Evaluation of Budget 2018 Compliance Measures
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Executive Summary

Budget 2018 included a “compliance measures” item among the taxation policy changes. These revenue raising measures were projected at the time of the Budget (October 2017) to yield an additional €100 million to the Exchequer in 2018.

This paper evaluates the tax collection from these measures. It is not possible to conclusively separate their impact from other actions taken by Revenue, behavioural changes by taxpayers and general economic activity. The analysis assesses the likely impact and indicates outcomes that it is reasonable to attribute to the measures.

Analysis for individual Budget 2018 compliance measures shows:

- Revenue actions have directly delivered additional Income Tax collection of at least €53.8 million from employers in 2018. There was a surplus of €290 million in PAYE Income Tax in 2018. Even if only €23 million of this (a tenth of the surplus less the direct additional yield) was due to Modernisation, together with the €53.8 million, this exceeds the €50 million Budget 2018 target for this measure.
- Revenue actions have directly delivered additional VAT collection of €7.8 million from distance selling businesses in 2018. Revenue’s strategy to improve e-commerce compliance has led to a €25.5 million increase in VAT receipts. This is slightly below the €30 million Budget 2018 target for this measure.
- Revenue actions on anti-avoidance and transfer pricing have directly contributed to an uplift in receipts of €3.3 million in 2018. Other compliance cases and international transfer pricing work, which is still ongoing, have delivered savings to the Exchequer in excess of the €20 million Budget 2018 target for this measure.

This analysis shows the overall Budget 2018 target of €100 million has been exceeded, with further yield expected over time due to the long-term nature of the investments.
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1 Introduction and Background

Budget 2018 included three “compliance measures” among the taxation policy changes as summarised in Table 1.¹ These measures were projected at the time of the Budget (October 2017) to yield an additional €100 million to the Exchequer in 2018. Additional funding resources of €7 million were allocated to Revenue for the same year, partly to support these measures and for other Revenue work.²

Table 1: Budget 2018 Compliance Measures Projected Collection Breakdown

<table>
<thead>
<tr>
<th>Measure</th>
<th>Projected Yield (Full Year)</th>
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<tbody>
<tr>
<td>Employer PAYE Compliance Project</td>
<td>+€50m</td>
</tr>
<tr>
<td>eCommerce/Online Business Compliance Project</td>
<td>+€30m</td>
</tr>
<tr>
<td>Tax Avoidance and Base Erosion Capacity</td>
<td>+€20m</td>
</tr>
</tbody>
</table>

Source: Budget 2018.

The following sections of this paper assess each of these measures individually to evaluate their outcomes and whether the target projected yield was realised. Conservative estimates are used in all cases and it is acknowledged that some of the results may contain spill over effects or be otherwise indirectly influenced by Revenue actions.

This report follows the approach of similar analysis undertaken of Budget 2016 and Budget 2017 measures.³

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2 Employer PAYE Compliance

Budget 2018 proposed the following (expected full year yield of +€50 million):

In preparation for PAYE Modernisation a project is required to ensure compliance with employer obligations. A range of compliance interventions will be required. Resources will be allocated to enhance ICT capacity for data matching and analytics, and capability building.

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Income Tax is the largest tax-head in Exchequer terms and PAYE its most important component. PAYE Income Tax net receipts increased from €7.8 billion in 2011 to €14.5 billion in 2018. PAYE USC contributed a further €3.2 billion in 2018.

PAYE Modernisation came into operation on 1 January 2019, representing the most significant reform of the PAYE system since its introduction in 1960. Real-time reporting to Revenue as part of the payroll process brings efficiencies and improvements for employers, employees and Revenue.

In preparing for PAYE Modernisation, Revenue engaged extensively with payroll professionals, tax practitioners, accountancy bodies, business representative organisations and payroll software developers, and rolled out a communications programme to assist employers and tax agents in understanding and preparing for the change.

The most important effect of PAYE Modernisation from an Exchequer perspective is likely to be from improvements in compliance behaviour of employers. This was already seen in 2018, as employers got their affairs in order in advance of PAYE Modernisation and continues during 2019 following implementation. PAYE Modernisation ensures payment of the right tax at the right time, securing a greater confidence in compliance because of the real-time nature of the reporting by employers and the oversight by Revenue.

