG) conducts ongoing examinations and audits of receipts and expenditure, and of Revenue's systems, procedures and practices, as well as value for money audits of particular operations. In December 1997, the Comptroller and Auditor General reported the results of a value-for - money examination of the collection and control of Value Added Tax. The principal findings of the report were:

- Collection procedures for VAT are efficient, with an overall compliance level of 90% for all traders, and almost 100% in the case of businesses with large VAT liabilities.
- VAT audit activity is well planned and is good value-for-money.

As part of the audit, the C&AG sought the views of business representatives and their positive comments are particularly gratifying.

External monitoring of Revenue also includes continuous performance reporting to the Minister for Finance. As Accounting Officer, the Chairman of the Revenue Commissioners appears regularly before the Committee of Public Accounts to deal with matters arising from the Report of the Comptroller and Auditor General and other matters relating to Revenue's activities. In 1997, for example, the Chairman appeared before the Committee of Public Accounts on five occasions.

Revenue officials also appear before a number of other Oireachtas committees, including the Joint Committee on Finance and Public Service, the Joint Committee on the Strategic Management Initiative and the Joint Committee on Enterprise and Small Business.

In 1997, members of the Public Account Committee visited Revenue's Computer Centre at John's Road and were briefed by staff on the critical nature of Revenue's investment in Information and Communications Technology.

External auditing of Revenue is undertaken as well by the EU Commission and the European Court of Auditors. Audits are conducted in respect of such matters as Customs, VAT Own Resources and Common Agricultural Policy (CAP) matters, to establish the basis on which Ireland's contribution to the EU Budget is made, and to verify compliance with related EU legislation. In 1997, Revenue's controls of CAP goods for export refund purposes were the subject of positive comments by the Commission's auditors. Furthermore, a recently published report of the Court of Auditors covering 1993 indicated that, while a number of Member States had substantial disallowances of Community funding for CAP export refunds because of weaknesses in physical controls of beef, no such disallowances were imposed on Ireland because physical controls by Irish Customs were found to be satisfactory by the auditors.

## Revenue's Corporate Plan 1997-1999

### Main achievements and initiatives in 1997

- A key benchmark for Revenue each year is collecting the taxes and duties set out by the Minister for Finance under the national Budget targets. The 1997 Budget target was exceeded by 7.6%.
- The level of debt owing to Revenue was reduced by £361 million.
- Revenue devised and adopted its strategy on Economic and Monetary Union (EMU) and announced a strongly pro-business stance in relation to the changeover to the Euro.
- Timely payment compliance from our largest paying customers increased by some 6% overall.
- Revenue entered the final phase of a major modernisation of our computer systems which is aimed at consolidating taxpayer records and integrating all processing activities. When completed this will deliver substantial efficiencies for Revenue as well as better service for the taxpayer.
- Action to make our computer systems handle the Year 2000 and the Euro commenced and is on target.
- Revenue designed and implemented a new prosecution policy for cases of serious tax evasion.
- The Customs National Drugs Team seized drugs with an estimated street value of over £7 million.
- Revenue audits yielded £149.3 million from 20,786 cases.
- Legislation to tackle the problem of the illegal trafficking and selling of tobacco was incorporated into the Finance Act, 1997, with an intensification of on-street measures and a new initiative to secure European cooperation.
- Revenue officers seized 14 million smuggled cigarettes and 3 tons of roll-your-own tobacco valued at £2.5 million. A further 44 million cigarettes, valued at almost £7 million, was seized across the EU as a direct result of Irish Customs intelligence.
- A new Tax Treaty with the United States was signed, as well as four other new treaties.
- The Taxes Consolidation Act, 1997 was enacted. This was the first consolidation of tax statutes for over 30 years and brought within one Act all Income Tax, Corporation Tax and Capital Gains Tax legislation.

- Measures were introduced to tackle VAT avoidance, particularly on property transactions.

- Revenue initiated a review of the organisation’s structures with a view to achieving better alignment between structures and front-line business activities.

- The Revenue Mobile Service was launched.

- Revenue published a Customer Service Policy Statement.

- A Revenue Information Office and a Vehicle Registration Office were opened in Tallaght.

- Automatic tax clearance was introduced for those who have previously applied and whose affairs are in order.

- The Revenue Training Policy document was launched.

- Preparations commenced for the implementation of the Freedom of Information Act, 1997.

- Revenue introduced a simpler and more user friendly Form P35 (Employers).

- The Customs and Excise Tariff of Ireland was produced on diskette.

- Revenue installed “Friskim” machines (baggage scanner) to enhance drug detection capacity at Dublin, Cork and Shannon Airports and Rosslare Harbour.

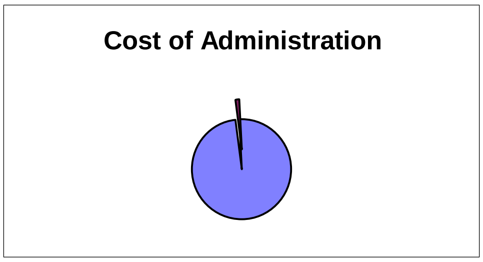
## Cost of Administration as a percentage of Gross Receipts

**Table 3**: **Cost of Administration as a percentage of Gross Receipts**

| 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|
| 1.39% | 1.23% | 1.26% | 1.10% | 1.02% |

**Chart 3**
Cost of Administration

| | |
|---|---|
| Gross Receipts | £15,663.0 million * |
| Cost of Administration | £160.3 million |




* This figure does not include PRSI, Health Contribution and Employment and Training Levy

1997 saw a reduction in the cost of administration as a percentage of gross receipts.

This percentage is just one very broad indicator of performance and is influenced by buoyant tax receipts as well as improvements in the efficiency of the Office. Notwithstanding this qualification, it is a concrete indicator of the cost of running the Office relative to the taxes and duties collected by it on behalf of the Exchequer. The volumes of business handled by Revenue have increased dramatically in recent years. Revenue's ability to handle this expanded business, with lower staff numbers, is a reflection of our successful exploitation of information technology and of the steps taken to improve efficiency and effectiveness.

## Volume of Business

### Table 4 - Volume of Business

| *Items processed* | *Volume in 1997* |
|---|---|
| **Income Tax** | |
| Returns | 273,000 |
| Repayments | 143,000 |
| **Capital Gains Tax** | |
| Returns | 17,000 |
| **Corporation Tax** | |
| Returns | 67,000 |
| Repayments | 14,000 |
| **P35 Returns - Employers** | 132,000 |
| **- Employments** | 2,000,000 |
| **- No of Refunds** | 9,006 |
| **- Value of refunds** | £14.8 million |
| **PAYE** Reviews | 441,000 |
| **Relevant Contracts Tax** | |
| C2s Issued | 21,000 |
| Repayments | 52,000 |
| RCT47's process | 116,000 |
| **New Registrations** | 28,190 |
| Income Tax | 22,290 |
| VAT | 19,482 |
| PAYE and PRSI | 9,226 |
| Corporation Tax | 1,411 |
| Relevant Contracts Tax | |
| "**New Business" Visits** | 6,455 |
| **All Taxes** | |
| Correspondence | 3,742,492 |
| Personal Callers | 736,000 |
| Telephone Callers | 3,661,000 |
| Number of payment items received in the Collector-General's office | 2,059,000 |
| Value of payment items received in the Collector-General's office | £14,300.0 million |
| Number of VAT claims received | 165,902 |
| Value of VAT claims repaid | £1,053.9 million |
| Number of tax clearance applications received | 62,000 |
| **Customs and Excise Declarations** | |
| Number of Single Administrative Documents | 741,000 |
| Number of new and used vehicles registered | 230,000 |
| **Capital Taxes** | |
| Inland Revenue Affidavits and Probate Tax Returns | 16,000 |
| Gift / Inheritance and Discretionary Trust Tax returns | 13,000 |
| Applications for Residential Property Tax clearance certificates | 4,069 |
| Returns in relation to Companies Capital Duty and Composition Duty and Levies | 7,620 |
| Instruments presented for marking and stamping | 400,000 |

| | |
|---|---|
| ***Activity*** | ***New registrations for VAT*** |
| ***Target*** | ***100% registered within 10 days.*** |
| ***Result*** | ***93% registered within 10 days.*** |

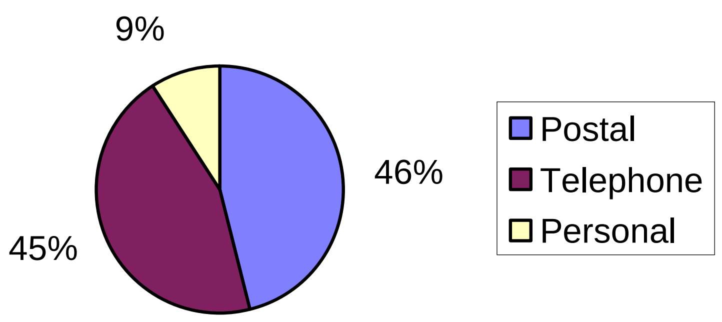
| | |
|---|---|
| ***Activity*** | ***New registrations for all taxes (excluding VAT)*** |
| ***Target*** | ***100% registered within 5 days.*** |
| ***Result*** | ***85% registered within 5 days.*** |

**Chart 4 - Customer Contacts**

In 1997 we dealt with 8.14 million contacts from our customers

| | |
|---|---|
| Postal | 3,742,492 |
| Telephone | 3,661,176 |
| Personal | 736,129 |

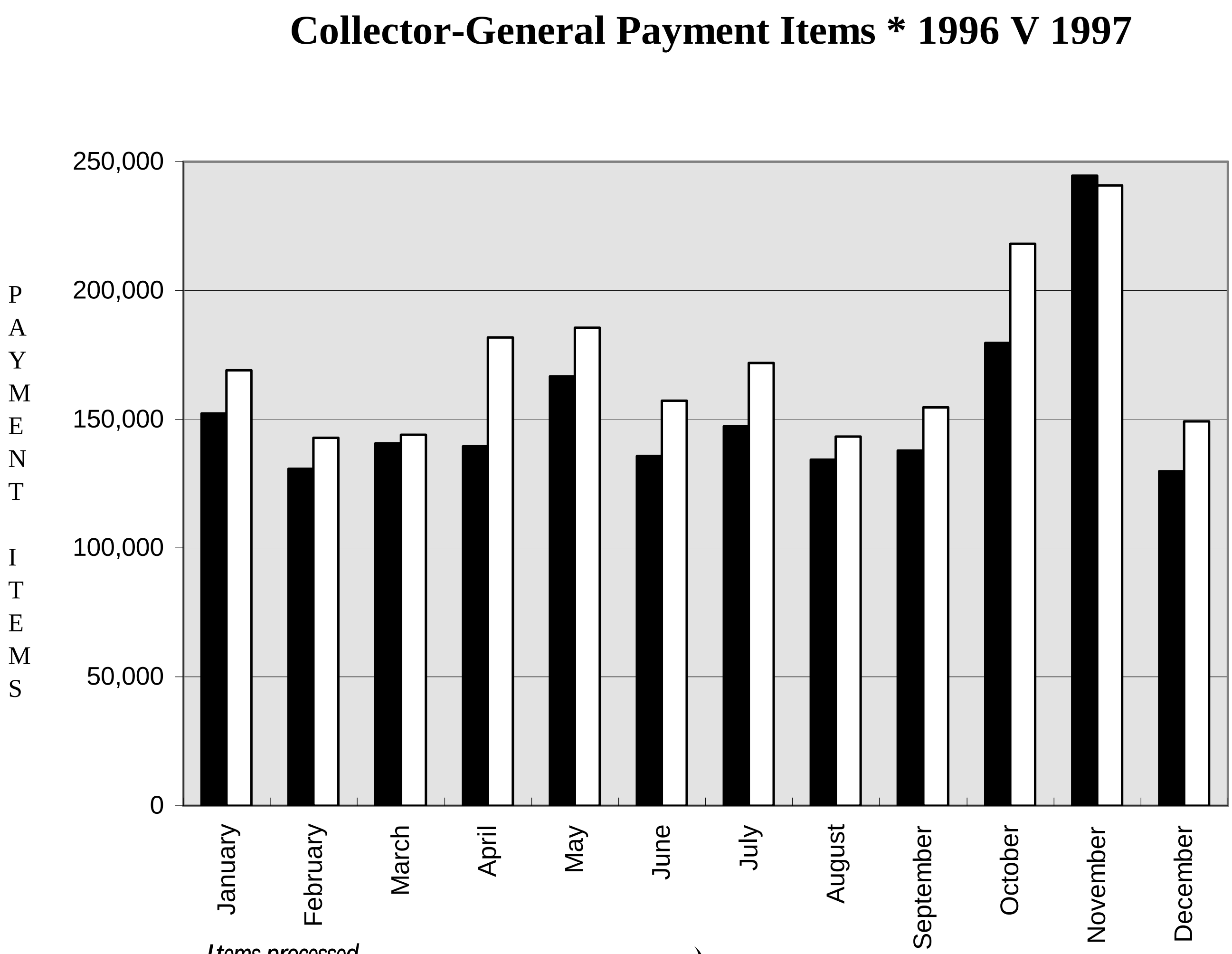
(These figures do not include return and payment items.)




**Revenue's Internet Site**

Internet 'Hits' on the Revenue website (www.revenue.ie) were estimated at 120,000 for 1997.

**Chart 5**




*Items processed*
*1997 = 2,058,529 ) an increase*
*1996 = 1,839,510 ) of 12%*

***The largest amount of payments in a single day to the Collector-General was £592 million***
***The highest number of items processed in a single day by the Collector-General was 42,969.***

# Chapter 2

# Customer Service

For Revenue, providing quality customer service means meeting our customers' needs through the fair and efficient administration of the tax and customs codes and through simplification, thereby minimising our customers' compliance costs. Providing quality customer service is thus an integral part of Revenue's strategies to promote maximum voluntary compliance by our customers. Revenue firmly believes that such voluntary compliance is necessary for an effective tax collection system. In particular, it allows more resources to be devoted to anti-evasion activities. The delivery of quality service is also central to the Government's Strategic Management Initiative, the objectives of which are fully embraced by Revenue.

The key outputs of our Customer Service Programme are:

- Making it as easy as possible for all of our customers to deal with Revenue.
- Providing consistent service to high standards across the full range of our activities, and continuously adapting our service to meet the changing needs of our customers.
- An improvement in customer satisfaction followed by an increase in the level of compliance and revenue yield.
- Reinforcement of a partnership approach in dealing with customers through further development of our consultative programmes.

