Irish Tax Institute

Leaders in Tax

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Mr Gerry Harrahill
Revenue Commissioners
Dublin Castle
Dublin 2

28 November 2014

Dear Mr Harrahill

Subject: Consultation on the Revenue Statement of Strategy 2015-2017

Thank you for meeting recently with our Chief Executive Martin Lambe and our Policy Director Cora O'Brien, to discuss the Consultation on Revenue's Statement of Strategy 2015 – 2017.

The Institute has approximately 5,000 members and over the years these members have worked closely with Revenue on a wide array of significant changes that have been made to the tax system. These developments range from the roll-out of Revenue's Online Services, iXBRL, phased payment arrangements, the introduction of transfer pricing, and major changes in legislation such as the introduction of the Local Property Tax, VAT and the Mini One Stop Shop and the overhaul of the VAT on Property regime.

Our members assist Irish taxpayers on a daily basis to comply with their many tax compliance obligations. We are a key stakeholder in the tax administration system and we believe that our role in the system contributes to Ireland's success in achieving high levels of tax compliance and excellent rankings in international surveys. It is very important to our members that we have the opportunity to share our views with Revenue as part of your consultation process and that the role of the tax profession is publicly acknowledged in the upcoming Statement of Strategy.

There are a number of particular issues that the Institute would like to see addressed as part of this process:

1. A focus on increasing Revenue capabilities
2. Commitment to measurable cost reductions through simplification for taxpayers as well as Revenue
3. A framework to deal with major changes in the international tax framework
4. The establishment of Revenue SME Centres of Expertise

5. A commitment to improving engagement, consultation and communication with the tax profession
6. The introduction of an Alternative Dispute Resolution mechanism
7. Earlier engagement on Finance Bill measures
8. Joint projects on tax administration

We believe that a focus on these issues would make it simpler, faster and less expensive for taxpayers to do business with Revenue and would improve the overall system. Conversely, failure to address them could restrict Revenue's capabilities in important areas, thus impacting on the quality of compliance activity and taxpayer service. Over time, inefficient or ineffective tax administration could ultimately impact on the level of Foreign Direct Investment in Ireland.

Focus on increasing Revenue capabilities

A significant investment by Revenue in the improvement of technical and business capabilities is essential. Over recent years there has been a significant loss in senior Revenue personnel. This loss has accentuated the growing gap in skills and competencies that has developed in Revenue across a range of important disciplines – tax, business and accounting. These skills are vital in enabling Revenue to better carry out its stated Mission:

> *"To serve the community by fairly and efficiently collecting taxes and duties and implementing Customs controls"*

A deep knowledge of the technical and business environment within which taxpayers operate is essential if Revenue staff are to effectively assess business and audit risk and lift tax compliance levels. Without these skills, Revenue cannot provide the quality service to taxpayers and advisers that is a key pillar of the self-assessment regime. Key services that are important to advisers include a centrally operated Revenue Technical Service, timely published guidance, regular published Revenue precedents, Revenue contact points on technical eBriefs/Tax Briefings and a procedure for identifying, implementing and highlighting to taxpayers changes in Revenue interpretation.

Commitment to measureable reductions for taxpayers as well as Revenue

The steps taken by Revenue to achieve the 25% reduction in tax compliance costs from 2008–2012 were welcome and it is estimated that this reduction saved business €85 million per annum.[1] However, compliance costs are an ongoing deadweight cost for business and measures such as the introduction of iXBRL have increased these costs significantly without any benefits accruing to taxpayers or the profession.

The following measures would ensure a continued focus on this priority issue.

- A specific measurable compliance cost reduction target should be set for the period of this Strategic Plan; the previous 25% target is a good benchmark.
- Cost/benefit analyses should be undertaken before introducing any new obligations on taxpayers that will increase their compliance costs. If significant taxpayer costs are

[1] Effective Tax Administration – The Challenges, Presentation by Revenue Chairman Josephine Feehily, Global Tax Policy Conference, 17 October 2013.

involved, then meaningful steps should be taken to identify possible benefits or cost reductions elsewhere.

- As a general principle, taxpayer data should be captured only once, in order to reduce compliance costs.
- On-line resources are useful in reducing administration costs for Revenue and, in many instances, compliance costs for taxpayers. However the on-line approach is not appropriate for all aspects of Revenue customer service. The Institute is happy to work with Revenue to identify how on-line services could be more effectively applied to particular areas and functions but it is important to recognise that human interaction (in person or by phone), will always form an essential part of Revenue's customer service model. In particular, telephone access to Revenue staff during normal office hours is critical to customer service.

A framework to deal with changes in the international tax environment

It is clear that the international tax environment will evolve considerably over the period of Revenue's next Strategic Plan. The OECD's work on Base Erosion and Profit Shifting (BEPS) is already impacting tax administrations, including Ireland.

"Commissioners with responsibility for tax administration and compliance management must work ever more closely together, share our knowledge, co-ordinate our actions and deal with tax administration aspects that may result from the BEPS work."[2]

Developments in information sharing through Country by Country reporting, Foreign Account Tax Compliance Act (FATCA) and Automatic Exchange of Information will all necessitate further investment by Revenue in resources and capabilities to deliver on our obligations under global cooperation. Additional highly skilled Revenue resources will also be required to deal with additional Competent Authority claims and provide support and certainty to businesses in Ireland.