The additional yield predicted for the Budget 2018 compliance measure was expected from a combination of specific actions and the consequences of the move to real-time reporting: direct Revenue interventions with taxpayers, improvements in systems and data, and increased compliance boosting overall tax collection. The following sections presents an assessment of each of these.
**Interventions**

Revenue has a detailed programme of risk management interventions each year, which includes employer payments of Income Tax, USC and PRSI on behalf of their employees. Such interventions were supplemented in 2018 by a series of employer visits in preparation for PAYE Modernisation.

The yield in employers’ tax liabilities arising from interventions in 2018 was €75.8 million (including tax, interest and penalties). This represents an increase of €14.7 million compared to 2017, excluding a significant outlier case in 2018. The €75.8 million is the employer tax related yield from all interventions, it includes €6.4 million from interventions that specifically targeted payroll risks.

As part of the PAYE compliance project, there was an enhanced focus on employers who failed to operate the PAYE system correctly. A total of €508,000 was applied in fixed penalties charges to 127 employers who did not operate the PAYE system properly.

While there are factors other than PAYE Modernisation influencing the €14.7 million uplift in intervention yield, it is reasonable to assume that PAYE Modernisation and the related increase in Revenue’s compliance activity is the most significant factor in the uplift. The compliance programme around PAYE Modernisation is the direct source of the €6.4 million from employer focused interventions.

**Systems Improvements**

Preceding the launch of PAYE Modernisation, Revenue actively worked to ensure employers were aware of the changes to be implemented on 1 January 2019. Many employers used this period in advance of implementation to improve compliance and get their affairs in order. Throughout 2018 Revenue also initiated changes, data clean-ups and improved matching of data in the PAYE area. These include, but were not limited to:

- Review of married credits;
- Enhanced exchange of information between the Department of Employment Affairs & Social Protection (DEASP) and Revenue to improve the tax collection on taxable DEASP payments;
- Recommencing employments notified on the 2017 end year employer return for the first time;
- Writing to employers with no employees in 2016 and 2017, to confirm their status or encourage returns and payments where there were in fact employees; and
- Listing of employees and aligning employer data with Revenue’s records.
Separately identifying the impact and outcome of the work and these improvements is challenging. However, some factors can be assessed.

A conservative estimate of the additional tax due from taxable DEASP payments is €12 million in 2018. As all (taxable) incomes are combined in the tax calculation, it is not possible to associate a share of the resulting tax liability to a particular income source. However, the estimate is based on conservative assumptions that between 10 per cent and 20 per cent of the relevant DEASP income was previously untaxed and applying the standard rate of Income Tax.

The review of married credits involved an analysis of older “W” and “SP” PPSNs, to ensure the accuracy of claims for the credit. Over 20,000 cases have been reviewed, with an estimated savings of upwards of €5.9 million as a result of this undertaking in 2018. Processing of cases continues into 2019 and 2020, with a potential additional saving of around €6 million per annum.

Revenue identified taxpayers registered as employers but with no employees or returns with zero liabilities filed since 2016. These employers were advised by Revenue that their employer registration would be cancelled. Some employers among these cases subsequently made payments of €16.8 million in 2018 (for 2018 and earlier tax years).

Based on employee lists submitted by employers, and other sources, Revenue identified an initial 58,700 employments that were previously unrecorded. These employments are across a mix of employers and types of employment, many may have been seasonal or temporary in nature. Assessing the additional tax paid as a result is challenging. A very conservative approach is to take the average tax paid by an employee (approximately €2,600 per annum) around the median wage (an estimate of €35,000 per annum is used) and assume only one month’s additional tax results from each of the newly identified employments in 2018. This indicates a potential €12.7 million in Income Tax paid in 2018 by the employers on behalf of these employees. This does not include any USC or PRSI.