**In 1997, the main achievements in our Customer Service Programme included:**

- **The provision of a new 'fast-track' Stamp Duty assessment and marking service for personal callers in the Dublin Castle Stamp Duty Office.**
- **Development of new procedures to streamline the payment of motor mileage allowances by employers to employees without the necessity to deduct PAYE.**
- **Development of simplified and streamlined procedures for reimbursement of subsistence expenses to employees and directors.**
- **Redesign and simplification of the main self-assessment tax return.**
- **Publication of an easy to understand booklet on what to do about tax when someone dies.**
- **Publication of a pocket-sized information card covering key facts in relation to Capital Taxes.**
- **Installation of laser terminals at Vehicle Registration Offices to enable Vehicle Registration Tax to be paid by Laser Debit Card.**
- **Development of an automatic tax clearance facility.**

- **The opening of new offices in Tallaght to cater for customers in Tallaght and the surrounding areas.**
- **Development of the Revenue Internet site - www.revenue.ie**
- **Revenue information is now available on Teletext - page 651 RTE 1.**

## Customer Service Initiatives

***Target*** ***Assign an officer with overall responsibility for customer service policy and quality standards by end January 1997.***

***Result*** ***Achieved***

A central plank of the Government's Strategic Management Initiative is the provision of quality services to the customer and the reduction in bureaucracy and 'red tape'. During 1997, the SMI Customer Service Working Group, which was chaired by the Chairman of the Revenue Commissioners Cathal Mac Domhnaill, assisted in the development of quality service principles and efforts aimed at prioritising quality service as a strategic issue for all Government Departments.

On 9 May 1997, Revenue produced a **CODE OF PRACTICE** as part of a civil service-wide customer service initiative. It outlined in a general way, as a prelude to the setting of precise customer service standards for all areas of Revenue, the standard of service customers could expect in their dealings with Revenue.

***Target*** ***Adopt Office-wide customer service policy statement by mid 1997. Adopt customer service standards, and establish a process to measure performance against those standards by end 1997.***

***Result*** ***Partially Achieved. Customer Service Standards adopted October 1997, - Published January 1998. The development of performance measurement systems in all areas of the Office is ongoing.***

Throughout 1997 we engaged in extensive consultation both within Revenue and externally to canvass as wide a range of views as possible on our customer service provision and to discuss the contents of a proposed customer service standards booklet. A draft of the booklet was sent to the Ombudsman, the National Adult Literacy Agency and the National Social Services Board for their observations. The booklet was launched by the Minister for Finance at the official opening of our new offices in Tallaght.

## Comments and Complaints

Revenue welcomes feedback - good and bad- on its performance. Our complaints procedure was formalised in 1997 with the addition of a new element - the facility to complain to a central area in Revenue when attempts to resolve complaints locally are unsuccessful.

Since May 1997, comment cards are available in all our local offices. An analysis of the 142 comment cards received up to 31 December 1997 shows that the vast majority of those who completed cards were very pleased with the quality of service provided, as can be seen from the following tables.

| | *Highly* | *Very* | *Fairly* | *Slightly* | *Not at all* |
|---|---|---|---|---|---|
| **Was the information provided of help to you?** | **73%** | **21%** | **1%** | **2%** | **3%** |

| | *Excellent* | *Good* | *Fair* | *Poor* | *Unacceptable* |
|---|---|---|---|---|---|
| **The way your complaint / enquiry was handled was?** | **87%** | **7%** | **3%** | **1%** | **2%** |
| **The response time to your complaint / query was?** | **79%** | **11%** | **4%** | **4%** | **2%** |
| **The officer's manner was?** | **88%** | **7%** | **3%** | **-** | **2%** |

| | *Yes* | *No* |
|---|---|---|
| **Was your complaint / enquiry answered?** | **96%** | **4%** |
| **Were you satisfied with general standard of service?** | **94%** | **6%** |

## New Revenue Offices in Tallaght

In line with our customer service approach and to make Revenue services more convenient for the taxpayer a decision was taken to open two public offices in Tallaght, which covers not only Tallaght itself but a large catchment area of South Dublin, West Wicklow and Kildare.

The Revenue *Information Office* offers a comprehensive service to all taxpayers who call there, no matter where they live or work. With on-line access to Revenue's main computer records, staff can bring a caller's tax affairs up on screen ensuring an immediate response.

The *Vehicle Registration Office* handles the registration of vehicles and deals with all aspects of Vehicle Registration Tax including providing a dedicated central Telephone Enquiry Office for VRT. In a new development for Revenue the Tallaght Vehicle Registration Office provides Internet E-mail access for customers. This facility removes the problem of distance for customers who may have a query and are not able to call to the office in person.

The new office enables Revenue to service the growth in customer demand which, since 1993, has been showing strong growth. For example, new vehicle registrations in Dublin increased from 36,034 in 1993 to 62,256 in 1997 and used vehicle registrations increased from 11,325 to 16,628 during the same period.

## Virtual Revenue "one-stop-shop"

Revenue has established a web site on the Internet (www.revenue.ie). For now, the site is being used as a communications tool. The most frequently sought Revenue leaflets and tax forms are now on the site and can be downloaded by users. Revenue has plans to put the INTRASTAT software on the site so that traders will be able to download INTRASTAT return forms as required. Traders can then send the completed returns on disk to Revenue. While full Internet interactivity is not yet possible on the site, customers can now e-mail queries to relevant addresses which are listed in Appendix 3 of this Report.

## Projects in co-operation with other departments

Revenue and the Department of Social, Community and Family Affairs jointly issued notices to 120,000 employers in March 1997 setting out the various tax and PRSI rates which were to be applied for the tax year commencing on 6 April 1997. This was the first such joint initiative and was aimed at reducing the volume of official correspondence issuing to businesses.

## Electronic Filing and Information Exchange

Revenue has had very successful electronic filing facilities in place for importers and exporters since 1991. We have now commenced a detailed study of electronic filing arrangements for other tax returns and payments which will involve using the Internet as well as other technology. The study will include consultation with business and other representative bodies.

The Customs Automated Entry Processing (AEP) system enables Irish importers and exporters to clear their goods within minutes through the submission of electronic Customs declarations. The lodgement of hard copy documentation has been eliminated.

The use of this Direct Trader Input (DTI) has shown further growth in 1997 as follows:

**Table 5 - Direct Trader Input**

| | | 1997 | 1996 |
|---|---|---|---|
| Declarations Processed | | 740,691 | 617,485 |
| DTI Take Up | Import | 92% | 90% |
| | Export | 63% | 60% |

We also have disk exchange arrangements in place in the INTRASTAT and P35 (see Table 7) operations. Most INTRASTAT information is provided in electronic format. A further 200 traders changed to this method in 1997. A software package, IDEP (INTRASTAT Data Entry Package ), developed by Eurostat to produce an electronic INTRASTAT declaration on diskette, is available from the VIMA Office, Dundalk.

Electronic exchange of PAYE data has been in place for a number of years. Further enhancements to promote electronic exchange of **PAYE data** have now been put in place in 1997. On a trial basis, we provided accountants with diskettes containing specially written software to assist them to make electronic P35 returns for clients with manual payrolls.

| **Table 6** | **P35 returns filed electronically** | |
|---|---|---|
| | Year ended 5 April 1997 | Year ended 5 April 1996 |
| Number of returns | 5,500 | 3,000 |
| Number of employments | 1.2m | 1.0 m |
| % of total employments | 57% | 51% |

1997 also saw the full introduction of an automated scanning system which is capable of reading hand-written P35 returns. This innovative technology makes an important contribution to our ability to process returns speedily and efficiently.

## VAT Repayments

In December 1996 we introduced a facility whereby VAT repayments can be paid directly to a Bank or Building Society Account nominated by a trader. This new repayment method has proved to be a faster, more efficient and secure way of making repayments. By the end of 1997, 50% of our customers (75% by value of claims) received their repayments by this method. This method will be used for making all VAT repayments to VAT registered traders from mid 1998.

## Consulting Our Customers

### Customer Panels

A "Small Business" User Panel was set up by Government during 1997. The Panel consists of representatives from Revenue, Chambers of Commerce of Ireland, Construction Industry Federation, Department of Social, Community and Family Affairs, Irish Coalition of Service Industries, Irish Small and Medium Enterprise Association (ISME) and the Small Firms Association (SFA). The objective of the Panel is to explore with the representatives of the Business Groups how the administration of PAYE and Social Welfare by small businesses can be simplified.

A panel of employers was set up at the end of 1997 to facilitate the introduction of a computerised P45. New stationery has been designed and issued to a number of employers for evaluation.

### Discussions with SME's

Revenue has an ongoing series of meetings with representatives of ISME and SFA on the particular needs and concerns with the tax system generally. The introduction of automatic tax clearance and the simplification of procedures for claiming subsistence expenses were announced by Revenue Commissioner Dermot Quigley in his address to the Annual Conference of the SFA in June 1997.

### Customs Consultative Committee

The Committee, which is composed of representatives of Revenue and of trade organisations, provides a forum for consultation and exchange of views on issues affecting the Customs treatment of imports and exports. It met three times in 1997. Following discussions at the Committee, workshops were organised for the trade to consider ways of simplifying customs procedures dealing with Inward Processing, Customs Warehousing and general import and export issues. A number of proposals made at the workshops have been fed into the Customs Code Committee in Brussels and others are in the course of implementation.

Following consultations within the Committee:

- A new booklet providing comprehensive information on customs procedures in relation to imports and exports was issued in 1997. The booklet has been well received and is proving to be a useful reference for the trade.
- A new simplified entry procedure applies from 1 January 1998 to expedite the clearance of low value import consignments.
- A text file version of the Customs and Excise Tariff was developed which could be used to electronically update traders' in-house tariff systems. This request followed on from the successful launch of the electronic version of the Tariff on diskette in July. The text file version was issued to the trade in January 1998 following successful trials by a number of traders.

## The Tax Administration Liaison Committee

The Tax Administration Liaison Committee (TALC) continued its ongoing role in 1997 as a liaison forum for Revenue and practitioners in relation to tax administration issues. TALC's plenary committee had eight general liaison meetings in 1997 and its various sub-groups also met throughout the year in relation to more specific areas of the tax system. TALC's work programme was particularly focused on the proposed implementation by Revenue of the Freedom of Information legislation and aspects of the Self-Assessment system. Following an initiative by TALC a revised and simplified form in relation to stamp duty on the transfer or sale of unquoted shares was introduced.

## Customer Satisfaction with Customs

The move to a Customs audit regime in conjunction with the introduction of 'paperless' declarations presented traders and staff alike with an entirely new approach to Customs work. The majority of importers/exporters were familiar with Revenue Tax audits but for many, a Customs audit was a new dimension to their interaction with Customs.

In order to ascertain the level of satisfaction with the new system a survey was conducted in September 1997 on the 118 traders already audited - 78% of these responded.

The results of the survey concluded that:

- 98.8% agreed that sufficient preparation time was allowed for the audit.
- 96.6% agreed that the purpose of the audit was clearly explained.
- 98.8% agreed that the audit was conducted in an efficient and professional manner.
- 93.5% stated that where advice or information was given the quality was good/excellent.
- 96.6% of traders were satisfied with the audit.

# Chapter 3

# Compliance

The objective of our Compliance Programmes is to achieve and sustain the optimum level of voluntary compliance with tax law. This implies a cost efficient collection system which promptly collects all taxes and duties due and addresses the debt on record, with support and endorsement for the compliant taxpayer and effective action to deal with those who are not meeting their obligations. It involves optimising the number of payments and declarations received on time. Ultimate compliance is all taxpayers paying the correct tax on time.

The key outputs of our Compliance Programmes are:

- Achieving or exceeding the annual Budget target.
- Identification and registration of all who have a liability to taxes or duties.
- Timely submission of statutory Returns, Declarations and Entries.
- Reducing the amount of arrears and debt on record.
- Fostering all aspects of voluntary compliance with improved customer services.

**In 1997, the main achievements in our Compliance Programmes included:**

- **The reduction of Revenue debt by £361 million.**
- **A significant improvement in compliance levels for return filing for Income Tax, Corporation Tax, VAT and Employers' P35.**
- **A significant improvement in payment compliance rates.**
- **The introduction of automatic tax clearance for compliant taxpayers.**

| | |
|---|---|
| **Target** | **To achieve the Government Budget target.** |
| **Result** | **Target exceeded.**<br>**A record £18 billion gross was collected in 1997. This represents an increase of 7.6% over the Budget target.** |

| | |
|---|---|
| ***Activity*** | ***Processing of Income Tax returns submitted on time*** |
| ***Target*** | ***100% processed by 1 April 1997.*** |
| ***Result*** | ***Largely achieved***<br>***97% processed by 1 April 1997.*** |

| | |
|---|---|
| ***Activity*** | ***Processing of Corporation Tax returns submitted on time*** |
| ***Target*** | ***80% processed within 20 days,***<br>***remainder processed within further 20 days*** |
| ***Result*** | ***Target exceeded***<br>***99% processed within 20 days,***<br>***100% processed within further 20 days.*** |

| | |
|---|---|
| ***Activity*** | ***Processing of PAYE Tax returns submitted on time*** |
| ***Target*** | ***80% processed within 20 days,***<br>***remainder processed within further 20 days*** |
| ***Result*** | ***Target exceeded***<br>***97% processed within 20 days,***<br>***100% processed within further 20 days.*** |

## Returns Compliance Campaigns

Returns Compliance underpins the success of the Self-Assessment system by ensuring that every non-compliant taxpayer is pursued for outstanding returns and payments.

An ‘early response’ campaign to tackle late filers and persistent non-filers was launched in 1997. These cases are being worked under a rapid pursuit programme and are being pursued to audit, prosecution and enforcement where appropriate. Over 15,000 visits were carried out by Revenue staff. This programme resulted in significant improvements for Income Tax return filing in 1997 as follows:

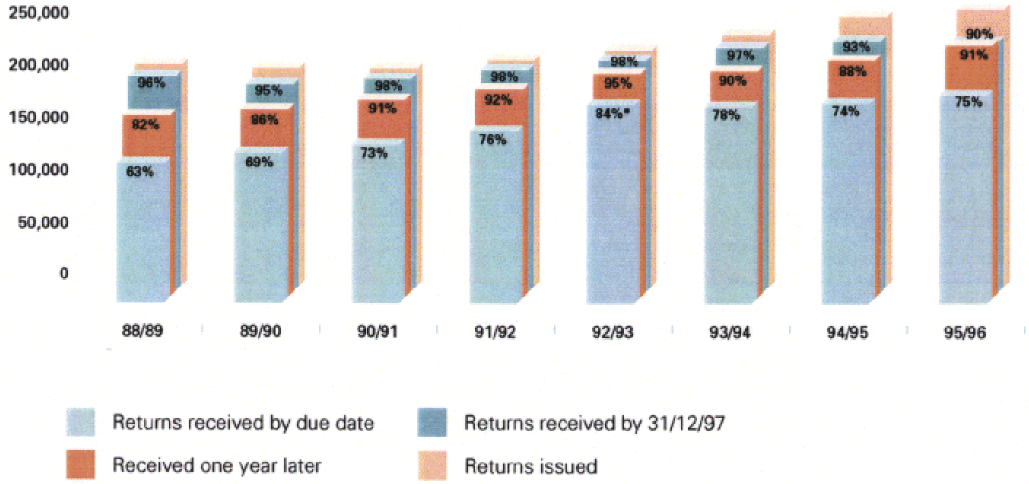
- 41,204 additional returns were submitted for 1995/96.
- 19,608 returns for prior years were received during 1997.
- 7,602 cases were identified as not trading or were considered to have no liability.