The success of the Government's Corporate Tax Roadmap is critical for the Irish economy and Revenue has a very important role in providing as much clarity and certainty of treatment as possible for inward investment projects. Circa 60% of Ireland's net tax yield is generated from businesses in Revenue's Large Cases Division and supporting service levels to these clients requires particular investment in the technical abilities outlined above.

The Tax Authorities in some of our main competitor jurisdictions such as the UK and the Netherlands have recognised this fact and invested significantly in dedicated "Greenfield" teams with highly skilled staff handling the many and varied issues facing the largest taxpayers. A similar initiative in Ireland would provide a very focused and specialist service on complex technical issues.

The establishment of Revenue SME Centres of Expertise

SME businesses operate in a wide variety of business sectors across the country. They are a focus of Government strategy as reflected in the 2014 Action Plan for Jobs, the Budget 2013 10 Point Tax Reform Plan, the Credit Guarantee and Microenterprise Loan Fund schemes.

[2] 9th OECD Forum on Tax Administration communiqué, 24 October 2014.

The Institute would like to see Revenue provided with the resources to establish Centres of Expertise which focus on key SME and professional service sectors e.g. agri-food, professional services, construction/property sector etc. These sectors all have differing and varied issues to address across a wide range of taxes. We would see benefit in Revenue establishing Centres of Expertise that would have responsibility for both compliance/intervention and the provision of taxpayer supports within each of the sectors.

Key performance indicators for Revenue in these sectors would be based on:

- Lifting the level of tax compliance across the entire sector. Where issues have been identified across a sector, the emphasis would be on changing taxpayer behaviour for the future.

- Ensuring consistency and certainty in Revenue treatment and a co-ordinated approach to interventions for that sector across all districts and regions.

- Providing clear guidance on sector-specific issues so that taxpayers do not inadvertently drift into non-compliant behaviour due to lack of understanding.

To be most effective, these Centres must be resourced with the necessary capabilities in business expertise, tax and accounting knowledge referred to above.

Most SMEs want to be compliant but the tax regime can be very difficult for them to understand and navigate. Revenue can provide assistance to SMEs in a number of important ways. Clear and relevant information and user friendly guides such as checklists on common errors are needed by businesses and individual taxpayers to help them avoid mistakes. Time invested in this material would help reduce unnecessary telephone and other direct contact from taxpayers, thereby streamlining those Revenue resources

Commitment to improving engagement, consultation and communication with the tax profession

The Institute would like to see a clear commitment in this Statement of Strategy to further improving engagement, consultation and communication with tax advisers to support their role as enablers of Revenue’s strategy.

The TALC forum is an important opportunity for members of the profession and Revenue to consult on important administrative issues. A review of TALC could help ensure that this forum is used to address the issues of strategic importance to all stakeholders and could improve the status of the TALC regime.

We believe Revenue should acknowledge the critical role that tax advisors play in the tax administration system. The vast majority of income tax and corporation tax filings are prepared by tax advisors. In addition, when there is non-compliant activity identified by Revenue, the tax payer is generally assisted by a tax advisor in rectifying their affairs and calculating the liability due.

Ireland operates a legislation rules based system for tax obligations. In many cases, tax advisors assist businesses in complying with complicated legislation where there is no judicial or published Revenue interpretation. In this context, Revenue must engage constructively with the profession if queries arise when the tax return is filed. This requires a greater spread of the technical skills noted above.

Introduction of an Alternative Dispute Resolution mechanism

We would also like to see Revenue facilitate and encourage a mediation-based approach to disputes, similar to the Alternative Dispute Resolution Mechanism in place in the UK. The environment for audits and interventions has become increasingly difficult for taxpayers, advisers and Revenue. An ADR mechanism could assist in the earlier closure of protracted cases where disputes have arisen, which would benefit all parties involved.

Engagement early on Finance Bill measures

Revenue has a pivotal role in advising on tax policy formulation, legislative drafting, interpretation and implementation. Under the “two-pack” arrangements, the period between policy announcements on Budget Day and enactment of legislation in the Finance Act is now unrealistically short, at less than 70 days. Given the tight time constraints there is limited time to consider the implications of legislation and address any issues in its implementation. We saw recently the difficulties that this lack of consultation can cause, with the widespread public confusion over the CAT changes to Maintenance, Support and Education of Children.

Many of the Finance Bill measures have no impact on the “budget arithmetic” and draft measures could be published in advance of the Budget, which would improve understanding and implementation of the legislation. This approach of publishing advance detail and draft legislation is used to good effect in the UK and they are not subject to time constraints arising from the “two-pack” requirement. The “two-pack” process alone is a valid reason to engage at a much earlier stage but even without this requirement the UK considers it beneficial to afford more time to the formulation of Finance Bill measures.

Joint projects on tax administration

The Institute believes that there is greater scope for research to be carried out on tax administration to inform and improve our tax system. Useful projects such as the work on “points of pain” carried out recently in New Zealand, could include work on simplification and the behavioural aspects of compliance.

HMRC have taken steps in the UK to provide data to research organisations such as TARC (Tax Administration Research Centre), University of Exeter. The data is made available on a secure and anonymous basis to the bodies conducting the research and, because it provides accurate information for modelling, it helps inform better policy making.

The Institute would be happy to engage further with Revenue on any of the issues raised above.

Yours truly,

Andrew Gallagher
President
Irish Tax Institute