

# Evaluation of Budget 2019 Compliance Measures

Budget 2019 included a “compliance measure” among the taxation policy changes: with the implementation of PAYE Modernisation (real-time reporting of payroll to Revenue by employers) on 1 January 2019, Revenue expected to collect an additional €50 million for the Exchequer during the year.

This analysis assesses the impact of the Budget 2019 compliance measure to identify the additional tax collection that may be attributable to the implementation of PAYE Modernisation.

Revenue actions deriving from PAYE Modernisation generated direct additional yield estimated at €52 million in 2019:



€19.7 million increase from employer payroll related interventions



€12.7 million from a review of married credits and spousal PPSNs



€12 million from taxable social welfare payments



€1.1 million from a review of Home Carer Credit



€6.5 million from removal of USC exemption for certain cases



There was an overall surplus above target for PAYE receipts of €178 million in 2019. Even taking a highly conservative assumption of only 10 per cent (excluding direct yield of €52 million) was related to PAYE Modernisation, this would be €12.6 million.



Combined with the yield from direct measures of €52 million, this suggests additional tax receipts of at least €64.6 million resulting from PAYE Modernisation in 2019, well in excess of the €50 million Budget 2019 target.

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## 1 Introduction

Budget 2019 included a “compliance measure” among the taxation policy changes:<sup>1</sup>

### *Employer PAYE Compliance Implementation*

*Revenue’s updated PAYE system will be fully operational from 1 January 2019. Once implemented, this system is expected to yield additional Exchequer savings arising from increased compliance levels of taxpayers.*

This measure was projected at the time of the Budget (October 2018) to yield an additional €50 million to the Exchequer in 2019.

This analysis assesses this measure to evaluate the outcome and whether the target yield was realised. Conservative and prudent estimates are used, and it is acknowledged that some of the results may contain spill over effects or be otherwise indirectly influenced by Revenue actions. As well as the impact on yield, broader outcomes of PAYE Modernisation are also reviewed.

This report follows the approach of similar analysis undertaken of compliance measures in earlier Budgets.<sup>2</sup> The outcomes of these prior year evaluations are summarised in Table 1.

**Table 1: Summary of Recent Budget Compliance Measures Evaluations**

Budget Year	Measure	Projected Yield (Full Year)	Estimated Yield
2016	Addressing non-compliance in the oil market	€10m	€35m
	Addressing non-compliance in the construction sector	€20m	€56m
	Deploy enhanced debt analysis tool to reduce tax arrears	€20m	€56m
	Increase resources to confront non-compliance	€25m	€26m
2017	Section 110 and Funds changes	€50m	€63m
	Tackling Offshore tax evasion	€30m	€88m
	Increase resources to confront non-compliance	€50m	€62m
2018	Employer PAYE compliance project	€50m	€77m
	eCommerce/Online business compliance project	€30m	€26m
	Tax avoidance and base erosion capacity	€20m	€20m

Source: Revenue analysis.

<sup>1</sup> Summary of Budget 2019 Taxation Measures – Policy Changes, available at:

<http://www.budget.gov.ie/Budgets/2019/Documents/2.%20Budget%202019%20Tax%20Policy%20Changes.pdf>

<sup>2</sup> Evaluations of Budget 2016, 2017 and 2018 compliance measures are published at

<https://www.revenue.ie/en/corporate/information-about-revenue/research/reviews/index.aspx>.

## 2 PAYE Modernisation and Compliance

### 2.1 PAYE Modernisation

Income Tax is the largest taxhead in Exchequer terms and PAYE its most important component. PAYE Income Tax net receipts increased from €7.8 billion in 2011 to €15.8 billion in 2019. PAYE USC contributed a further €3.3 billion in 2019.

The introduction of real-time reporting for PAYE was the most significant reform of the administration of the PAYE system since its introduction in 1960. From 1 January 2019 onwards, employers and pension providers are obliged to submit details of pay, tax and other statutory deductions to Revenue every time they process payroll for their employees.