Tax districts throughout the country targeted the worst defaulters first i.e. those with returns outstanding for 5 years. These cases are potentially more difficult to finalise. Some 10,000 Income Tax cases were actually finalised in 1997. This included the receipt of 19,608 returns for old years.

A Corporation Tax habitual non-filers programme commenced in the late Summer of 1997 and 2,865 cases were finalised by the end of 1997. 2,596 of these were identified as non-trading. The worst defaulters were targeted as for our Income Tax programme.

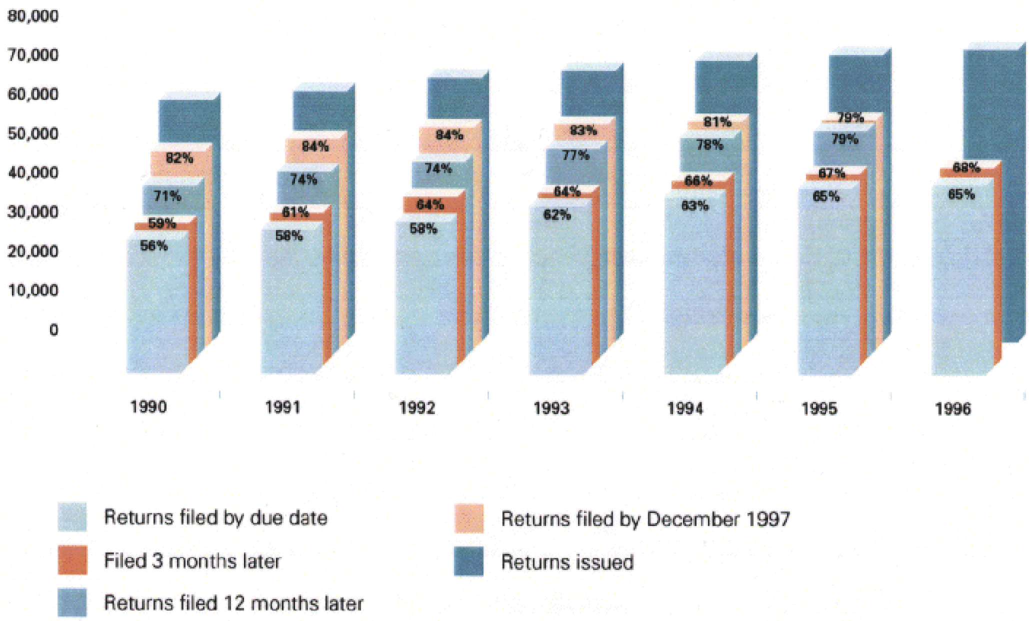
Comparing the results of the 1997 and the 1996 campaigns, the following charts 6 and 7 show the progress achieved during the year and the very significant improvement in Income Tax in 1997.

**Chart 6 - Income Tax Returns Compliance**




*92/93 Amnesty

**Chart 7 - Corporation Tax Returns Compliance**



| | |
|---|---|
| ***Activity*** | ***Processing of Income Tax returns submitted late.*** |
| ***Target*** | ***80% processed within 20 days of filing; 100% processed within 40 days of filing.*** |
| ***Result*** | ***Target exceeded<br>97% processed within 20 days of filing; 99% processed within 40 days of filing.*** |

## Employer (P35) Compliance

As illustrated in the table below, P35 compliance continued to improve with 96.5% of employers filing their returns by 31 December. These accounted for 99.8% of all employments.

### Table 7 - Employer(P35) Returns Compliance at year end from 1992/93 to 1996/7 inclusive

| Year | At the following 31 December | |
|---|---|---|
| | Employers * | Employments** |
| | | |
| 1992/93 | 93% | 99.1% |
| 1993/94 | 94% | 99.3% |
| 1994/95 | 94% | 99.4% |
| 1995/96 | 95% | 99.4% |
| 1996/97 | 96.8% | 99.8% |

* percentage of employers who have submitted returns;
** percentage of total employments in respect of which employers have submitted returns.

| | |
|---|---|
| ***Activity*** | ***Processing of CG50 applications.*** |
| ***Target*** | ***100% processed within 5 days.*** |
| ***Result*** | ***Largely achieved<br>97% processed within 5 days.*** |

CG50 is an application for a capital gains tax clearance certificate. This certificate is required where the consideration for the disposal of certain assets exceeds £100,000 [£150,000 for disposals on or after 27/3/98]. If the vendor does not produce a clearance cert the purchaser must deduct 15% from the payment and remit to Revenue.

| | |
|---|---|
| ***Activity*** | ***Processing of C2 application.*** |
| ***Target*** | ***50% processed within 20 days; 100% within 40 days.*** |
| ***Result*** | ***Achieved***<br>***50% processed within 20 days; 100% within 40 days.*** |

C2 authorises a principal contractor to pay a sub-contractor without deduction of tax.

| | |
|---|---|
| ***Activity*** | ***Processing of RCT47 applications.*** |
| ***Target*** | ***100% processed within 5 days.*** |
| ***Result*** | ***Largely achieved***<br>***98% processed within 5 days.*** |

RCT47 is an application for a relevant payments card for a principal contractor to record payments made to a sub-contractor without deduction of tax.

## Arrears Compliance Campaigns

During 1997 we continued to target our activities on cases where the risk to Exchequer receipts from non or late payers was greatest. That approach played a vital part in achieving the record collection receipts in 1997 and the significant improvement in payment compliance. Timely payment compliance from our larger paying customers increased by some 6% overall in 1997.

## Debt Management

| | |
|---|---|
| **Target** | **Of the Revenue debt of £2 billion* as at May 1996, £1 billion to be eliminated by end 1999.** |
| **Result** | **On target to achieve** |

*comprises historical debt of £1.6 billion as well as more current arrears.

Revenue is fully committed to ensuring that our debt management strategies bring about an increase in timely payment compliance leading to an ongoing decrease in the rate of accumulation of new debt, both in absolute terms and as a percentage of gross collection each year. At the same time older nominal debt, which is based on unrealistic estimates and where there is little prospect of collection, must be eliminated from the record so as to ensure that resources are not wasted in its pursuit at the expense of current collection. Progress on the debt management programme is reflected in the fact that the overall Revenue debt continues to decrease and now represents 10 per cent of net annual tax collection as against 57 per cent in 1988. This reduction is being achieved by a focused debt management approach which includes maximising collection, and arrears review programmes with discharge of unreliable estimates and write off of uncollectible tax, the latter in accordance with general policy and procedures agreed with the Comptroller and Auditor General in the early part of 1997. This strategy has involved, inter alia, the deployment of additional resources into the task of reviewing doubtful debt and ensuring collection where this is possible.

The amount of debt written off in 1997 under the new procedures was £281 million reflecting the build-up of old uncollectible debt under the earlier write-off criteria.

**Table 8: Total arrear as a % of taxes collected**

| *Year* | *Total arrear £* | *Taxes collected £* | *Total arrear as a % of taxes collected* |
|---|---|---|---|
| 1988 | 3,501m | 6,100m | 57% |
| 1989 | 2,985m | 6,242m | 48% |
| 1990 | 2,718m | 6,763m | 40% |
| 1991 | 2,538m | 7,247m | 35% |
| 1992 | 2,437m | 8,037m | 30% |
| 1993 | 2,215m | 8,524m | 26% |
| 1994 | 2,057m | 9,427m | 22% |
| 1995 | 1,978m | 9,870m | 20% |
| 1996 | 1,690m | 11,468m | 15% |
| 1997 | 1,329m | 12,794m | 10% |

Table 9 shows the progress made in reducing the Revenue debt.

**Table 9:**
**The annual Revenue debt for the years 1995 to 1997**
**( at end of each calendar year updated as at 31 May following)**

| Tax | 1995 | 1996 | 1997 | Cumulative Reduction |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Income Tax | 720 | 673 | 555 | 165 |
| Corp. Tax | 268 | 231 | 184 | 84 |
| VAT | 451 | 331 | 249 | 202 |
| PAYE | 231 | 194 | 135 | 96 |
| PRSI | 231 | 194 | 138 | 93 |
| CGT | 69 | 56 | 48 | 21 |
| Other Taxes | 8 | 11 | 20 | (12) |
| Total | 1,978 | 1,690 | 1,329 | 649 |

## Case-working through technology

In recent years Revenue has progressively introduced a new case-working approach, involving all areas of the Office, to tackling payment and return non-compliance and to debt management. This case-working approach has been facilitated by a very significant investment in the latest available technology and in quality training for our staff. Rather than relying on automatic computer driven processes the case-working approach allows us to identify payment and/or return compliance problems in specific cases immediately they occur, to closely monitor cases and to directly intervene in cases by personal contact with the taxpayer when payment delays or problems arise. Our case-working approach ensures that where debt problems exist or materialise, we are in a position to respond at an early stage to those problems and to work with the customer towards their resolution. In 1997, the collection case-working approach impacted on approximately 48,000 of our customers.

The new technology - Active Intervention Management (AIM) - was designed by Revenue. New features were added in 1997 to:

- Establish better links with external agencies such as Sheriffs and Solicitors who enforce payment of debt through seizure of goods or through the courts.
- Better manage the issue of tax clearance certificates required for businesses seeking Government contracts or certain licences.

The case-working approach allows for the swift identification and targeting of cases for the most appropriate enforcement action. In phasing in the new procedures Revenue initially give customers every reasonable assistance to regularise their affairs. However, where this approach is not successful, the full rigours of the available enforcement provisions are applied.

**Tax Clearance**

| | |
|---|---|
| ***Target*** | ***Introduce automatic tax clearance for people whose tax affairs are in order.*** |
| ***Result*** | ***Achieved.*** |

1997 saw the phasing in of the automatic renewal of tax clearance certificates for compliant taxpayers by Revenue. This important customer services initiative means that taxpayers who hold a current tax clearance certificate for the purpose of a public sector contract and whose tax affairs remain in order are not required to apply for renewal, but instead will obtain automatic tax clearance prior to expiry of the current certificate. It is proposed to extend this initiative to other categories requiring tax clearance during 1998.

| | |
|---|---|
| ***Target*** | ***Explore expansion of the Tax Clearance System to other businesses.*** |
| ***Result*** | ***Progressed. Tax Clearance extended in 1997 to cover credit or mortgage intermediaries and licensed moneylenders.*** |

# Chapter 4

# Audit, Prosecution and Enforcement

Well focused Revenue Audit, Prosecution and Enforcement Programmes have a major role to play in achieving and maintaining the optimum level of voluntary compliance with tax law and in ensuring that taxpayers who are unwilling to comply voluntarily with the law are compelled to do so.

Under these Programmes, we vigorously pursue non-compliance, be it for failure to furnish returns, failure to furnish correct returns, failure to comply with statutory obligations or the more blatant forms of evasion. We are committed to maintaining public confidence in the equity of Revenue administration by adopting a tough stance on tax evasion and avoidance, the Black Economy and all illegal activities. In particular, we will initiate the prosecution of offenders in cases of serious evasion or fraud as well as cases who do not file timely returns.

The key outputs of our Audit, Prosecution and Enforcement Programmes are:

- Operation of risk-focused audit programmes which test the accuracy of returns, declarations and entries.
- In-depth investigation of persons or groups engaged in evasion of taxes or duties.
- Enhanced and consistent enforcement performance.
- Initiation of prosecution in a number of suitable cases each year.

**In 1997, the main achievements in our Audit, Prosecution and Enforcement Programmes included:**

- **The design and implementation of an effective prosecution policy for serious cases of tax evasion.**
- **The selection of 18 cases of serious tax evasion for criminal investigation.**
- **A significant number of cases being referred for prosecution for failure to file tax returns.**
- **Total receipts of £149m from effective audit programmes with more emphasis on bigger cases.**
- **The introduction of a system to closely monitor 'phoenix syndrome' companies.**
- **The introduction of the Revenue Mobile Service.**
- **The implementation of a package of legislative and operational measures, nationally and internationally, to tackle the problem of**

**illegal importation and sale of tobacco products resulting in record levels of seizures by Customs officers of smuggled tobacco products.**

## Tribunals and Tax Evasion

Revenue is actively pursuing all aspects of evasion arising from the McCracken Tribunal report, as well as more recent disclosures. These investigations are proceeding as a matter of priority. Revenue is also participating with the Department of Finance in a review of Revenue powers to consider whether they are adequate in the light of practical experience and emerging developments. Revenue is co-operating fully with the Moriarty Tribunal.

## Criminal Assets Bureau (CAB)

Revenue is co-operating fully with the CAB in its operations, by providing information and support and, directly, through the Revenue officers working in the CAB. There are now 8 Revenue officials in the CAB.

# Audit

## High Net Worth Individuals

During 1997, a review was undertaken which focused on a sample, some chosen at random, of the top tier of high net worth individuals. The project examined the profile of the sample by reference to income, residence and effective rate of tax (i.e. tax paid as a percentage of income), to identify the likely tax risks. The review will assist in the identification of cases for audit and the audit approach to be adopted.

The study also showed that this sector received disproportionate advantages from tax incentives. This resulted in important changes being introduced by the Minister for Finance in the December 1997 Budget, including the placing of restrictions on the amount of capital allowances on buildings which an individual investor can claim against non-rental income.

**Table 10 - Results of Main Audit Programmes**

| | 1997 | | 1996 | |
|---|---|---|---|---|
| **Audit Type** | **No.** | **Yield £m** | **No.** | **Yield £m** |
| Comprehensive | 3,635 | 55.4 | *3,969* | *60.3* |
| VAT | 7,764 | 38.9 | *8,424* | *33.0* |
| PAYE Employers | 5,095 | 14.1 | *5,358* | *19.5* |
| Relevant Contracts Tax | 1,856 | 8.1 | *1,582* | *8.0* |
| Investigation Branch | 77 | 3.7 | *90* | *6.0* |
| Anti-Avoidance | 20 | 2.4 | *29* | *2.4* |
| Capital Acquisitions Tax | 315 | 3.3 | *315* | *2.6* |
| Residential Property Tax | 2,024 | 1.2 | *1,590* | *0.9* |
| Audits/Additional Tax | 20,786 | 127.1 | *21,357* | *132.7* |
| Arrears Collected | | 22.2 | | (estimated) 10.0 |
| **Total Audit Yield** | | **149.3** | | **142.7** |

While the total number of audits was slightly down in 1997 the total receipts increased as compared with 1996. The reduction in numbers largely reflected greater concentration on bigger cases (which take longer to audit) as well as temporary re-assignment of auditors to important compliance work.

## Anti-Avoidance

During the year to 31 December 1997, 20 cases involving tax avoidance were resolved yielding a return to the Exchequer of £2.4m.