**Overall Collection**

As well as the factors discussed above, it is likely that PAYE Modernisation has had indirect benefits to tax collection over the course of 2018. Given the nature of Ireland as a relatively small country, Revenue’s reputation for efficiency and the significant coverage of PAYE Modernisation, it would be expected that employers were aware of the changes being implemented on 1 January 2019 and used the period before to improve compliance.
Such impacts are difficult to assess. However, comparison of tax collection against target offers opportunities to examine expected levels of growth in receipts and compare these against actual collection (as influenced by PAYE Modernisation and other factors).

In 2018, PAYE receipts (Income Tax and USC combined) were €17.7 billion, representing an increase of €1.5 billion (9 per cent) compared to 2017. The collection exceeded the Department of Finance forecast for 2018, which factors in projected growth in employment and wages, by €290 million.\(^4\)

While faster than expected economic growth could have explained the €290 million surplus, employment and wage indicators for 2018 have actually been revised downward slightly in the interim since the forecast was set.

PAYE Modernisation did contribute to the €290 million surplus in collection for 2018 and, given other economic indicators, it is reasonable to assume that it accounts for a significant share of this. It can be taken as an upper range estimate for the impact of PAYE Modernisation.

Revenue actions generated direct additional yield of €53.8 million from employers in 2018: €6.4 million from employer payroll related interventions, €5.9 million from review of spousal PPSNs, €16.8 million from previously zero liability employers, €12 million from taxable DEASP payments and €12.7 million from newly registered employments.

In addition to the €53.8 million outlined, it is likely that the preparatory work for PAYE Modernisation contributed to a significant proportion of the remaining surplus of €236 million (€290 million less €53.8 million). Even taking a highly conservative assumption of only 10 per cent, this would be €23.6 million. Combined with the yield from direct measures of €53.8 million, this suggests total yield of €77.4 million, well in excess of the Budget 2018 target of €50 million for this measure.

\(^4\) In 2017, PAYE collection was forecast to be €13.070 billion and actual collection outturn was €13.071 billion (a surplus over target of only €1 million). Forecasts for PAYE are usually accurate.
3 e-Commerce/Online Business Compliance

Budget 2018 proposed the following (expected full year yield of +€30 million):

Building on knowledge gained in National Compliance Imperative in 2017, a compliance project tackling risks identified by eCommerce and online businesses.

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In January 2018, Revenue established an e-Commerce Policy Unit, with the objective of developing Revenue’s strategy to improve compliance in the growing e-commerce economy.

The Unit undertook to identify gaps in knowledge in relation to addressing non-compliance in the e-commerce sector and the related crypto asset sector. Initiatives have been developed to enhance awareness for taxpayers and Revenue staff members of the e-commerce environment, the associated risks and tax implications. These initiatives, which focus on building the skills, structures and systems used by Revenue to address e-commerce, risks include:

- Exploring of potential use of IT tools to access data to identify e-commerce traders;
- Systems developments and tax return and tax registration form amendments to enable the identification of e-commerce traders;
- A review of Revenue’s website content with a view to providing appropriate content/guidance on tax obligations for e-commerce traders; and
- A review of legislation to evaluate the extent to which the legal framework was adequate in light of the emergence of different e-commerce business models.

Much of the work started as part of the Budget 2018 measure will help strengthen Revenue’s capability to identify, understand and address e-commerce risks in 2019 and into the future. Notwithstanding this, Revenue’s actions generated additional yield in 2018 through a number of channels.

Short-Term Accommodation

In recent years, online marketplaces have been established that enable people to lease or rent short-term accommodation, including whole residences, single rooms, hostel beds, hotel rooms, etc. in a way not previously possible.
In April 2018 Revenue published comprehensive guidance across all taxes, including Income Tax and VAT, on the tax treatment of income from the provision of short-term accommodation.

To assist taxpayers in meeting their obligations, Revenue wrote to 12,000 people in September 2018 as a reminder to include this income on their tax returns. The letters also provided guidance on the correct tax treatment of this income and gave details on how to correct returns already made, where necessary.

These letters and the Revenue guidance generally are expected to have increased compliance (and generated additional tax) in 2018. However, as returns for 2018 are only being filed at the timing of writing, it is not possible at present to quantify the increase. To maximise compliance among recipients of income from the provision of short-term accommodation, Revenue will carry out a range of follow-up compliance checks to ensure that returns are filed and are correct.