### 2.2 Pre-Implementation (2018)

In 2018, as part of the preparation for PAYE Modernisation, Revenue worked to ensure compliance with employer obligations. Revenue hosted numerous awareness and information seminars nationwide as well as engaging with employers, payroll professionals, tax practitioners, accountancy bodies and payroll software developers via phone, letter and online. There were enhanced IT resources that aided various data matching projects and enabled Revenue to focus on employers who failed to operate the PAYE system correctly.

This extensive preparation work carried out in 2018 led to a smooth introduction of PAYE Modernisation in January 2019. In addition, as noted in Table 1, an estimated €77 million in additional tax receipts (based on conservative analysis and prudent assumptions), was collected by Revenue as a result of the pre-implementation of PAYE Modernisation in 2018.

### 2.3 Post-Implementation (2019)

The implementation of PAYE Modernisation has benefited employers, employees and Revenue. The additional yield predicted from PAYE Modernisation post-implementation (for the Budget 2019 compliance measure) was expected from the consequences of the move to real-time reporting and a combination of specific actions which included:

- Increased compliance by employers boosting overall tax collection;
- Direct Revenue interventions with non-compliant taxpayers; and
- Improvements in systems and data.

An assessment of each of these actions is presented in subsequent sections of this paper, as well as reviewing other evidence of the impact of PAYE Modernisation in its first year of operation.

#### 2.3.1 Reduced Administrative Burden on Employers

PAYE Modernisation has reduced the administrative burden associated with the operation and taxation of payroll for employers.

The over 200,000 employers no longer need to complete "P35" tax returns at the end of each year as the information is now submitted and accumulated via the payroll process. Employers are no longer required to issue "P60"s for 2.9 million employments, as this information is readily available to view online from Revenue for 2019 and future years.

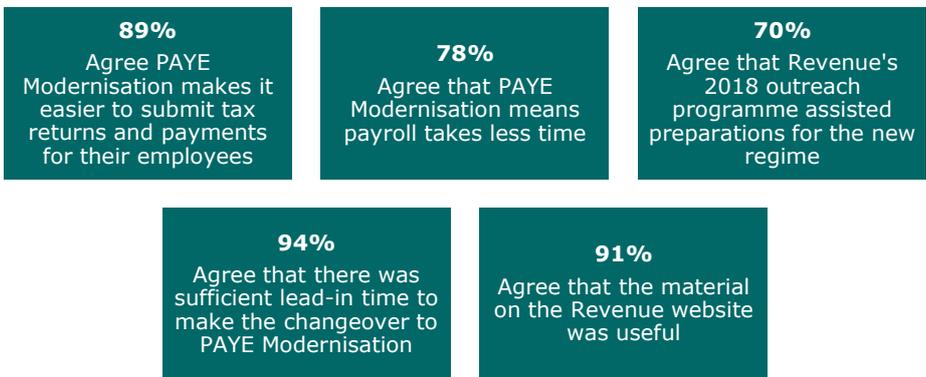
Where employments are ceased or commenced, this process is now dealt with through payroll submission. Employers are not required to issue "P45" or "P46" forms.

Revenue now issues a Revenue Payment Notification ("RPN") that gives the employer the most current tax information relating to each employee. The RPN has replaced the "P2C" previously used. Payroll software retrieves the relevant RPN from Revenue as part of the normal payroll process. This improvement in systems data has led to new employments being activated seamlessly with little or no disruption to employees' net pay. There is an evident reduction in the number of employees subjected to emergency tax as the RPNs are readily available to employers once the correct details are received.

Reducing the administrative burden in this way encourages employer compliance. It reduces stationery and general payroll costs and means less time needs to be taken up in the overall payroll process.