The general anti-avoidance provision, Section 811 *Taxes Consolidation Act 1997*, the aim of which is to defeat the effects of transactions which have little or no commercial reality but are intended primarily to avoid liability to tax, was invoked in a number of cases during the year. Revenue is being challenged in the High Court in each of these cases.

Arising from work undertaken by Revenue, a number of amendments which closed loopholes and clarified the legislative intention were incorporated in the Finance Act 1997. Details of the amended sections covering, Industrial Buildings and Structures, Double Rent Deduction and Exit Charge are set out in Appendix 1.

## Customs Audit Programme

Revenue's 1996 Annual Report announced the establishment of the Customs Audit programme to ensure continued compliance with Customs legislation following the introduction of "paperless" electronic import/export declarations. The Customs Audit Units became fully operational in 1997 and the results for the year are shown below.

257 audits were completed by the end of the year of which:

- 35% showed no problems.
- 52% resulted in additional yield of Customs duty which amounted to £4.5 million.
- 5% resulted in repayment of Customs duty overpaid totalling £171,000.
- 8% resulted in non monetary discrepancies (statistical, prohibitions infringements).

## FEOGA Audit

The FEOGA Audit Unit audited the commercial records of 54 companies which had received export refund payments of £480 million in respect of agricultural exports during the period audited. This amount represented approximately 90% of total export refunds paid by the Department of Agriculture and Food.

| | |
|---|---|
| ***Target*** | ***Use cross functional team working between Taxes and Customs and Excise staff in appropriate operations.*** |
| ***Result*** | ***Achieved.*** |

### Joint Tax and Customs Audit

The Tax and Customs audit programmes operate closely and exchange information about specific cases. This exchange resulted in three joint Tax and Customs audits which checked that business transactions were treated consistently under both codes. There was a substantial Customs yield in one of the cases. The other two cases resulted in only small yields but the combination of approaches proved to be a valuable experience.

## Prosecution

### Policy for Tax Offences

| | |
|---|---|
| ***Target*** | ***Design and implement an effective prosecution policy, based on written guidelines which will aid managers in identifying suitable cases for prosecution at the early stages of an audit or investigation*** |
| ***Result*** | ***Well advanced*** |

Following consultation with the DPP and extensive training for the staff concerned new arrangements are now in place in Revenue to pursue prosecution of serious cases of tax evasion. As part of this, early in 1997 Revenue's Tax Investigation Branch was reorganised, resulting in a more focused approach towards the identification and prosecution of serious tax offenders. Three of the five operational units in Investigation Branch are now concentrated almost exclusively on advancing possible cases for prosecution on indictment (as distinct from summary prosecution which has traditionally been used e.g. for failure to file returns).

An Admissions Committee was established to evaluate possible prosecution cases. It co-ordinated an intensive countrywide drive to ensure that the most suitable cases are referred on an ongoing basis for consideration for prosecution. There is clearly a heavy burden of proof involved in securing conviction for an indictable offence in these cases. During 1997, auditors identified 43 cases of apparent serious tax evasion and referred them to the Admissions Committee. 18 of these cases were selected for criminal investigation. The remaining 25 cases were dealt with by way of monetary settlement by Auditors or by Investigation Branch.

The implications of the new prosecution policy have been the subject of consultation with tax practitioners and written guidelines are being finalised.

## Arrangements with the Director of Public Prosecutions (DPP)

A senior officer from the Office of the DPP is now available to Revenue for the purpose of case referral and for consultation. Officers from Revenue's Prosecution Policy Unit and Investigation Branch have regular meetings with him to discuss individual cases and to discuss evidential and other issues which have arisen or are likely to arise. Under the new arrangement, in order to speed up the process, cases are investigated by Revenue officers, referred to the Revenue Solicitor where suitable and passed direct to the DPP, rather than being routed through the Gardai.

## Results

Three earlier cases, two of which were investigated by the Gardaí, progressed to Circuit Court stage during the year. One of these resulted in a conviction after a plea of guilty; in another, the taxpayer pleaded guilty and was awaiting sentence; and the third was sent forward for trial. Another case had reached District Court level. By the end of the year the Director of Public Prosecutions had given directions to prosecute in a further 3 cases and some 17 others were actively being progressed towards the Courts.

## Monetary settlements

Because of the burden of proof involved and the resource-intensive nature of the work only a small number of criminal prosecutions are likely to arise each year. The bulk of cases arising from investigation or audit will continue to be the subject of monetary settlements with continuation of arrangements for voluntary disclosure.

| | |
|---|---|
| ***Target*** | ***Use all available means to publicise the operation and impact of the Returns Compliance, Audit, Investigation Programme, particularly as regards prosecution activity at local and national levels.*** |
| ***Result*** | ***Achieved.*** |

## Prosecutions for Customs and Excise Offences

In 1997, 297 people were prosecuted for various Customs and Excise offences compared to 267 in 1996, an increase of over 11%. This is due in the main to increased convictions for cigarette smuggling and illegal selling of cigarettes. The number of charges for smuggling was up 94% on the previous year while convictions for illegal selling offences increased by 655%.

### Prosecutions for cigarette smuggling and illegal selling of cigarettes

**Table 11- Convictions and penalties for 1996 and 1997**

| | 1996 | | 1997 | | 1996 | 1997 |
|---|---|---|---|---|---|---|
| | **No. of Convictions** | **Penalties** | **No. of Convictions** | **Penalties** | **No. of cases of Imprisonment** | **No. of cases of Imprisonment** |
| **Cigarette Smuggling** | 17 | £6,275 | 33 | £44,865 | NIL | 5 |
| **Illegal Selling of Cigarettes** | 11 | £6,850 | 72 | £53,050 | - | - |

### Prosecutions for other Customs and Excise offences

124 people were convicted in court, with fines imposed totalling £82,650, for the illegal use of duty-rebated **Marked Gas Oil (MGO),** commonly referred to as "agricultural" or "green diesel". This includes convictions for related offences such as obstructing Revenue personnel and giving false information. In a further 645 cases, compromise sums amounting to £159,725 were accepted in lieu of legal proceedings. A further amount of £12,100 was accepted for the release of a number of vehicles which had been seized in connection with marked gas oil offences.

7 people were convicted and fines amounting to £20,300 were imposed for **betting offences**. Compromise sums totalling £1,500 were paid in 4 other cases. At Mullingar District Court on 11th July, 1997, a bookmaker and her assistants pleaded guilty to approximately 30 counts of suppression and evasion of Betting Duty. A fine of £30,200 mitigated to £15,100 was imposed.

Convictions were also obtained in three cases involving the **smuggling of oil and alcohol** products. Penalties of £2,500 were imposed.

## Prosecutions for Vehicle Registration Tax (VRT) offences

- Number of convictions 28
- Fines imposed £22,850

## Prosecutions for unlicensed trading

Table 12 sets out details of the numbers of convictions for breaches of the licensing regulations during 1997 as well as details of compromise sums paid.

**TABLE 12 - Proceedings for unlicensed trading**

| Licence Type | Number Convicted | Fines imposed | Number of compromise cases | Compromise Settlement Amount |
|---|---|---|---|---|
| **Liquor** | 32 | £17,900 | 23 | £2,350 |
| **Hydrocarbon Oil Vendors** | 28 | £17,250 | 22 | £2,300 |
| **Amusement Machine Licences** | 1 | £1,000 | _ | |

## Failure to file returns

| | |
|---|---|
| ***Target*** | ***Review available sanctions with a view to developing a rationalised system which both penalises the defaulter in an appropriate way and ensures submission of the relevant Return or Declaration.*** |
| ***Result*** | ***Review Initiated in 1997 - to continue through 1998*** |

Sanctions against those who do not comply are of varying severity. These include surcharges, interest, penalties and publication of the taxpayer's name. In addition prosecution for failure to file a return may be initiated through the Court. Details of the prosecution cases taken for failure to file returns are set out below.

**Table 13 - Prosecutions for non-filing of returns**

| | Income Tax | Corporation Tax | Total |
|---|---|---|---|
| Cases awaiting hearing 1/1/97 | 493 | 161 | 654 |
| Revenue Solicitor warning letters issued | 2,253 | 748 | 3,001 |
| Legal Proceedings Instituted | 591 | 329 | 920 |
| Convictions | 223 | 68 | 291 |
| Proceedings outstanding 31/12/97 | 861 | 422 | 1,283 |

## P35 returns

| | |
|---|---|
| **Target** | **Focus on employers who have been identified as non-compliant in previous years for early compliance action.** |
| **Result** | **Achieved** |

In tackling non-compliance in relation to the P35 return, Revenue targeted for early action those employers who had been identified as non-compliant in previous years. Amongst the sanctions used were individual statutory penalties of £1,200. These were imposed in 544 cases where employers failed to submit fully completed returns before the April 30 deadline. In cases where penalties were imposed by the Courts, defaulters also had their names published.

## INTRASTAT returns

During 1997 legal proceedings were initiated in cases where there was persistent failure to file INTRASTAT returns.

- 28 convictions and £30,300 in fines were imposed by the Court.
- In 3 cases compromise payments totalling £7,000 were accepted.

## Black Economy

Activities undertaken in 1997 specifically focused on Black Economy activity included the following:

- Revenue commenced a nationwide operation to monitor tax compliance in the construction industry. This operation is designed to ensure that the correct tax, PRSI and Levies is accounted for in relation to persons employed in the industry. The operation was undertaken in response to concerns that individuals who were clearly employees were being categorised as subcontractors. Action is being taken to deal with abuses detected.

- Revenue identified over 700 'phoenix syndrome' cases (businesses which close down owing substantial amounts of tax and re-open under another company name) for action in relation to the taxes outstanding and close monitoring of the successor company.

- Revenue established a new Mobile Service to enforce Vehicle Registration Tax (VRT), prevent smuggling and detect illegal use of rebated diesel. The new service will assist in tackling the Black Economy by the gathering of intelligence and the identification of traders operating outside the tax net. It will also be involved in targeted compliance activities in areas such as VAT fraud and illegal tobacco sales.

- Revenue participated fully in the Black Economy Monitoring Group. During the year the Group was strengthened by the participation of the Small Firms Association, to reflect the concerns of this segment of the economy. The Group, which meets regularly, monitors trends in Black Economy activity, with a particular focus on distortions in competition which are of concern to the Social Partners.

- Offsets of VAT liabilities against Relevant Contracts Tax (RCT) repayment claims from non-resident sub-contractors amounted to £1 million during the year. This represents a 64% increase over amounts offset in 1996.

- Joint Inspection Units (JIU's) are operated in conjunction with the Department of Social, Community and Family Affairs. The JIU's carry out joint inspections at employers' premises, mainly with a view to targeting cases where there is evidence of non-operation of PAYE/PRSI on the part of the employer and 'working and signing' on the part of employees.

- Specific action to detect unregistered traders.

During 1997 the Special Enquiry Branch, together with Local Enquiry Units, continued to detect unregistered cases and previously undeclared sources of income in the programme to counter Black Economy activity, details of which are contained in Table 16. The Customer Service approach adopted by Revenue in recent years in relation to the registration of new businesses together with the effect of Tax Clearance requirements has resulted in greater registration compliance.

**Table 14 - Special Enquiries**

| | **1997** | ***1996*** |
|---|---|---|
| Number of cases detected not previously on record | 1,000 | *1,353* |
| Number of persons already on record with unreturned income | 2,169 | *2,280* |
| Total number of detections | 3,169 | *3,633* |
| | | |
| Referred to Investigation Branch | 2 | *5* |
| Referred to Audit | 518 | *633* |

## Revenue Mobile Service

| | |
|---|---|
| ***Target*** | ***Develop the Customs Mobile Task Units (MTU's) as an Office-wide resource for the collection of information, gathering of intelligence, combating the Black Economy and general compliance operations by mid 1997.*** |
| ***Result*** | ***Achieved.*** |

Following a review of the Customs & Excise Mobile Task Units, a new restructured Revenue Mobile Service (RMS) was established. The new service which consists of 120 officials based in 14 strategic locations throughout the State was set up in October 1997.

In addition to the traditional areas of Customs & Excise enforcement such as Vehicle Registration Tax, hydrocarbon oil (green diesel) sampling and anti-smuggling duties, the RMS will be a key force in tackling the Black Economy through intelligence gathering and the identification of traders operating outside the tax net.

| | |
|---|---|
| ***Target*** | ***Take effective action against 'phoenix syndrome' companies including closer monitoring of successor companies, the possibility of a relevant form of security and, in appropriate cases, initiation of legal action against directors.*** |
| ***Result*** | ***Achieved.* Over 700 cases were identified for close monitoring of the successor company** |

## Enforcement Action

### Collection Enforcement

Sheriff and Solicitor enforcement are the most commonly and effectively used enforcement options to collect taxes due. A new computerised system, whereby all outstanding tax liabilities in a particular case are consolidated, was commenced in the second half of 1997 for solicitor and sheriff referrals. This contributed to a 23% reduction in the number of individual referral items. Additionally, the number of taxpayers who responded to contact from the Sheriff by paying tax to the Collector-General directly continued to increase. Use of the power of attachment continued to be an important enforcement tool used by Revenue. Other forms of enforcement are considered as appropriate in individual cases.

**Table 15 - Collection Enforcement**

| | | **1997** | **1996** |
|---|---|---|---|
| **Solicitor** | Items referred | 4,179 | 4,005 |
| | Payments made | £9.9 million | £8.9 million |
| **Sheriff** | Items referred | 63,057 | 82,234 |
| | Payments made | £58 million | £60 million |
| **Attachment** | | | |
| | Number of cases where attachment was used | 172 | 148 |
| | Yield from Attachment | £2.8 million | £1.4 million |

## Vehicle Registration Tax (VRT) Enforcement

A nationwide intensive enforcement programme to identify and eliminate breaches of Vehicle Registration Tax (VRT) continued throughout 1997 and was very successful.

| | |
|---|---|
| • Number of vehicles challenged by Revenue | 33,696 |
| • Number of detections involving a minor delay in registration | 3,006 |
| • Number of vehicles seized | 356 |
| • Value of vehicles seized | £1.7 million |
| • VRT recovered | £362,000 |
| • Penalties imposed for the release of seized vehicles | £117,163 |
| • Cases reported for prosecution | 68 |
| • Number of compromise settlements in lieu of proceedings | 10 |
| • Amount Paid | £12,265 |

# Drugs and smuggling

## Customs National Drugs Team

The street value of drugs seized by the Customs National Drugs Team (CNDT) during 1997 amounted to £7 million, some £1.32 million of which was seized as a result of joint operations with the Gardai. Co-operation with both domestic and foreign enforcement agencies contributed significantly to seizures at home and abroad during the year and to the quality of intelligence gathered on international drug trafficking. In the course of the year, the CNDT participated in a number of joint exercises with foreign agencies related to targeting and intelligence gathering.

**Confidential Freefone - 1800 295 295.**

During 1997, 5,800 calls were received on the Customs Confidential Freefone. Several of the calls proved useful and facilitated the gathering of further intelligence on drug trafficking activities.