Distance Sellers
A compliance programme for non-resident, online distance sellers commenced in January 2018. The focus was on developing processes and testing data sources for the identification of unregistered, non-resident traders who may reasonably be assumed to exceed the registration threshold in the Republic of Ireland.

Profiled traders were contacted in writing to remind them of their obligations regarding distance selling rules. As a result of these activities and, of unprompted registrations by non-resident online businesses, the following outcomes have been achieved:

- 132 additional non-resident, online traders were registered for VAT in 2018, with total declared liabilities by these cases in 2018 of €4.7 million;
- Additional VAT liabilities of €2.6 million were also identified in these cases in respect of sales made to Irish customers prior to 2018; and
- Compliance work in the area of e-commerce generally in 2018 through direct Revenue interventions yielded €548,008, with a further 18 interventions open at year end.

Overall, total declared VAT liabilities by non-resident, online traders in 2018 amounted to €117.6 million, compared to €92.1 million for the preceding year (a highly significant increase of €25.5 million or 28 per cent). Revenue’s increased e-commerce compliance activities have directly and indirectly driven this additional yield.

4 Tax Avoidance and Base Erosion Capacity

**Budget 2018 proposed the following (expected full year yield of +€20 million):**

Build high level technical capacity to tackle complex tax avoidance and transfer pricing cases. Also to support Revenue’s role as Ireland’s Competent Authority, facilitating Mutual Agreement Procedures (MAPs). Required to protect tax base and contribute to additional yield.

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The Budget 2018 measure targets additional yield from extra resources to address Anti-Avoidance (AA) and Transfer Pricing (TP). There was no pre-defined split of the €20 million target across the two areas.

**Anti-Avoidance**

Throughout 2018, Revenue refined its organisational structure to one that is based on a nationally segmented taxpayer base. Every taxpayer is now managed, from both a service and compliance standpoint, by a national division. The Large Cases – High Wealth Individuals Division (LC-HWID) manages individuals with net assets greater than €20 million or non-residents with substantial economic activity in Ireland. The Division also deals with pensions and tax avoidance issues and is responsible for the National Anti-Avoidance Network (NAAN).

The NAAN provides a forum for detailed technical analysis of avoidance cases. It is the primary mechanism for supporting tax avoidance work and it provides a support for the AA teams across Revenue in relation to identifying, investigating and challenging tax avoidance and in providing information on emerging tax avoidance matters.

In 2017, Revenue settled 1,352 tax avoidance cases, 15 of which yielded settlements totalling €3.8 million, in tax, interest and penalties. In 2018, cases with avoidance related transactions were closed with a yield of €5.7 million by the two anti-avoidance branches with a national responsibility for tax avoidance.

Tax avoidance work has traditionally been measured in the standard way, counting criteria such as number of interventions closed, yield and age of intervention. While this measurement has value in terms of providing consistent data, AA work is complex, and its
success should also be measured by other outcomes such as the number of anti-avoidance projects initiated which stands at 11 new projects for 2019 (as at 31 July).

**Transfer Pricing**

Revenue’s work in TP includes ensuring compliance with TP rules by taxpayers in Ireland, reviewing correlative relief claims and as the Competent Authority involved in resolving international tax disputes. Revenue has increased the resources dedicated to these areas, and this has been supported by the Budget 2018 compliance measure.

TP compliance work is primarily undertaken by Revenue’s Large Corporate Division (LCD). LCD TP audit teams increased the number of appraisals closed in 2018 by 96 per cent and doubled the yield to €1.3 million (Table 2).

**Table 2: Closed Transfer Pricing Interventions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Appraisals Closed</th>
<th>Number of Interventions Closed</th>
<th>Tax on Losses/Reliefs Restricted</th>
<th>Yield (Tax, Interest &amp; Penalties)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>59</td>
<td>4</td>
<td>€3.7m</td>
<td>€1.3m</td>
</tr>
<tr>
<td>2017</td>
<td>30</td>
<td>4</td>
<td>-</td>
<td>€0.63m</td>
</tr>
<tr>
<td>Difference</td>
<td>+29</td>
<td>0</td>
<td>0</td>
<td>+€0.64m</td>
</tr>
</tbody>
</table>

Source: Revenue analysis.