In 2019, Revenue conducted a survey of employers for the first time. As well as assessing the general customer satisfaction of employers, the survey also sought their views on the introduction on PAYE Modernisation. The results confirm that employers are seeing of benefits from the move to real-time reporting.<sup>3</sup>

**Figure 1: Survey of Employers – Selected PAYE Modernisation Findings**



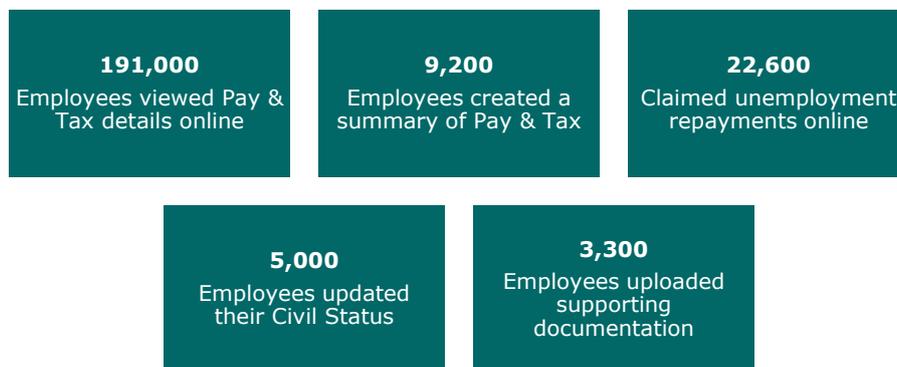
Source: Revenue analysis.

<sup>3</sup> The full results of the survey are published at: <https://www.revenue.ie/en/corporate/information-about-revenue/research/surveys/index.aspx>.

### 2.3.2 Increased Transparency for Employees

The PAYE Modernisation project is not just employer focussed, significant features are now also available in Revenue's *MyAccount* service for PAYE taxpayers (employees). Services now provided in *MyAccount* include a facility allowing people to self-allocate their tax credits, inform Revenue of changes in their civil status, upload supporting documentation or claim unemployment refunds.

**Figure 2: MyAccount Online Service Activity in 2019**



Source: Revenue analysis.

In October 2019 a new service became available for PAYE taxpayers to create a summary of their pay and tax details. The summary can be provided to any person or body such as a financial institution. Depending on the individual request, the summary can include:

- pay and tax details to date for the current year;
- full details of any payments received as submitted by an individual's employer(s)/pension provider(s) for the last three months; and
- End of Year Statement (previously known as "P21"s) for the last four tax years.

These services increase transparency for employees, and further encourage employer compliance. Employees can alert their employers to anomalies in their details or, in particular instances, contact Revenue directly if their payroll details are not viewable in *MyAccount* or appear inaccurate.

### 2.3.3 Service for Compliance

Post-implementation of PAYE Modernisation, Revenue provided continuous customer support throughout the year to ensure the transition was as seamless as possible. Over 157,000 calls from employers and 1.16 million calls from employees were dealt with during 2019. Alongside the support provided to employers and employees, Revenue established a Data Integrity Project and took part in a change management and media campaign which is ongoing with a series of employee engagement sessions nationwide.

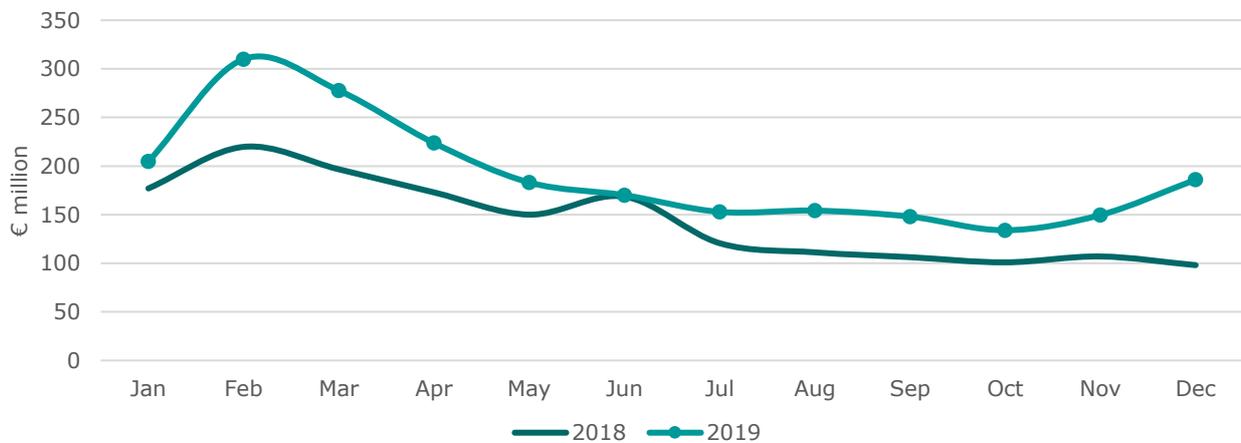
To support the transition to the new reporting requirements, Revenue provided extensive assistance, through a range of initiatives, for employers and their agents during 2019.