Customs Officers discovered 600 Kgs of Cocaine concealed on board MV SEAMIST in Cork Harbour on 29 September 1996. The drugs and the vessel were seized and five people were arrested and charged with offences under the Misuse of Drugs Act.

At the trial in Cork in 1997 the skipper pleaded guilty and was given a 17 year jail sentence. The other accused were not convicted. The street value of the drugs was estimated at £47m.

## Fight against Tobacco Fraud

As part of a co-ordinated Revenue response to the problem of illegal importation and sale of tobacco products, and following discussions with the Minister for Finance, the Department of Justice, the Gardaí and the legitimate trade, the following measures were included in the 1997 Finance Act.

- Fines were increased and the option to impose custodial sentences was introduced both for illegal importation and for street selling offences.
- The relevant powers of Revenue Officers and the Gardaí were strengthened.
- A new offence was introduced to facilitate prosecution for the wholesaling of unstamped tobacco products.
- Technical amendments were made to close legal loopholes which were hampering prosecutions.

At the level of the European Union, Revenue was successful in persuading the European Commission and the other Member States to agree to set up a High Level Group to examine the problem. The remit of the group was extended to include fraud in the alcohol sector. Its objectives were to:

- Examine the nature, extent and impact of fraud in the two sectors.
- Identify factors which contribute to or facilitate this fraud.
- Recommend improvements/solutions aimed at reducing and preventing fraud.

The Group was charged with reporting to the EU Directors General of Indirect Taxation early in 1998 leading to a package of measures being endorsed by the Council of Finance Ministers (ECOFIN) in 1998.

## Cigarette Seizures

During 1997, Revenue officials detected and seized in excess of 14 million smuggled cigarettes and 3 tonnes of roll your own tobacco with a total retail value of £2.5 million. Included in this were two large seizures, one at Southbank Quay, Dublin of 4.8 million cigarettes with a value of £725,000 and the other seizure of 1.2 million cigarettes valued at £128,000. In the latter seizure the driver was arrested and criminal charges are pending.

In addition, a further 44 million cigarettes, valued at almost £7 million have been seized across the EU, as a direct result of Irish Customs Intelligence. As a result of the measures taken significant progress has been made in curbing illegal sales of cigarettes.

### Table 16 - COMMERCIAL TOBACCO SEIZURES - 1997

| TYPE | NUMBER OF SEIZURES | QUANTITY/ NUMBER | ESTIMATED RETAIL VALUE | DUTIES (EXCISE & VAT) |
|---|---|---|---|---|
| **Cigarettes** | **823** | **14,217,489 CIGS** | **£2,140,777** | **£1,640,033** |
| **Roll your Own** | **379** | **3,010 KGS** | **£421,600** | **£313,772** |
| **Total** | **1202** | | **£2,562,377** | **£1,953,805** |

## Commercial Memoranda of Understanding Programme

The CNDT continued to develop the Memoranda of Understanding Programme (MOU) with the commercial sector to assist in the battle against illegal imports.

The programme, which has been designed to facilitate mutually beneficial standards of service and information flows between Customs and the trade, was initiated in 1993. A further 4 agreements were concluded during 1997, bringing the total agreements concluded to date to 38, covering a wide range of business interests. An MOU signed with the Irish Road Haulage Association in 1997 was significant in that it encompasses the prevention of smuggling of all contraband, whereas all previous agreements were directed exclusively at drugs smuggling.

## Joint Surveillance Exercises

In 1997 the Member States of the European Union, including Ireland, carried out three successful Customs joint surveillance exercises.

Tangible results of the operations, in terms of seized drugs and goods liable to Excise Duty, were impressive. In total 541 kilos of cocaine, 2,949 kilos of cannabis, 163 million cigarettes and 67,000 litres of alcohol were seized.

In addition to these tangible results other beneficial outcomes include:

- Enhancement of the communications system for sharing details of detections among Customs services.
- Reinforcement of goodwill and personal contacts between Customs officers of participating States.
- Increased operational co-operation with non-EU Customs services.

## General Smuggling

1,871 cases of attempted smuggling were detected in 1997. Certain of these cases were dealt with by means of compromise settlements, the total proceeds from which came to £271,801.

**Table 17 - Additional Categories of Goods Seized by Customs.**

| Type | Quantity |
|---|---|
| Spirits | 5,181 (Litres) |
| Beer | 7,592 (Litres) |
| Wine | 7,683 (Litres) |
| Hydrocarbon Oil | 9,517 (Litres) |
| | |
| Yachts | 2 |
| Steroids | 2,732 (Items) |
| Computer Parts | 500 (Items) |
| Counterfeit Clothing | 221 (Items) |
| Pornography : Videos | 5,163 |
| : Other (books, magazines, etc.) | 20,850 |

# Chapter 5

# Policy & Legislation

Revenue's role in the formulation of tax policy is to provide soundly based advice to the Department of Finance and to recommend changes on the basis of our expertise in tax matters and our experience in administering the tax code. In this role we advocate changes that can be managed effectively, which promote simplification of tax law and which foster voluntary compliance and minimise compliance and administration costs. For this purpose we participate in the Tax Strategy Group chaired by the Department of Finance. We draft the annual Finance Bill, and other legislation as needed, in which we seek to put in place a clear, precise, robust and effective body of tax law and we brief the Minister during the legislative process in the Oireachtas. The EU and the imminence of Economic and Monetary Union have a significant impact on tax and customs matters, and Revenue is actively and directly involved in developing the relevant policies and administrative arrangements. We are also responsible for maintaining and extending Ireland's network of tax treaties, which are important in facilitating investment and international trade.

The objective of our policy, legislation and administration programme is to influence the development of taxation policies at national and international levels, and to administer such policies in a way which is consistent with Government and EU policy, which results in a fair, efficient and simplified tax system and which contributes to national competitiveness.

The key outputs of our Policy and Legislation Programmes are:

- Quality advice on tax and customs policies and reliable Revenue statistics, analysis and forecasts.

- Precisely drafted and robust legislation which is accompanied by clear intelligible briefing material and which leads to a consolidated and accessible body of tax and customs legislation.

- Information which minimises the uncertainty about the impact of tax and customs law on business decisions.

- Influence on EU and other international policy making bodies in directions which reflect Government policy.

- A network of double taxation treaties which facilitates investment and international trade in goods and services.

- Fair, efficient and streamlined procedures which help to minimise compliance costs and which provide taxpayers and their representatives with a clear understanding of their obligations under tax and customs law, and which result in maximum voluntary compliance and revenue yield.

**In 1997, the main achievements in our Policy and Legislation Programmes included:**

- **The enactment of the Taxes Consolidation Act which brought together all existing Income Tax, Corporation Tax and Capital Gains Tax legislation in one Act.**
- **Our early announcement that services in euro will be available to businesses from 1 January 1999.**
- **The negotiation of 5 double taxation treaties, including a new treaty with the United States.**
- **Publication of Guidance Notes on the 1997 Finance Act.**
- **Participation in EU and OECD discussions on codes of conduct for business taxation.**

## Taxes Consolidation Act, 1997

| | |
|---|---|
| ***Target*** | ***Publish draft Consolidation Bill on Income Tax, Corporation Tax and Capital Gains Tax.*** |
| ***Result*** | ***Exceeded. Bill published and enacted.*** |

The Taxes Consolidation Act, 1997 was enacted into law on 30 November 1997. The Act, which is the largest single enactment in the history of the State comprising 1104 sections and 32 Schedules, consolidates the law relating to income tax, corporation tax and capital gains tax. The Consolidation project commenced in June 1995 and was carried out by way of a joint venture between Revenue, the Office of the Parliamentary Draftsman and private sector consultants. The Consolidation Act was widely welcomed by the Oireachtas and the various tax and accountancy bodies. The goal of having the legislation enacted before the December Budget was achieved, thus facilitating the drafting of the 1998 Finance Bill by reference to the Consolidation Act.

Consolidation of legislation is consistent with the principles of good quality regulation, in particular the need to reduce the quantity and improve the quality of legislation, to which Revenue is committed under our Statement of Strategy. One of the main benefits of this consolidation is the reduction of the volume of direct tax legislation by almost one-half. Other benefits are that:

- All direct tax legislation is now available in a single up-to-date Act, in a coherent, orderly and more simplified format.

- The legislation is more accessible and user-friendly to the business community, tax practitioners, tax administrators and members of the Oireachtas. This is of particular importance for smaller firms of tax practitioners and smaller businesses.

- As part of the consolidation process, a significant amount of deadwood and obsolete material was eliminated from the tax code and there has been considerable simplification in the text.

- All future changes to the taxes involved should be capable of being slotted into the Consolidated Act by amendment.

- Our tax legislation is now more coherent to foreign investors and their advisors.

- The task of future simplification of the tax system will be facilitated.

| | |
|---|---|
| ***Target*** | ***Publish notes for guidance on the Taxes Consolidation Act.*** |
| ***Result*** | ***Progress made: to be completed by mid-1998 to follow the 1998 Finance Act.*** |

| | |
|---|---|
| ***Target*** | ***Prepare a programme for consolidation of Indirect Taxes legislation.*** |
| ***Result*** | ***Partly Achieved. Future direction of consolidation to be determined in 1998.*** |

## Economic and Monetary Union

Economic and Monetary Union (EMU) is one of the most important developments for the Irish economy since we joined the European Union in 1973. The introduction of the Euro will present a significant challenge for businesses, which will have to deal with the practical complexities of switching their financial and accounting systems to the new currency, while also addressing the strategic business issues presented by the creation of a more integrated and competitive Euro zone. Following extensive consultations with private sector bodies Revenue formulated a changeover plan which is designed to offer business the maximum flexibility possible as to how and when they may make the switch. We announced this plan in April 1997, when we published our booklet ***"Preparing for the Euro - a guide for business on the taxation and customs aspects of the changeover to the Euro".***

This changeover plan is strongly pro - business in that it offers businesses the facility to conduct their tax, customs and statistical affairs in Euro if they so wish from 1 January 1999. This will ensure no additional compliance costs for businesses which make an early switch to the Euro for whatever reasons.

Revenue is committed to keeping business informed of the tax and customs aspects of the changeover. In addition to the booklet which we produced in April 1997, we issued a leaflet - ***"Planning for the Euro" -*** to 140,000 businesses in November 1997. As well as informing business of our changeover plans, this leaflet also carried general advice on the changeover from the Forfas EMU Business Awareness Campaign.

### Revenue Services in Euro

From 1 January 1999 Revenue will accept payment of any tax, customs duty or excise duty in either Irish pounds or Euro.
From 1 January 1999 (6 April 1999 for Employers PAYE/PRSI) businesses who so wish may keep accounts and submit returns and declarations in Euro.
Taxpayers who elect to switch to Euro will receive tax and duty repayments in Euro.

## Tax competition

Globalisation is creating new challenges in the field of tax policy. Although it has had a positive effect on the development of tax systems, being one of the driving forces behind tax reform, there has been concern internationally that it can also lead to countries adopting tax strategies which may have harmful spillover effects for other countries.

Revenue was centrally involved throughout 1997 in one of the most important recent studies undertaken by the Committee of Fiscal Affairs (CFA) of the OECD. The study concerns harmful tax competition as an emerging global issue and Revenue has participated as a member of the small co-ordinating Bureau along with three other countries, the United States, Japan and France. The Bureau is responsible for managing the study and writing the report.

Given that Ireland offers generous tax incentives for manufacturing and financial services activities, the project has important implications for future Irish economic and business policies. As a Bureau member, Revenue has been able to play a key role in shaping the outcome of the project and reflecting vital Irish interests. Work on the project will continue in 1998.

Revenue also participated in the High-Level EU Monti Group, chaired by Commissioner Mario Monti, which drew up a Code of Conduct on Business taxation. The Code was approved by EU Finance Ministers in December 1997 and represents a satisfactory outcome in an area of major concern to Ireland.

## Electronic Commerce

During 1997, electronic commerce emerged internationally as a major taxation issue. Global commerce using electronic communication technology and, in some cases, involving electronic delivery of products, has significant implications for tax policy and administration. Tax authorities find themselves faced with the challenge of preserving tax bases and maintaining adequate administrative and control arrangements without obstructing the development of this new way of doing business.

At EU level, where the main focus is on VAT and Customs implications, Revenue has taken a leading role in the debate, and hosted a meeting of an EU Working Group in December 1997 at which representatives of the private sector provided an insight into the technical environment of the internet and electronic commerce. The tax implications are also being examined in detail by the OECD where, again, Revenue has been playing a leading role. The OECD discussions are expected to result in a set of principles, or framework conditions, concerning the taxation of electronic commerce.

In parallel with the international discussions, the domestic implications of electronic commerce are also being examined within Revenue. Recognising the importance of this subject, this work was intensified towards the end of 1997 when Revenue established an office-wide group to coordinate examination of the electronic commerce issues across all taxheads, in order to ensure a comprehensive study and a coherent response.

## World Customs Organisation

A major contribution was made by Revenue Commissioner Dermot Quigley in the field of International Customs through his role as Vice-Chairman of the World Customs Organisation (WCO) and Regional Representative for the 45 countries of the Organisation's European region.

One major recent initiative of the WCO has been the development of a 'vision statement', which has been drawn up in consultation with the organisation's membership. The 'vision statement' attempts to create a model of the environment in which Customs will operate during the next decade or so and to anticipate the nature of the response which the new trading circumstances of the future will require of the WCO. Irish Customs co-ordinated the views of the Members of the European region in the preparation of the draft Statement.

## Tax treaties

New double taxation treaties with the United States, South Africa and the three Baltic States (Latvia, Lithuania and Estonia) were negotiated by Revenue and signed by the Government in 1997. This brings Ireland's treaty base to 33 countries.

Revenue was also involved in negotiations with Belgium, India, Mexico, Romania and the United Kingdom in relation to existing and new treaties during 1997.

Further new treaty partners continue to be identified in liaison with other Government Departments and relevant business interests.

| | |
|---|---|
| ***Target*** | ***Conclude negotiations on at least 6 double taxation treaties or treaty protocols in 1997, subject to the co- operation of our treaty partners.*** |
| ***Result*** | ***Negotiations concluded on 5 treaties.*** |

## Ireland and the United States double taxation treaty

The US tax treaty is Ireland's most important. The US has for many years been Ireland's largest single source of inward investment. There are over 450 companies established by US investors in Ireland employing over 65,000 people. US companies account for a quarter of the workforce employed in manufacturing activities. There is also significant investment into the US from Ireland.

Unlike its predecessor, the new treaty covers Irish Capital Gains Tax, has provisions for settling disputes concerning its interpretation and allows for corresponding transfer pricing adjustments. It also has enhanced provisions in relation to the exchange of information between the tax authorities of both countries.

The new treaty is expected to have a generally positive impact on US investment in Ireland and will allow the majority of Irish based investment into the US to continue to qualify for treaty benefits (principally lower withholding taxes on dividends, interest and royalties).