Correlative relief claims arise where an overseas tax authority imposes TP adjustment on one party to an intercompany transaction and taxes profits already taxed in Ireland. To avoid double taxation, the Irish party will approach Revenue for a repayment of tax on a unilateral basis (without involvement of the overseas tax authority). Revenue’s role is to protect the Irish tax base by ensuring that relief is only granted where the adjustment is justified in terms of principle and quantum. Table 3 provides a summary of the closed correlative relief cases and the high volumes of work undertaken in 2018 supported by the compliance measure.

**Table 3: Correlative Relief**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Cases Closed</th>
<th>Quantum of Relief Requested for Closed Cases (tax value)</th>
<th>Relief Granted On Closed Cases</th>
<th>% Not Granted on Closed Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>8</td>
<td>€64m</td>
<td>€53m</td>
<td>16.94%</td>
</tr>
<tr>
<td>2017</td>
<td>10</td>
<td>€28m</td>
<td>€24m</td>
<td>15.6%</td>
</tr>
<tr>
<td>Difference</td>
<td>-2</td>
<td>+€36m</td>
<td>+€29m</td>
<td>+1.34%</td>
</tr>
</tbody>
</table>

Source: Revenue analysis.

Revenue’s International Division completed 12 Mutual Agreement Procedures (MAPs) in 2018, 8 of which relate to TP (Table 4). There was a 157 per cent increase in the number
of TP MAP cases received during 2018 compared to 2017. MAPs involve negotiations with
the Competent Authorities of other jurisdictions to attempt to resolve double taxation.
While the outcomes of negotiations should reflect the facts of the operations of the
companies in question, successful resolution of disputes through MAPs can deliver savings
to the Irish Exchequer.

Table 4: Transfer Pricing Mutual Agreement Procedures (MAPs)

<table>
<thead>
<tr>
<th></th>
<th>Opening Inventory</th>
<th>Initiated</th>
<th>Completed</th>
<th>Closing Inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>27</td>
<td>18</td>
<td>8</td>
<td>37</td>
</tr>
<tr>
<td>2017</td>
<td>31</td>
<td>7</td>
<td>11</td>
<td>27</td>
</tr>
<tr>
<td>Difference</td>
<td>-4</td>
<td>+11</td>
<td>-3</td>
<td>+10</td>
</tr>
</tbody>
</table>

Source: Revenue analysis.

To prevent TP disputes arising in the future and provide certainty to taxpayers, Revenue
negotiates bilateral Advance Pricing Agreements (APAs). Nine APA requests were received
in 2018 and 3 were granted following negotiations with the Competent Authorities of other
jurisdictions to eliminate double taxation (Table 5).

Table 5: Advanced Pricing Agreements (APAs)

<table>
<thead>
<tr>
<th></th>
<th>Requests Received</th>
<th>Pre-filing applications received</th>
<th>APAs Granted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>9</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>2017</td>
<td>8</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Difference</td>
<td>+1</td>
<td>+1</td>
<td>+1</td>
</tr>
</tbody>
</table>

Source: Revenue analysis.

The tables above illustrate the volume of TP related work by Revenue, and the increasing
volumes being received and undertaken. Across all these areas, Revenue’s TP
programmes provide assurance that Irish based entities comply with the Arms’ Length
Principle (ALP) on TP, including the use of Competent Authority support in agreeing MAPs
from other tax authorities. Reviewing of correlative relief claims offers further assurance of
the appropriateness of the operation of TP by Irish based entities. Revenue’s TP
programmes are a critical element of Ireland’s assurance of Corporation Tax receipts from
the multinational sector.