In April 2019, Revenue contacted non-engaging employers to inform them of their obligations, increase their awareness and encourage them to make payroll submissions in respect of all pay runs in 2019. In excess of 21,000 cases were identified as requiring compliance monitoring. This project helped low risk cases to regularise their filing patterns.

### 2.3.4 Debt Management

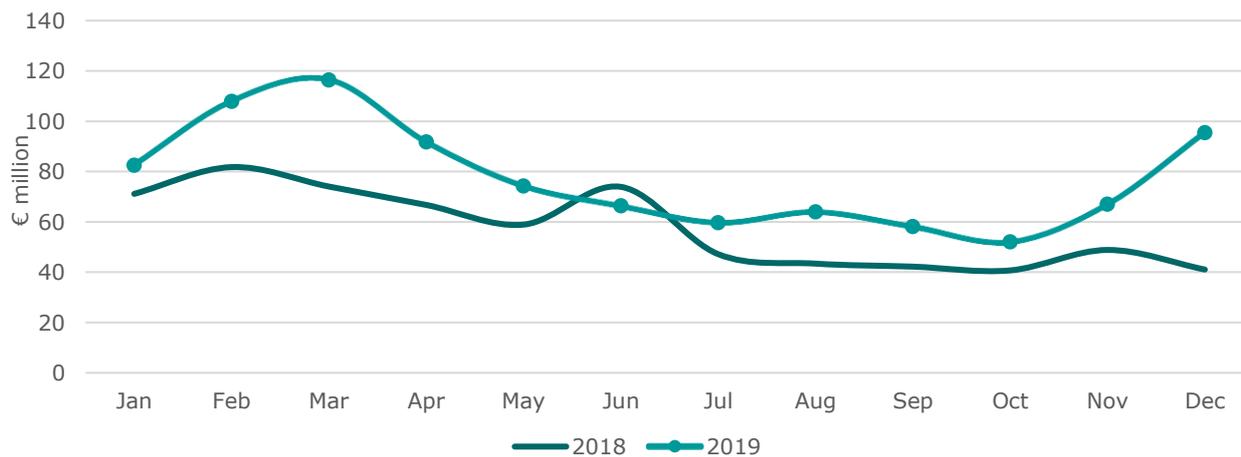
Figure 3 and Figure 4 respectively illustrate the level of recorded debt (arrears of tax) available for collection by Revenue between 2018 and 2019 for PAYE employers and employees.

**Figure 3: PAYE (Employer) Debt Available for Collection**



Source: Revenue analysis.

**Figure 4: PAYE (Employee) Debt Available for Collection**



Source: Revenue analysis.

PAYE debt traditionally peaked in the first quarter of each year. This followed filing of the annual P35 return for the prior year. This effect is visible in 2019 also, as P35s were filed for 2018 (pre-PAYE Modernisation). However, real-time information allows Revenue to better and more quickly

identify non-compliance, quantify unpaid tax liabilities and pursue outstanding liabilities. The benefits will be visible in 2020 debt data, which are not yet available for analysis.

### **2.3.5 Confronting Non-Compliance**

Notwithstanding efforts to encourage and support the transition to the new employer system, Revenue maintains a compliance framework of:

- Assurance checks that the system is being implemented correctly and that collections are on target;
- Appropriate real-time interventions where risks are identified; and
- Audit or investigation where material risks are identified.