## VAT at EU and OECD levels

In May, 1997 Revenue, in collaboration with the EU Commission, organised a Seminar at Dublin Castle to disseminate details of a theoretical "cash-flow" approach to the possible application of VAT to financial services if that were desired sometime in the future. The Seminar was attended by practitioners in the field of banking, financial services and insurance, and VAT practitioners from the accountancy profession and from within Revenue itself. The Seminar was a development from comprehensive studies carried out by the OECD on the implications for national fiscal authorities arising from the ongoing expansion and increased complexity of international financial services. These, by their nature, have not been amenable to the application of VAT up to now, mainly because of the difficulty in establishing a basis of taxation.

Arising from the OECD examination, the EU Commission sponsored pilot studies on the practical application of the “cash-flow” approach. The Commission decided that before any firm conclusions could be reached, their studies should be extended to other businesses in the financial services sector throughout the EU, including one major institution in Ireland. These studies are due to end in mid 1998 and the Commission intends to issue a report on the outcome in the latter half of that year.

# Chapter 6

# Enabling us to do our business

Revenue's business is supported by well developed corporate and business planning processes which are in place throughout the organisation. These processes have enabled Revenue, virtually seamlessly, to implement the various initiatives arising from the Government's Strategic Management Initiative.

Revenue has three Business Support Programmes, as follows:

- Information Technology.
- Human Resource Management.
- Corporate support services.

By definition, these programmes are concerned with the provision of services to support our business programmes. Consequently, the objectives, key outputs, performance targets and results for these programmes have less of an external focus than our business programmes. Their achievement, however, is critical to the success of the business programmes.

The objectives of our Business Support Programmes are:

- To support and enable the achievement of Revenue's Business and Support Programme objectives as effectively as possible through the appropriate use of technology.

- To maximise, through the effective management of our human resources, the efficiency, effectiveness and competency of the organisation and to foster a performance-oriented ethos achieved through teamwork and partnership.

- To provide responsive, efficient and effective support for the Office, with responsibility and control devolved as far as practicable to line managers, within agreed service standards.

The key outputs of our Business Programmes are:

- Planning, accounting and financial management processes that enable Revenue to plan strategically within a multi-annual framework.

- Delivery of the right IT solutions on target and within budget.

- Quality computer operations services twenty four hours a day, seven days a week.

- Enhanced services and support structures for IT in remote offices, and for effective end-user computing.

- Human resource management strategies and programmes which are aligned with the objectives of the organisation and fully support our business with a performance oriented ethos achieved through team-working and partnership.

- Office-wide, comprehensive management information systems which improve the range, quality and dissemination of information to the Board and managers.

- A comprehensive, professional, responsive, and effective legal service to advise and support the Board and the Divisions.

- Good, safe and healthy working environment; customer friendly and accessible public facilities; effective, responsive internal services, with agreed service standards and with responsibility and control devolved as far as practicable.

**The main achievements in our Business Support Programmes in the year 1997 included:**

- **The ongoing implementation of the SMI modernisation programme, in the context of the SMI process in the Civil Service generally.**

- **Reworking Revenue's Business Planning and reporting processes in the light of a new *Corporate Plan 1997 to 1999*.**

- **Significant progress in the modification of our IT and Office systems for Year 2000.**

- **Similarly, the adaptation of our IT and Office systems for the introduction of the Euro.**

- **The ongoing development of the first phase of Integrated Taxation Processing which will bring all our systems together with great benefit for Revenue and our customers.**

- **The implementation of Freedom of Information legislation.**

- **The reorganisation of Revenue's training function.**

- **Participating in the design of an M.Sc in Taxation launched by Dublin City University.**

- **Completing a restructuring agreement under the PCW in respect of Inspectors of Taxes.**

## Planning and Reporting

| | |
|---|---|
| ***Target*** | ***Design and implement a co-ordinated Management Information System building on the Corporate Information Facility (CIF).***<br><br>***1. First phase (pilot) live by March 1997.***<br>***2. Enhancement design progressed through 1997.*** |
| ***Result*** | ***Achieved*** |

Arising from the launch in November 1996 of Revenue's Corporate Plan - *A Statement of Strategy 1997-1999*, Business Planning and Reporting systems were redesigned to give an improved focus to corporate priorities and better management information to the Revenue Board. Drawing a distinction between corporate priorities and development activities, where detailed reports for the Board are required, and day-to-day business activities which are largely delegated to Division Heads, the planning and reporting systems are designed to:

- Cascade the high-level Corporate Plan down through the Organisation to influence and provide direction for the work of staff at all levels.
- Ensure the strategies set out in the Corporate Plan are progressed.
- Monitor achievement of Performance Indicators set out in the Corporate Plan.
- Provide a framework of management information for the Board and the organisation as a whole.
- Provide a framework for resource allocation decisions.

The appointment of *Strategy Managers* is a significant feature of the new Planning and Reporting framework. These officers are given responsibility for co-ordinating and reporting on activity in relation to strategic priorities which cut across the organisation.

Nine Strategy Managers have been appointed with responsibility for:

- Customer Service Policy.
- Prosecution Policy.
- Revenue's preparations for the Year 2000.
- Developing Performance Measurement systems.

- Electronic Filing.
- The elimination of £1 billion of Revenue debt.
- Revenue's preparations for Economic and Monetary Union.
- Implementation of the Freedom of Information Act, 1997.
- Organisation Review

## Information Technology

Information Technology is critical to Revenue's operations, and to the task of collecting the amount of revenue we do and servicing the number of customers we deal with. Our investment in IT has helped contain staffing costs and enabled us to transform our work programmes and to cope with the huge increase in the volume of business. We are improving our support systems for case-working and decision-making. Developments in IT are helping us to create a better working environment for our staff and helping them to perform more effectively. Information Technology is increasingly the factor which makes the difference in service, competition and quality in both Government and the private sector. The challenge for us is to keep pace with, and where appropriate lead, such developments, so as to underpin the effectiveness of our business programmes.

Revenue operates one of the largest computer installations in the country. The table below gives an indication of the scale of our computer network in over 130 offices countrywide, and the extent of ongoing development and upgrading undertaken in 1997.

| | **Commissioned in 1997** | **Number at year end** |
|---|---|---|
| Personal Computers | 1,059 | 4,860 |
| NetWare Fileservers | 10 | 57 |
| UNIX Servers | 4 | 22 |
| NT Servers | 2 | 6 |

### Better business/IT alignment

Businesses must continually align their IT goals with their business objectives. Revenue has now consolidated various internal fora into a single high level group chaired at Commissioner level to decide on IT priorities in the context of a dynamic external environment.

| | |
|---|---|
| ***Target*** | ***Establish a high-level User Computing Group with a non-IT Chairperson with terms of reference to include recommendations on allocation of IT resources.*** |
| ***Result*** | ***Achieved.*** |

## Integrated Taxation Processing

Work on the various components of the Commissioners' tax modernisation programme, CONTAX, continued apace. New features were added to Active Intervention Management (AIM), which provides Revenue officials with the procedures and tools to identify and manage delinquent tax accounts. These included options to:

- better link with external agencies such as Sheriffs and Solicitors who enforce payment of debt through seizure of goods or through the courts
- manage the issue of tax clearance certificates required for businesses seeking government contracts or certain licences.

Work also progressed on the development of Integrated Taxation Processing, which will provide integrated assessment, billing and accounting across all taxes using a common framework. The Common Registration system and the management information systems were also enhanced. Modern enterprise management software was acquired to manage Revenue's diverse computer platforms and networks and to track software assets.

## Year 2000

Revenue is critically reliant on its IT systems to meet its core business objectives of collecting taxes and duties and delivering them to the Exchequer. Not surprisingly, ensuring that all of our computer systems are Year 2000 compliant is a priority for the Office.

In 1997, over 1,400 computer programs maintained by our Information Systems Division, comprising almost 2.5 million lines of COBOL code, were identified as needing modification. This excludes other programs which are Year 2000 compliant or due for replacement before the critical date. Also, 288 applications developed and maintained by end users were identified as requiring adaptation. Detailed plans have been prepared for making the necessary changes and significant progress was made.

**Table 18: Year 2000 compliance**

| | **Completed in 1997** | **For Completion in 1998** | **For completion in 1999** |
|---|---|---|---|
| Percentage of centrally-maintained programs requiring modification for Year 2000. | 21% | 66% | 13% |
| Percentage of user-maintained programs requiring modification for Year 2000. | 42% | 53% | 5% |

## Matthæus Seminar "*Information Technology and the Customs Mission*"

The Matthæus programme has become a key vehicle for fostering co-operation between the Customs Services of the EU and more recently has included partner countries from Central and Eastern Europe. The focus of this co-operation was turned towards the Information Technology (IT) field when Ireland hosted a seminar on the theme of "*Information Technology and the Customs Mission*" in Dublin Castle in December 1997.

Experts in IT from 22 countries and the European Commission gathered in Dublin to work towards a vision for Information Technology strategy in the Customs services of Europe into the coming millennium.

The objectives of the seminar were to :

- Identify current trends in the use of Information Technology in Customs.
- Look at means of co-operation both in how we develop systems and how we use them to support our common goals as EU Customs services.
- Exchange ideas on best practice in Customs support systems.
- Examine the impact of Data Protection legislation at both national and Community level.

Opening the seminar, Revenue Commissioner Frank Daly spoke of the landmark achievements of Customs services in the field of electronic administration, and described how IT assists in maintaining the balance between providing a fast efficient service to our customers while at the same time effectively protecting society from illicit activity.

The seminar recognised that the globalisation of industry requires an integrated response from Member States and that IT is a critical component of that response. The seminar provided the countries present with an insight into international best practices in IT and a clear vision of future directions. A valuable contribution to the seminar was made by Ms Josephine Eviston, IT Director of Irish Express Cargo, a representative from the freight forwarding industry, who described the benefits to trade of Ireland's on-line Customs declaration processing system (AEP).

## Document Imaging

A document imaging system was installed at the Central Vehicle Office, Rosslare, in December, 1997. The new system was introduced to tackle ongoing problems over the filing and retrieval of VRT declarations which make up the Register of Vehicles maintained by Revenue under VRT legislation. Since 1993 some 900,000 declarations and accompanying documents have been lodged with Revenue. The new system enables Revenue to scan and store on compact disc the original declaration - a reproduced copy of which is admissible as evidence in any court proceedings.

| | |
|---|---|
| ***Target*** | ***Develop a strategy for telecommunications and telephone services, linked to IT and Business Plans.*** |
| ***Result*** | ***Deferred in light of developments in telephony for the civil service*** |

## Computerisation of the Central Transit Office

The purpose of the Transit regime is to facilitate the movement of goods within the EU and the Common Transit area (the EFTA and Visegrad countries) under a system of customs control which safeguards the duties and taxes at risk. In Ireland, 60,000 outward (departure) and 35,000 inward (destination) transit movements are registered annually. The primary function of the Central Transit office (CTO) is to manage and coordinate enquiries into the discharge of those transit movements initiated in Ireland and to assist the authorities in other contracting States in relation to the movements initiated in those States.

Prior to April 1997, this work was performed manually. However, the increasing volume of transactions together with the need to improve inquiry and response times put the manual systems under severe pressure. In April 1997, with financial assistance from the European Union, a computerised transit system went live which provides:

- A more efficient enquiry and follow-up system.
- A better service to our customers.
- Enhanced identification of risk areas.
- Improved control over guarantees (securities).
- Management and trade statistics.

## Human Resource Management

With over 6,000 staff in a multiplicity of grades spread throughout the country, the effective management of human resources is of central strategic importance to Revenue.

| | |
|---|---|
| ***Target*** | ***Investigate suitable organisational arrangements to enable the retention of the skills and competencies required to meet the needs of the organisation and to facilitate the development of our staff.*** |
| ***Result*** | ***Investigation complete in relation to IT staff and on-going in relation to other grades.*** |

### Training

Training is vital to the achievement of the objectives of the Corporate Plan and, in 1997, we maintained our commitment to invest at least 3% of payroll costs in training and development of our staff. Our training programmes and activities covered a wide range of areas including technical training, customer service skills, management training and information technology skills.

**Table 19 - Training Programmes**

| Competency area | Training days |
|---|---|
| Technical Tax | 9,278 |
| Technical C&E | 1,364 |
| Interpersonal Skills | 4,467 |
| Computer End User | 2,529 |
| Computer Technical | 2,588 |

For the first time ever, Revenue's training policy was articulated in a document which was issued to all staff. A single Training Branch was established with organisation-wide responsibility for the design, delivery and implementation of training policies and programmes. As well as giving our training programme a more cohesive corporate focus, the benefits include cost effective training, rationalisation of facilities, and wider selection of training available to all staff.

A significant feature this year was the delivery of training courses based on needs identified by auditors' experiences. For example, a *VAT on property* course was designed to highlight the tax risks associated with the high volume of transactions in property, and *Capital Gains Tax* and *Corporation Tax* courses dealt with commercial transactions which can give rise to significant liabilities under the provisions of the legislation.

As part of the training support for the development of Revenue's prosecution policy, more than 80 key staff were given intensive training in enforcement, legal and prosecution matters, which included practical sessions in a purpose-built replica courtroom in our Training Branch.

| | |
|---|---|
| ***Target*** | ***Put in place structures to promote and develop good internal communication at all levels placing particular emphasis on participation.*** |
| ***Result*** | ***Partially achieved. Internal Communications review team set up in 1997.*** |

Computer Based Training is becoming an increasingly important element of our training programme. Computer Based Training allows more frequent delivery of training, without a commensurate increase in resource costs. Training can be delivered just in time, in the workplace and with the active involvement of local management. Some 700 staff received Computer Based Training in 1997.

We continued to support staff who engaged in continuing education, by refunding academic fees. The scheme is targeted at areas of study that can help achieve our organisational objectives, and in 1997 fees amounting to £186,500 were paid in respect of 243 staff.

A highlight of 1997 was the launching by Dublin City University of an M.Sc programme in Taxation. The new programme was designed in a joint venture between Dublin City University, Revenue and the taxation professions. Designed to set tax issues in a broader economic, corporate and social context, the study of taxation is integrated with subjects such as corporate strategy, human resource management, economic policy, business development and the changing domestic and international environment. Students are drawn from the private sector - including accountancy and legal firms - and the public sector. Revenue has sponsored eight of its staff to take the course and is committed to similar numbers in future years.

## HR Policy and Administration

Our HRM systems operate within the framework of the overall civil service personnel environment. In the context of the *Strategic Management Initiative*, the Government has identified the need for significant change in the existing systems and structures for human resource management in the civil service to support the programme of change set out in *Delivering Better Government*. During 1997 Revenue participated in a high level Working Group, comprising public and private sector experts, to formulate and recommend new approaches for the civil service across a range of HRM activities. We also participated in project groups, working with consultants, to devise a new performance management framework for the civil service as a whole. This work has continued into 1998.