This work is supported by the Budget 2018 compliance measure resources. It is important
to consider the evidence above as the initial return on a longer-term investment in
additional resources. TP compliance interventions can take years to complete, as do
negotiations of MAPs and APAs. As a result, a full evaluation of the yield from the Budget
2018 measure will not be possible for a number of years.
Notwithstanding this, outcomes of MAP and APA cases have been reviewed internally by Revenue. This review supports the conclusion that the work supported by resources as provided for by the Budget 2018 measure has contributed to savings on potential loss of profits and consequent tax to the Irish Exchequer to meet the Budget 2018 target. In accordance with the OECD’s Base Erosion and Profit Shifting (BEPS) Action 14 minimum standard, Ireland does not use performance indicators for its staff in charge of MAP processes based on the amount of sustained audit adjustments or maintaining tax revenue. Revenue is prepared to engage with the Comptroller & Auditor General (C&AG) should an independent review be required of the outcome of MAP cases.

Investment in TP resources plays a significant role in securing Revenue’s reputation in international taxation matters and supports Ireland in attracting and maintaining foreign direct investment.

Resources allocated to the TP Competent Authority function ensure continued focus on the need to actively progress and agree MAPs and APAs in a timely manner, providing certainty to taxpayers and to Revenue as to the tax impact of transactions undertaken by multinational companies.

Furthermore, as part of the BEPS Action Plan, Ireland and other countries committed to having their work in relation to the resolution of international double taxation disputes reviewed and monitored by their peers. Ireland was subject to review during 2018 and obtained a favourable outcome. The report on Action 14 is published on the OECD website.6

These outcomes do not have direct fiscal impact in terms of increased receipts for the Exchequer, but positive reputational outcomes for Revenue and Ireland are facilitated by the additional resources allocated as part of the Budget 2018 measure.

5 Conclusion

This analysis assesses the impact of the Budget 2018 compliance measures and attempts to identify tax collection that may be attributable to these and the related investment from Revenue. With the complexity and variability of taxpayer behaviours, it is difficult to conclusively isolate the measures’ yield from economic conditions as well as other Revenue initiatives. The analysis in this paper makes conservative assumptions, where necessary, to draw conclusions on what outcomes may be reasonably attributed to Revenue.

Analysis for individual Budget 2018 compliance measures shows:

- Revenue actions have directly delivered additional Income Tax collection of at least €53.8 million from employers in 2018 (€6.4 million from employer payroll related interventions, €5.9 million from review of spousal PPSNs, €16.8 million from previously zero liability employers, €12 million from taxable DEASP payments and €12.7 million from newly registered employments). There was an overall surplus of €290 million in PAYE Income Tax in 2018. It is likely that the preparatory work for PAYE Modernisation contributed to a significant proportion of the remaining surplus of €236 million (€290 million less the €53.8 million). Even at a highly conservative assumption of only 10 per cent, this would be €23.6 million. Combined with the €53.8 million from direct measures, this suggests total yield of €77.4 million, well in excess of the Budget 2018 target of €50 million for this measure.

- Revenue actions have directly delivered additional VAT collection of €7.8 million from distance selling businesses in 2018. Revenue’s strategy to improve e-commerce compliance has led to a €25.5 million increase in VAT receipts. This is slightly below the €30 million Budget 2018 target for this measure.

- Revenue actions to tackle anti-avoidance have contributed to an uplift in receipts of €2 million. Additional capacity to manage transfer pricing compliance have delivered an uplift in receipts of €1.3 million (including reductions in amounts that would otherwise have been repaid). Other compliance cases and international transfer pricing work, which is still ongoing, have delivered savings to the Exchequer in excess of the €20 million Budget 2018 target for this measure.

The findings of the analysis are summarised in Figure 1.
Figure 1: Summary of Analysis of Budget 2018 Compliance Measures

<table>
<thead>
<tr>
<th>Category</th>
<th>Direct Impacts</th>
<th>Additional Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE Modernisation</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>e-Commerce</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Anti-Avoidance &amp; Transfer Pricing*</td>
<td>3</td>
<td>17</td>
</tr>
</tbody>
</table>

Source: Revenue analysis. Note *: an upper range estimate cannot be provided for anti-avoidance and transfer pricing, but Revenue is satisfied based on internally reviewed data that the target has been exceeded.

The target of €100 million for the Budget 2018 compliance measures has been exceeded, as borne out by the analysis of the data now available for the year. Further yield is expected over time, due to the longer-term nature of the investment across the areas highlighted in the compliance measures.