The yield in employers' tax liabilities arising from Revenue compliance interventions in 2019 was €95.5 million (including tax, interest and penalties). This represents an increase of €19.7 million compared to 2018. While a significant share of the €95.5 million was likely dependent on, or achieving using, PAYE Modernisation data, it is also true that Revenue would have collected yield from interventions on employment tax issues pre-PAYE Modernisation. Therefore, for a conservative estimate, only the increase (€19.7 million) is ascribed to PAYE Modernisation measures in 2019.

The new mandatory real-time reporting obligation of each payroll enables Revenue case workers to review employers' tax liabilities in a much timelier manner. Prior to PAYE modernisation, only post year end, when P35s were submitted, could liabilities be examined and verified. Now, in the course of any intervention, issues with PAYE related liabilities can be identified and rectified.

### **2.3.6 Revenue Reviews**

A Data Integrity Project was established in May 2019 to analyse and identify possible issues with payroll submissions made by employers. This project identified incorrect submissions by employers. Revenue case workers provided assistance and guidance to employers to assist them to meet their PAYE obligations.

Throughout 2019, 640,000 payslips were corrected with any additional tax due collected. The project team also worked with software providers to assist employers with correcting errors in payroll reporting.

In the course of 2019, Revenue initiated or continued reviews of programmes and datasets related to PAYE, using the newly available real-time data and improved employer/employee registration information.

80,900 cases were identified as availing of the Home Carers credit on Revenue records. After a review, the credit was removed from 741 cases. The value of the credit for 2019 was €1,500, if

the full amount was being claimed previously by each of the 741 cases then the saving to the Exchequer was up to €1.1 million.

Of 390,400 cases on Revenue records as having a USC exemption in 2019, a review determined this should be removed for 30,377 cases no longer eligible to be exempt from USC. Assuming each of these cases earned the minimum wage, a conservative assumption, this would imply annual earnings of €19,872 with the USC due per annum of €217.26 each. Multiplying the amount of USC due by the total number of cases, suggests a saving of €6.5 million in 2019.

In 2018 Revenue commenced a review of married tax credits, which resulted in a saving of €5.9 million. This review continued in 2019 and resulted in an additional saving of €6.8m. This represents an on-going annual saving for the Exchequer of €12.7 million.

From actions to improve systems and data, the process for taxing social welfare income was updated with effect from January 2019. These updates have resulted in further collaboration and data sharing between the Department of Employment Affairs & Social Protection ("DEASP") and Revenue. Payment details are now interfaced on a weekly basis to ensure the correct amount of tax is collected on any appropriate DEASP payments.

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, based on conservative assumptions that only up to 20 per cent of the relevant DEASP income was previously untaxed, and applying the standard rate of Income Tax, the estimated additional tax due from taxable DEASP payments was €12 million in 2019.