In the light of this work, Revenue decided to defer a number of our strategies, to avoid duplication and ensure that our approach would remain consistent with the civil service framework.

| | |
|---|---|
| ***Target*** | ***Define the HRM roles of central and line management, devolve appropriate responsibility and accountability to line managers, and produce guidelines for the exercise of devolved responsibility and accountability.*** |
| ***Result*** | ***Deferred to await SMI developments*** |

Internally, review teams were set up to develop HR policies for Revenue. This work is ongoing in 1998. Its purpose is to identify and analyse the specific HR needs of Revenue and, drawing on the policy directions of the SMI, to design a comprehensive HR policy and implementation plan appropriate to Revenue's business.

| | |
|---|---|
| ***Target*** | ***Put in place a modern computerised Personnel database and management information system.*** |
| ***Result*** | ***Deferred for the Civil Service as a whole to end 1998.*** |

On the industrial relations front, a restructuring agreement was concluded under the local bargaining clause of the Programme for Competitiveness and Work (PCW) covering the grades of Inspector of Taxes, Inspector of Taxes Higher Grade and Senior Inspector of Taxes. Negotiations on a similar agreement in respect of Tax Officers and Higher Tax Officers ended without agreement. Following referral to an Adjudication Board, this agreement was subsequently successfully concluded in early 1998.

| | |
|---|---|
| ***Target*** | ***Establish a central change management consultancy service to advise on 'best practice' (through skills transfer as necessary) from private and public sectors in implementing change programmes.*** |
| ***Result*** | ***Deferred to 1998.*** |

During 1997 Revenue's Human Resources Division processed over 1,900 applications for 28 competitions. The table below gives an indication of the volume of Personnel Branch business generally in 1997:

**Table 20**

| Category | Number of Staff |
|---|---|
| Staff joining Revenue on recruitment, transfer or promotion | 185 |
| Promoted or transferred from Revenue to other Departments | 105 |
| Promoted internally | 167 |
| Retired | 43 |
| Resigned | 50 |
| Commenced Career Break | 67 |
| Commenced Job-Sharing | 148 |

The total number of staff on career break and job-sharing at the end of 1997 was 188 and 670 respectively.

***Target*** ***Complete Revenue's Integration policy by the integration of the Departmental Taxes structure with the rest of Revenue***

***Result*** ***Progressed. The Taxes Departmental Clerical Assistant grade was integrated into the general service grading structure.***

## Corporate Support Services

***Target*** ***Develop and implement a computerised Office-wide procurement system incorporating best practice in public procurement.***

***Result*** ***Partly achieved. The system was acquired, and implementation is proceeding through 1998.***

### Freedom of Information

Considerable work was undertaken throughout 1997 to ensure that we would be ready for the implementation of the Freedom of Information Act in April 1998. Our approach reflects our commitment to openness and our drive to provide a better service to our customers. Our aim is to ensure that information can be accessed with the greatest ease possible.

Revenue undertook a major review in 1997 of all internal rules, procedures, practices, staff instructions and guidelines with a view to publishing up-to-date and comprehensive manuals within the legislative deadlines of the Freedom of Information Act.

## Corporate Identity

| | |
|---|---|
| ***Target*** | ***Implement first and second phases of Corporate Identity project.*** |
| ***Result*** | ***Substantial progress made. Implementation ongoing in 1998.*** |

In recent years, Revenue has put very significant emphasis on the entire Revenue organisation having a corporate focus and common purpose. This has been reflected in the development of a single corporate mission, for example, and was brought forward by means of corporate planning and corporate objective setting. Almost as a natural evolution of the process the need for a common identity, which would reflect the single organisation focus, had become evident.

In 1997, we adopted a corporate identity including:

- A re-defined logo based on the gates of Dublin Castle, Revenue's Head Office.
- The incorporation of the Government Harp in Revenue's corporate identity, reflecting our role as part of Government and the civil service.
- New corporate stationery.
- Common corporate colours and naming system for stationery across Revenue.

The new identity was rolled out during 1997 and work will continue during 1998 and beyond on signage, buildings, information leaflets and other publications.

| | |
|---|---|
| ***Target*** | ***Produce a Press and PR policy discussion ocument.*** |
| ***Result*** | ***Achieved.*** |

# Appendix 1

## Main Legislative Changes in 1997

**CAPITAL TAXES**

**Capital Acquisitions Tax**
*The Finance Act, 1997, introduced certain changes to Capital Acquisitions Tax:*

- further extension in both Agricultural and Business relief to 90%
- amended conditions for granting exemption in respect of heritage property
- increased relief in respect of a dwelling taken by an elderly person from a deceased brother or sister
- re-enactment of the provisions granting Capital Acquisitions Tax and Probate Tax exemptions on the transfer of property between former spouses following the granting of a divorce.

**Stamp Duty**
*Changes to legislation contained in the Finance Act, 1997, included:*

- higher rates of duty in respect of instruments transferring residential property above certain thresholds
- extension of young trained farmer relief
- extension of exemption on transfers of American Depository Receipts (ADRs)
- re-enactment of the provisions granting exemption from Stamp Duty on the transfer of property between former spouses following the granting of a divorce.

**Residential Property Tax**

- abolished with effect from 5 April 1997.

**DIRECT TAXES**

**Capital allowances and room ownership schemes**

Capital allowances were denied to certain packaged schemes in the case of a hotel investment involving a room ownership scheme.

**Capital allowances for buildings used for third level education purposes**

Capital allowances were granted in respect of capital expenditure incurred on certain buildings used for the purposes of third level education. The expenditure must be approved by the Minister for

Education and Science and covers both construction expenditure and expenditure on the provision of machinery or plant for projects undertaken in the 3 year period from 1 July 1997.

**Capital allowances for cars**

An increased capital value threshold of £15,000 by reference to which capital allowances are granted for **new** cars provided on or after 23 January 1997, was introduced.

**Capital allowances for farm pollution control**

A new scheme of capital allowances for capital expenditure by farmers on buildings or structures necessary for the control of pollution was put in place. The scheme applies for 3 years from 6 April 1997.

**Corporation Tax Rate**

The standard rate of corporation tax was reduced from 38% to 36%. Tax credits on distributions (other than dividends out of manufacturing income of companies) were reduced in line with the rate reduction. The reduced rate of corporation tax, first introduced in 1996, which applies to the first £50,000 of a company's income in an accounting year, was reduced from 30% to 28%.

**Double Rent Deduction**

The Finance Act 1997 sought to end the abuse of the double rent deduction whereby parties became connected after the lease was drawn up.

**Employee share ownership trusts**

Arising from the Partnership 2000 commitment, a number of tax reliefs were introduced for a new form of employee share ownership trusts (ESOTS) which have been approved by the Revenue Commissioners. ESOTS are a more flexible vehicle compared to Approved Profit Sharing Scheme (APSS) for the acquisition of shares by employees in that, in particular, the trust may borrow to purchase shares rather than relying solely on company contributions. The reliefs are as follows:

(i) The company establishing an ESOT may claim a corporation tax deduction for:

- contributions to the trustees of an approved ESOT,
- the costs (legal etc.) of setting up an approved ESOT,

(ii) dividend income accruing to the trustees of an approved ESOT will be exempt from the income tax surcharge in respect of the undistributed income of discretionary trusts

(iii) the trustees of an approved ESOT will be exempt from capital gains tax on any gain arising on the disposal of securities where those securities are transferred to the trustees of an (APSS).

**Employers' pension contributions**

The law was clarified to ensure that only pension contributions actually paid by employers to occupational pension schemes would qualify for tax relief but not those contributions for which provision had only been made.

**Evidence of authorisation**

Provision was made to enable the Revenue Commissioners introduce a more efficient administrative system for the identification of officers who have been authorised by the Revenue Commissioners to exercise functions (including powers and duties) under certain statutory provisions. Each officer involved will be issued with an identity card detailing the provisions under which he/she has been authorised and the I.D. card will be taken to be evidence of the officer's authorisation for the purposes of those provisions.

**Exemption from corporation tax of Irish Takeover Panel**

The income of the regulatory body under the Irish Takeover Panel Act, 1997 known as the Irish Takeover Panel was exempted from corporation tax.

**Exemption for Disability Benefit**

Disability benefit payable for 3 weeks in the tax year 1997-98 and for 6 weeks in subsequent years was exempted from tax.

**Exemption of harbour authorities and port companies**

*A new corporation tax regime for port companies was introduced.*

Prior to the Finance Act, 1997, harbour authorities were exempt from tax in respect of income from the normal provision of harbour facilities. The port companies which replace these harbour authorities and other companies controlling harbours will now be exempt from corporation tax for the calendar years 1997 and 1998 and will subsequently be brought within the charge to tax on a phased basis. The phasing-in arrangements will involve a 2/3 reduction in taxable income in the year 1999 and a 1/3 reduction in the year 2000. For the years 2001 onwards, these companies will be fully within the charge to corporation tax. Harbour authorities which are not replaced by port companies will remain exempt.

**Exit charge**

Provisions were introduced to counter a capital gains tax avoidance scheme involving a company disposing of assets after ceasing to be resident in the State. The scheme provides that, subject to certain exceptions, when a company ceases to be resident in the State, it will be treated as having disposed of its assets at that time thus giving rise to a charge to capital gains tax.

**Expenditure on Significant Buildings**

The relief was extended to cover expenditure on approved contents, burglar alarm systems and public liability insurance. In addition, provision was made for the carry forward of unrelieved expenditure for up to 2 years.

**Film Relief**

Amendments were made to the scheme of relief generally known as "section 35 relief" which allows a deduction for investment in the share capital of certain Irish film production companies. The principal amendments are:

- an increase in the levels of finance which can be raised in respect of a particular film project
- an increase in the investment limits for corporate investors
- an incentive to carry out post-production work in Ireland, and
- a number of changes related to the administration of the relief.

**Income Tax Exemption**

The income tax exemptions limits were increased as follows:

- for single and widowed persons by £100 to £4,000
- for married couples by £200 to £8,000
- persons aged 65 years or over but under 75 to £4,600 (single) and £9,200 (married),
- persons aged 75 or over £5,200 (single) and £10,400 (married).

**Income Tax Rate Structure**

The standard rate of income tax was reduced from 27% to 26%. The band of taxable income charged to tax at the standard rate was widened from £18,800 to £19,800 for married couples and from £9,400 to £9,900 for single or widowed persons.

**Industrial Buildings and Structures**

The rules relating to industrial buildings allowances (i.e. where a building is disposed of for less than its tax written-down value) were clarified to remove any doubt that (a) a lease made at a small premium is not an event which triggers a balancing allowance and (b) where a balancing allowance is made, the written down value is reduced by the amount of the allowance.

**Personal Allowances**

Personal allowances were increased as follows:

- married allowance from £5,300 to £5,800
- widowed allowance from £3,150 to £3,400
- single allowance from £2,650 to £2,900
- age allowance was doubled to £400 for a single person and £800 for a married couple.

**New PAYE Registration Threshold for Domestic Employees**

The PAYE registration threshold for employers was raised from £6 to £30 per week where a person is employed to work in the employer's residence. The provision applies only where he/she has one domestic employee in his/her employment.

**Pre-trading expenses**

Pre-trading expenses incurred in the 3 year period prior to commencement and which are revenue in nature will be deductible in calculating profits or gains of a trade but will not be available for offset against other income.

**Profit Sharing Schemes**

A number of improvements were made to the provisions relating to Approved Profits Sharing Schemes (APSS). This results from the commitment by the Government and the social partners in Partnership 2000 to support a more favourable tax treatment of employees' share schemes and profit sharing as a means of deepening partnership and securing commitment to competitiveness at the level of enterprise.

**Publication of names of defaulters**

Changes were made in the compilation and publication arrangements, under Section 1086 of the Taxes Consolidation Act, 1997 which require the Revenue Commissioners to compile and publish in their Annual Report, lists of certain tax defaulters. The Commissioners will now compile these lists on a quarterly basis and publish each list in Iris Oifigiúil within 3 months from the end of the quarter. The Commissioners may also publicise the lists in any other manner they consider appropriate.

**Relief for agreed pay restructuring**

A new income exemption was introduced for certain lump sum payments paid to employees under agreed pay restructuring schemes which are certified by the Minister for Enterprise, Trade and Employment. The restructuring must involve pay reductions of at least 10% of basic pay which remain in force for at least 5 years. The maximum tax-free lump sum per employee is £10,000.

**Relief for corporate donations**

The tax relief for companies, which make gifts to:

(i) The Enterprise Trust, and

(ii) First Step

was extended in both cases to the end of the decade.

**Relief for fees paid for training courses**

A new income tax relief was introduced for tuition fees paid by individuals for approved training courses of less that 2 years duration in the areas of information technology and foreign languages. Tax relief, which is standard rated, is subject to the fees exceeding a *de minimis* of £250 and is available up to a maximum of £1,000.

**Relief for gifts made to third level institutions**

A new tax relief was introduced for gifts of money made to certain third level institutions which are used for the purposes of projects approved by the Minister for Education and Science. The relief applies to both personal and corporate donations with a minimum qualifying donation of £1,000.

**Stock Relief**

The existing 25% scheme of stock relief for farmers was extended for a further two years to 5 April 1999, while the special temporary regime of 100% stock relief for certain young, trained farmers was also renewed.

**Tax Clearance for Moneylenders**

The tax clearance system was extended to cover a moneylender's licence or a credit or mortgage intermediary's authorisation.

**Tax deductions scheme for sub-contractors**

*Changes were made in the scheme providing for:*

- an extension of the definition of forestry activities

- an extension from 6 months to 10 years in the time limit for taking summary proceedings in respect of offences under the scheme

- the application of civil penalties for non-compliance with requirements of the scheme. This will enable the names of those not complying with these requirements to be included in the published list of tax defaulters.

**Taxation of strips of securities**

Provision was made for a tax regime for a form of financial instrument known as a strip of a security. Strips of an interest bearing security are created when the right to receive each interest payment as well as the redemption of capital can be traded separately. The section removes tax barriers to dealing in strips of such securities while ensuring against avoidance of tax in relation to such dealing.

**Taxation of Dublin Docklands Development Authority**

The profits and gains of the Dublin Docklands Development Authority were exempted from both corporation tax and capital gains tax. This Authority is the successor body to the Custom House Docks Development Authority.

**Urban Renewal Reliefs**

A number of changes were made to the general urban renewal scheme.

- the deadline was extended for 1 year, subject to conditions, in connection with the general urban renewal scheme to 31 July 1998, excluding the Temple Bar and Custom House Docks areas

- a number of new enterprise areas were designated

- provision was made for the designation by the Minister for Finance after consultation with the Minister for Transport, Energy and Communications of areas immediately adjacent to 7 regional airports.