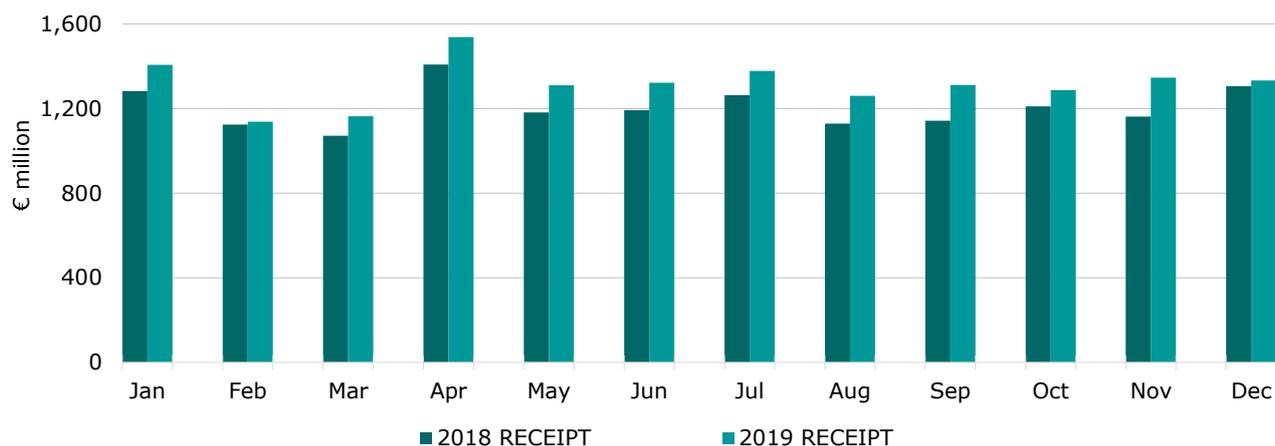
### **2.3.7 PAYE Receipts**

A key benefit of PAYE Modernisation is ensuring that the right amounts are collected and returned to the Exchequer at the right time. In 2019, PAYE related receipts (Income Tax and USC combined) were €19.1 billion, representing an increase of €1.4 billion compared to 2018.

Collection in 2019 exceeded the Department of Finance forecast, which factored in projected growth in employment and wages, by €178 million. This follows a €290 million surplus over target for PAYE in 2018. These surpluses could be taken as upper range estimates for the impact of PAYE Modernisation in 2018 and 2019.

Real-time filing of payroll submissions facilitates early payment to the Exchequer of PAYE. Figure 5 shows the steady increase in PAYE collected throughout 2019, with an increase in PAYE collected each month over the previous year's figures and above monthly forecast in most cases.

**Figure 5: PAYE Receipts**



Source: Revenue analysis.

Additionally, PAYE receipts in January 2020 were up €247 million on January 2019. Typically receipts in January are boosted by additional December liabilities. However, the January 2020 uplift compared to January 2019 is much larger than usual. Monthly statements issued to employers in January 2020 based on real-time payroll submissions and improved compliance levels contributed to this. Analysis of large employers identified a number making payments in January 2020 who made their final 2018 payment under the pre-Modernisation system, due in January 2019, a month earlier in December 2018. In effect some of the €290 million surplus in 2018 would have supplemented instead the €178 million surplus in 2019, had these employers not paid earlier than was required.

### **2.3.8 Facilitating Ireland's Response to Coronavirus COVID-19**

While the emergence of COVID-19 was unseen, the existence of PAYE Modernisation was ultimately crucial to Revenue's ability to respond and deliver the Temporary Wages Subsidy Scheme (TWSS) in March 2020. The quick and successful implementation of TWSS would not have been possible without the real-time reporting relationship between Revenue, employers and employees.

### 3 Conclusion

This analysis assesses the impact of the Budget 2019 compliance measure and attempts to identify the additional tax collection that may be attributable to the implementation of PAYE Modernisation during the year.

Revenue actions generated direct additional yield estimated at €52 million in 2019:

- €19.7 million from employer payroll related interventions;
- €12.7 million from review of married credits and spousal PPSNs;
- €12 million from taxable DEASP payments;
- €1.1 million from a review of Home Carer Credit; and
- €6.5 million from removal of USC exemption.

There was an overall surplus above target for PAYE receipts of €178 million in 2019. Given other economic indicators, it is reasonable to assume that PAYE Modernisation accounts for a significant share of the remaining surplus of €126 million (€178 million less the €52 million in additional yield from direct Revenue actions). Even taking a highly conservative assumption of only 10 per cent, this would be €12.6 million.<sup>4</sup>

Combined with the yield from direct measures of €52 million, this suggests additional tax receipts of at least €64.6 million resulting from PAYE Modernisation, well in excess of the €50 million Budget 2019 target.

In conclusion, the target of €50 million for the Budget 2019 compliance measure has been exceeded, as borne out by the analysis of the data now available for the year. The estimation of these figures relies on conservative assumptions, where necessary, to draw conclusions on what outcomes may be reasonably attributed to Revenue. Further yield is expected over time, due to the longer-term nature of the investment by Revenue.

Combined with the earlier analysis of Budgets 2016, 2017 and 2018 measures, this outcome provides confidence to support the introduction of similar measures in future Budgets. Analysis of Budget 2020 measures will be undertaken during 2021 when suitable data are available.

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<sup>4</sup> The same approach was adopted in the evaluation of the Budget 2018 PAYE Modernisation compliance measure.