***Dublin Docklands Area***

A scheme of tax reliefs was provided to encourage the renewal and redevelopment of the Dublin Docklands Area. Provision is made:

- for the designation of areas of the Dublin Docklands Area by order. This can be for the purposes of some or all of the tax incentives on the basis of specified criteria

- for accelerated capital allowances for the construction or refurbishment of industrial buildings such as factories

- for accelerated capital allowances for the construction or refurbishment of commercial premises including offices and multi-storey car parks

- for a double rent allowance for industrial buildings, commercial premises, and hotels which are leased. However, in the case of hotels, the double rent allowance is only available where the capital allowances on the hotel are disclaimed, and

- for allowances for the construction or refurbishment of residential accommodation for owner-occupiers.

### *Temple Bar Area*

A scheme of tax reliefs to encourage the renewal and redevelopment of the Temple Bar Area of Dublin was introduced in the Finance Act, 1991. That legislation was particularly complex in format. With a view to its inclusion in a consolidated body of legislation later in 1997, the scheme of reliefs was rewritten on a stand alone basis, in so far as this was feasible.

## INDIRECT TAXES

### Excise Duty

*The following changes were made in the Finance Act 1997:*

- the rates of duty on petrols and auto-diesel were increased by amounts ranging from 1½p to 2½p per litre, inclusive of VAT

- the rates of duty on leaded and superunleaded petrol were increased by 4p per litre, inclusive of VAT

- the rate of duty on cigarettes was increased by 7p per packet of 20, inclusive of VAT, with pro rata increases for other tobacco products

- a package of measures designed to combat, in particular, the illegal importation and sale of tobacco products was introduced. It includes increased fines, the possibility of imprisonment, measures to facilitate legal proceedings and increased powers for Gardaí and Revenue officers.

### Value-Added Tax

Important changes were made to VAT law in the 1997 Finance Act, to tackle VAT avoidance schemes in property transactions. These schemes were based on commercial leases taken out by VAT-exempt companies. The effect of the changes was to:

- treat assignment and surrenders of leases in the same way as the creation of a lease is treated for VAT

- value an assignment or surrender accordingly

- ensure that the VAT was collectible

- close avoidance schemes based on artificially low rents agreed at less than arm’s length.

The new rules on property entered into force on 26 March 1997.

### *International Telecommunications Charges*

There were also important changes in the 1997 Finance Act concerning the way these charges are treated for VAT purposes. Technological progress in this sector had not been matched by changes in the VAT rules. As a result, all EU Member States agreed that the rules need to be changed. The amendments to the Act were the result of an agreement of all EU governments to seek the same derogation from the EU Sixth VAT Directive. Prior to the rule changes, these services were provided from outside the EU to customers inside the EU without payment of VAT. The main rule changes were:

- a user, other than a private individual, buying telecommunications services from outside the EU must now self-account for and pay VAT on those services

- the same now applies where a user, other than a private individual, buys the service from another Member State

- where a non-EU service provider supplies a service to private individuals in the State, the service provider must register here.

The new rules had effect from 1 July 1997.

*Other important changes related to:*

- new registration requirements and a reduced VAT rate for retail sales by farmers of horticultural products

- the operation of the retail export scheme

- the operation of discount and voucher schemes

- confirmation that exemption from VAT applied to certain pre school and child care activities

- confirmation of the Budget increase in the rate of VAT on the supply of livestock, live greyhounds and the hire of horses from 2.8% to 3.3% and a corresponding increase in the farmers' flat-rate addition.

**Vehicle Registration Tax (VRT)**

*The following changes in VRT legislation were made in the Finance Act, 1997*

- vehicles built using a monocoque or an assembly serving an equivalent purpose to a chassis are now considered unregistered vehicles in addition to vehicles built up from a chassis. This applies only where the chassis, monocoque or assembly is either new and unused or is derived from another unregistered vehicle

- a new provision was inserted to enable the Revenue Commissioners to scan and store electronically (or otherwise) images of VRT documentation and to allow the authenticated copy records that have been retrieved from the storage medium to be admissible as evidence in court proceedings.

**Relief for Donations of Heritage Items**

*Donations of Heritage Items (with valuations) which were donated to the national collections in 1997 under Section 1003, Taxes Consolidation Act, 1997:*

- Archival material including deeds, maps, drawings and memorabilia relating to the Fitzwilliam & Pembroke Estates in Dublin & Wicklow (13th - 20th centuries) - £320,000

- Collection of 5 modern Irish paintings by of Jack B. Yeats, William John Leech and James Humbert Craig - £125,000

# Appendix 2

**Statutory Instruments in 1997**

| Number | Title | Effect |
|---|---|---|
| 202 | Tobacco Products (Tax Stamps) Amendment Regulations, 1997. | Prescribes the form of tax stamp for tobacco products and the standards of adhesion to packets. |
| 313 | Finance Act, 1997 (Commencement of Sections 101 and 113) Order, 1997. | Provides for the operative date of Sections 101 and 113 of the Finance Act, 1997. Section 101 amended section 8(3) of the VAT Act to provide that farmers selling agricultural produce by retail will be treated as taxable persons subject to registration limits. Section 113 amends the Sixth Schedule to the VAT Act to provide for application of the 12.5 % rate of VAT to certain horticultural products. |
| 316 | Value-Added Tax (Eligibility to Determine Tax Due by Reference to Moneys Received) Order, 1997. | Provides for an increase in the threshold specified in section 14(1)(b) of the VAT Act for eligibility to use the moneys received basis of accounting for VAT. The Minister increased the threshold from £250,000 to £500,000 on 17 July 1997. |
| 389 | Control of Excisable Products (Amendment) Regulations 1997. | Amends the rules in relation to the procedures used for the intra-community movement of excisable products (Accompanying Document). |

# Appendix 3

**Revenue Publications**

| Numbrer | | Title |
|---|---|---|
| IT | 1 | Allowances, Reliefs & Tax Rates |
| IT | 2 | Taxation of Married Persons |
| IT | 3 | Tax Free Allowances |
| IT | 4 | Understanding PAYE Tax Tables |
| IT | 5 | Refund of DIRT |
| IT | 6 | Medical Expenses Relief |
| IT | 7 | Covenants to Individuals |
| IT | 8 | Tax Exemption & Marginal Relief |
| IT | 9 | One Parent Family Allowance |
| IT | 10 | Guide to Self-Assessment for the Self-Employed |
| IT | 11 | Employees Guide to PAYE |
| IT | 12 | Disabled Persons & Income Tax |
| IT | 13 | Personal Injury Compensation Payments |
| IT | 15 | The Seed Capital Scheme: Tax Refunds for New Enterprises |
| IT | 16 | Third Party Returns (Automatic Return of Certain Information) |
| IT | 17 | Special Savings Accounts and other Special Investment Products |
| IT | 18 | Incapacitated Child Allowance |
| IT | 19 | Professional Services Withholding Tax (PSWT) |
| IT | 20 | Benefits from Employments |
| IT | 21 | Lump Sum Payments on Redundancy / Retirement |
| IT | 22 | Taxation of Disability and Short-Term Occupational Injury Benefits |
| IT | 23 | Main Features of Income Tax Self-Assessment |
| IT | 24 | Taxation of Unemployment Benefit |
| IT | 25 | Employees and Contractors in the Construction Industry |
| IT | 26 | Urban Renewal Relief |
| IT | 27 | Tax Relief on Service Charges |
| IT | 28 | Tax Relief for Designated Third World Charities |

| | | |
|---|---|---|
| IT | 29 | Tax Reliefs for Renewal and Improvement of Certain Resort Areas |
| IT | 30 | Expenditure on Approved Buildings and Gardens in the State |
| IT | 31 | Tax Relief for Tuition Fees Paid to Approved Colleges |
| IT | 32 | Revenue Audit - Guide for Small Business |
| IT | 33 | Tax Relief for Home Alarms |
| IT | 35 | Blind Persons Allowances & Reliefs |
| IT | 38 | Gift / Inheritance Tax Self-Assessment Return |
| IT | 39 | Gift / Inheritance Tax A Guide to completing the Self Assessment Return ( Form IT 38 ) |
| IT | 45 | Allowances for Over 65's |
| IT | 46 | Dependent Relative Allowance |
| IT | 47 | Incapacitated Person - Allowance for Employing a Carer |
| IT | 48 | Starting in Business A Revenue Guide |
| IT | 49 | VAT for Small Business A Revenue Guide |
| IT | 50 | PAYE / PRSI for Small Employers A Revenue Guide |
| IT | 51 | Employees' Motoring Expenses |
| IT | 52 | Taxation Treatment of Finance Leases |
| IT | 53 | Domestic Employer Scheme |
| IT | 54 | Employees' Subsistence Expenses |
| IT | 55 | The Business Expansion Scheme: Relief for Investment in Corporate Trades |
| IT | 57 | Relief for Investment in Films |
| IT | 58 | Revenue Job Assist Information for Employees |
| IT | 59 | Revenue Job Assist Information for Employers |
| CGT | 1 | Guide to Capital Gains Tax |
| CGT | 2 | Capital Gains Tax Self-Assessment |
| CGT | 3 | Roll-over Relief for Individuals on Disposal of Certain Shares |
| RES | 1 | Explanatory leaflet on the legislative provisions relating to the residence in Ireland of individuals for tax purposes |
| HET | 1 | Relief for Donations of Heritage Items |

| | | |
|---|---|---|
| CAT | 1 | Gift Tax |
| CAT | 2 | Inheritance Tax |
| CAT | 3 | Probate Tax |
| CAT | 4 | Capital Acquisitions Tax Business Relief |
| CAT | 5 | Agriculture Relief - 1997 Finance Act |
| CAT | 6 | Capital Acquisitions Tax<br>Review and Appeal Procedures |
| CAT | 7 | Capital Acquisitions Tax<br>Elderly Brother/Sister Residence Relief |
| CAT | 8 | Capital Acquisitions Tax<br>Heritage Property Relief |
| CAT | 9 | Tax Reliefs for Business A Revenue Guide to Recent Developments |
| REV | 1 | What to do about tax when someone dies |
| CCD | 1 | Companies Capital Duty |
| RP | 1 | Residential Property Tax Self-Assessment Return |
| RP | 2 | Notes on Residential Property Tax |
| RP | 3 | Residential Property Tax Help Leaflet |
| RP | 4 | Residential Property Tax Review and Appeals Procedures |
| RP | 5 | Residential Property Tax Certificate of Clearance |
| SD | 1 | Stamp Duty |
| SD | 2 | Stamp Duty Relief on Transfers of Land to Young Trained Farmers |
| SD | 3 | Stamp Duty Review and Appeal Procedures |
| CG | 1 | Tax Clearance Scheme |
| CG | 2 | Due Dates Payments and Returns |
| CG | 3 | Payments to the Collector-General |
| CG | 4 | Change of Address |
| CG | 5 | VAT Claims and Payments |
| CG | 6 | P35 - End of Year Returns |
| C&E | 2 | Person Transferring Residence to Ireland |
| C&E | 4 | Duty / Tax Free Allowances for Travellers |
| C&E | 5 | Appeal Procedures relating to Customs Matters |

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| C&E | 6 | Appeals Procedures relating to Payment of Excise Duty |
| C&E | 7 | Paperless Declaration (Customs AEP System) |
| VRT | | Vehicle Registration Tax - £1,000 Repayment |
| VRT | 1 | Vehicle Registration Tax |
| VRT | 2 | Vehicle Registration Tax - Temporary Exemptions |
| VRT | 3 | Vehicle Registration Tax Tax Relief on Transfer of Residence |
| VRT | 4 | Vehicle Registration Tax Tax Relief on Transfer of Residence (Duty Free Cars) |
| TCU | 1 | Binding Tariff Information (BTI) |
| CHY | 1 | Applying for Relief from Tax on Income and Property of Charities |
| CHY | 2 | Applying for Relief from Income Tax and Corporation Tax for Certain Sporting Bodies |
| CHY | 3 | Tax Relief for Covenantors (for teaching the Natural Sciences) |
| CHY | 4 | Tax Relief for Covenantees (for teaching the Natural Sciences) |
| CHY | 5 | Tax Relief for Covenantors (for the Conduct of Research) |
| CHY | 6 | Tax Relief for Covenentees (for the Conduct of Research) |
| CHY | 7 | Trading by Charities Exemption from Tax |
| REV | 95 | Directory of Revenue Addresses |
| CS | 1 | Code of Practice For the delivery of service to the customers of the Revenue Commissioners |
| CS | 2 | Customer Service Comment Card |
| CS | 3 | How to complain to Revenue |
| | | Artist Exemption Information |
| | | Artist Exemption Claim Form |
| | | Artist Exemption Non-Residents |
| | | Direct Debit - VAT |
| | | Direct Debit - PAYE / PRSI |
| | | Direct Debit - Preliminary Tax |
| | | Employer’s Guide to PAYE |
| | | Guide to Value-Added Tax |
| | | Preparing for the Euro |

Euro Business Link     Planning for the Euro

VAT on Property
Finance Act 1997 Changes     A Revenue Guide

Guide to Customs & Excise     Import & Export

Customer Service Standards

Notice on the Format of Vehicle Registration Plates

## Statements of Practice

| Number | Title |
|---|---|
| SP-CAT/1/97 | Capital Acquisitions Tax - Indexation |
| SP-VAT/1/97 | Horticultural Retailers |
| SP-VRT/1/97 | Repayment of VRT in respect of vehicles acquired for leasing or hiring or providing instruction in the driving of vehicles |

## Public Notices

| Number | Title |
|---|---|
| Notice No. 1095 | Importation of Tourist Publicity Material |
| Notice No. 1179 | Relief from Customs Duty and VAT on Gift Consignments and consignments of negligible value imported from outside the European Union. |
| Notice No. 1759 | Vehicle Registration Tax - Private Importations / Acquisitions |
| Notice No. 1775 | Tax Relief on Transfer of Business Activity |
| Notice No. 1837 | Tax Relief on a Vehicle Acquired on Inheritance |
| Notice No. 1851A | Tax Relief for Disabled Drivers |
| Notice No. 1851B (Passenger) | Reliefs from Vehicle Registration Tax and Value-Added Tax on Vehicles, and Excise Duty on fuel, used by severely and permanently disabled persons as passengers. |
| Notice No. 1851C | Tax Relief for Disabled Organisations |
| Notice No. 1875 | Relief from import charges when transferring residence from outside the European Union. |

**Revenue E-Mail Addresses -**

Freedom of Information Unit
E-mail info@foi.revenue.ie

Indirect Taxes Policy and Legislation Division
E-mail info@indirect-taxes.revenue.ie

International Customs Branch,
E-mail icb@cande.revenue.ie

Revenue Customer Service Unit
E-mail custserv@revenue.irlgov.ie
taxes@revenue.iol.ie
incentive@revenue.iol.ie

Revenue European Monetary Union Unit
E-mail emuunit.dubcastle1@revenue.irlgov.ie

Revenue Press and Public Relations Unit
E-mail press-office@revenue.irlgov.ie

Revenue VRO Tallaght
E-mail vro-tallaght@revenue.irlgov.ie

Collector-General, Limerick
E-mail CG-General@revenue.irlgov.ie

Collector-General, Dublin
E-mail eft-apollo@revenue.irlgov.ie